

The Big Bang made the City soar – 40 years on is it under threat?

The reforms under Margaret Thatcher led to an explosion of activity, but today there are fears the London market risks becoming an international backwater

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The impact was so seismic that to Jonathan Davie it felt like the advent of the Jet Age. “Everything changed,” he recalled of the pivotal moment 40 years ago this month when the City of London was suddenly, and irreversibly, transformed.

It was October 27, 1986 – a Monday – and the sweeping deregulation of the London Stock Exchange known to history as Big Bang had taken effect. At the time Davie was working as a senior dealing partner at Wedd Durlacher, which was one of the leading stockjobbing firms, and, like everyone else in the City, he had been accustomed to a world of face-to-face dealing.

But with Big Bang came the abrupt shift to electronic, screen-based trading.

“On the Friday you were on the stock market floor and on the Monday you were in the office with computers and goodness knows what else and you had to react very quickly,” said Davie, who later rose to become vice-chairman of Credit Suisse First Boston. “It was very exciting. It was rather like leaving a Tiger Moth and getting into a jet plane and, having had a bit of training over the weekend, you were expected to take off in it.”

And soar London did. The reforms under Margaret Thatcher led to an explosion of activity, including a surge in the volume of trading in UK equities and an influx of international banks into London, as well as a complete cultural shift in the Square Mile, which before had been a cosy club. It was an overhaul that would fuel London’s rise as a global centre for finance.

“It brought an enormous number of international banks into London in a very serious way,” said Lord Freud, who was at SG Warburg – which later became part of the Swiss bank UBS – when the Big Bang happened. “That was a huge transformation.”

Yet four decades on there are concerns in both the City and in Westminster that London’s position as a leading financial hub is under threat.

A slump in initial public offerings on the stock exchange since the last flotations boom in 2021 is stoking worries that the London equities market risks becoming an international backwater. And while Brexit did not lead to the huge exodus of jobs to Europe that many feared at the time of the referendum in 2016, the loss of unrestricted access to the single market still forced international banks that used London as their base for the EU to restructure their operations and shift roles and assets to the Continent.

Then there are the complaints from City firms that the thicket of rules they must navigate, many of which were imposed by UK regulators after the 2007-9 financial crisis, continue to stifle the sector, despite moves by the Bank of England and the Financial Conduct Authority to pare back red tape in recent years. There is the likelihood, too, that the government will impose higher taxes on lenders in the budget on October 28, which critics argue will worsen the UK’s position by imposing the heaviest tax burden of the major banking jurisdictions.

UK Finance, which lobbies for lenders, warned last month that a survey of top executives at non-British banks with operations here had indicated that post-Brexit barriers, taxes and rising operating costs were among factors that “all contribute to a sense that the UK’s competitive edge is being eroded rather than reinforced”. It is a sentiment that seems a far cry from the excitement that was unleashed by the Big Bang.

“It was the Wild West for the next decade, where creativity paid dividends,” Freud said. “It was absolutely amazing, there were new things happening all the time.”

The City was opening up before the 1986 reforms, thanks to the emergence of the eurodollar market in London in the 1950s and 1960s and the abolition in 1979 of exchange controls that had been in place since the outbreak of the Second World War, noted David Buik, another industry veteran who started his career in 1962.

Yet the stock exchange still effectively operated like a cartel that was closed to outsiders. The Big Bang blew it wide open by sweeping away its restrictive, anti-competitive practices, including fixed minimum commissions on trades, the rigid division between the jobbers who acted as market makers and the brokers who dealt with clients, and rules that blocked foreign firms from the exchange.

These changes were the result of a deal agreed between the government and the exchange in 1983. When the shake-up came into force three years later, it was revolutionary. Open outcry trading was replaced by computers and the jobbers disappeared as they were integrated into brokers to create broker-dealers that were quickly gobbled up by big banks, particularly the aggressive American firms that piled into the market, along with the Europeans and Japanese.

“It was an example of liberalisation that really disrupted the status quo quite dramatically,” Lord Spencer, who started in the City in 1976, said. “It was absolutely the moment that was the creation of London as the financial capital of the world at that time.”

The culture changed, too, as competition was unleashed and the old-fashioned, gentlemen’s club atmosphere evaporated.

“I joined the City from the Treasury in 1986,” Lord Grimstone, the Square Mile grandee and former investment banker, said. “It was a great benefit not knowing the old rules and customs, because overnight they no longer existed.”

Malik Karim, the boss of the boutique investment bank Fenchurch who came to Britain as an 11-year-old refugee from Uganda and started in the City as a trainee accountant in 1984, said: “Before Big Bang, your heritage in terms of the school you attended, your family and social network conferred an information advantage to incumbents and their children. They were simply better aware and better prepared to get the best jobs.

“As the City grew because of Big Bang and privatisations, it needed more people and it attracted the attention of the American banks who invested or opened up in the UK. The City therefore evolved into the world-class, diverse and meritocratic powerhouse it is today.”

Boozy lunches were a casualty of the more hard-charging work ethic. For the people who were succeeding “lunch went out, drinking went out,” Freud recalled. Pay for financiers also surged, he added: “It was at that point that the City began to detach itself from any kind of relationship with the real world in terms of remuneration.”

Two decades later, excessive risk-taking by bankers pursuing lucrative bonuses would be one of the causes of the financial crisis, a calamity that in the UK forced the government to spend

£137bn of public money to avert a collapse of Britain's financial system. This led to a big increase in regulation on City firms in the years that followed to avert a repeat of the disaster, although more recently the pendulum has started to swing back the other way and rulebooks are now being pruned. Some politicians who have pursued looser regulations have invoked the spirit of 1986.

In 2021, Rishi Sunak, then chancellor, suggested that the freedom afforded the UK by Brexit might lead to a "Big Bang 2.0", a label that proved misleading when reforms unveiled the following year fell short of the financial industry's expectations.

Later in 2022, one of Kwasi Kwarteng's first acts during his short-lived tenure as chancellor was to tell top City executives that he wanted "Big Bang 2.0". A lasting legacy from his 38 days in charge of the Treasury was his plan, enacted in 2023, to remove the post-crisis bonus cap rules that the UK had inherited from its time in the EU.

More recently Kemi Badenoch, the Conservative leader, lamented in June that Britain had "tried to remove all risk from our financial markets" since the 2007-9 crash. She called for an "economic revolution" that "needs to be bigger and better than the Big Bang".

If there were ever to be a repeat, "something new has to come and just change the terms of trade for everyone dramatically," Freud said. He looks back fondly on 1986 and the transformation that followed: "It was fun because it was all new and untrammelled."