

## 28 July 2022 – Capital Markets Industry Taskforce (CMIT) meeting – Key points discussed

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In its first meeting, CMIT discussed its objective in supporting the UK capital markets, being designed to look at the availability of capital throughout the lifecycle of a company and including members from across the ecosystem. This first discussion **focused on the challenges of early-stage financing for companies which are created here in the UK.**

Building on the experience of a taskforce member, it was noted that **while the UK has made progress, there is a need to further develop the venture capital ecosystem to match international competitors**, especially after the first few rounds of funding. It is essential that as part of the provision of capital, companies receive the advice and added value they need, with it being critical that these investors also either share the ambition of the companies or challenge them to be more ambitious. Developing a larger UK venture market will help support these companies, as well as ensure that they have much closer domestic ties and are not reliant upon international capital. These scaling companies are strategically important for any country's economic success. One member noted that what made post-World War II recovery a success was the significant financing that went into innovation, largely provided by banks, which represented up to 4% of GDP. Banks led this investment, but we need to ensure that companies receive a full range of funding options.

**Tax is an essential lever to direct investment.** We have successful mechanisms like the Seed Enterprise Investment Scheme and the Enterprise Investment Scheme, making the UK a fantastic place to start a business. However, we need to ensure that the UK retains this level of competitiveness as companies look to scale. Extending these initiatives would support these companies as they graduate beyond the current thresholds, joining up the funding continuum.

The capital markets narrative in the UK is too often told through the angle of a minority happy few becoming wealthy. **Greater involvement of retail investors could help change the narrative.** We need to get society excited in the high growth of companies. At a macro level, state pensions are financed through tax, while there could be higher prosperity opportunities through investment in capital markets. Private pension funds have materially reduced their investment in UK equities over time. Regulation has played a role, but the limited returns compared to other regions also influenced this decision. Greater investment and exposure to UK capital markets would also increase the interest of pensioners and savers in their success.

The nature of consumer protection has resulted in reduced choice for investors in the regulated world and ironically no protection in the unregulated world where retail are increasingly invested. **High profile failures have led to strict consumer protection provisions which also restricted exposure to the upside of capital markets.** In addition, there is limited access to financial advice before retirement; by then it is often too late.

More resources should also be allocated to identifying the investment opportunities of tomorrow. There is not enough research on UK growth companies. One member noted the potential benefits of strong involvement of academics in equity research, an option which is not used extensively in the UK.

### Other issues mentioned

Digitisation: Members discussed the benefits of digitisation to improve the ecosystem, highlighting that it will be important to link with the new digitisation taskforce to be chaired by Douglas Flint.

Remuneration: Members referenced the remuneration challenges in the UK, and the limited upside in being an independent Non-Executive Director here compared to being on a public company Board in the US.

Proxy advisors: Members noted the need for greater engagement between proxy advisors and listed companies, given the important influence they have over the governance of a company.

Members expressed their **preference for the group to continuously produce actionable outputs**, including position papers and recommendations, rather than semi-annual or annual reports. Some of

these outputs will require longer term investigation, however the taskforce will also look to ensure that there are also tangible shorter-term actions.