23 November 2022 – Capital Markets Industry Taskforce (CMIT) meeting – Key points discussed

Minutes

- Members approved the internal and external version of the minutes from the third CMIT meeting.

Discussion on workstreams

- Each of the workstream Chairs presented an initial overview of the key focus areas and logistical considerations for their workstreams.

Workstream 1: Unlocking additional sources of capital for UK companies, including from pension funds and insurance companies
Chairs: Peter Harrison, Andy Briggs (Michael Eakins and Nicholas Kirrage presented at the meeting)
Leads: Jon Symonds, Klaus Hommels, Kay Swinburne

- In the UK, £3.4tn of capital is held across insurance annuities, Defined Contribution (DC) pension schemes and wealth management. There are different measures which could help mobilise this capital, including Solvency II reform (subject to government proposals being correctly calibrated), and changes to culture and risk appetite.
- The Taskforce recognised that barriers to investing in strategically important areas should be addressed, including in life sciences, technology, accelerating the path to net zero, infrastructure, and housing. Investment should be distributed across regions and towards human capital. The workstream will aim to leverage existing initiatives rather than work against them.
- It was noted that building scale provides better returns, and this is critically important in the UK DC pension space.
- The Taskforce also noted that retail consumers were likely unaware of the returns opportunity they were missing out on by being routinely invested in the lowest risk asset classes.
- Taskforce members acknowledged that the investment time horizon for pension funds is calculated in decades, and consideration should therefore be given to allowing fund managers to make long-term investments, whilst taking an appropriately considered approach to corresponding long-term risks. It was noted that in the US large universities use an endowment model of investing to enable them to make long term and higher risk investment decisions.
- The Taskforce noted that an avenue for reform in this space could be Sir Patrick Vallance's review into how the UK should change regulation to better support the safe and fast introduction of new emerging technologies. This work will be aiming for both changes to culture and regulation.

Workstream 2: Corporate Governance Code and stakeholder engagement reform (including proxy voting agencies)
Chair: Jon Symonds
Leads: Mark Austin, Peter Harrison, Andy Briggs, Kay Swinburne

- The Taskforce discussed key areas of corporate governance reform including those highlighted in the recent '[State of Stewardship report]':
    - There is frustration amongst listed company leaders stemming from the perceived reduction in real Board accountability, giving way to a role focused on governance and oversight.
    - The level of meaningful engagement with companies has reduced over time. The structural changes to the investment industry (with the rise of passive funds) may have played a role by reducing the incentives on investors to fully engage with companies. The focus has shifted to liability management rather than growth.
    - Notwithstanding a reduction in meaningful engagement, there has been significant growth in the number and type of intermediaries, including proxy agencies and ESG teams, that now play an influencing role over public companies. This has been accompanied by a growth in increasingly complex investor requirements on public

companies, seeking additional disclosures that must fit a range of different investment objectives and evaluation parameters. Whilst it was recognised that proxy agencies can play a valuable role in the capital markets ecosystem, it was noted that the current situation and level of engagement was not appearing to achieve the best outcomes, for either the companies or investors.

- It was recognised that there are many cliff edges that companies experience when moving from private to public markets. This includes changes to the composition of boards, remuneration policies and director liabilities and obligations. Any future reforms to address these cliff edges should focus on streamlining public market obligations, rather than increasing obligations on private companies, to not disincentivise future entrepreneurship. Taskforce members agreed that this was not about aimless deregulation, but about regulating listed companies in a smarter, more effective way, removing any unnecessary burdens that are stifling growth.
- It was also noted that the OECD is currently revising its corporate governance principles, recognising a similar set of challenges experienced by companies in different jurisdictions. This includes the role of corporate governance and ESG teams overruling the portfolio managers who have traditionally led the engagement with companies, the role of proxy agencies, and comply or explain regimes not working as intended.

Workstream 3: Creating the best environment for the UK to produce high growth, consequential companies
Chair: Matthew Scullion
Leads: Mark Austin, Jon Symonds, Kay Swinburne, Klaus Hommels

- The focus of this workstream will be on the supply of companies (over the supply of capital). It will involve looking at ways to improve the environment for creating high growth, consequential companies in the UK. This will include:
    - Educating, encouraging and supporting entrepreneurs.
    - Changing domestic investors' attitude to, and the playbook for, risk and consequential business building.
    - Incrementally changing attitudes to risk taking, business building and entrepreneurial success in the public and media.
- In considering success metrics, the Taskforce noted that while the absolute number of start-ups is important, having a significant number that substantially scale is equally important.

Workstream 4: Create a crossover market for the trading of private company shares
Chair: Julia Hoggett
Leads: Klaus Hommels, Matthew Scullion

- The Taskforce noted that there had been further work on the proposed model discussed in earlier meetings, including establishing and agreeing key principles for the market, such as that companies would remain truly private when using the new market.
- Further refinement and analysis work will continue, with an update to be provided to CMIT in December.

Other business: Increasing the quality and coverage of public markets research

- The Taskforce were updated on discussions held with several equity research firms, particularly those in the midcap space (the area which has frequently been identified as having the largest research gap in the UK). Observations made by those institutions included:
    - There has been a steady decrease in the attention afforded by research analysts to UK equities. As banks feel cost pressures, they are merging previously UK-focused research desks with EU desks, meaning that some UK midcap stock coverage falls away as the desk will only focus on stocks with the greatest liquidity.
    - There has been a juniorisation of analysts, as well as those analysts needing to cover a wider range of companies.
    - It was unclear whether MiFID II was a cause of or just accelerated the already diminishing amounts of research coverage.

- The Taskforce agreed to keep this topic area, and the Taskforce's response, under review.