26 September 2022 – Capital Markets Industry Taskforce (CMIT) meeting – Key points discussed

Following the last meeting where members discussed the high-level areas which need addressing in UK capital markets, a proposal was put forward for there to be five key areas which the taskforce would initially focus on. The purpose of this meeting was to agree on these areas and next steps.

The first topic area related to pension fund capital, which is increasingly invested in large caps, fixed income or property, meaning that there is an opportunity to unlock capital for the UK economy and scale-ups. Potential changes could include amendments to fee caps and Solvency II and greater consolidation of DC pension funds. In terms of advocacy, it may be beneficial to highlight returns foregone when funds do not invest in private companies. The taskforce agreed to review international best practice in public pension funds invested in private assets.

Building on member feedback from the previous meeting, the success of the Enterprise Industry Scheme and Seed Enterprise Industry Scheme were highlighted. However, the decrease in the overall value of EIS-backed investments as a proportion of total equity investments in private companies illustrated the need to extend the scheme, with seed investments also averaging at the SEIS cap indicating a potential barrier. Recent government changes are welcomed, however there are additional ways to extend the regime.

Member feedback and engagement with external parties has illustrated the need for broader and higher-quality equity research in the UK. While statistical analysis may present no recent decrease in coverage or that low coverage only exists for small caps, **there has been broad juniorisation which would not necessarily show up in statistical analysis**. The group agreed that it is clear that there is a problem, but further investigation will be required to propose solutions.

Related to the point of research is the need to improve links between academia and the City, both in terms of increasing the utilisation of the UK's world-leading academics to support equity research and improving the ability of universities to commercialise ideas. There is therefore a need for high-growth business model training for academics.

As it stands, the view of the Taskforce is that the UK Corporate Governance Code creates a 'one size fits all' for standards of corporate governance. It is key that boards are tailored to the different stages of companies' growth and therefore that governance standards reflect this. **Disaggregating regulation, such that 'process governance' does not distract companies from strategic planning, and separately ensuring that companies can retain their ability to remunerate** in shares as they transition to public markets, and therefore remain internationally competitive in overall compensation, would therefore be initial recommended areas to explore. The group agreed that it should look at best practice globally and develop a potential framework, as well as engage with the FRC on the Corporate Governance Code.

It was recognised that proxy voting agencies play an important role in the financial markets' ecosystem, however there is **a need for greater engagement between the agencies and the companies they are opining on to ensure high-quality decision-making and preventing inconsistencies across jurisdictions**. Increasing retail engagement may reduce some of the reliance on proxy agency views.

The members discussed the need for additional liquidity options for growing businesses, noting the proposals put forward by HMT in its Wholesale Markets Review. The UK has the opportunity to innovate and CMIT is ready to collaborate on developing venues which provide periodic disclosure and liquidity.

The group discussed the inclusion of competitiveness as a secondary objective for the FCA, noting that as a secondary objective, it cannot be seen as an impediment to a primary objective, for example consumer protection. However, **the removal of risk can itself hinder consumers as it limits their opportunities to take advantage of investment upsides**. Given the complexity associated with defining competitiveness, it was proposed that the private sector could help articulate what this means for different sectors.

Following this discussion, the members proposed the following workstreams:
- Unlocking pension fund and insurance capital
- Extending successful start-up tax incentives
- Improving equity research and academic connectivity
- Engagement with corporate governance code reform and proxy voting agencies
- Development of crossover trading venues to provide secondary liquidity