City Week Keynote Speech, 20 May 2024

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Good morning, it is wonderful to be given the opportunity to be a part of City Week and to have the privilege of following the Economic Secretary to the Treasury and preceding Sarah Pritchard, who with her team has been driving forward so much necessary change.

I have been asked to provide an update on the work of CMIT, or the UK's Capital Markets Industry Taskforce that I have the honour of chairing. Before I do, I just want to reflect on the unique ecosystem we have in the UK: as exemplified by the speakers during City Week: It is remarkably joined up and coherent, with the privilege of so many of those globally hard to replicate components, including a massively engaged government/political class and a regulatory environment respected around the world for its principles-based engagement and in the case of many sandboxes, innovation.

I suspect that both the Treasury and the FCA might say however, that the role of making our markets work well for all stakeholders cannot sit solely with governments and regulators. That responsibility also sits with the users and providers of capital and the financial and professional services industry that serves them. And it is with that in mind that CMIT was established.

CMIT is constructed rather differently from a number of the bodies that lobby for financial and professional services in the UK. We are not a lobby body for a start!

Instead of representing one particular part of the industry, we are seeking to represent the full end-to-end ecosystem of issuers and investors, private to public and those who support them. Hence our membership is a private company unicorn CEO (Matthew Scullion of Matillion), a public company Chairman (Sir Jon Symonds of GSK), an Asset Management CEO (Peter Harrison of Schroders), a Pension/Reinsurance Chairman (Nick Lyons of Phoenix), a Venture Capital fund founder (Klaus Hommels of Lakestar), a lawyer (Mark Austin from Latham & Watkins), an auditor/advisor (Joe Cassidy, head of strategy from KPMG), an investment banker (Katharine Braddick from Barclays) and the CEO of an Exchange (me).

Our role is to listen to each others' experience of using the ecosystem, what works and what doesn't and why and then to develop a series of initiatives to drive change across the capital markets with as much pace as is feasible. It is not about writing reports, although we may from time to time, but it is about seeking to drive and shape change in either behaviour or policymaking, or leaning into initiatives already underway.

And that listening process is also critically important, I know I can say that I have learned enormously from each one of my CMIT brethren, understood much more about their experience, and in our discussions, also, I hope, found more useful and effective routes through challenges.

One of the reasons that CMIT has been able to work the way it does is also because of its purpose. Each one of us care passionately about the role capital markets play (not for their own sake) but because they are that vital fuel that can drive economies, both in the financing of individual companies and indeed countries, but also in the translation effect that produces individual products that enables companies to invest and grow and people up and down this country and around the world to finance their homes, insure those homes and invest for their futures. With that in mind, CMIT was created with one vision, to enable the UK to build on its remarkable capital markets history to ensure that as economies, and within them, forms of innovation, value and funding evolve, so too do our markets to serve the needs of issuers and investors and thereby the needs of the wider economy.

Markets are by nature, required in their operation to be steady and predictable, but they also need to make sure that they innovate and change to meet stakeholder needs. And that requires an enormous number of big tent conversations particularly given the number of stakeholders they impact.

And first and foremost it is the ultimate stakeholders that matter, those summed up by CMIT's vision statement: *How do we create the best possible environment in this country for great companies to start here, grow here, scale here and stay here and how do we ensure that our capital markets have the best possible assets for our policy-holders, our pensioners and our savers to have enough money for life events and old age.*

That, ultimately, is why we do what we do, and why so many people in the City of London do what they do. Its why the evolution of our markets, to continue to build on our remarkable strengths, is so important and it is also why we need to make sure that the public conversation we have about our markets is balanced and accurate.

So, before I explain where we are with the CMIT agenda, let me start by a little level setting.

As the London Stock Exchange, we have taken a much more front-footed position over the last several years in seeking to address some of the misperceptions that exist in the public narrative and dare I say it reporting which I do believe is becoming more nuanced and more engaged. But I also know that when I tell people the facts about the actual strength of London's markets, most people agree that that is not what you would think if you purely read our newspaper headlines.

Firstly, let's talk about London's position as a capital raising venue. The competitive environment for capital market centres has changed radically over the last 30 years, with vibrant and large domestically-focused capital markets growing up in China, India and the Middle East where previously that activity would have gone more to the UK or the US. Similarly, China and India in particular have seen rapid economic growth which has seen the size of their economies move in to the top 5 globally.

As of the 1st May, London was the 5th largest Stock Exchange in the world by total capital raised year-to-date, only behind NYSE, NASDAQ and the two Indian Exchanges who benefit from the rules requiring Indian companies to list domestically. There were no other European Exchanges in the top 10 and we were ahead of Tokyo, the Chinese venues, South Korea and Australia.

Indeed, London has raised double the amount of capital to date than the next European Exchange and in terms of total size, London's market cap is also £1.9 trillion more than the next European Exchange.

There has been a lot of media focus on delistings in the UK, and the pressure for companies to go private is something that we do see here, but it is in no way a uniquely British phenomenon however. Many of you may have seen Jamie Dimon's letter to shareholders this year. In it he bemoaned the decline in publicly listed companies in the US – where he stated that in 1996 there were 7,300 publicly listed companies in the US and today there are 4,300. A 41% decline in just under 30 years.

Similarly, there has been a narrative that valuations are higher in the US. On an absolute multiple basis based on the composition of indices, that may be the case, but that is also a meaningless number for any individual company. Various investment banks have looked into this, one that I have seen found that when comparing like pairs of companies by sector, and adjusting for growth rates, there were as great a percentage of UK-listed companies trading at higher multiples than their US-listed counterparts as there were US-listed companies trading above UK-listed counterparts and the rest traded in line. I appreciate, again, not something one hears in the public narrative.

Finally, there is an argument that UK liquidity is lower. Now, given the pernicious effects of stamp duty, there are some structural differences in where the liquidity is traded in the UK compared to some other jurisdictions but not material differences in the ultimate total liquidity in the market. We have undertaken research that illustrates when taking the total addressable liquidity in the UK market, not solely the liquidity traded on the London Stock Exchange (which, however much I would like to be 100% of all traded liquidity in the UK, is not!) and adjusting for the actually available free float of securities available to trade, liquidity in London is the same or in fact higher than in the US.

But these simple examples illustrate the importance of a nuanced, data-led and balanced discussion about our capital markets. Given how consequential this discussion is for the future of our economy and for the companies listed on or coming to our markets and to the investors in our markets, we need to make sure we do not allow erroneous assumptions to become entrenched in how we talk about our capital markets.

Let me be crystal clear. I don't mention this as a way of saying everything is fine here, move along, nothing to see. We need as a City to continue to evolve to meet the challenges of this century: those that this country faces and those faced by the many countries around the world that rely on London as their source of capital and solutions.

I was asked not long after I joined the London Stock Exchange what I thought its role was and I said this: to serve the UK domestic economy and the UK's place as a global financial centre.

Despite being the 6th largest economy in the world, we are the country with the third largest equity capital market by money raised so far this year and the only European capital market in the top 10 globally. But over the years, our markets have not evolved as well to serve the UK domestic economy and the needs of the remarkable companies we create in the UK as well as we could have done.

Equally, it has meant that the value created by those companies and those around the world that want to come here are not being shared by investors here. Those investors ultimately being anyone with a pension, anyone with an insurance policy and anyone with the privilege of having income to invest.

Capital markets are a vital cog in the fly wheel of our economy and it matters to the lives of people up and down this country that we ensure our markets serve the needs of existing, growing and emerging companies and our savers and investors who not only benefit from the economic activity this investment stimulates but also need those assets to provide them with an income for life events and old age.

We have all the raw ingredients in this country, it's about mixing them correctly and understanding just how important to our success as an economy that right mix is.

Many of the challenges we face are not UK challenges alone as Jamie Dimon's letter illustrated, but uniquely, the UK is midway through what I think might be currently the most globally ambitious reform agenda to ensure our markets drive not only our place as a global financial centre but critically the domestic economy as well and that is where the CMIT agenda comes in.

Through those many, many hours of discussions we have developed an agenda that we call ‘5 fingers and a glove’. There is no one single silver bullet for helping our capital markets truly continue to serve the needs of its stakeholders, but instead a series of necessary actions.

The first finger is the quality and usability of the primary and secondary capital raising rules in the UK. In this regard, CMIT is very much leaning in to the work the FCA is doing to undertake the biggest reform of the UK’s listing rules in 40 years. Bringing together the Premium and Standard segments, removing some of the hard-coded historical requirements which have inhibited company’s abilities to transact at pace either in capital raising or to pursue M&A activities, and as is right in a wholesale market, placing the focus on disclosure. We feel that the FCA has brought together a very strong package here and urge them to have the courage of their convictions to complete the work.

The second finger is the availability of high-quality sell-side research to ensure all investors have the ability to understand the remarkable companies that list on our market and those that wish to do so.

In this, uniquely, the UK and indeed Europe did damage to the incentives of sell-side firms to produce high quality research with the broadest possible deep sector specialisms because of unbundling under MiFID II. It is therefore intensely heartening to see both Rachel Kent’s review, setting a roadmap for research reform in the UK, but also the FCA’s consultation on removing the unbundling provisions for which the consultation will close on the 5th of June. Whilst there is more wood to chop to put that particular genie back in the bottle – we now have a clear roadmap in the UK.

The third finger is the availability of risk capital that can be dedicated to companies publicly listed in the UK and to UK private companies.

The UK does not have an absence of capital, nor does it have an absence of great assets in which to invest – we create more unicorns than any other country other than the US or China - but we have had strong regulatory incentives not to direct that capital into as much risk capital for ourselves over the last 20-30 years and indeed far fewer fiscal or structural incentives to do so than all of our comparator countries.

It has been heartening to see not only the public debate about this but now the political focus. The overt moves by the Chancellor to encourage consolidation in our DC pension schemes, to transform the Value for Money concept from one largely focused on cost (and therefore passive investing) to one focused on net returns (opening up more opportunities for active and alternative investing), the move to require disclosure by UK pension funds of their UK equity holdings and the movement towards pension 'pots for life' to drive a greater 401k culture are all positive – and I am confident that there is more to come.

In addition, there is now a growing focus on ensuring that where investment pots receive UK tax credits they are also incentivised to invest in the UK – hence the significant psychological Rubicon that was crossed with the proposals for the UK ISA.

Some of those tax incentive questions have also created a much fiercer and more focused conversation about stamp duty. In this country we charge retail and their pension funds to buy Aston Martin but we don't charge them to by TESLA or Porsche. That sort of perverse tax structure is now much more in focus. And believe me, I am not letting it out of my sights!

The fourth finger is corporate governance and stewardship. In the evolution of corporate governance, I think we have perhaps made more progress than is widely known or than I anticipated we would and a great deal of credit for that comes down to the leadership of Sir Jon Symonds, Mark Austin and Peter Harrison.

We really welcome the active engagement by the FRC on making sure that high standards of corporate governance and stewardship can be applied in ways that help UK listed companies thrive for the benefit of all stakeholders and ensure we move away from the level of box ticking that has developed in recent years. The new CEO of the FRC, Richard Moriarty, is intensely focused on ensuring their rule sets are limited, reasonable, applicable and founded on the appropriate philosophical principles, ensuring they really achieve what is intended.

It is in that light that the FRC, in their latest review of the Corporate Governance Code, kept changes to the minimum necessary, recognising – in their own words – the need to ensure requirements are targeted and proportionate to keep burdens on businesses to the minimum necessary. It is in that light that they are currently engaging on their Stewardship Review, reflections from which Richard will be reporting at the CMIT Conference in July.

Remuneration has always been a thorny topic, but it is also one that the ecosystem itself can address by thinking and behaving differently. CMIT used its usual approach on remuneration, identifying an issue, undertaking fundamental research on it, and then putting its head above the parapet. Hence our publication last summer calling for a big tent conversation about whether our approach, rules and attitude to remuneration were really supporting the UK's ambition to create and be the home to globally consequential companies.

Since then, we have seen the IA revise its approach to questions of remuneration to take into account feedback received, we have seen the Chancellor welcome CMIT's proposals that shareholders should opine on the structure of rem but not the quantum – which is for boards to set - and we have seen significant London-listed companies now pushing for evolved remuneration strategies.

We have also seen a far greater willingness of Remuneration Committee chairs to sit on what I call the naughty step – by accepting that some resolutions will gather more than 20% of votes cast against them, thus requiring an explanation from the company under the Corporate Governance Code and inclusion in the IA's Public Register. This creates an arbitrarily high 80% threshold for resolutions, which is something that CMIT has called to be removed. Although, we have started to see a change in mindset from some very significant asset managers such that a number of companies with significantly enhanced remuneration packages have nevertheless received more than 80% support.

It remains my belief however that this remains more in our hands than we think. As parents we all know that the naughty step is not a naughty step if everyone is sitting on it!

The fifth finger is the ecosystem for scaling consequential private companies. By definition, you cannot have consequential public companies if you do not have consequential private companies. In this regard, CMIT has two workstreams on this part of the agenda (alongside those we have on risk capital and corporate governance and stewardship). One is supporting perhaps the biggest change to how companies can develop their access to markets anywhere in the world in the last 20-30 years – which is the rules to create the world's first cross-over market between the private and public markets.

The so-called PISCES regulation (standing for the Private Intermittent Securities and Capital Exchange System regulation (the 'r' is silent!)) should be in place by the end of 2024 – and will provide a genuine, world-first market for scaling companies and added impetus for the growth of a home-grown venture community in the UK to support our scaling companies.

The other workstream is focused on the enabling environment to support and incentivise scaling and within that we are delighted to see organisations like Innovate Finance leaning into this agenda through the creation of the Unicorn Council to give a voice to the many fintech leaders in the UK driving our next generation of growth.

And finally – let's not forget the glove to our five fingers. The glove is how we talk about it round here, the culture. Culture is also about the narratives we tell, the way we sell our stories.

We have a critically important constituency to talk to: the general public. The companies listed on our markets, as well as the companies coming to our markets do remarkable things and yet often the average person on the street knows more about TESLA and Amazon than they do about the companies listed on our markets or considering coming to our markets.

We need to celebrate the entrepreneurship that goes on every day in listed companies and across the economy because it is not something we can take for granted. To celebrate those stories, it does require them to be told however, and I do hope that over time, more and more companies will feel able to tell their commercial stories, not just to investors, but to the wider public. At a time of greater retail enfranchisement, that is how we really move the dial in this country.

So I would like to end with a call to action if I may, which is that everyone here becomes more vocal in celebrating all the great things we have in the UK and in this industry, and why it should matter to everyone, for the sake of our economy, that we have the most vibrant capital market possible precisely to improve lives across the country and beyond our borders.

I hope however that the increasingly fast paced and joined up reform agenda in the UK gives you all reason for optimism in the year and years ahead – I genuinely believe we will look back on 2024 as the year that really moved the dial.

Thank you.