HOUSE OF COMMONS

Treasury Committee

Oral evidence: Stock market listings, HC 1300

Wednesday 26 April 2023

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Watch the meeting

Members present: Harriett Baldwin (Chair); Rushanara Ali; Anthony Browne; Emma Hardy; Danny Kruger; Andrea Leadsom; Siobhain McDonagh; and Anne Marie Morris.

Questions 1 to 55

Witnesses

I: Julia Hoggett, CEO, London Stock Exchange; Lord Hill of Oareford CBE, Chair, UK Listing Review; Sir Jonathan Symonds CBE, Chair, GSK; and Rt Hon Nicholas Lyons, Lord Mayor of London, and former Chair, Phoenix Group.

Examination of Witnesses

Witnesses: Julia Hoggett, Lord Hill of Oareford CBE, Sir Jonathan Symonds CBE and the Rt Hon Nicholas Lyons.

Q1 **Chair:** Welcome to the Treasury Committee evidence session on stock market listing. We are very grateful to have this extremely fine panel in front of us this afternoon. I wondered if you would be kind enough to start by just introducing yourselves for the Committee.

Sir Jonathan Symonds: Good afternoon. I am Jon Symonds. I am chair of GSK. I am also a member of the Capital Markets Industry Taskforce and life science champion for the Government.

Nicholas Lyons: I am Nicholas Lyons. I am, this year, Lord Mayor of London. My normal job is chair of Phoenix Group. I sit on the boards of a number of other insurance companies.

Chair: I believe that, today, you are here in your role as Lord Mayor.

Nicholas Lyons: Yes, that is correct.

Julia Hoggett: I am Julia Hoggett. I am the CEO of the London Stock Exchange. I am also the chair of the Capital Markets Industry Taskforce.

Lord Hill of Oareford: I am Jonathan Hill. I think I am here because I was chair of the listing review a couple of years ago. Before that, I was a European commissioner for financial services.

Q2 **Chair:** Lord Hill, you were tasked by the Government to look specifically at how the UK compares internationally in terms of the listings and whether there needed to be any formal changes. Can you summarise for the wider public what your recommendations were and how you see the implementation so far?

Lord Hill of Oareford: We were given quite a specific remit by the Government to look at certain aspects of the listing rules, and to see whether, as you said, our rules were aligned with those of our international competitors and whether changes might need to be made to bring them more in line.

In terms of the way that we approached it, the experience and what has happened since, to your question, we were clear that what we were looking at was very much a subset of some of the broader issues that we are likely to discuss today, and that listings in themselves are just one part of the whole ecosystem. It is, in some ways, not the most important part, but it was where the Government started.

In terms of the response that there has been, the FCA, for which most of the recommendations were made, as being in charge of the listing rules, moved quickly to implement them. There have been a number of measures, around dual class shares, free float and SPACs, that they moved on as quickly as they could following their consultative approach. Some of our recommendations were for the Government for the Treasury, particularly around the prospectus, and that has been taken forward and will be implemented in the context of the Financial Services and Markets Bill.

From the narrow point of view, action has been swift on it. All the recommendations were accepted by the Government. I had thought in advance, since we were making recommendations to do with the rules for which the FCA were responsible, that there might be some resistance to reform. There was not at all. The FCA was welcoming of reform.

Q3 **Chair:** You are happy that your recommendations have been implemented.

Lord Hill of Oareford: Yes. Some of them are still work in progress. Overall, the way we should think about everything that we are likely to discuss is that it is a rolling programme, and that we need to keep moving forward on a number of fronts and, in some areas, accelerate.

I could not fault the response of the FCA and the Government in terms of how they have approached it and the speed with which they have moved within the constraints that they have, if you require legislation or you need to have consultations to change your rule book.

Q4 **Chair:** Lord Mayor, this does not seem to be working. To someone like

me reading the media coverage, it appears that there is a bit of an arbitrage, almost. You can come into the UK, buy a company at UK valuations here in the UK, hold it for a few years and then float or list it in the States at a much higher valuation. Is that a fair characterisation of how you see things?

Nicholas Lyons: I would not see it like that. The chief executive of the London Stock Exchange is probably better qualified than I to talk about the differential in valuations between the New York Stock Exchange and the London Stock Exchange. There is no doubt that, if UK firms are deemed to be cheap, they will be more vulnerable to acquisition. Certainly, we have seen, over a period of time, not necessarily that those companies end up being relisted on the US market, but certainly that they are bought by private equity, which is a significant detriment.

Q5 **Chair:** Julia, you have been invited there to comment on my question. What is your take on things?

Julia Hoggett: Lord Hill made a very good point that this is an ecosystem. I understand that the London Stock Exchange gets a lot of the press, but it is very often representative of commentary on the health of the ecosystem as a whole. I would spit that into five pieces.

The first is the nature of our listing regime, and that was a lot of what Lord Hill was looking at. The second is the quality of the amount of risk capital and deployable capital that we have in this country. Companies need to be able to have access to capital at the very point that they need to deploy it in order to grow. Risk capital also means the ability to recognise where value and potential future value can come from from growth companies as well. That is where quite a lot of the recent commentary has been and is an important area of focus.

We also need to make sure that we have a vibrant research community, so that we can effectively evaluate the quality of the future value that companies can create. We need to make sure that we are not putting undue burdens on our listed companies compared to the alternatives that they would have if they were in other jurisdictions, and that we are setting a level playing field.

Q6 **Chair:** Do we have those things at the moment? Do we have a vibrant research community? Do we have undue burdens?

Julia Hoggett: We have seen a decline in the amount of research provision in the UK. Not all of it can be attributed to the unbundling rules, which were part of MiFID, but the UK research community has declined compared to the US community over the last several years, and there are two facets of it that matter.

One is the sheer number of people who are employed to cover companies and to write sell side research on those companies. The other is their seniority and their ability to understand where future value can be

created. As part of those pieces of the puzzle that we need to work on as a rolling programme, that is absolutely an area of focus.

Q7 **Chair:** Is the problem UK investors? Have they become more risk averse?

Julia Hoggett: There is a degree to which we have sought to so protect people from the downside that we have not always exposed them to the upside. As a consequence of that, we need to recognise that stock markets are about deploying risk capital. That risk capital is to go into making the investments that produce the products, the solutions, the innovations, the jobs and, indeed, the growth that power the economy. Sir Jon's company does this a lot. We have to recognise that companies will not succeed every time; some will fail. Not every investment will turn out to have the returns that it anticipated at the beginning, but the act of trying is part of a vibrant economy.

Q8 **Chair:** What part of our regulatory system is preventing these risk takers?

Julia Hoggett: You will have seen a reasonable amount of the commentary recently about the de-equitisation that we have seen in the pension and insurance market over the last 20 years. We have seen a radical decline in UK domestic investment in our own equity markets for the last 20 years.

Chair: This is for the defined benefit schemes.

Julia Hoggett: It is in both.

Q9 **Chair:** What about for all the people who have been auto-enrolled? Are they not investing in equities either?

Julia Hoggett: There is a degree of it, but it is also fair to say that we are investing about three times more UK money in companies outside the UK than we are in companies in the UK. Setting extra governance standards on companies in the UK and then directing our own savers' money not to those companies but to ones that do not have those restrictions seems to me to be something that we do need to examine.

Q10 **Chair:** What is your take, Sir Jonathan?

Sir Jonathan Symonds: I would reinforce what Julia has said, but from a slightly different perspective. The issue is UK institutional participation in the entire life cycle of company formation. In the science and technology arena in which I operate, the UK is one of the most productive and innovative economies in the world. Only the east coast and west coast of the US really have the same level of productivity that the UK has.

When a company comes to that critical decision in its life, "Do we list and where do we list?", the vast majority of companies that have been formed in life sciences have been almost entirely funded by overseas capital, either from the US venture community or from the Middle East.

Therefore, its board of directors are largely non-UK. The markets that the company wants to really build and develop are in the US.

When the decision comes about where to locate, I do not think that the UK really gets a fair contribution in that decision, because we have not participated. Therefore, the big question here is how we get UK institutional capital to participate in the entire lifecycle of UK-generated innovation.

Right now, today, there are over 100 life science technology companies that have a capital demand in the next three to five years of between £100 million and £150 million each. That is a capital demand of £10 billion to £15 billion. If it is all imported and we have not participated, I do not think that we can really complain if the wealth created and the company are then ultimately exported. This is a question around deep participation of the UK in our growth economy.

Q11 **Chair:** Is it your forecast for your industry that the London Stock Exchange no longer plays a role?

Sir Jonathan Symonds: It will always do so.

Chair: We used to have regional stock exchanges in the UK, did we not?

Sir Jonathan Symonds: The scales are tipped against. If you think about the number of companies that have been coming out of UK science in the last 20 years, we still have only two companies of any size listed on the stock exchange—GSK and AstraZeneca. All the others have either gone to NASDAQ or have been bought and sold. It is a good example of the attrition that can happen if we do not participate.

Chair: That matters for the UK economy.

Sir Jonathan Symonds: It really does, yes.

Q12 **Chair:** Lord Mayor, do you agree?

Nicholas Lyons: I agree wholeheartedly. We can sometimes get a little distracted by just looking at which companies are listing. The issue here is that there are so many UK businesses, not just in life sciences but in technology, in fintech, green tech and renewable tech, that have exactly the same pattern emerging.

They get early-stage VC capital that often comes in at the university stage, but then the takeout of that early-stage VC in later series A, B and C comes in from abroad and those companies then disappear off the radar. Most of those will not list anywhere; they will just be private companies, but the wealth, the value, the jobs and the IP that have been created are leaving our shores, and that is the future of our UK economy.

Q13 **Chair:** What would each of you like to see regulators and the Government doing from here to address what you have identified as an issue?

Lord Hill of Oareford: Building on that last point, arguably the most important one to address, because the least has been done on it so far, although there is momentum gathering behind it, is to address the question of the pension funds' allocation of capital. Should there be consolidation? How do we get some of that money being invested in British growth companies? That is important not just for the UK economy, as has been said, but for opportunities for British citizens to participate in wealth and growth.

Chair: That would be the top thing that you would focus on.

Lord Hill of Oareford: That is the top thing.

Chair: Does everyone agree with that? Okay.

Lord Hill of Oareford: As we have all argued so far, you have to attempt to advance on a number of fronts at the same time. The regulatory side, the corporate governance side, attitudes towards remuneration, cultural issues and attitudes towards risk are all linked, and we need to think of all of them.

Q14 **Chair:** Would you agree with that assessment, Julia?

Julia Hoggett: I would, absolutely. There are obstacles at every part of the chain—the primary rules, the research and understanding of the companies, the amount of risk capital that we have to deploy, the rules and standards that we set on those companies when they are in the public market, and the quality of the ecosystem that we have in the private scaling space, which is entirely what has been raised here.

Unfortunately, there is not one silver bullet. We do need to work on all of those five component pieces to make it really work, because this is a self-referential ecosystem. It is a little bit like a Gordian knot to figure out which one you work on first. Unfortunately, the answer is a little bit of all of them.

The reality is, though, that an awful lot of work and momentum is building on this. The ongoing work in the proposal that the FCA has made most recently and that Nikhil Rathi made in a speech regarding the evolution of primary markets rules would create the level playing field versus other jurisdictions that we do need, because, to be honest, the last time our listing rules were really looked at was the 1980s. That matters.

Rachel Kent is doing a review into research at the moment with a very quick timeframe for when to report back, and that is to look at the economics incentivisation for a vibrant research community here. The pension and risk capital deployment piece is absolutely critical.

I do not think that we can lose sight of the corporate governance demands and pressures that we place on companies. We have created an environment where "comply or explain" has become "comply or else", and that has become a standard. We are quite good at applying rules in

this country, so when we write them down, we do implement them, but it has reduced the flexibilities that companies have to operate.

Remuneration is an issue in that, which we do need an open conversation about. The ecosystem for scaling companies is not as vibrant as it could be. Last year 70% of all the fintechs that we have created and are building in the UK got their funding from overseas. The FCA has created a superb environment for fintechs to grow here. We clearly have the absolute desire and framework for it, but we are not then providing the financing and the rocket fuel that enables those companies to be. My aspiration is that we have globally consequential companies in the UK. That is really the aspiration, but you do need all five of those pieces together.

Q15 **Chair:** Are there any different or additional points from you on that, Lord Mayor or Sir Jonathan?

Nicholas Lyons: The funding piece sits right at the heart of this, because there is this issue about de-equitisation—the fact that the amount of investment in our listed equity markets has declined—and there is also the fact that our pension system has been underpowered in terms of the returns that pensioners can expect, because of a preponderance of preoccupation on compressing fees rather than looking at net returns. There is also a huge need for pooling of pension funds in this country.

Right at the heart of all of this sit the growth companies that are going to be the future value for this economy. At the moment, the most sophisticated investors in the world are coming and investing in these companies. It is a great tribute to the quality of those companies, but British investors, both institutional and retail, are not having the benefit of it.

Q16 **Chair:** I am interested in what you thought the main solutions would be, and what I am hearing is the collective pension fund. Do you have anything additional or different, Sir Jonathan?

Sir Jonathan Symonds: No, but I just wanted to emphasise a couple of points. When I talk about imported capital, I need to be clear that the capital we are importing is largely from foreign pension funds—the Canadian pension fund, the Australian pension fund, and pension institutions in the US—so this is not what I would call fast, speculative money. This is the same money that we have.

In this ecosystem, the most important issue to begin with is to create the capital pool that can be allocated, and that comes from pension consolidation. The second point, which Julia has mentioned, is on governance. We need to strive for a level playing field. I have no problem whatsoever with being held to account by the highest possible governance standards, but, if we are higher, we need to justify those areas as to why they are more stringent than particularly the US capital

market, until we have the right to say that we can determine our listing rules independent of any other market in the world.

Q17 **Anthony Browne:** I want to ask about the specific example of Arm. As a declaration of interest, it is just outside of my constituency, but many of its employees are my constituents, and I got involved tangentially with the discussions between Government and Arm in trying to persuade it to list here.

Clearly, it is a blow to the UK that it has decided not to list here. One of the reasons is higher valuations in the US. What are the lessons learned from that? With the benefit of hindsight of what happened, if the next Arm comes along—and there have been other mini-Arms—what should we do differently? What rules need to change to make sure that these companies do not depart?

Julia Hoggett: Let me give three. The first is that, when Arm went private—and the CEO of the FCA has made this point as well—we had an expectation of a UK locus but not a UK capital markets locus. That is something to reflect on.

The second point I would make is that I do not think that valuation was the issue. The expectation had always been that Arm would recreate the method of going to market that it had when it was first listed. When it was listed in London, it traded at a premium to its peers, and one option was to have a primary listing here and a listing in the US through its depository receipts. That would have created the price tension between the US and the UK anyway and, therefore, valuation was not the issue.

If you do wish to raise capital in two markets, then the differential of the rules that you have to comply with between those two markets becomes relevant to the freedom of movement and flexibility that a company has to operate going forward. That goes to what Lord Hill and Sir Jon have said about the flexibility that both the governance standards and the listing rules create in terms of the ability of a company to operate once it comes on to the market.

Q18 **Anthony Browne:** There were suggestions that the FCA was not flexible enough on the related party transactions rules, about which there were discussions between the Government and the FCA. Were those specific rules an issue?

Julia Hoggett: The simple reality is that I used to be the director of market oversight at the Financial Conduct Authority, so I would have been sitting on the other side of the table in those circumstances. The FCA has a duty to apply the rules as they are written, and a limited amount of flexibility as to how it can derogate those rules.

The related party rules do need to be looked at in general, and I think what has been proposed by the FCA will do that, but I understand that, as the rules were written down, they cannot derogate too outrageously

from that. Therefore, this is very much about reform going forward, and that is a lesson that we can take.

Lord Hill of Oareford: I defer to Julia on the specifics of the case. Going forward, one of the questions that we have to consider is the whole question of market sentiment. Sentiment can move in one's favour and it can move away from one, and then a conversation starts, which then starts becoming mutually reinforcing.

Going forward, the lesson for me is that we have to pull together all of these strands of activity. As Julia said, there is a hell of a lot more going on under the bonnet of the engine than is yet apparent, but it is all going down separate tracks. If I understand correctly, the FCA and Nikhil Rathi are proposing a radical reform of the way that the stock market operates, going back to, as Judith said, the 1980s in terms of the significance of the shift.

With the discussions that Sir Jon is talking about in terms of pension fund reform, unlocking capital, and the prospectus rules that should be coming out of the Financial Services and Markets Bill changes, maybe a year from now we will have all of these strands coming together. This is something that engages us all. It is not just for the regulators or just for the market. It seems to me that it is a common UK effort that we need to make in order to pull it together and do a good explanation job that will help shift sentiment.

Sir Jonathan Symonds: I will answer it with a different example. Last year, GSK spun off Haleon, which was the biggest listing in the UK for many years. If I contrast the decisions that start-ups will face when they come to that critical decision, Haleon inherited our shareholder base, it was well established in the UK, its brands were well known and the investor interest was stimulated out of London.

We looked at valuation and, in a global industry, the valuations that were feasible and have been achieved were comparable with P&G and L'Oréal, at least to be able to put them in the context of the global industry. Although we did look very hard at where we should list this, we were very comfortable to list it in the UK, because it was really the inherited shareholder base from GSK. About 40% of their shares were owned in the UK, which gave it a completely different complexion for where you have 100% ownership of a company that was owned not by the UK. It has complete freedom as to where it chooses the market, and I would not be surprised if it chose where the active investor trading would be, where its customers were, and so on.

Q19 **Anthony Browne:** I do not want to use the word "inertia", but there is a momentum or legacy there, which did not apply with Arm, because it was in private hands when it was floated. I know that you were not directly involved with Arm, but you follow these things closely. What are the lessons there? Was there anything that the UK Government could have done?

Sir Jonathan Symonds: I would have been surprised if they had listed in the UK, because their natural investor base would be in the US. One of the other really important statistics is that the UK is the third largest market that is dependent on foreign investors, so 60% of the capital in UK companies comes from foreign investors. The US is 85% provided by domestic investors, and that makes a huge difference.

Q20 **Anthony Browne:** It sounds like the rule changes that Julia Hoggett was suggesting and that the FCA is talking about would not alter that.

Sir Jonathan Symonds: No, I do not think so, but that is why we have to nurture these companies through the UK system right from the very beginning. Then the UK and the London Stock Exchange are, and will be, a very attractive location.

Q21 **Anthony Browne:** Can I just pick you up on that, and your previous answers to the Chair, where you said that institutions in the UK do not invest in venture capital sufficiently and compared it to Canada? You were not pressed on what rule changes could make or encourage the institutions to invest here.

The Treasury has done quite a lot of work on this, and I know that they slightly bashed their heads against a brick wall, because there is no silver bullet here. You end up thinking, "It is just cultural conservatism among the pension funds", which are just incredibly risk averse. Do you think that there are specific regulation and rule changes that could change it?

Sir Jonathan Symonds: I do not think that there are significant rule or regulatory changes. There are some good examples. The fundamental problem is the dispersion, fragmentation and non-critical mass of our pension assets. There is a very strong correlation between scale, and breadth and diversity of assets.

There are two shining examples in the UK. Number one is the Wellcome Trust, with 15% returns over the last decade. That is not a risky organisation. The one really close to home is the Pension Protection Fund, which has done an outstanding job on consolidating failed schemes, diversifying the asset base and achieving very credible returns. I really think that it comes from consolidation and the release of capital for alternative assets that that stimulates.

Q22 **Anthony Browne:** Lord Mayor, I come back to the original question about Arm.

Nicholas Lyons: I do not think that I have much to add on that, but I would just say that, although one should always look at each situation on its particular merits, we would be making a mistake if we said, "Because of what happened to Arm, then X, Y and Z". The fundamental problem is much more a question of what the mentality towards risk is and how much capital we are allocating to early-stage companies so that we already have invested equity when they start to make their decision about the location of their listing.

Q23 **Siobhain McDonagh:** I would like to look at the role of the FCA. What rules should the FCA introduce, remove or amend to encourage firms to list on the London Stock Exchange as an alternative to using another country's stock market—private citizens to invest more of their savings in firms listed on the exchange, or institutional investors to invest more of the capital that they manage in firms listed on the London Stock Exchange?

Julia Hoggett: On listing in London, it is very much about making sure that our primary ruleset is fit for purpose. From what I understand from the most recent speech from the FCA, the consultation that it is going through today, which builds on an awful lot of what Lord Hill recommended, is going in the right direction. A lot of our job is to give it the confidence of its convictions to be able to execute against that. It does need the Financial Services and Markets Bill to be able to implement that, so that is critical.

On the private citizens piece, my first sense of a stock market was the "Tell Sid" era—that is how old I am. I will give you an interesting story. That was an exercise of people recognising that there were these shares that they could buy. They could go into their bank, take some money out and, in the same moment, subscribe for the transactions.

The way that retail participates in primary transactions today is almost unchanged from that. The way that transactions operate today is totally different, and the consequence is that the very rules that, in a sense, have been designed to protect retail from the execution risk have excluded them from the market, and yet it has not been harder in other markets.

I am afraid I have been quite open about saying that it should never have been easier to go into a corner shop and get a cryptocurrency from a cashpoint than for retail to have bought a share in Oxford Nanopore's IPO. Unfortunately, the cashpoints have been shut, but it is still not easier to buy a share in Oxford Nanopore.

Siobhain McDonagh: Or they are charging you.

Julia Hoggett: That is a different matter. A lot of the work that came out of Lord Hill's review, which was Mark Austin's secondary capital raising review, has been about smoothing the way for retail to be able to participate, because part of the way of retail participating in the secondary markets is also to participate in the primary markets.

The reason why I am still in the capital markets after 25 years—and I am a sociologist by training; I did not grow up wanting to be a banker—is that the public purpose of markets is to drive financing into the companies and institutions that generate the products, the solutions and the jobs that really drive our economy, and we have lost sight of that.

Therefore, the point I make about crypto is important, because enabling retail to participate in the productive assets that invest in the future for them and for their children, and contribute to the growth of the economy,

matters.

On the fixed income side, we have a perverse situation, where it is easier for companies to create a prospectus that has a denomination of £100,000, which is a lot of money, rather than one that has a denomination of £1,000. Retail finds it harder to buy debt instruments, which are less risky than equity instruments, than it does to buy equity right now.

The FCA has both of those issues in its sights, and the changes that it has in hand would enable us to address that. Retail enfranchisement is important. In the UK, we have roughly 13% retail direct participation in our markets. In parts of Europe, it is 23% and, in other parts of the world, it is considerably higher than that.

That goes to financial literacy and to understanding and having a democratic, equitised stake in the economy. We need to recognise where our rules have been stuck in aspic and recognise that aspic may be good for a tea party but not very good for listing rules.

Lord Hill of Oareford: I very much agree with that and have nothing to add on the detail. I have a broader point, if I may, which is to do with the question about the FCA and how it should think about regulation. Historically, we have got to a situation whereby we all think of regulation as being quite a static thing. You go through a painful process to get the rules done, and then the two sides, as it were, dig in on either side of a trench. There is always an argument about whether you can change it, and it tends to lead to a mentality where you have quite rigid approaches to regulation. In an ideal world, the approach would be more flexible and able to be co-constructed.

As a former sort of regulator, sometimes you overcook a rule and you make something too restrictive. Sometimes you miss a risk and you need to change it. An observation that I would make, coming into this whole discussion about listing from the outside late, is that things had been stuck for a very long time and that, going forward, one of the abilities that the FCA will have as a result of the Financial Services and Markets Bill is to act more flexibly and not to have to put everything through primary legislation, so there could be some opportunities there to move more quickly.

Finally, on Julia's point about the democratisation of wealth, if we want to call it that, one of the consequences of what has happened is that wealth is being concentrated in the hands of fewer and fewer people, as well as in the hands of people not in Britain. Neither of those seems to me very good social and political objectives. Pensioners in the US and Canada, to put it very crudely and simply, are doing better out of British companies than British pensioners are. That does not seem to me a very healthy state of affairs.

In our review, we did not really have either the brief or the bandwidth to look at retail participation and wider share ownership, whatever you want

to call it. That is an incredibly important area, and technological change makes it much easier for normal people to take part in this and to share some of the upside than has been the case in the past.

Q24 **Siobhain McDonagh:** Last month, the FCA outlined its intention to further reform the listing rules to support innovation and bolster sustainable investment. What do you make of these changes?

Julia Hoggett: As I said, we do not know the precise details of how the FCA will come out with its primary market rules, although the speech that Nikhil Rathi gave is a very important one and laid out an incredibly constructive roadmap. From that piece of the puzzle, it matters a lot.

On the sustainability piece, the UK is a leader in sustainable finance globally, and we already have a range of things in place that give us the ability to continue to lead. The challenge is making sure that we fit that regulation in a way that continues to allow innovation. I will give you an example.

The transition to net zero is incredibly difficult. If it were easy, we would have got there already. We may not yet know some of the things that will get us there. Markets and rules tend to like very determinative outcomes, and an ability to learn and to not send all capital down certain directions is going to be critical. Therefore, recognising that challenge within the enhancement of the ruleset is going to be important.

The other facet—and Sir Jon probably has far more experience of this than I have; I hear it second-hand—is the expectations that are placed on companies by investors in the UK regarding the transition that they are making. They are being asked incredibly sensible questions by investors, but they are being asked 73 different versions of the same question. Therefore, the burden on companies of just addressing those questions is greater than it needs to be to answer the question. How we get to a point where, rather than it being an industry in itself, we just enable companies to answer the question once is going to be important.

I have not engaged as much on the most recent detail on the sustainability side, but that is a valuable objective in any policymaking outcome that we have. I do not know if you have experience of that, Sir Jon.

Sir Jonathan Symonds: I was going to make a slightly broader point related to something that you said earlier, Julia, which is that we are very much in a "comply or else" regime. The governance rules originally put in were very important ones around minimum expectations, but boards were able to justify where and why they wanted to deviate from that, and then the shareholders would determine, through the annual general meeting, whether that was appropriate.

We have moved away from that to a very restrictive set of requirements that, effectively, comes down to, "You have to check all of these boxes", no more so than on remuneration. ESG is coming in that way too. Every

investor has its own perspective on what is important, and there is nothing wrong with that. It is just that we cannot meet the expectations of 100 different investors.

Where we do agree is that ESG is the central pillar around which we are building companies today. The board is and wants to be accountable, and it should be able to express that accountability as it sees fit for its business. We are slightly getting this a bit the wrong way round. Because there is no investor consistency, it is almost an impossible set of standards to meet.

Q25 **Anne Marie Morris:** Julia, you have set out, in some ways, quite a depressing picture of the five tests. We are working on them, but I do not get a sense that we are going to get there any time soon, not least because they are quite complex. Is there anybody who is driving the work across all of the bodies? It is not just the stock exchange, the FCA, the Department for Business or the Treasury. The picture that you are painting is of a lot of disparate activity that is not joined up and, if there is not somebody joining it up and driving it, we are never going to get there.

Julia Hoggett: I am very optimistic. As a principle of running business, I always say that you have to operate on a brutally honest mark to market, combined with an utter confidence that, when you rub the right brain cells together, you can produce the best outcome. That is what we are having right now. In a sense, we have having that brutally honest mark to market moment about the efficacy of our capital markets in the UK. It is a valuable conversation to have with the confidence that we can then make all of these changes so that we can drive the markets forward.

Let us just take a step back in terms of the raw ingredients that we have. We are the world leading capital market on a multi-asset basis. We are the largest exchange in Europe by any measure—we are £1 trillion larger than France. We regained our spot as the top capital raising jurisdiction in Europe this last couple of weeks, and I work tirelessly to make sure that we maintain that position.

The reality is, though, that we need to now compete on a much more global basis. We should be looking at where capital is coming from around the world and making sure that we are holding ourselves to the standards and the qualities of a much more diversified global standard. That is what these things are about.

I always say that the stock exchange is a convener of capital. Our job is to bring together those who have capital with those who need capital in order to service an objective. When I arrived at the exchange, I realised that we had an equally valuable role as a convener of the conversation, because, in a sense, we are the place where so many of these pieces come together, so that we can understand and be the illustrator of the health of the ecosystem.

The Capital Markets Industry Taskforce was formed in part to bring together, quite unusually, people who represented all frames of that ecosystem. We have a private company CEO. We have Sir Jon as a listed company chair. We have the head of a large venture firm. We have Peter Harrison from Schroders. We had Nick before he went on sabbatical to do something much more interesting instead as Lord Mayor. We have me as the chair, Kay Swinburne, Katharine Braddick and Mark Austin.

Very deliberately, the issuers and asset owners and managers outnumber the intermediaries, because that is who we serve and what our capital markets are there to serve. Too often, we have looked at our individual files or rulesets, rather than looking at the efficacy of the ecosystem as a whole. I liken it, as Lord Hill mentioned, to an engine revving. When you are not in the garage, you cannot see that there is any movement, but, when the door opens, it can move at quite a lot of pace.

There is now a much more nuanced and detailed engagement with the various pieces of the puzzle that need to be addressed in order to make sure that we take this dominant European position and the strength that we already have, but connect it much more effectively with the strengths that we develop in our domestic economy.

Our evolution as a capital market over the last 20 years has served our place as a global financial centre very well, but I am not certain that it has served our role in powering the domestic economy as effectively as it could do. That is really about harnessing these two remarkable things. Our great universities create more unicorns in this country than anywhere outside of the US, China and India. If we can connect our capital market strength with that capability, just think what we can do.

I am intensely optimistic about it, but I am not in the slightest bit either unaware or unafraid of the hard work that is required to work through each of the component pieces to get it done. I would rather try than not, however hard the job is, because it is a really important task. CMIT has come together to try to be a bit of a lightning rod to stimulate that change, because not all of it is reliant on regulation and law. Very often, we point at regulators and say, “It is you”, but it is how we interpret some of these rules and what we choose to do as institutions.

The reason why CMIT was founded with the people who are in it was, in part, that we could go back into our own institutions and do things differently as a consequence of that conversation, and that is what we are also seeking to do. I am intensely optimistic about what we can do from here, rather than pessimistic.

Q26 **Anne Marie Morris:** So you still aspire that we are going to be the leader in global capital markets, or at least one of them.

Julia Hoggett: Yes.

Lord Hill of Oareford: I have a more prosaic observation about how much things have shifted. When I was asked to chair the listing review, I had a suspicion that people thought that they were giving me a hospital

pass because it would prove difficult to get agreement within the market between different interests as to whether reform was needed. Part of the job was to try to build that consensus. We learned, as a result of that, that there was far more appetite for reform within the market than maybe the politicians and regulators had thought.

As a second reflection, there were some things that we thought we were pushing at the boundaries two years ago. The speech from Nikhil Rathi was referred to, as was the announcement that the FCA may be about to make about the future of how it arranges the rules for the stock market. This was something that we would have liked to have put on the table but thought was too difficult and too controversial. That is just as an example of how far the mood within the regulatory world, the market and the political world has moved in that space of two years.

I get the sense that stuff that we talked about two years ago, where we tried to set out a route forward, has been followed. The pace is accelerating. We are not there yet. This final big piece that Jon has been talking about around how you try to unlock more capital is a big thing to be pushing on in the next few months, but we are quite close to being able to pull this all together and then, I hope, tie it up in a ribbon that will enable us then to go around the world and sell ourselves on the front foot.

Q27 **Anne Marie Morris:** The world has changed, and the approach that different capital markets now take is different. Politics plays a part here. America has become more protectionist. How does that impact our position? Should we do the same? Is it a positive thing for their economy or, in the longer term, is it going to come back to bite them? What do we do about some of the security concerns? There is increasing investment from China, India and states that we do not wish to have a stake in many of our core assets. How do those complexities impact what we need as a strategy to be number one?

Lord Hill of Oareford: That is a massive question, and Sir Jon might have some views on some of it. Just as an observation first, the effect of what is happening through the Inflation Reduction Act across the whole of Europe is like a dirty great hoover on full suction mode. If you go to Germany, they will be slightly more exercised than we probably are here politically, because of the decision taken by Volkswagen.

The way in which that is reinforcing a mentality that the US is where you want to be for business is clearly a factor. In this whole discussion, when you try to look at some specific points around, say, listing rules, yours is a good example of how there are lots of moving parts. There are macro factors that mean that, whatever Julia does in the LSE, she is going to find it difficult to counter. That is certainly a factor for the whole of Europe, which is going to struggle to come up with an effective response to the IRA. As a medium-sized country, with all of our financial constraints, we have a different set of problems. In terms of how much we could deploy, I do not see how one can begin to compete with the

scale of the subsidy that the Americans are pumping into it, which is massive.

Sir Jonathan Symonds: I would love to add, if I may. The IRA is really important, and I will come to that in a moment. To the substance of your question, if you are looking at what the core ingredients are for long-term success in the capital markets, there are many things, but, for the sake of simplicity, I will talk about three.

Number one is a very large capital pull. We have £5.6 trillion of capital in the UK economy that is invested. The second is a highly developed and sophisticated capital market, and the third is company formation and innovation. Only the US, in my view, ticks those three boxes. There is not one European country that would come into it on two of those three.

We have the ingredients, and that is why I am optimistic, but I also have a deep sense of urgency on this. We are in this wave of innovation right now, and it is not just life sciences but technology, green tech and so on, and this is where the IRA is deeply important. It is a $369 billion programme and, realistically, it will attract 10 times that in private capital, so it is a $3 trillion programme. I have spent a lot of time in Europe over the last few months, and you can hear, as Jonathan rightly says, the sucking sound as the assets are moving out of Europe. We must not let that happen.

Our counter to that is that we have equivalent innovation here, but it is not going to be a counter if it is equivalent innovation that is not financially supported. If $3 trillion of capital is going to go into the US, we cannot rely on the importation of that capital in the way that we used to. If we do not use our domestic capital as part of it, the IRA will win. In my 30-odd-year experience in business, it is the biggest shift in the competitive dynamic.

Q28 **Anne Marie Morris:** If we are looking to unlock this domestic capital and drive innovation, how are we going to do that? As you rightly say, life sciences is one piece but not the totality. There are all sorts of issues with some of the other tech sectors, not least political, with China and India, and the challenges about whether we are prepared to have them integrated. Clearly, that is overseas investment rather than domestic, which is what we want. How is that going to work? How are we going to innovate? What are the sectors that we should look at? How do we bypass these political problems?

Sir Jonathan Symonds: The Chancellor has identified six sectors. There may be seven or eight, but there are not 15 upon which our growth depends, so that is a very good starting point. They are all interdependent. The life science sector depends on data and computing power, and on analytics. They are all interlinked, so it is a very good foundation for where the growth opportunities lie. Life sciences alone has a £20 billion capital demand in the next five years, and then there are the others.

This is really not a debate about pension risk or growth and return. It is a debate about the long-term growth of this economy and the participation of the UK capital pool in it. It does not take 27,000 defined contribution schemes with £25,000 and 1,000 members. It takes pools of capital at £50 billion or £100 billion that can take an asset allocation across the full risk spectrum, including supporting domestic growth opportunities. This is really urgent.

Chair: Before I bring in Emma, you will have to forgive me that, in five minutes or so, I am going to step out and Rushanara will step into the chair.

Q29 **Emma Hardy:** I was listening really intently to the evidence that you were giving earlier, and the message that seemed to be coming across is the sense of urgency and needing to use the domestic capital. I thought that your point, Julia, was really interesting in terms of the centralisation of wealth and the consequences that that has for the growing inequality in our country. It is not one that I have ever heard before, so that was really interesting.

You have all been talking about the need to use our own pensions investment and how important that is, and our more risk averse culture. Why do we have a culture that is more risk averse in the UK? How risky is it for all those people relying on their pensions? If what you are recommending happens, what are the risks and why are we so concerned about risk?

Julia Hoggett: "Why?" is a very good question, and I suspect that, as a sociologist, I should have a better answer. Quite often in this country, we have a conversation about the economy as a zero-sum game. It is the allocation of a fixed pie. If you look at what has happened over the last 20 or 30 years, the greatest change in terms of lifting people into the middle class has happened in places like India and China, where they have seen very large-scale growth.

The focus on growth is critical. In a sense, the stock exchange is littered with stories of people raising risk capital to go off and do something exploratory and amazing, and it turning into the companies that today are worth billions. Somehow, we have lost that appetite and conversation about risk.

We also do not celebrate entrepreneurship as much as we should. I will be honest. I have worked for large institutions and taken a salary every day of my working career, but one of the great privileges that I have is standing on the balcony with founders when they list their companies on the exchange. It is a life-changing day for them, but when you talk to them about what they have gone through, they have often put their money or their savings, their mortgage and sometimes their marriage on the line to create this value in these jobs.

When Oxford Nanopore came up, it brought not only a bus full of STEM students from state schools in Oxford at 5 am—I was the villain, because

the stock exchange was opening at 8 am and we were not going to open any later—but also the lady who ran the payroll and the chap who ran the factory. When Pod Point came to list, it brought one of its engineers who had started as a 16-year-old apprentice and was now running its regional engineering team in the midlands.

That is what these companies do. That is what the capital that is raised on our market goes to do, but very rarely do we talk about it in that way. We talk about it as deals, IPOs and fees, not the thing that is driving the real economy. I want everybody in this country to care that we have a vibrant capital market, because it is the source of the capital that creates the jobs, the innovation and the futures, both for them and for their kids.

I want a mother in Cumbria to care that we can finance a start-up in that area that means that her kids can afford to buy a house in Cumbria and not have to move to a big city, and that she can grow up near her grandkids. That is, ultimately, what capital markets are there to do, but it is not how we talk about it. We need to talk about it and be able to celebrate those stories much more, to talk about them as the human stories that they are, and to be able to create the conversation that means that this is not an esoteric conversation that happens within the square mile. It is actually a conversation the entire country needs to have and we have stopped doing that for quite a few years.

Q30 **Emma Hardy:** We do not ever talk about in that way at all; I totally agree with that point. Why specifically are UK pension company investments so risk averse?

Julia Hoggett: I will defer to the pensions experts. With our decision to, in large measure, close defined benefit and open defined contribution, we have created certain regulatory consequences of that, which have led, in a sense, to a mandation of investment through a different route. That is one of the reasons. I think we need to arrest it and realise that pooled, diversified investment is the thing that generates the best returns. I rather flippantly say there may be more teachers in Ontario financing startups in this country than teachers in Aberdeen, Belfast, Cardiff or Dover. A single Canadian pension fund invested more in one UK private company in 2021 than all of our pension funds did in private companies in the UK in the same year.

We are not asking for radical risk-taking. We are just asking that our pension funds do what other established funds—the superannuation fund in Australia, the CPPIB in Canada, the Wellcome Trust—or major endowments do. Somehow, we have got to a point where we have stopped doing that and then created a narrative that this is extreme risk-taking. I think it is risky not to invest in our futures.

Nicholas Lyons: There is a very good example in our midst, which is Nest, where we have had significant growth and significant diversification in the risk assets that they have invested in. It is a very good example. They have not done much in the VC space but they have in infrastructure, real estate and some of those other unlisted asset classes.

Just to give you a sense of the scale of what we are talking about, when you look at the Canadian state pension funds and the Australian superannuation schemes, which are the most successful pension schemes over the last 30 years, they have probably about 35% of their assets invested in unlisted securities, which include infrastructure, private debt, private equity and real estate.

Of the £4 trillion of assets that sit in pension funds in the UK, which is the second biggest pension pot in the world, incidentally—I admit that that is mixing up defined benefit pensions with defined contribution pensions, but just to give you a sense of scale—only 7% are invested in those same four unlisted asset classes. We are not talking here about infrastructure loans, private debt and real estate because there are already very competent pension administrators and fund managers who can give the opportunity for pension funds to invest in that.

What we are trying to say is that there is a particular asset class, which is venture capital, where we are only suggesting that we create a future growth fund of £50 billion. That is 1.25% of £4 trillion. Even if you look at defined contribution pensions, which are about £550 billion today, expected to grow to about £1 trillion in 2030, £50 billion would only be 5% of £1 trillion in 2030. We talk about £50 billion not because we need to invest that today, but there is plenty of opportunity to invest when you look at life sciences, fintech, technology generally and green tech.

We anticipate that this future growth fund would probably end up investing about £10 billion a year. The point about what we are suggesting is that, if we want people to have an opportunity to have some exposure to this asset class to boost the returns on their pensions, our obligation is to make sure that they have access to this asset class in the most risk-diversified way we can create.

We have a number of pots of money that sit within the British Business Bank, British Patient Capital or the British Growth Fund. There is £1 billion here; there is £2 billion there; there is £500 million there. You are not going to get the diversification across these different verticals, and the advantage also of a £50 billion fund is that it would give us the opportunity to invest in not only what we call late series A—still relatively small chunks of venture capital—but then the series B, series C and series D, which are the bigger amounts. Those amounts are the ones required by companies as they get more mature, still not ready for listing, but more mature. By looking at those verticals across tech, fintech, biotech, life sciences, green tech, renewable tech, and at that spread of late series A, series B, series C and series D, you get huge risk diversification.

Therefore, you have a much, much better chance of getting a low-risk but very good return on that asset class. Again, we are not wanting to put people's life savings at risk here. We are simply saying, "We want you to have a stake in the future growth of the UK economy". We are talking

about 5% of their pension pots going into this. In case the next question is about mandation and whether we are forcing people to do this, we are not suggesting that. We are suggesting there is a range of ways in which one can do this. You could mandate it at one level; at another level you could provide tax incentives to do so; and in the middle you could create some pressure on pension trustees with their fiduciary responsibilities to demonstrate that they have explored all the options to produce the best financial returns for their policyholders.

Sir Jonathan Symonds: It is an important distinction, to underline that point. There are the two pools, £1.7 trillion in defined benefit and £5 billion in defined contribution. The defined benefits are backed by a company promise so there is a guarantee to that. In most cases, because it is being guaranteed, companies have gone down a very risk neutral approach, so work out the profile of the liabilities, find match funding, fixed interest. The defined contribution schemes, which have a vast number of people now, have no underpin and therefore, if the low-risk approach forgoes three percentage points of growth, over its 30-year life, that pension pool is three times greater. This is really important. Those young people today do not have any underpin so returns are much more important.

If you can get 9% by following the Pension Protection Fund's allocation or 12% by following Canada, as opposed to what the current schemes give you today, which is less than 6%, that really matters because, if those pools are not adequate by the time people come to retire, they have two options. Either they work longer or the state picks up the bill. This defined contribution distinction is really important, and this underpins why these assets are disproportionately more important now.

Rushanara Ali (in the Chair): Thank you very much.

Emma Hardy: Have I run out of time?

Q31 **Rushanara Ali (In the Chair):** Yes, I have to keep us to time or I am going to get into trouble with our Chair, who will be back, and it just so happens that it is my turn, so all the more reason to stick to time. I need to start off by declaring an interest. I am on the council of management, with Lord Hill, for the Ditchley Foundation, which is in the register of interests as well.

I have a follow-up question in relation to Anne Marie's question about the Inflation Reduction Act, and then I am going to go on to the Edinburgh reforms. You talked about the scale of the US investment. The EU will come up with some response and, as a bloc, more resource and so on.

Building on what you have already said, I do not want to use the narrative of having our cake and eating it, because we have not had much cake in the Brexit analogy, but are there ways in which we can position ourselves to work with the US and the EU in order to not be locked out of what are going to be very big amounts of subsidy in investments?

We are already picking up a number of other countries saying, 'We are heading to the US", in terms of sovereign wealth funds and investment, for instance, and lots of other areas. Along with the things you are talking about that we would do, can we find clever or imaginative ways of being able to use our relationships, particularly with the US and—what we have of it—with EU partners, to do something around that? Is there much we can do?

Sir Jonathan Symonds: There is no easy answer to this at all. The more we can align with the US on this, the better, because for every aspiring UK company, in large degree, if they are going to succeed, it is in the US market. Europe has a difficulty for two reasons. A lot of the industries that are under threat, the heavy chemicals, steel and motor industries, and so on, are the industries that we have lost in the last 20 years. In replacement for that, we have these embryonic, high-technology, innovative industries, and we do have the capital markets.

We have a lot of good cards to play in this, and it is how we forge sectoral collaborations. Lord Hill and I talked about this a few weeks ago. Where are the competitive win-wins? Where do they exist between the UK and the US, and the UK and Europe? We have a lot to offer, so we have to compete on the front foot. It is most definitely not competing on subsidies and incentives.

Lord Hill of Oareford: Sir Jon made the point earlier that the thing we have to hand, which we ought to concentrate on, is how we can try to unlock our own capital more effectively. Anything one might seek to do diplomatically is not certain and not on short timescales, and this is happening now. That is why I share his sense of urgency as to how one needs to make progress on that.

It is sensible for us to double down on a particular offer. We have had quite a lot of discussion about the potential we have with our tech offering. We need to be known for something and, listening to this discussion, that seems to me to be the area that we ought to be doubling down on.

On Europe more generally, I do not see a huge amount of scope or potential for us to be doing things on the EU side that will tip the scales. They will have their own approach that will be more subsidy-related to try to deal with the IRA. I do not think they will get that through quickly. We have to look to ourselves and not to others.

Nicholas Lyons: I would just jump in there, if I could. I spend a lot of my time as Lord Mayor travelling around, talking to asset owners and sovereign wealth funds around the world, talking up the UK as a venue for investment. There is a very strong story to tell: four of the best 10 universities in the world, seven of the best 20 universities in the world, extraordinarily entrepreneurial culture, so many start-ups on the life sciences side. In fintech we are really world leading. That is absolutely recognised around the world. I am not seeing a shortage of capital

looking to deploy itself here. What I am very keen to do is make sure that we can have UK capital deploying itself alongside that sophisticated capital. There could be financial, fiscal incentives.

Q32 **Rushanara Ali (In the Chair):** None of you has mentioned the political turbulence we have had, which has hit our reputation internationally in the last year.

Nicholas Lyons: Well, I go out there—

Rushanara Ali (In the Chair): It is settling down a bit.

Nicholas Lyons: It is settling down.

Rushanara Ali (In the Chair): We have been told in no uncertain terms by certain Governments, when we go on delegations, bluntly, that people are going hold off. Certain countries, sovereign funds and so on will hold off until things settle down. Obviously, things have settled down a bit.

Lord Hill of Oareford: I take the point. There is a time lag on reputation. As Brits, we do our self-deprecating thing of saying to people, "Ho, ho, Britain is a bit like Italy or Greece". One should flip it round the other way. We certainly had a lot of political turbulence. In the UK, we managed to replace two Prime Ministers in three months without a single teargas cannister being fired or a single head being broken by a baton.

Rushanara Ali (In the Chair): That is a great way of spinning it. You are clutching at straws there.

Lord Hill of Oareford: There are other European countries that look a lot more unsettled than we do.

Q33 **Rushanara Ali (In the Chair):** This is not from me, and they were not making those analogies with Greece and so on, but they were very blunt. A number of countries have been very blunt and I do not think we should get into measuring—

Siobhain McDonagh: Tear gas canisters as a scale.

Rushanara Ali (In the Chair): That is really conceding defeat. Just moving on to Edinburgh reforms, do you feel that the Edinburgh reforms focus on the right areas with regard to stock listing, for example changes to the prospectus regime?

Julia Hoggett: Yes, I do, and it is partly because it does take those five components pieces and they are actually well represented in what is in Edinburgh. I understand it is frustrating that it requires so many different pieces of the puzzle but that is, unfortunately, the reality of the complex ecosystem we are talking about.

One of the things I am actually most excited about in the Edinburgh reforms is probably the thing that was last on the list, which is the idea of exploring what would be the world's first crossover venue between public and private. That is what we now call the ITV or intermittent trading

venue. It may need to change its name given the television company's name. That is the idea that the UK would be creating regulation for the first time to enable private companies to create a liquidity event for their secondary securities.

That would enable angel and seed investors to get out and get back to being angel and seed investors. It would enable the very institutions that have been talked about to start following companies for the first time. Critically—this is also part of what can we do differently within the ecosystem—it would provide liquidity events for staff. If there was a UK company using that venue as a mechanism of creating liquidity for its private equity, one would think that that would attract more talent than a company that did not.

The other thing that has increasingly come back, as we have been doing the testing and the conversations about this, is that it creates that democratisation of the access to private company capital as well. To be blunt, women face an uphill challenge in getting capital for private equity investment and venture investment. I have had feedback from female entrepreneurs that, had this venue existed, they would have possibly stayed private a bit longer because they would have felt there was a level playing field from which they could operate.

That is the level of innovation in the UK that some of the things in the Edinburgh reforms have the potential to create. That is very powerful and we should keep pushing forward on it.

Q34 **Rushanara Ali (In the Chair):** For all of you, are there any areas where you think the reforms go too far in terms of risking financial stability? Are there any areas where we need to be careful and, if so, what are they?

Lord Hill of Oareford: I used to have to do financial stability in Europe. I think of it the other way round. It is goes back to the earlier conversation about risk. We have, if anything, erred too much on the side of reducing risk. I do not see financial stability risk in any of these measures.

Nicholas Lyons: A strong, credible regulatory system is an extraordinarily important underpin of a global financial centre. There is no appetite in the City of London to see a bonfire of regulation. This is proportionate. What we want to see is a regulator that is agile, can respond quickly and is not an obstacle to us being competitive. The secondary objective of competitiveness and growth introduced in the Financial Services and Markets Bill is proportionate and should work well.

Q35 **Rushanara Ali (In the Chair):** Lord Mayor, while I have you, my final question is in relation to where the investment goes. Are there any risks to requiring pension funds to invest in early stage, for instance? Where should the focus of investment be? You mentioned that there is early-stage investment, Sir Jonathan. It sounds like the investment in the second and third stage is where you want to put funding in. It might

reassure those who are concerned about risk, particularly around pensions and so on. Going back to the point about sociology and our risk appetite, we could reassure the public that their pension funds are not going to be used in a way that then creates problems.

Nicholas Lyons: You always have to look at what percentage of the pension pot you are allocating. The point about this is that it is a high-yielding asset class; it is therefore higher risk, so you want a small proportion of the pension assets allocated to it. That is fine, but the point that is worth making is that we are actually quite good at seed capital. There is quite good access at the university level, which is where these companies emerge, and it is really the follow-on capital that takes place at series A. These companies have already gone through their highest-risk phase, because different investors want to play at a different part in the chain.

Q36 **Rushanara Ali (In the Chair):** What about this idea that there should be 5% mandatory funding?

Nicholas Lyons: No, let us move away from mandatory. The 5% is a guideline as to where we might end up. My personal view is that we will see a lot of private investment go into a future growth fund, from a SIPP for instance. I would look to allocate much more than 5% of my SIPP to this because I feel free very strongly that we have a real competitive advantage.

Rushanara Ali (In the Chair): My apologies—maybe you have been misquoted by the *FT*.

Nicholas Lyons: Yes, I was.

Rushanara Ali (In the Chair): You said you would like 5% mandatory in every single DC pension.

Nicholas Lyons: That was some time ago when I said it was an option.

Rushanara Ali (In the Chair): So you do not think it should be mandatory but we need to find ways of being able to—

Nicholas Lyons: I do not think it needs to be mandatory because it can be structured in such a way that it is almost too good to be true.

Q37 **Andrea Leadsom:** Thank you. That is such an interesting discussion. I am absolutely loving it. It has given such a good perspective on what is going on. A lot has already been asked but I would just like to get into a bit more about female entrepreneurship. Having been in capital markets for donkey's years myself, I fell into it. People who get into it fall into it. It is not clear to me that you grow up thinking, "I know what I want to be when I grow up. I want to be a fintech". Are we doing enough to encourage young people to think about perhaps an apprenticeship? Is the stock exchange doing enough in apprenticeships? Could you be doing more for female entrepreneurship?

I recall a recent report I contributed to that showed that almost all of the decision-makers on the early enterprise investment scheme board were men. Men are from Mars, women are from Venus, so are they investing in female entrepreneurship? What more can we do to highlight the extraordinary potential of UK plc? Do you have any advice for us? What would you like us to be doing to help you in your mission? Julia, do you want to start?

Julia Hoggett: Yes. Sir Jon also has an impeccable example of female entrepreneurship in his CEO, as an example. You are right. If we look at the reality of the amount of capital that female entrepreneurs receive in the private equity and venture rounds, it is very low compared to both the number of women who are starting companies and the capability of women to start, run and build companies. It is partly a cultural piece and, therefore, it does go back to the act of doing things differently. I feel about diversity and inclusion in general that it is not the act of doing the same thing over and over again expecting a different result. We actually have to do things differently.

We are exploring whether this intermittent trading venue might create a greater level playing field and democratisation within the venture space. We feel very passionate about it. We have been very strong advocates of female entrepreneurship and inclusion. You may know that it is just over 50 years now since women were first admitted to the London Stock Exchange as members.

Andrea Leadsom: It is over 100 years since we got the vote. We are making huge progress.

Julia Hoggett: I made the point that we can now finally say that it is over 50 years since women were admitted to the exchange. We published a report on the back of that, which illustrated that, in the 25 years since then, the number of women working in financial services had gone down, not up. One of the reasons for that is that women were disproportionately in more administrative roles that technology has taken out.

That is why the focus is on where women have senior executive roles. This is in a sense the next bit down from the FTSE women leaders review and what the women in finance charter is doing. We now have over 100 employees covered by that charter, where firms are making commitments about senior representation. It has been a great Treasury-led initiative and has made huge progress, but it is about taking those steps and doing things differently. I know that this Committee is looking at venture as well as part of this review. It is an important question about what those pieces of the puzzle are that need to change.

Q38 **Andrea Leadsom:** Do you know what the missing benefit to the UK financial markets would be if we had some sort of equivalence between women and men raising money?

Julia Hoggett: Alison Rose's work has probably articulated a number behind that. I cannot recall it. I am very happy to write to you to tell you, and I can send you the report we produced as well, which illustrated the potential gross value added that women being properly enfranchised within financial services produces. There is hidden firepower there, which we have every potential to unlock.

Q39 **Andrea Leadsom:** What about education? Are we doing enough to inspire young people?

Sir Jonathan Symonds: This is right at the core. It also brings in the gender and diversity question. First, are we capturing people's excitement early enough in the STEM subjects? I remember at the turn of the millennium, when I was at AstraZeneca, we were asking, "What could we do to support long-term science?" We invested in primary school education because, if people's excitement was captured by really great teaching in those early years, they followed it. We at GSK, and I know a number of other companies, have big programmes to stimulate the STEM subjects early on in people's development.

Secondly, I had the privilege of spending a lot of time in Silicon Valley on the edge of the Stanford campus. The study of entrepreneurialism—have an idea; build your own company—was endemic in that. We have to stimulate more entrepreneurialism as we go through. One of the things Sir John Bell and I have as part of the life science vision work we are doing is to introduce entrepreneurialism into the very early stages of science and medical training.

The point Julia made earlier is really important. The life of the entrepreneur is not for everybody. It is really hard, really, really hard, but we have to capture people's excitement really early on in their lives.

Nicholas Lyons: There is a broader point on education. We held a summit at Mansion House on 12 April on national numeracy, financial literacy and financial inclusion. We are talking about the things that are going to drive the growth economy for the UK, but we must recognise that the people who will benefit from that are the people with the strong education, with the mathematical skills, with the STEM strengths, with the digital skills. Our society is getting evermore split. We have to address the educational issue around financial literacy much, much earlier. Young children start to form their views on money aged six and seven.

I am very supportive of the Prime Minister's initiative to encourage maths at secondary school, but we must not lose track of the importance of focusing on it at primary school and giving not maths necessarily, but life skills in financial literacy to young people. In this country, 55,000 children in school are addicted to gambling. We have to educate young people about money and to do a better job in financial services of telling everybody how important financial and professional services is, with its financial purpose and its societal purpose. This is a fantastic place for

everybody to get a training in life before they go on and do whatever else they might do, hopefully be entrepreneurs and create great wealth for themselves and for this country.

Q40 **Andrea Leadsom:** Do you think that there is enough later advice for entrepreneurs that enables them to decide to grow their company? It certainly seems to me there is no shortage of people with brilliant ideas, but how do you monetise it? How do you employ someone and how do you then perhaps fire someone? How do you file your accounts? Is there enough of that sort of support for entrepreneurialism in this country?

Nicholas Lyons: When you ask entrepreneurs, "Is $1 of capital from one investor the same as $1 of capital from another?", they will say, "No, it is not. The $1 of capital we are getting offered by a North American investor is worth a lot more because it brings with it a lot of expertise and skill, and non-executive directors who are going to sit on the board and tell us not to go down that rabbit hole or boil that ocean".

We need to create an ecosystem here in the UK that matches what Silicon Valley managed to create in the States. That is why the future growth fund, coinvesting with these sophisticated investors, getting UK people to sit on boards with those US investors, will provide that expertise and mentoring. We have strong tech and fintech investment associations, which pool people together. It is a very vibrant community and there are a lot of conferences and opportunities. There is a lot of exchange of views, but there is no doubt that that is a really important part of the ecosystem that we need to create.

Q41 **Andrea Leadsom:** I have a very specific question about MiFID implementation. Is there a concern among any of you that it may be the reduction in the amount of research, the breadth of research, the breadth of interest, potentially, as a result of that, that is leading to a lack of listing in the UK. Is that a fair accusation?

Julia Hoggett: I do not think you can put unbundling at the heart of all of this because, as I say, all five of those component pieces that we talked about are important. The reality is that a vibrant, sophisticated sell side research community is critical for an effective capital market. One of the challenges of unbundling is that it has moved a certain amount of that activity to the buy side, but to individual and, by and large, large institutions within the buy side, which does not go to create price formation on the sell side.

The fundamental exam question has to be how we get back to a world where deep, rich, scaled research capability is incentivised to exist in this country. To be blunt, it is going to come from the banks and the brokers feeling that it is worth their while to do. One of the consequences of unbundling was that it was not and, therefore, we have seen both a radical decline in the coverage and a juniorisation.

When we are talking about the next generation of technology, we need to be able to explore, for example, where quantum computing is going to take us. What are the risks and opportunities? An awful lot of companies today are pre-revenue but, when it kicks off, it will be remarkable. In Sir Jon's life sciences world, you do an awful lot of research before you have your medical breakthrough. The ability to understand that, to put a value on it and, therefore, to put money behind it is critical to an effective market. It is arguably much more critical today than it was before, given where our strengths are.

Q42 **Andrea Leadsom:** Do you have a solution to propose?

Nicholas Lyons: Yes. The solution is to create this funding of early-stage companies because we all know that investment banks, if they see a big opportunity, will invest, and invest quickly, to fill the available space. I think the research piece will take care of itself if we create a future growth fund, because they will see future IPO fees; they will see the importance of having technology and life science research of the same quality as exists in the States.

Sir Jonathan Symonds: I am completely with that. The research will follow the pool of companies. Right now, there is large-cap pharma research in the UK. There is no small or mid-cap pharma research because there are no small and mid-cap pharma companies. If we create these companies coming through, the research will follow.

Q43 **Chair:** Further to Andrea's question, would you say that, in the US, they still do bundle research?

Julia Hoggett: I can write to explain the exact format.

Chair: It is still sell side research.

Julia Hoggett: They have not had unbundling and, therefore, the answer must be yes. The FCA moved the threshold to £200 million.

Q44 **Chair:** This is a £200 million threshold for what?

Julia Hoggett: That is for the market cap, so anything below that you would not bundle or you would not have unbundling. The challenge is that, when you are trying to do a sectoral analysis where something is worth below £200 million, something is worth £1 billion and something is worth £10 billion, you cannot do it, by definition. Europe then moved it to €1 billion in order to get rid of the unbundling constraint on more companies. They are now consulting on moving it to €10 billion, which would leave fewer than 3% of the total listed market in Europe covered by unbundling. If we do not move, we will be radically behind.

Q45 **Chair:** Remind me if it is one of the reforms in the Edinburgh reforms. It is, is it not?

Julia Hoggett: Rachel Kent is doing a review right now to look at exactly this topic, but there is a broader piece of it, which is the capital deployed.

It is also about—we have mentioned this already—our universities' engagement with entrepreneurship and growth companies, because some of the great knowledge about where this value can get created is sitting in the universities. Sir Jon mentioned Stanford. The mindset there is, "I have a great idea. How do I go off and figure out how to exploit it for a few years?" rather than the "publish or perish" that we have in the UK. There is something about this amazing, nurturing ecosystem that we have, but how do we connect it more effectively with the ecosystem that will generate the capital to enable that to be exploited properly?

Lord Hill of Oareford: As a short answer to Dame Andrea, the experience that the Chair just highlighted about what the Europeans are doing tells us that it must be worth having a look at.

Q46 **Anthony Browne:** I had some other questions about the Hill review but, before that, I want to pick up on a point that several of you made about the importance of consolidating the pension funds. We have 27,000 corporate pension schemes at the moment. I totally agree with you that bigger funds are able to invest in a wider range of asset classes. How would you drive that consolidation? Some of it is happening already, but are there particular changes that could make that happen more? It is, in many ways, going the other way with auto-enrolment. There are millions of small pension pots with less than £1,000 in, and it is very difficult to do any intelligent investment with that.

Sir Jonathan Symonds: There are a variety of routes. The pools of consolidation that we would primarily focus on are defined contribution schemes and public authority schemes. The principal lever for consolidation is to recognise the return forgone by managing it yourself versus having the return that is feasible on a scale basis. The return differentials are substantial: three percentage points of return per annum compound to a big number. It is a long-term disservice, so we have to find tools to stimulate consolidation.

The Lord Mayor talked about Nest. It is a great example. There are some other really good examples and we have to showcase where it has really worked well: Nest, the Pension Protection Fund, the Wellcome Trust. These are real shining examples.

Julia Hoggett: I was agreeing with Sir Jon. We had discussed whether one of the parts of fiduciary duty was for trustees to say that they positively affirmed that they felt their fund was big enough to properly serve their pensioners. It is a different articulation of the exact point Sir Jon is making, but sometimes the answer is in quite a simple question, and yet we have not framed it in those terms in the past.

Q47 **Anthony Browne:** That is very clever. Coming back to the questions on the Hill review, Lord Hill, you were asked, in one of the very first questions from the Chair, about how you thought your reforms had been implemented. By and large, you said you thought the Government had done a really good job. In answer to a later question, you said that your

review was two years ago and now they are implementing things that you thought were too radical at the time.

I was just wondering what other reforms you think are needed now the landscape has changed quite a bit. If you were doing the review again now, are there things that you wanted to put in there but you did not dare?

Nicholas Lyons: I have a couple of points. The detail of all of this I will not go into because I will not recall all of it. On some of the things we proposed at the time, percentages around free floats and so on, the FCA went further than we had recommended.

Q48 **Anthony Browne:** It went to 10% in the end. You recommended 15% or something.

Lord Hill of Oareford: Yes. That is an illustration of the fact that the assumption that an outside bunch of people come along and the regulator gets very defensive was not our experience.

In terms of what has happened since, the main topic that we thought about, but then concluded by raising it as an issue without making a specific recommendation, was this question about the premium and standards segment. That is the issue that Nikhil Rathi addressed in his speech last month and where I believe he indicated the FCA is going to come forward with further proposals.

I have not come along with a list of things we need to do in addition and then we will have the icing on the cake. I just reiterate my earlier point that, wherever we end up in a year's time, we should not just think, "That is it. Now we can go home and not think about it again". It is my earlier point that regulation market competition is dynamic. I know you know this, but all other jurisdictions are not standing still.

The way that we thought about our review, and to build support for it, was to make the point that there was nothing in our proposals that was not already in place in competitor jurisdictions around the world and elsewhere in Europe. We had fallen behind. There is no doubt about it. We were playing catch up.

When we have all of these things in place—others can correct me if I am wrong— we will be in a position where we will be able to look everyone else full in the face and stand comparison with what is on offer in other jurisdictions. We will still be in line with other jurisdictions. This goes back to the earlier question about risk. It will not be, even if we have done all of that, that we are suddenly going in some crazy, divergent route.

My caveat would be that, when we have completed this, we need to look the whole time at what is going on. That is why we recommended an annual state of the City report, on which I hope this committee might be able to hold Ministers and regulators to account, because this is work in

progress. We should not think, "Once we have done this round, that is it for all time. We can sit down for another 20 years".

Q49 **Anthony Browne:** That is one recommendation the Government have not done yet.

Lord Hill of Oareford: No, they have. They have published the first one. The second one is coming soon but it would be good if Parliament subjected it to great scrutiny, because these reports can either be an old collation of figures or they can be a tool.

Q50 **Anthony Browne:** I am sure the Chair is listening intently. Do you think there needs to be a Hill 2 review?

Lord Hill of Oareford: No.

Q51 **Chair:** What I am hearing is, rather than a big bang, a process of continuous mini-bangs.

Lord Hill of Oareford: Yes, although the cumulative bang of what we have all been working on for the last period, which Sir Jon is still working on with others, and Julia is still working on with CMIT, will be bigger than merely a series of small ones, but then we have to keep going.

Q52 **Anthony Browne:** You called previously for the FCA to have greater consideration of the UK's attractiveness as a place to do business From the comments you have made today, you have praised it on going further. Do you think it is fully taking that into account as much as you would want?

Lord Hill of Oareford: That was in part the discussion we have all been having about the competitiveness objective. I was and remain in favour of having a competitiveness objective. I do not see any incompatibility between wanting high standards and your regulators looking to think we want to attract people into our marketplace where they can benefit from our high standards. I always thought that high standards/competitiveness was presented as a false choice.

On a broader discussion earlier about risk and the culture of risk, we tend to think of regulators as doing technical stuff. The truth is that they operate in a political environment and a social and cultural environment. What all of us say and do about risk has an effect on the regulator and its behaviour.

All the incentives, really, are towards being very careful, first in terms of the character types who go into regulation. Then, if something goes wrong and you have a consumer detriment, as the regulator, you then come into Parliament and get beaten up. This is something Nikhil Rathi was hinting at in his speech the other day. They need a bit of space in order to have a higher appetite for being braver themselves on how they think about some regulatory issues.

This is an observation not based on the FCA or the PRA. It is based on my dealings with regulators in Europe and everywhere else. Creating a space where, as a society, we can have a more balanced discussion about risk and the trade-offs would help the regulators be slightly more flexible in how they think about rules.

Q53 **Andrea Leadsom:** I just wanted to ask about non-regulatory ways in which the Government can support the UK's listing environment, for example taxing, spending and bonuses. Do you have any other thoughts on what the UK Government should do?

Lord Hill of Oareford: We touched on it earlier. In the area of corporate governance generally, my impression would be that it has been a steadily rising tide of requirements on companies. That helps add to a climate in which people think, "Do you know what? Maybe, if I remain a private company, I am going to face less bumph and fewer onerous requirements". This private/public split is quite an important one. That is one that is worth looking at.

Sir Jonathan Symonds: If I take life sciences, the long-term success of the sector will depend also on the health of the public assets that contribute to that science base. Whether it is the NHS, UKRI, the MRC, the national clinical trials network or the universities, it is all part of this stimulus on which innovation occurs. Probably the same is true for the green transition technologies. The same is true for quantum computing and so on. Allocation of Government investment funds needs to be linked to the growth sectors. In life sciences, there are some gaps where the Government assets are not contributing in the way that they should.

Q54 **Rushanara Ali:** I want to pick up on this question about risk and trust. It is really so important, because you are right that regulators occasionally get beaten up by committees like this, and quite correctly, when things go badly wrong, but others have their responsibility further down the chain.

The history is very much alive in our constituents' minds, particularly the financial crisis and its ongoing effects, which this Committee has had to deal with, for instance the Global Restructuring Group scandals and a load of others. We have had others in more recent years, such as technology failures in the banking sector. We cannot divorce history from how people then view financial services in a blob, which masks some of the differences and sensitivities within.

More recently, there have been concerns, which we raised here, about the independence of the regulators because regulators are well respected internationally. The call-in powers, which the Government subsequently dropped after quite a lot of pressure from this Committee, as well as feedback from the Governor of the Bank of England and the regulator, raise questions about risk appetite. I suppose the question is this: is there a way in which we can ensure that consumers are protected?

You want your sector to have the space for risk, Government to enable

that, and regulators to have the scope to do that without being beaten up. We want our constituents not to have to pay the price of failure. Is there a way—a "sandbox", or whatever the phrase is—in which you can create a frame that allows compensation to be built in, over and above what is there, so that we do not end up being in committees like this having to ensure our constituents are compensated? Too often they are the ones who are out of pocket, and that is the bottom line that we have not really discussed today.

I am very supportive of much of what you have said about the need to see reforms that enable growth, but we are dealing with a context of our constituents being out of pocket and affected quite significantly. I just wanted to understand better how we address that, not necessarily to have a go at you, because what you are saying is really important.

Chair: As a supplementary point to Rushanara's already extensive question, the question of retail has come up a few times from the panel. The FCA has created a boundary in terms of advice and guidance where only 8% of our constituents can afford to pay for advice, and everyone else chooses to just go with guidance and sometimes falls into situations where perhaps advice would have been more helpful. Do you have any thoughts on either Rushanara's points or my point in terms of how we help retail, bearing in mind that 2.3 million British citizens have bought cryptocurrencies? There is obviously an appetite for some sort of risk out there.

Julia Hoggett: I will have a crack. I used to say that the hardest and most important job I ever did was when I was at the FCA. I did not anticipate I would get this job when I was saying that. I used to think of the role as having a quiet sense of satisfaction, when I left the office at 9.30 pm, that I had stopped something from happening that I could never tell anybody could have happened. That is what I know everybody working at the FCA and the PRA is doing day in day out. An awful lot of the things that have happened have been on the very edge or outside of the perimeter, and have often been fraud.

One of the other facets is how we understand that an ecosystem is about taking a degree of risk, but it is risk that you can afford to take. You made the point about crypto. I have long been an advocate that it is easier to buy crypto—you just download an app on your phone and, within seconds, you are doing it—than it is to participate in regulated markets. If you look at the minibond, it was partly because it was easier to do that than it is to buy a bond in a listed company. It is easier to buy a minibond than it was to buy a bond issued by Jon's company.

That was, in a sense, because we created rules around the stuff we regulate and, therefore, the ability to participate in the stuff that was not being regulated by the FCA or other parts of the ecosystem was easier, and that is where some of these challenges were hid. That is not the case in every case, but there is actually a theme around that that we have observed. Recognising how you facilitate people investing their money in

the places that actually do have regulatory oversight is an important part of it.

As it comes to this competitiveness objective, I have been personally an advocate for the articulation of what that means sector by sector, rather than writing it as a generic statement. What does competitiveness mean in the asset management sector, what does it mean in the provision of pensions or what does it mean in our capital markets?

Andrew Bailey himself has said that deep and liquid markets are the ones that tend to have the best conduct because people make money by behaving appropriately in them. Creating a theoretically perfect market that nobody uses is not going to produce the best conduct. It is a question of how you set that balance, and I think it is about quite a granular articulation of what that competitiveness means in each sector that the FCA regulates, which enables everybody to have a level playing field understanding of what it is but also recognises where the retail protection comes from.

Rushanara Ali: Do you think there needs to be something in relation to what the protections are? Some of the examples that I have referred to were in the regulated sector, and I appreciate what you are saying about crypto, but the logical extension of the argument is that, because there is lots of regulation in this sector, therefore it is happening there. I get that that is happening and there will be regulation, but I suppose I am interested in what the self-corrective measure might be so that you are creating the climate for calculated risk.

To the question about what consumers lose out on, the power balances, with respect, are very imbalanced. The Financial Ombudsman Service is, frankly, toothless in getting people compensated for when things go wrong. It takes a very long time. Consumers quite often have a very unsatisfactory frankly when it comes to redress. That is the redress point. There is an issue about whether there can be action taken.

I just wondered if you can take it away and think about what further action can be taken to do pre-emptive risk management so that our constituents—because that is the question we have to answer—do not have to pay the price of things going badly wrong. Ultimately, nobody has forgotten the price they have had to pay, both in economic costs and the long-term austerity cost for bailing out banks. That is the context we are dealing with.

Q55 **Chair:** Rushanara has suggested that you take that away, and that is a very helpful note. Before we finally close, I am just going to ask a quick yes/no. Nikhil Rathi mentioned, to do with Arm, that when it was acquired the Takeover Panel did not apply any conditions on retention of a capital market presence in the UK. When a big company like Arm is taken over and it goes to the Takeover Panel, should it apply any such conditions or not?

Sir Jonathan Symonds: No.

Nicholas Lyons: No.

Julia Hoggett: I obviously made the point that it was missing before. I think, case by case, possibly.

Lord Hill of Oareford: No.

Chair: We have covered an enormous amount. We are very appreciative that we have had such an excellent panel with us this afternoon. A very wide range of issues have come up. It has been fascinating and sits very well with the inquiry we are doing into venture capital. You have come up with some solutions that we can look at, consider and take away. At this point, I conclude this Treasury Committee evidence session.