TheCityUK

Freshfields

Driving UK growth:

Capturing future international investment in a rapidly changing world

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Introduction

The UK is a world-leading international financial centre and hub for high-value services. The UK-based financial and related professional services industry provides almost 2.5 million UK jobs, two thirds of them outside of London. Its international strength allows it to post an £82.3bn trade surplus, larger than the surplus of all other net exporting UK industries, and to support sustainable growth across all UK regions and nations. The UK is the world's second largest exporter of services, behind only the US, and boasts considerable competitive strengths in technology, life sciences, education, research, and creative industries such as marketing and communications.

The UK has maintained its position as a global services hub by capturing a large share of global services investment in recent decades. EY data shows that the UK has been the leading centre to capture financial services investment each year for the last 20 years. Its success in attracting such investment has ensured that UK-based financial institutions and the surrounding professional services ecosystem stay at the forefront of innovation. The UK has attracted vast numbers of global financial institutions and corporate trading and treasury teams to locate here. For example, there are approximately 200 foreign banks[1] and more than 200 foreign law firms based in the UK[2].

However, the UK's lead in capturing services sector investment is under serious challenge. In financial services and technology, it has lost ground to New York and centres like Singapore in the Indo Pacific region are growing fast. In Europe, France and Germany are rapidly catching up with the UK as Europe's second and third most popular financial services foreign direct investment (FDI) locations respectively. The UK attracted a total of 63 financial services projects in 2021, seven more than in 2020, while France attracted 60 projects in 2021, 11 more projects than in 2020. Meanwhile, the UK is struggling to attract international investment in sectors beyond financial services. UNCTAD data shows that FDI flows to the UK stood at $28 billion in 2021, a rebound from 2020 Covid-related lows but still one of the lowest levels recorded of FDI coming into the UK.[3] When compared to FDI growth in markets like Canada, Singapore, and the US, the extent of the challenge becomes clear.

There is an opportunity for the UK to become the world's leading centre for investment by launching a bold new investment attraction strategy which will allow it to stay ahead of the competitors and capture a larger share of global investment flows. While this paper primarily focuses on how to attract more investment to the UK-based financial and related professional services industry, many of the investment drivers considered also apply to a wide range high-value-added services and technology sectors.

1 TheCityUK, Key facts about the UK as an international financial centre 2021, https://www.thecityuk.com/media/yhekm1xr/key-facts-about-the-uk-as-an-international-financial-centre-2021-v2.pdf
2 TheCityUK, Legal excellence, internationally renowned, UK legal services 2022, https://www.thecityuk.com/media/5url4ni1/legal-excellence-internationally-renowned-uk-legal-services-2022.pdf
3 United Nations Conference on Trade and Development (UNCTD), World Investment Report 2022, https://unctad.org/system/files/official-document/wir2022_en.pdf

TheCityUK and Freshfields Bruckhaus Deringer undertook a detailed analysis and conducted multiple in-depth interviews with investment decision makers at global financial institutions, corporates and private equity investors about the factors driving their business location decisions. The paper outlines the findings and explains how the UK can craft an investment strategy that leverages changes in investment drivers.

The research shows that the drivers of investment are evolving. Businesses are moving beyond a simple low tax, low regulation calculus to one that is much more nuanced and reflects new priorities. The UK's approach to attracting investment must adapt accordingly.

If the recommendations in this paper are adopted, the UK could position itself to capture a new wave of investment in high-value services and technology, grow as a global financial hub, benefit from more jobs and growth, and be well positioned to lead the global green transition.

How do businesses make investment decisions?

TheCityUK consulted its members in 2022 to identify the factors that prompted them to make business location decisions. The core drivers of global investment decisions were that businesses sought to do the following:

- Locate in clusters where they have ready access to customers and clients and highly-skilled talent, whether domestic or international.
- Invest in destinations that have open trade and investment policies.
- Locate in markets that offer competitive tax systems. Businesses assess the competitiveness of countries' tax systems in holistic terms, looking not just at headline corporate tax rates but total tax burdens, long term tax stability, and the likely future trajectory of tax policy. Personal tax rates are taken into account insofar as they affect how attractive the location will be for the business' senior international talent.
- Achieve proximity to sector-specific technology providers that can help them improve their offer to customers (e.g. financial institutions want to locate near FinTechs) with attractive policies which incentivise research and development in their industry.
- Invest in jurisdictions that provide high-quality infrastructure: high-quality nationwide broadband infrastructure is increasingly important together with resilient infrastructure linking it to major global markets and modern sustainable transport infrastructure (rail and flight connections). Education infrastructure (good quality schools, including international schools, universities, and technical colleges) is also key.

- Locate in countries that offer a high-quality financial regulatory system.
- Operate in markets that offer an effective and efficient legal system.

These findings reflect well established understandings of the drivers of business investment decisions and past UK investment attraction efforts have built upon them very effectively.[4]

The UK's future investment attraction strategy, however, cannot simply reproduce past efforts. In interviews, business leaders noted that, because of economic, technological, and geopolitical shifts, they increasingly had to prioritise new issues when making business location decisions. In particular:

- Green finance is a key growth area in financial services – indeed, it is becoming perhaps the key driver of investment as it moves firmly into the investment mainstream. Financial institutions need to be able to deliver products and services that support climate goals and sell them globally. Businesses are looking to locate their green finance units in countries that offer a pipeline of domestic green transition projects to finance as well as frictionless access to international green finance markets. They want to know whether the country that hosts them will offer sufficient incentives to de-risk and catalyse domestic green investments and provide clear and stable forward guidance on how the host country plans to manage the green transition.[5]
- While businesses continue to seek to locate in jurisdictions that allow them to employ global talent, increasingly their employees expect to benefit from cross-border remote working. Firms that can offer cross-border remote working are at a competitive advantage. Countries that make it easy and cost efficient for firms to offer this can build a clear advantage.
- High quality financial regulation remains mission critical. But businesses are also increasingly paying attention to the efficiency of regulatory execution – the speed and accuracy with which regulatory decisions are made – when making business investment plans.
- Businesses have always favoured locations that offer Research and Development (R&D) incentives. However, R&D regimes have traditionally privileged investments in manufacturing. Given the amount of innovation that needs to take place in services businesses to enable the green transition, financial and professional services businesses are looking for R&D regimes that support services innovation.

4 These factors of competitiveness are set out more fully in Making the UK the leading global financial centre: An international strategy for the UK-based financial and related professional services industry (TheCityUK, September 2021), available at: Making the UK the leading global financial centre: An international strategy for the UK-based financial and related professional services industry I TheCityUK

5 TheCityUK, PwC, Enabling the net zero transition: the role of financial and related professional services, enabling-the-net-zero-transition-the-role-of-financial-and-related-professional-services.pdf (thecityuk.com)

- Due to the rise in geopolitical tensions, countries are implementing a range of investment screening policies that seek to address national security issues. Financial institutions facilitate global investment flows and are therefore paying close attention to see how different countries operate investment screening regimes, as well as the other regulatory regimes that directly control investments like merger controls and subsidy control.

These new investment drivers together constitute a new investment attraction paradigm, complementing rather than replacing the old one. For example, governments still need to:

- Articulate the strengths of their investment environment; but they also need to explain the proactive steps that they are taking to enable the green transition and show they understand that the climate change agenda is absolutely mainstream and a priority for them.
- Promote their talent offer to businesses; but now they need to also explain how they allow for cross-border remote working.
- Incentivise innovation in manufacturing; but now they need to explain how they are using their R&D systems to incentivise innovation in services sectors.
- Show that they are mindful of the overall regulatory burden on business; but they now need to show that the applicable regulatory regimes operate effectively and proportionately.
- Explain that they welcome international investment; but, while businesses recognise the policy imperatives behind regimes like foreign investment/national security screening and merger control, governments need to show that these regimes are effective and deliver high quality and reasonably predictable regulatory outcomes.
- Ensure that the business environment enables the public listing of businesses on capital markets; but they now also need to develop whole-of-government backed promotional campaigns to attract listings to public markets
- Show that they take the investment environment into account when drafting legislation e.g. by ensuring that draft bills, before they are laid before Parliament, will not unnecessarily deter investment due to unintended consequences.

The UK has operated highly successful international investment strategies in the past. If it can update its investment attraction efforts to reflect new trends in investment, it will secure a new wave of global investment and drive the creation of high-skilled UK jobs and sustainable growth.

How to craft an investment attraction strategy that attracts the latest investment trends

In this section, we provide recommendations for how the UK can craft an investment attraction strategy that builds on previous achievements while taking account of new investment trends.

1. Mainstreaming green investment and R&D incentives for services

Historic approach:	Recommended future-proofed approach:
• Green finance is an important niche for investment • R&D incentives have largely been aimed at manufacturing industries	• Green investment is fully mainstreamed • R&D incentives broadened to cover the UK's services sector and aid retooling the economy for a net-zero future

Specific recommendations:

- Businesses that offer green and sustainable finance are assessed and authorised at least as quickly by UK financial regulators as in other leading financial centres, preferably faster
- Businesses that offer green and sustainable finance are subject to internationally competitive tax regimes which provide certainty in tax rates, R&D tax credits, policy making, and administration
- Financial institutions can deploy as much capital to UK green infrastructure projects as possible. The UK should reform the Solvency II Risk Margin and Matching Adjustment to free up more investment capital for sustainable investment

Historically, green and sustainable finance has been seen as an important and growing part of the UK investment environment – if still niche. But the investment community recognises now that this is changing - green is not a separate investment agenda, it is a consideration for all investment. A leading insurer puts the value of expected climate investments at over USD 270 trillion to meet the world's 2050 net-zero targets[6] [1], with a leading management consultancy arriving at a similar number.[7] [2]

This capital is mobile and will flow to those destinations that have the best environment for green investment – that is, environments that have mainstreamed sustainability in public policy and regulation. Other competing global economies will be searching out opportunities and want a piece of this sizeable investment – the UK has no right to attract even its historic share of investment as the sustainability agenda reshapes the entire way investment and risk are considered. The UK must get ahead of the game and retool its economy and institutions to attract sizeable inward investment and meet its own climate goals.

6 [1] Swiss Re and Indonesia Re enhance data accessibility through new collaboration I Swiss Re
7 [2] The net-zero transition: Its cost and benefits I Sustainability I McKinsey & Company

TheCityUK has articulated how the UK can become the world's leading centre for green finance in its 'How to make the UK the world's leading international financial centre for green and sustainable finance' report and 'Enabling the net zero transition' report prepared, in partnership with PwC.

To retool the UK economy, a radical rethink is needed on R&D. The UK's R&D system is still geared towards encouraging investment in manufacturing, despite the UK economy being overwhelmingly services focused – 80% of UK GDP is services and the UK is the world's second largest services exporter. The UK needs a distinctively British R&D system that encourages investors to back UK services industries and extends its lead as the world's ideas factory.

Effective services-focused R&D regimes have been successful elsewhere. Norway's SkatteFUNN scheme allows Norway-based businesses to apply for support if they are developing new or improved services that will generate new knowledge, skills and capabilities. Companies are rewarded for investing in innovation with a deduction from their corporate tax bill.

Sweden has adopted a new services-focused approach to tax whereby investors do not need to pay capital gains taxes if they invest in equities. As a result, Sweden's junior market became the best place in Europe to raise funds for growth companies in the first half of 2022, beating the UK's AIM market. Again, the UK should consider the merits of this approach in a timely fashion.

The UK should consider adopting similar measures to trigger the next wave of innovation and technology. A better targeted, distinctively British R&D system would provide further incentives for international services businesses to locate in the UK in order to benefit from ties to UK universities and leverage the UK's formidable strengths in cutting edge scientific and technological research.

2. Creating a global talent hub

Historic approach:	Recommended future-proofed approach:
• Promote the availability and quality of talent in a location	• Promote the availability and quality of talent – and also ensure employees benefit from maximum flexibility

Specific recommendations:

- Remove the need for overseas employees of UK-based businesses to obtain an intra-company transfer visa to conduct short-term work and make the businesses visitor route easier to navigate
- Steer policymakers towards the adoption of common standards across cross-border remote working by drawing on the proposals considered in the government's Review on Hybrid and Distance Working being conducted by the Office of Tax Simplification
- Introduce reforms to business visitor rules to include cross-border remote working as a permitted business visitor activity
- Negotiate reciprocal provisions with trading partners to enable UK employers to facilitate outbound cross-border remote working with greater transparency and reduced administrative burden
- Foster the domestic talent pool to ensure that businesses can rely on the best talent locally

To ensure the UK's future competitiveness, it is essential that it continues to attract the best global talent. The UK needs a world-class visa regime which encourages highly-skilled people to locate here. TheCityUK, EY, and the City of London Corporation have already offered suggestions for how to reform the visa system to attract more investment in the report 'Global Talent Mobility: Ensuring UK competitiveness'[8]: the UK should remove the need for overseas employees of UK-based businesses to acquire an intra-company transfer visa to conduct short-term work and make the business visitor route easier to navigate.

Now, however, the UK needs to go further and adapt its business mobility regime to reflect the reality that top global talent expects to be able to work remotely. Key recommendations from the City of London Corporation's latest work on cross-border remote working[9] that the UK should consider adopting include:

- Steering policymakers towards the adoption of common standards across cross-border remote working, drawing on the proposals considered in the government's Review on Hybrid and Distance Working being conducted by the Office of Tax Simplification.
- Introducing reforms to business visitor rules to include cross-border remote working as a permitted business visitor activity.
- Negotiating reciprocal provisions with trading partners to enable UK employers to facilitate outbound cross-border remote working with greater transparency and reduced administrative burden.

Adopting an innovative cross-border remote working system would not only strengthen the UK's competitive position in high-value services, but also support manufacturing businesses across the UK. It will help UK businesses source some of the world's most talented senior managers to help them achieve ambitious growth goals.

The UK must also foster its domestic talent pool. With some of the best universities in the world, this should, in theory, not be difficult. But it is imperative that the UK Government also focuses on improving secondary education, in particular in STEM subjects and financial literacy. The next generation of Britons must be at the forefront of technology – including green technology – and finance to ensure that the UK is seen as the preeminent global talent hub for the world's most important businesses.

3. Designing the world's best, and most efficient, regulatory centre

Historic approach:	Recommended future-proofed approach:
• Keep regulation as proportionate as possible, consistent with overarching policy goals like financial stability	• Drive regulatory effectiveness, consistency and efficiency – this will be essential if the UK is to capture the next wave of green investment • Regulators recognise their role in shaping UK competitiveness • Enhance regulatory cooperation with other countries – the UK-Japan Economic Partnership Agreement, and the UK-Japan Financial Regulatory Forum that it established, provides a best practice example of how this can be done

Specific recommendations:

- Embed competitiveness (alongside competition and other policy goals) in regulators' remits
- Increase regulatory transparency by publishing better data and requiring greater engagement with firms and other stakeholders
- Streamline authorisation processes for financial services firms and other regulatory processes to drive efficiency
- Enhance regulatory cooperation in order to get the full benefit of new trade agreements

8 https://www.thecityuk.com/our-work/global-talent-mobility-ensuring-uk-competitiveness-one-year-on-our-scorecard/petitiveness

9 The City of London Corporation, UK policymakers urged to establish framework for cross-border remote working amid surging demand, UK policymakers urged to establish framework for cross-border remote working amid surging demand (cityoflondon.gov.uk)

The UK is widely recognised as having a broadly effective system of regulation, including for its services economy. Several services sectors are – unsurprisingly – highly regulated. Although the UK does need to ensure that its substantive financial regulatory rules are competitive and proportionate, the effectiveness of its regulatory system is at least as important as the degree of regulation it applies. Well-targeted and well-administered regulation can give the UK a competitive edge.

The UK also needs to ensure that its regulatory system is well positioned to enable it to capture the next wave of green investment. Investors supporting green technologies like clean energy, hydrogen, and carbon capture often need to commit to supporting projects for more than 20 years. Patient investors need to be reassured about the stability and predictability of the UK's regulatory decisions before they can commit significant amounts of capital to long term UK green projects. If investors anticipate that major changes are likely to take place in the UK's regulatory system over the next 20 years, they will struggle to properly assess the viability of green energy projects and may opt to invest in jurisdictions perceived as offering more regulatory stability. Where governments are considering their own support for such projects, they need to consider the same time horizon for the return on investment. Regulators need to consider the impact of regulatory change on the viability of green investment when considering further regulatory change.

Embedding competitiveness

The Financial Services and Markets Bill introduces a new competitiveness objective for the FCA (and the PRA) – it is to take into account "facilitating…the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and its growth in the medium term". This is welcomed.

This same approach should be taken by other UK regulators to achieve a shift in regulatory culture to one which takes account of the impact of regulation on the regulated sector as well as on consumers. While it may be appropriate for any such additional objective to be secondary to other public policy goals (as it is with the FCA), it is important that regulators and policymakers actively consider international competitiveness when regulatory decisions are being made and policies formulated.

Increasing regulatory transparency

Firms across the industry strongly believe that embracing transparency, accountability and external engagement would benefit the UK's regulatory structures.

For example, regulators should publicise better performance data (across a wider range of metrics), provide clearer guidance to firms, and enhance their communication and engagement strategies.

In particular, when firms are engaging with regulatory decision-making processes, it is important for them to have access to decision-makers and understand the factors that are being taken into account when regulatory decisions are made. This will help to drive better quality decision-making.

Driving regulatory efficiency

An efficient regulatory process which reaches good decisions quickly is one of the central asks from UK businesses.

A prime example where this is currently not working well enough is the authorisation of financial services providers by the FCA. TheCityUK's research has found that firms believe the current process is slow, inefficient and unpredictable.[10] Regulators often fail to meet their statutory deadlines for processing authorisation requests, and when they do it, leads to higher operating costs, a loss of confidence in the operational effectiveness of regulators and raises concerns about the long-term impact on UK competitiveness.

We recommend that the FCA, PRA (and other regulators, where applicable) review their performance standards and enhance internal coordination, capabilities, and case management. This can be done by improving internal coordination and information sharing, adopting a digital-first approach to authorisations, implementing better training for authorisations staff, and streamlining processes so that they are properly focused.

Enhance regulatory cooperation

As the UK develops its trade strategy post-Brexit, it has entered into a significant number of new free trade agreements, which seek to open trade opportunities between UK businesses and their counterparts elsewhere in the world.

These developments are welcome, but the effectiveness of trade agreements can be hampered by the fact that the day-to-day experience of accessing new markets is often determined by local regulators and regulation.

It is therefore critical that government fosters cooperation between regulators in the UK and their counterparts in other countries with which the UK has FTAs. The UK-Japan Economic Partnership Agreement (EPA), which established a UK-Japan Financial Regulatory Forum (Forum), is a best practice example of how this can be done. The Forum established annual meetings between UK and Japanese financial regulators and its terms of reference encourage them to explore deferring to one another's financial regulatory frameworks. UK and Japanese regulators have already used Forum meetings to explore more aligned approaches on sustainability standards and data policy.[11]

10 Improving regulatory efficiency on authorisations (TheCityUK, January 2023), Available at: https://www.thecityuk.com/our-work/improving-regulatory-efficiency-on-authorisations/

11 UK-Japan Financial Regulatory Forum 2022 – Joint Statement (HM Government, June 2022), Available at: https://www.gov.uk/government/publications/inaugural-uk-japan-financial-regulatory-forum/uk-japan-financial-regulatory-forum-2022-joint-statement

4. Delivering a safe, reliable hub for global investment

Historic approach:	Recommended future-proofed approach:
• Keep regulatory restrictions on foreign investment to a minimum • Avoid intrusive merger control for investment through M&A	• Ensure that the process for screening investments in the UK is efficient, transparent and well-targeted on policy goals

Specific recommendations:

- Build in greater transparency to the National Security and Investment Act regime – and avoid regime creep
- Revisit proposals under the National Security Bill for the proposed Foreign Influence Registration Scheme
- Bring the UK merger control regime closer to international best practice

Until recently, the UK imposed very few restrictions on international investment and therefore had little need to communicate about its policies governing international investment. And that was an approach that was broadly welcomed by business and investors.

In a more uncertain world, though, businesses recognise the legitimate interest of governments in scrutinising investments in critical UK assets. But the regulatory regimes that are currently in place or are currently proposed are not as effective or efficient as they could be – and the following targeted reforms could significantly decrease the risk that they act as a deterrent to investment in the UK.

The National Security and Investment Act regime

In 2021, the UK established an investment screening regime under the National Security and Investment Act which came into force in January 2022, requiring that certain transactions (including some internal reorganisations) into one of 17 sensitive UK sectors, are reported to the Investment Security Unit (ISU). The Act also encourages investors to report potentially sensitive investments to the ISU on a voluntary basis. If investments are not reported voluntarily, the ISU can potentially review and unwind them up to five years after the investment was made.

It is vital that the UK government pays increased attention in investment promotion efforts to communicating to investors that the government is only using its screening powers to review investments deemed to pose a national security threat. It is important that investors do not form the impression that the Act is being used for protectionist purposes or to discriminate against international investors (despite it also applying to domestic investors).

More substantively, Government can both give this comfort and increase the efficiency of the regime by providing clearer guidance on how it is applying the regime in practice. Unlike, for example, merger control, no clearance decisions are published on investment screening decisions, so companies (and their advisors) have limited visibility on the assessments that are being made. Moreover, for those transactions that are called in for an extended review, the process is not as transparent, in terms of milestones and timings, as it could be at this stage. Furthermore, the Government only publishes summaries of Final Orders so it is difficult to accurately judge what type of conditions it currently considers necessary to safeguard the UK's national security. We recommend:

- Reducing current levels of uncertainty among businesses as to whether their proposed investment or transaction is within scope of the mandatory notification regime (e.g. by reviewing and improving some of the more complex sector definitions).
- Improving transparency and predictability of the process following a decision to 'call-in' a transaction or investment for a full national security review.
- Improving levels of communication between parties involved in a review and the Investment Security Unit (e.g. by establishing a key point of contact following a 'call-in' and allowing for more regular engagement throughout the process).
- Facilitating more direct contact with decision-maker(s) to facilitate constructive discussion and understanding around they key areas of concern and the design of proportionate remedies.
- Improving visibility for the market on the types of transactions that are 'called-in' (e.g. by more regular, granular data reporting) and the nature of conditions imposed on transactions giving rise to concerns (e.g. by publishing more details in the summary of final orders).

National Security Bill

Investor perceptions about how welcome they are in a jurisdiction is critical. UK policy and lawmakers need to take this point into account when devising policies and legislation to ensure the UK's continued competitiveness as a global exporter of high-value services and its ability to attract foreign investment. For instance, Part III of the UK's National Security Bill proposes a new Foreign Influence Registration Scheme (FIRS). As originally drafted, the FIRS would have required registration of various "political influence activities" a person carried out or arranged to be carried out in the UK on behalf of a "foreign principal" (including a foreign company/power). This could, for instance, have captured any conversation with an MP or senior civil servant an American company directed a lobbyist to carry out on its behalf. Although the Government's FIRS amendments have now been accepted in the House of Lords, even the proposal of such investor-hostile schemes undermines the UK's reputation as an investor-friendly environment, while also unsettling geopolitical relationships with long-standing allies. When it comes to the FIRS in the future, Government should take care that guidance around what constitutes a "foreign power" is clear. Unnecessary ambiguity may leave state-owned companies and state-controlled funds in limbo as to their treatment under the Bill, potentially deterring investment due to the possible risk.

To continue to attract international financial institutions to locate in the UK and remain a world leading international financial centre, the UK needs to adopt a joined-up approach to policymaking when considering any policies that affect international trade and investment flows.

Merger control

Many investments taking place by way of M&A need to be cleared by the UK merger control regime. Discussions with businesses indicate that the regime as it currently stands is having a chilling effect on investment in the UK. While the UK Competition and Markets Authority CMA is widely respected, there are real concerns among businesses that:

- The sheer length of a UK merger control process inhibits acquisition of UK companies. The UK process is longer – sometimes materially so – than other major regimes around the world. In particular, a case that merits a full Phase 2 review can be in the process for 15 months or more (including lengthy pre-notification). The lack of alignment with the timetable of other authorities also makes coordination challenging.
- The UK regime also lacks clear 'bright line' rules for which transactions are caught. While most merger control authorities have turnover-based tests, the UK regime supplements this with an alternative 'share of supply' test, which means that transactions which create or enhance a 25% share of the supply of a particular product or service can be captured. The UK regime allows this test to be deployed with exceptional flexibility – a share of supply of UK-registered patents, of employees of a particular categories, or of participation in tenders – could be regarded as sufficient to allow the test to be met. This means that it is very hard for companies to know whether or not there is a risk of a CMA review.
- Although the UK regime is technically voluntary and non-suspensory, meaning that parties can close before clearance, the CMA can 'call in' any transaction that meets its jurisdictional thresholds (and, indeed, can call a case in while it investigates whether its thresholds are met). Where the transaction has closed, the CMA invariably puts in place so-called 'hold separate' arrangements – effectively, a freezing order on both parties' businesses. This process is exceptionally complex and expensive, massively reducing the value of a voluntary and non-suspensory regime, since the threat of 'hold separates' hangs over any transaction that closes before CMA clearance. In practice, business may welcome the certainty and predictability of a regime more like that in other jurisdictions, such as the European Union and most European countries, with a bright line jurisdictional test and a simple rule that the transaction cannot be closed before clearance.

5. Strengthening the UK as a global listings hub

Historic approach:	Future-proofed approach:
• No need to take specific policy steps to encourage companies to list on UK exchanges	• Joined-up and proactive approach to promotion of UK exchanges as an attractive venue
Specific recommendations:	
• Deepen liquidity by encouraging pension funds to increase their allocation to equities • Encourage investment into technology through pooled funds and Long Term Asset Funds • Encourage a culture of equity ownership by easing restrictions on retail offerings and implementing financial literacy programmes in schools	

For many decades the UK has been viewed as a prestigious listing venue, with gold-plated standards of corporate governance and investor protections. Now, with increased competition from European and Middle Eastern trading venues – and a growing number of UK-listed companies moving to US exchanges – the UK must take affirmative steps to promote London as an attractive listing venue.

Key steps have already been taken with the implementation of certain recommendations from Lord Hill's UK Listings Review and Mark Austin's UK Secondary Capital Raising Review. But listing rules and corporate governance regimes are only part of the solution – indeed the US has arguably the most robust listing and corporate governance regimes in the world whilst also being the largest and most liquid market, with London-listed companies trading at a 30% discount on average to their US-listed peers.

Deepen liquidity by encouraging pension funds to increase their allocation to equities

It is no secret that the deep liquidity and higher valuations that are characteristic of the US capital markets are a key consideration when choosing a listing venue. In order for the UK to compete, more must be done to foster deeper liquidity. One easy win in this regard is to foster a business environment in the UK that encourages UK pension funds to invest a higher percentage of their more than £2 trillion assets under management into the equity markets by adopting many of the proposals to strengthen the investment environment set out in this paper.

Encourage investment into technology through pooled funds and Long Term Asset Funds

A large number of UK-based tech firms have listed in the US for the simple reason that their early venture capital investors were located in the US and their boards have therefore been heavily weighted in the US. The UK Government needs to do more to encourage early investment into technology – including green technology – in order to keep UK start-ups based and listed in the UK. The Lord Mayor of London, Nicholas Lyons, is pushing for a £50 billion growth fund to encourage early investment into FinTech. More should be done to encourage this and similar initiatives. In addition to fostering UK investment into UK-based companies, this will also have the impact of further mainstreaming investment into green technology, which is a key policy recommendation discussed elsewhere in this paper.

Encourage a culture of equity ownership by easing restrictions on retail offerings and implementing financial literacy programmes in schools

Retail equity trading and ownership is in the DNA of many Americans, which has supported liquidity and stock market performance in the US. The UK has not historically had a strong tradition of retail investment in the equity markets, nor has the existing regulatory regime encouraged retail participation in equity offerings. The regulatory reforms proposed in the respective reviews by Lord Hill and Mark Austin would, in relevant part, ease restrictions on retail equity offerings and therefore encourage higher retail participation in the equity markets. The UK Government should work to implement these reform packages as quickly as possible.

But the solution cannot stop at regulatory reform. It is also imperative that young people in the UK are financially literate and engaged. The next generation of Britons must be able to participate in and navigate financial markets, both domestically and internationally. In addition to boosting participation in the stock market, this, along with greater STEM education in schools, will increase the UK's position as a global talent hub, which is a key policy recommendation discussed elsewhere in this paper.

While the success of the UK as a listing venue forms only part of the picture, it is imperative to attracting foreign capital and making sure the UK remains a relevant and attractive place for businesses to establish themselves.

6. Sharing the UK's proposition with the world

Historic approach:	Future-proofed approach:
• A broad promotion of the Great Britain brand globally leverages the UK's strong reputation for stability, creativity, and predictability	• A new dynamic and forward-thinking investment strategy which is highly tailored to different investment groups, coupled with a disciplined communication effort • A global diplomatic network that actively engages with how global financial markets operate and can effectively deliver sophisticated investment messages to key investors in their markets

Specific recommendations:

- UK Government to hold investor roundtables with UK ministers and major global investors in key priority trade partner markets
- Use industry to upskill diplomats and government officials on how financial markets work and key investment priorities
- Develop a series of tailored sector specific commercial value propositions that explain exactly why banks, insurers, asset managers and other services firms from around the world should locate in the UK
- A joined-up coordinating body should be established to streamline the process of linking international investors with potential investments in the UK's nations & regions

To continue to attract financial and professional services businesses to locate in the UK and expand their businesses here, the UK needs to develop a new investment attraction proposition based around the factors raised above and articulate it to international investors in a disciplined way. Given the increased competition for global financial services investment, changes to the UK's investment environment in recent years and the shifts in global investment drivers, the UK cannot hope that the investment attraction strategies that worked so well over the last 10 years will remain effective.

Once the UK has developed its fresh investment attraction offer by embracing reforms to its business mobility, tax, innovation and sustainability policies, government should communicate this offer to investors via a series of investor roundtables with UK Ministers and major global investors in key priority trade partner markets like the US, EU, Japan, and India. Industry could help support and curate such roundtables, and work with government to provide training to diplomats working on promoting the UK as a destination for financial and professional services businesses by training them on how global financial markets operate. Having a business perspective alongside government can be highly effective and is used by best practice jurisdictions like Singapore and the USA to good effect. Finally, the UK should work with industry to develop a series of sector specific commercial value propositions that explain exactly why banks, insurers, asset managers and other financial and professional services firms from around the world should locate in the UK.

The UK needs to ensure that its investment attraction strategy draws more international investment across the country.

Local government and devolved authorities need to be engaged on investment attraction efforts and brought in at an early stage to pitch to international investors. Industry worked closely with the Invest in Britain Bureau as it supported foreign investment to the UK in the 1980s and 1990s. The Bureau was successful in attracting FDI to the UK's regions because it could draw on close links to local authorities when facilitating projects: such close coordination was critical to attracting Nissan to Sunderland. A similar initiative is needed now to support Levelling Up initiatives.

Conclusion

In 2021, TheCityUK set out in its international strategy how the UK could grow from being the world's second largest international financial centre to being, once again, the leading international financial centre by 2026 if industry, government, and regulators worked together to boost the UK's international competitiveness. The strategy identified that an integral part of delivering on this mission would be to adopt policies that ensured that the UK captured a greater share of global investment.

In this paper, we have sought to set out how the UK could develop and articulate a more compelling investment attraction proposition for high-value services businesses, including financial and related professional services businesses, and provided an outline of the policies needed to underpin this proposition.

If the UK adopts this approach, it will become a stronger global services hub, boost exports, and be at the forefront of technology innovation and efforts to combat climate change. Crucially, high-value services sectors will create more UK high-skilled jobs and sustainable investment across the country. That is a prize worth fighting for.

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