TheCityUK recognises the challenging backdrop faced by the government as it manages the various public policy trade-offs required to deliver growth. We welcomed the inclusion of Financial Services and Professional Business Services as growth-driving sectors in 'Invest2035: The UK's modern industrial strategy' and recognition of our industry's enabling role in delivering the strategy. Our industry is strongly positioned to contribute to growth and keen to help, but the success of our industry and its contribution to the wider economy depends on competitive, predictable and streamlined tax and regulatory regimes.

We welcome the corporate tax roadmap announced in the Budget and see the Mansion House speech as a further opportunity to set out a positive agenda for our industry. Below we have set out the areas where we believe the government can create a genuine partnership with industry to make tangible and speedy progress on its growth mission.

1. UK Capital Markets

UK Capital markets are a vital engine to deliver the investment required to drive the government's growth mission. The government must work in partnership with our industry to support the availability of capital to British businesses of all sizes, the eight priority sectors and the transition to net zero.

Small and medium sized companies on main and growth listing markets are core parts of the UK economy. Today over 80%, by number, of all UK listed companies are valued below £1bn. A smooth transition from private capital markets to public markets, and from growth markets to main markets, is needed to create the champions of tomorrow.

While all stages of the journey are important to ensure economic activity and job creation remain in the UK, we believe the government needs to focus support on revitalising both the supply and demand sides of UK capital markets to:

- **Broaden participation in our vibrant public *growth* markets,** one of the UK's strengths with 5.6 million small and medium businesses up and down the country.
- **Re-ignite our public *main* markets to deliver for the domestic economy,** these markets are home to more than a thousand companies.
- **Complete key reforms and maximise international engagement to promote UK public equity markets** to drive UK investment and reverse the trend towards UK equity fund outflows.
    - Progress next steps on investment research regulation, to improve access to market data.
    - Publish the final recommendations of the Digitisation Taskforce and consider an industry-led mechanism for accelerated implementation including any necessary primary legislation.
    - Implement the prospectus reforms and consider the practical barriers for companies moving from growth markets to main markets.
- **Incentivise domestic supply of capital** to support British businesses and infrastructure:
    - Deliver pension reforms to both improve outcomes for pension savers and boost investment and growth in the UK economy *(more detail below).*
    - Consider how the Mansion House Compact could be developed to encourage further investment opportunities.

- Create the conditions to support retail investors' access and confidence to invest in public markets equity and debt, broadening the wealth sharing benefits of investing.
- Pursue proportionate risk balanced regulation, and embed the regulators' international growth and competitiveness objectives, to support the attractiveness of the UK and incentivise investment in UK assets.

- **Streamline the interface between public and private markets** and engage with industry on next steps for the Private Intermittent Securities and Capital Exchange System (PISCES). It is important that we widen access to the UK's significant private markets to benefit both growth companies seeking capital and investors.
- **Drive global innovation and digitisation in the markets** by issuing a pound sterling digital gilt via the Debt Management Office, to signal the UK is a hub for securities tokenisation.

TheCityUK is producing a paper which will set out ten strategic enablers to revitalise growth markets. We would be happy to engage with the government on our positions as they develop.

2. Pensions

The Mansion House speech is an important opportunity to update industry on the progress of phase one of the government's Pensions Investment Review and announce next steps for the Pensions Bill and phase two of the Review.

Our asks regarding pensions reform are centred on the need to:

- **Take a considered and consensus-based approach to reform which involves the pensions industry:** This is a policy area where implications of technical decisions play out with significant consequences over the very long-term. Maintaining a focus on cross-party support for further reforms is crucial to building stability and confidence in the pension system and its outcomes.
- **Reinforce the message that best value is not the same as lowest cost:** Fiduciary duty and the delivery of good outcomes for pension savers is the priority for the pensions industry. This should underpin any measures to encourage productive investment by pension funds, including in UK equities and other assets.
- **Promote asset allocation to UK assets through incentivisation:** To drive funds to the most productive parts of the UK economy and avoid conflicts with fiduciary duties government should use a range of fiscal, investment and regulatory levers (as set out in our response to phase I of the pensions review) to incentivise asset allocation. Government must also consider the barriers to investment, as set out in the PLSA's 'Pensions and Growth: A pipeline of investable opportunities' report.[1]
- **Consult further with industry on contract-based versus trust-based DC schemes:** There are minimal differences in asset allocation, although trust-based schemes are undoubtedly easier to consolidate. Measures to encourage either model at the expense of the other would be complex, given the scale of back-books and systems changes that would be involved. We counsel against any retrospection. The more significant issue to address here

[1] Pensions-and-Growth-Report-PLSA-2024.pdf

is tax treatment for scheme members: Relief at source compared with net pay arrangements.

- **Ensure that solvency rules enable insurers to use the matching adjustment to invest at scale and pace:** This would encourage further DB consolidation and more productive investment, especially in housing, green energy, and other suitable fixed income assets. Many DB schemes are in surplus and de-risked, in run-off or bought-out by insurers. The promises made to members will be met in full. Altering asset allocations could creating jeopardy, while potentially adding to the costs for all funds in supporting the Pension Protection Fund (PPF).

As a significant and growing pool of capital, pensions have the potential to play a role in supporting the government's growth mission and addressing the public policy challenge of an ageing society.

3. Green and Sustainable Finance

Our industry plays an important role in facilitating the transition to a net zero and nature positive economy through the provision of capital investment, lending, professional advice services and insurance. There is a huge opportunity to harness our industry's potential to scale up and attract capital to finance the net-zero transition, address biodiversity loss, and enable green innovation and growth. With the right conditions sustainable finance could be scaled up further and faster. We believe the Mansion House speech is an opportunity to:

- **Set out a long-term policy approach for the net-zero transition, with a consistent policy narrative and delivery plan**, which provides the right conditions to attract the scale of private investment needed to finance Britain's shift towards a sustainable future. This must be complemented by sector-specific strategies and a capital raising plan that sets out the investment required across sectors and regions and by different pools of capital.

- **Deliver stronger collaboration across the public and private sector.** To deliver policies that work for the wider economy, government must work with industry to understand the current barriers and develop policy measures that are fit for purpose. This is particularly important when considering the design and delivery tools of the National Wealth Fund.

- **Introduce policy measures and incentives that mitigate and share investment risks in a way that will attract private investment at the scale required.** Government must work with the UK public finance institutions and financial and professional services industry to use private sector expertise to co-create innovative financing solutions that will be effective in de-risking and scaling up low carbon investments. It should also consider how tax incentives (such as R&D credits or tax wrappers for long-term investments) could be used to increase investor appetite for low carbon and transitional investments.

- **Provide clarity on government action to support the growth of carbon markets in the UK.** There is an opportunity for the UK to become a global leader in carbon markets. This requires policy and regulatory certainty to support the growth and integrity of voluntary carbon markets in the UK and foster greater market confidence. To capitalise on the UK's opportunity, government must move forward with the consultation on voluntary carbon markets.

- **Provide clarity on transition plan disclosure requirements.** We strongly support the work of the Transition Plan Taskforce (TPT) and encourage the government to look to the TPT's disclosure framework when considering transition plan disclosure requirements in the UK.

Government must build stronger engagement with business and embed this in the way government operates. This will be crucial to unlocking the potential of our industry as a key enabler of the net-zero transition and harnessing the strengths of UK financial and related professional services.

4. Regulation and risk culture

The growth mission cannot be delivered without an ambitious growth mindset from our regulators, operating with a more commercially aware mindset and giving due consideration to the wider economic impact of their rules and decisions. This requires proportionality between the oversight provided and the size of the business being regulated. It means agility in calibrating regulation to remove impediments to growth, including balancing an appropriate level of informed risk against the benefits of boosting growth. It also means moving more quickly to approve applications to invest capital, approve new managers, start new enterprises and create new products.

Greater engagement with industry experts could deliver improved policymaking with less need for subsequent amendments and clarifications. The PRA's recent use of Subject Expert Groups (SEG) to help formulate Solvency UK policy is welcome. We encourage greater use of SEG by both regulators. For example, this could include the continued development of the UK's new Smarter Regulatory Framework to seize opportunities to streamline and calibrate EU on-shored financial services regulation, and tailor to the UK's needs, ensure UK markets and firms remain competitive, and keep pace with international developments.

The ambition and courage needed to deliver long-term growth (of both the financial services industry and the UK economy) requires a degree of risk tolerance, and recognition that a zero-failure culture inhibits investment, growth and innovation. It also encourages unrealistic expectations. The UK's current political and regulatory mindset is too focused on eliminating the risk of failure and loss from the financial system. Too often the default approach is to stop things going wrong, rather than helping things go right. If not addressed, this will continue to have deeply negative consequences for economic growth, dynamism and resilience.

Decisive, collective action is needed to challenge the current culture of risk aversion and 'safetyism' that discourages innovation and investment in productive assets such as companies and infrastructure. As part of this, the government needs to use its levers effectively to provide greater predictability from a policy and regulatory perspective, including how the government sets its own 'risk appetite', for example through the remit it sets the financial regulators. Regulators need to build on the success of leading the way in creating a sandbox by doing much more to support innovation and its application across the industry and at scale.

TheCityUK looks forward to hearing more about the government's economic and financial policies in the Mansion House and stand ready to collaborate in this vital mission, as a key partner in delivering growth, prosperity and security for our country.