

# REVITALISING UK PUBLIC MARKETS

A roadmap for reforms to listed  
equity markets

July 2025



# Contents

Executive Summary	Page 3
Summary of recommendations	Page 7
Why does it matter that the UK has a vibrant public market?	Page 8
What has been achieved so far?	Page 10
Where should the UK go further to revitalise its public markets?	Page 13
Acknowledgements	Page 34

## Executive summary

**A vibrant, deep, and efficient market for publicly listed equities is a critical component of the UK's capital markets, and of the wider economy.** It allows companies to raise capital to fund growth and re-structure their ownership. It allows retail and institutional investors to participate directly in corporate wealth creation, providing them with a liquid, accessible, and transparent market to buy and sell equities at fair valuations. It also provides transparency, accountability, and high standards of governance for some of our largest enterprises. And, in 2023/24, the 100 largest listed companies in the UK generated £93bn of tax revenue (10% of tax take), spent £29 billion on capital investment (11.5% of business investment), and £11 billion on research and development.<sup>1</sup>

**Although the London Stock Exchange (LSE) remains second only to US exchanges on many measures, in recent years it has experienced declines in initial public offering (IPO) volumes, net equity outflows and a loss of liquidity.** This has been driven by changes in investor asset allocations, which have shifted towards different listing venues and asset classes. Additionally, fewer companies have joined the market via IPOs than have left it because of companies moving their primary listing or public-to-private transactions.

**However, many of the challenges the LSE faces are common to almost all public equity markets worldwide.** As one of the world's largest capital markets, with a long history of successful adaptation and innovation, the LSE has the opportunity to lead the global response to these challenges. We see three fundamental trends which are common to almost all public equity markets.

- **First, public equity is no longer the default ownership model for large businesses seeking capital or liquidity.** Private equity has become an attractive alternative, offering deep pools of capital, flexible ownership structures, and longer-term horizons. Today, only 36% of the largest 500 companies in the UK are listed.<sup>2</sup> Since the millennium, private equity has generally outperformed public markets globally, although public markets have delivered higher returns than private equity over the past 3 years.<sup>3</sup> The historically higher returns of private equity reflect greater tolerance for risk, reduced liquidity, and a focus on value realisation through exit.<sup>4</sup> Private equity-backed firms are also often supported by tax-efficient capital structures and a greater appetite for leverage, both of which can amplify potential equity returns. While both public and private markets operate under regulatory oversight, there are distinctions and trade-offs. Listed companies are subject to more mandatory, standardised and comprehensive disclosure obligations, which bring visibility, transparency and accountability but also higher compliance burdens. Privately owned companies operate with fewer public reporting obligations, enabling more tailored governance, greater operational agility, and longer time horizons, particularly where investor expectations are aligned with

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<sup>1</sup> PwC UK, *Total Tax Contribution 100 Group 2024*, 2024.

<sup>2</sup> McKinsey & Company, *Aiming Higher: Embedding 'systemic ambition' to drive UK corporate growth*, July 2024, p. 1.

<sup>3</sup> McKinsey & Company, *Braced for shifting weather*, McKinsey Global Private Markets Report May 2025, p. 26.

<sup>4</sup> McKinsey & Company, *UK Capital Markets: Looking beyond surface narratives*, June 2025.

reinvestment and long-term value creation.<sup>5</sup> The direction globally is towards deeper integration of public and private markets, with companies increasingly moving fluidly between ownership models as they grow, restructure, or seek liquidity.<sup>6</sup>

- **Second, index funds and passive investment strategies have rapidly increased their market share, posing a significant challenge to the business model of traditional actively managed funds.** Globally, over half of public equity investments are now held by passive or tracker vehicles.<sup>7</sup> Their growth, which shows no sign of abating, has provided low-cost access to equities for retail and institutional investors. However, it has impaired the ability of many active managers to effectively perform their core functions of price discovery, business financing, and corporate governance. Equity markets rely on active buying and selling decisions that go beyond index rebalancing or technical signals.<sup>8</sup> It remains unclear how these essential functions will be fulfilled in the long term if the current trajectory of decreasing market share of active managers continues.
- **Finally, even though equity markets themselves have not consolidated, assets have, and over half the world's public equity by market capitalisation is now held in a single country.** US listed companies now account for about 54% of global equity market capitalisation, compared to the 26% the US represents of global GDP.<sup>9</sup> Furthermore, the market capitalisation of equity markets in India and China is growing far faster than European markets.<sup>10</sup> It remains to be seen if this is a temporary or permanent phenomenon, and it is notable that over the last six months the FTSE-100 and Euro-STOXX 600 have outperformed by a meaningful margin the S&P-500 and Dow Jones Industrials.<sup>11</sup> Other jurisdictions, such as the EU or Singapore, have started responding to these challenges.<sup>12</sup>

**In addition to these global factors, the LSE has seen some challenges unique to, or more pronounced in, the UK.** We see four additional challenges specific to the UK:

- **First, capital has flowed out of the market due to capital allocation decisions by investors.** Like other markets, the UK has seen capital flight to faster-growing markets such as the US. But alongside this, the UK has also seen domestic institutional investors allocate portfolios away from UK equities towards international equities and government bonds. The combined share of UK quoted equities held by insurance and pension funds has fallen sharply, from 45.7% in 1997 to just 4.2% in 2022. Though the drivers of this are multifaceted, and in part reflective of lower returns on UK equities since the financial

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<sup>5</sup> In the UK the private equity industry also complies with the voluntary Walker Guidelines for disclosure and transparency in private equity. The Walker Guidelines are industry guidelines that require best in class disclosure requirements for private equity firms and their UK portfolio companies which are comparable with FTSE 250 companies.

<sup>6</sup> McKinsey & Company, *UK Capital Markets: Looking beyond surface narratives*, June 2025.

<sup>7</sup> ISS Simfund, Refinitiv Eikon, Morningstar as of November 2024.

<sup>8</sup> Financial Conduct Authority, *Does the growth of passive investing affect equity market performance?: A literature review*, Research Note, 2019.

<sup>9</sup> Capital IQ as of December 2024; International Monetary Fund, *World Economic Outlook Database – GDP current prices*, April 2025.

<sup>10</sup> SIFMA, *Primer: Global Equity Markets Comparison*, September 2024.

<sup>11</sup> Based on assessment of 6 month index return as 17<sup>th</sup> June 2025.

<sup>12</sup> European Central Bank, *Capital markets union: A deep dive – Five measures to foster a single market for capital*, May 2025; Monetary Authority of Singapore, *A comprehensive set of measures to strengthen Singapore's equities market*, 21 February 2025.

crisis, regulatory factors contributed significantly, not least the introduction of Financial Reporting Standards 17 (FRS17) in the year 2000 with regard to pension accounting.<sup>13</sup>

- **Second, the total number of companies on the market has reduced, as the number of new listings in the UK market has been much smaller than the number of companies delisting.** This trend is largely explained by public-to-private transactions, with the UK experiencing proportionately more of these deals than other markets. Of the 213 companies that left the LSE between 2016 and 2025, 143 were public-to-private transactions. The largest of these deals was executed at around a 40% valuation premium.<sup>14</sup> Though PE firms have played a leading role in repopulating UK indices, with 65% of UK-originated IPOs in the past ten years from companies partially or wholly owned by PE firms, there has been a larger flow of companies off the exchange.<sup>15</sup> This, combined with the volume of transactions, raises questions about valuations in UK public markets and the perceived ability of publicly owned companies to create as much value as those in private ownership.
- **Third, many listed companies perceive that UK investors exhibit a preference for income-generating businesses rather than those focused on growth.** Between 2020 and 2024, S&P 500 companies paid out an average of only 34% of their net income in dividends, compared to an average of 56% for FTSE 100 companies.<sup>16</sup> Though there are various drivers of this, including but not limited to regulatory requirements, such as solvency and liability-matching rules, it impacts capital availability for reinvestment. This may discourage firms from reinvesting operational cashflows into productivity improvements and long-term growth.
- **Finally, though the UK produces many high-growth start-ups, they often gravitate towards, and potentially list in, international markets.** While the UK's tech sector is Europe's leading ecosystem, third internationally only to the US and China, too many scale-ups are acquired and/or move overseas rather than develop via IPO in their home market.<sup>17</sup> Combined with public-to-private transactions and primary listing venue changes, this has contributed to a sustained net decline in the number of companies on UK public equity markets.<sup>18</sup>

**Recent reforms by the government and regulators have made significant headway in tackling longstanding issues in UK capital markets.** Changes to the Listing Rules, initiated by the Lord Hill Review in 2021, led by the government and the FCA, and supported by a range of industry stakeholders, including the Capital Markets Industry Taskforce (CMIT), have tackled longstanding issues which discouraged companies from listing in the UK. Further work by government, regulators, and industry stakeholders has focused on

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<sup>13</sup> Office for National Statistics, *Ownership of UK quoted shares – Statistical bulletin*, December 2024.

<sup>14</sup> McKinsey & Company, *UK capital markets: Looking beyond surface narratives*, June 2025.

<sup>15</sup> McKinsey & Company, *UK Capital Markets: Looking beyond surface narratives*, June 2025.

<sup>16</sup> FactSet, Bloomberg; Members as of 12/31 of a given year end and includes all cash dividends paid; S&P 500 and FTSE 100 constituents as of Dec 31 in each year and excludes financials and investment funds companies; 2024 based on LTM as of Sep 30, 2024.

<sup>17</sup> Department for Science, Innovation and Technology, *UK Tech Sector Retains #1 Spot in Europe and #3 in World as Sector Resilience Brings Continued Growth*, 20 December 2023; The Purposeful Company, *The Growth Trilogy: Paper Two*, May 2025; Centre for Business Research, *Selling Less of the Family Silver: Better UK innovation and industrial policies for economic growth*, July 2024.

<sup>18</sup> *Fortune*, "London Stock Exchange listings have dropped 25% in 10 years, but its CEO says the U.K. is still 'punching above its weight'", 16 May 2024.

improving capital raising processes, building an ecosystem for scaling innovative firms, and enhancing research coverage. However, limited progress has been made since the Kent Review on the latter. The creation of the Investor & Issuer Forum is an opportunity for industry to develop solutions to shared problems where policy and regulatory change is not required. Over time, it is hoped these changes will have a positive impact by making the LSE a more attractive market for companies to list on.

**The UK has all the vital pre-requisites to thrive as a globally competitive capital market.** It benefits from an extensive and expanding pool of investible assets, driven by the growth in defined contribution (DC) pension schemes, although their asset allocations to the UK are modest.<sup>19</sup> London is a global hub of financial expertise, with a uniquely well-positioned time zone for international business operations. Despite losing ground in certain areas, London remains the world's second-largest equity market by many measures, with robust regulatory institutions and a strong legal and judicial framework. London continues to lead in capital markets innovation, exemplified by initiatives like the forthcoming Private Intermittent Securities and Capital Exchange System (Pisces), designed to bridge private and public markets.<sup>20</sup> It is home to some of the world's most internationally diversified listed companies, and the largest outside the US, China, and Saudi Arabia.<sup>21</sup> Additionally, there is some evidence that the tide may be turning, with PwC's 28<sup>th</sup> Annual CEO Survey ranking the UK as the most important market globally after the US – the first time the UK secured the second spot in the 28-year history of the survey, even surpassing Germany, China, and India.<sup>22</sup>

**The UK now stands at a critical juncture and must reposition its public equity markets in a changing global environment.** There is an exciting opportunity for the LSE, working with government, regulators and industry, to build on the existing reform trajectory by developing innovative solutions to challenges facing all equity markets worldwide. We see the necessary actions having four pillars:

- **Developing a new narrative:** Develop a new positive narrative for the LSE, promoting the role of public equity markets in wealth creation, encouraging retail participation in equity markets and pushing forward with reforms;
- **Improving liquidity and competitiveness:** Identify and eliminate policies and practices that discourage equity investment and trading, and address competitive disadvantages relative to other markets;
- **Strengthening the IPO pipeline:** Introduce targeted reforms that reduce regulatory disparities between public and private ownership models, including mechanisms to facilitate the return to public markets of companies which have been previously taken private; and,
- **Rebalancing stewardship:** Adopt regulatory measures that fairly distribute stewardship responsibilities and obligations between active and passive investment approaches.

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<sup>19</sup> Approximately 6% of overall DC portfolio allocations as of 2023, according to Pension Policy Institute, the DC Future Book 2023.

<sup>20</sup> London Stock Exchange, *Counting down to the UK's pioneering private markets initiative – PISCES*, 17 April 2025.

<sup>21</sup> PwC, *Global Top 100 Companies*, May 2025.

<sup>22</sup> PwC, *PwC's 28<sup>th</sup> Annual Global CEO Survey: Reinvention on the edge of tomorrow*, January 2025.

# Summary of recommendations

Type	Recommendation	Lead actors
<b>Developing a new narrative</b>		
Positioning	<ul style="list-style-type: none"> <li>Strengthen narrative and promotion of LSE and impact of recent regulatory changes.</li> <li>Promote comparative ease of indexation.</li> <li>Attract secondary listings from other markets.</li> </ul>	LSE, DBT, HMT, FCA, industry.
Reporting regime	<ul style="list-style-type: none"> <li>Rationalise and simplify annual reporting.</li> <li>Develop a framework for sustainability reporting which reduces duplicative international reporting requirements.</li> </ul>	DBT, FCA, FRC.
Executive talent	<ul style="list-style-type: none"> <li>Greater flexibility around internationally competitive pay.</li> <li>Simplify executive pay disclosure.</li> <li>Review NED remuneration guidance.</li> </ul>	DBT, FRC, investors
Retail participation	<ul style="list-style-type: none"> <li>Finalise the Advice Guidance Boundary Review.</li> <li>Implement reshaping of prospectus regime.</li> <li>Launch marketing campaign to promote equity investment.</li> </ul>	HMT, FCA, industry.
<b>Improving liquidity &amp; competitiveness</b>		
Liquidity	<ul style="list-style-type: none"> <li>Enable access to DB surpluses.</li> <li>Increase DC fund UK equity exposure via disclosures and, potentially, incentives.</li> <li>Explore changes to default fund structures.</li> </ul>	HMT, DWP, TPR, FCA, industry.
Stamp Duty	<ul style="list-style-type: none"> <li>Remove SDRT, potentially on ISAs first as an interim measure.</li> </ul>	HMT.
Dividend preference	<ul style="list-style-type: none"> <li>Review options to encourage investment for growth</li> </ul>	DBT, HMT.
<b>Strengthening the IPO pipeline</b>		
IPO pipeline	<ul style="list-style-type: none"> <li>Make IPO costs tax deductible;</li> <li>Market engagement on policy and/or regulatory barriers to IPOs for PE owned firms.</li> </ul>	HMT, DBT, FCA, CBI, BVCA.
PIPEs	<ul style="list-style-type: none"> <li>Review regulatory barriers to private investment in public equity.</li> </ul>	HMT, DBT, FCA.
<b>Rebalancing stewardship</b>		
Stewardship	<ul style="list-style-type: none"> <li>Ensure collaborative engagement between investors, proxy advisors, and corporates.</li> </ul>	FRC, Investor and Issuer Forum.

# Why does it matter that the UK has a vibrant public market?

**A vibrant, deep, and efficient market for listed equities is a vital component of the UK's wider capital markets, and of the economy.** The financial and insurance services sector contributed 8.8% of total economic output and a trade surplus of £73.2 billion in 2023.<sup>23</sup> It is a critical part of the UK economy, as recognised in *The UK's Modern Industrial Strategy*,<sup>24</sup> and contributed £79.3 billion in taxes, equivalent to 9% of government receipts, in 2022/23.<sup>25</sup>

**On nearly all measures, the UK is second only to the United States (US) in terms of the breadth, depth, and liquidity of its capital markets.** UK capital markets are larger than European peers (Euronext Paris, Deutsche Boerse AG, Euronext Amsterdam, and Nasdaq Stockholm) in terms of market capitalisation, and UK markets have historically attracted significantly more international IPOs. Liquidity is broadly in line with European indices; however, UK equity markets have a greater proportion of shares in free float than European peers.<sup>26</sup>

**Maintaining the international competitiveness of the LSE is essential if the UK is to maintain a pre-eminent position in wider global financial services and capital markets.** The presence of globally significant listed companies attracts international capital, sustains world-class professional services businesses, enhances the UK's global market credibility, and connects the UK to many global supply chains crucial for innovation, productivity, and employment.

**Public markets are a powerful engine of transparency and accountability.** The rigorous reporting and disclosure requirements for publicly listed companies enables scrutiny of their activities. This oversight encourages best practices in governance, operational discipline, and corporate responsibility. Public markets provide open access, transparent pricing, and reliable liquidity. Without exits, publicly available price discovery is almost non-existent, and private companies offer far less liquidity for investors, even with those expected to be traded on PISCES.<sup>27</sup>

**Public markets directly benefit consumers by providing an accessible route to long-term capital and income growth.** They enable individuals to build wealth over time by investing in the success of businesses they know and use, with low barriers to entry through Individual Savings Accounts (ISA), pensions, and investment platforms. A vibrant listed equity market strengthens the link between households and the real economy, channelling savings into domestic enterprise, supporting innovation, and sharing the returns of economic

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<sup>23</sup> House of Commons Library, *Research Briefing: Financial services in the UK*, 18 November 2024.

<sup>24</sup> HM Government, *The UK's Modern Industrial Strategy*, June 2025.

<sup>25</sup> House of Commons Library, *Research Briefing: Financial services in the UK*, 18 November 2024.

<sup>26</sup> Bloomberg, Capital IQ.

<sup>27</sup> The Times, *Disclosure rules for PISCES-traded shares are watered down*, 10 June 2024.

growth more broadly. Widening participation could significantly improve financial wellbeing across the population, empower individuals to take greater ownership of their financial futures, and enhance the resilience and dynamism of the UK economy.<sup>28</sup>

**As the pre-eminent global financial centre outside the US, the UK's capital markets bring geopolitical benefits.** If London were to lose its leadership in capital markets, the City would risk becoming a narrowly focused hub rather than a truly global financial centre. This matters geopolitically: a vibrant equity ecosystem gives the UK a powerful position in negotiations with the European Union (EU) and other trading partners. As Mario Draghi has acknowledged, the EU lacks an integrated capital market with the breadth and depth of other global financial centres,<sup>29</sup> and constructing one is going to be the work of decades. Retaining London's status as a global financial centre, intricately linked to EU economies, should be seen as supporting EU ambitions in the face of increasing US dominance in international financial markets.

**Beyond mobilising capital, a vibrant public equity market is essential for anchoring high-growth companies and their ecosystems domestically.** When start-ups or scale-ups, particularly those in the science and technology sectors, are sold to overseas buyers or move their listing abroad, it curtails domestic scale-up potential for other companies and constrains national economic expansion.<sup>30</sup> The ability to scale ambitious growth-oriented firms, especially in technology-driven and foundational sectors is key to *The UK's Modern Industrial Strategy*.<sup>31</sup> Sustaining a globally competitive and attractive listed equity market is therefore not simply a matter of financial architecture; it is central to national economic resilience, innovation leadership, and strategic autonomy.

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<sup>28</sup> New Financial, *Widening Retail Participation in Equity Markets*, September 2023.

<sup>29</sup> European Commission, *The Draghi Report: A competitiveness strategy for Europe (Part A)*, September 2024.

<sup>30</sup> Centre for Business Research, *Selling Less of the Family Silver: Better UK innovation and industrial policies for economic growth*, July 2024.

<sup>31</sup> HM Government, *The UK's Modern Industrial Strategy*, June 2025.

## What has been achieved so far?

**Successive governments, working with regulators and industry, have embarked on an ambitious reform programme and have made headway in tackling longstanding issues in UK capital markets.** This reform agenda has been built around five areas, supported by wider discussions about UK investment culture: improving Primary and Secondary Capital Raising rules; incentivising high-quality research on UK companies; increasing the availability of risk capital; supporting collaborative engagement between companies and investors; and creating an ecosystem for scaling consequential private companies.<sup>32</sup>

**A significant milestone was the reform of the UK Listing Rules.** Originating from the 2021 Hill Review, these reforms culminated in a fundamental shift to a simplified, disclosure-based single listing segment.<sup>33</sup> The FCA has acted on this through a major overhaul of the Listing Rules to remove prescriptive requirements, ease the use of dual class share structures, and reduce the minimum free float threshold.<sup>34</sup> These changes aim to create a more flexible and attractive environment for high-growth privately-owned firms to list. The breadth of this extensive reform programme, as of September 2024, is covered in the Capital Markets of Tomorrow report appendix.<sup>35</sup>

**Further wholesale market regulation reform is underway.** A Mansion House growth-focused package was announced by the Chancellor of the Exchequer in Autumn 2024.<sup>36</sup> HM Treasury is expected to publish its future growth and competitiveness strategy for the UK financial services sector on 15 July 2025.<sup>37</sup> This has been a wide-ranging agenda, including:

- **Reforms to investment research.** Following the 2023 Investment Research Review led by Rachel Kent,<sup>38</sup> the FCA has updated its rules to permit the bundling of research and execution fees. However, wider ambitions, such as the creation of a UK research platform and improving retail access to research, remain underdeveloped. The implementation of further recommendations is expected.
- **Actions to close the advice gap.** The FCA concluded a consumer investment policy sprint about this work, part of a package of initiatives that aims to change how consumers interact with retail investments.<sup>39</sup> The FCA has consulted on a product information regime for consumer composite investments to empower firms to find better ways to communicate with consumers about investment products, under CP24/27 and following DP 24/3.<sup>40</sup> The on-going joint FCA and HM Treasury Advice Guidance

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<sup>32</sup> Capital Markets Industry Taskforce, *Julia Hoggett Speech - CMIT Forum*, CMIT Forum 2025.

<sup>33</sup> HM Treasury, *UK Listing Review: Report of the UK Listing Review*, March 2021.

<sup>34</sup> FCA, *FCA overhauls listing rules to boost growth and innovation on UK stock markets*, Press Release, 11 July 2024.

<sup>35</sup> Capital Markets Industry Taskforce, *Capital Markets of Tomorrow*, August 2022.

<sup>36</sup> Rt Hon Rachel Reeves, Chancellor of the Exchequer, *Mansion House 2024 Speech*, 14 November 2024.

<sup>37</sup> HM Government, *The UK's Modern Industrial Strategy*, June 2025.

<sup>38</sup> HM Treasury, *UK Investment Research Review*, 10 July 2023.

<sup>39</sup> FCA, *FCA Concludes consumer investment policy sprint*, News Stories, 10 April 2025.

<sup>40</sup> FCA, *CP24/30: A new product information framework for Consumer Composite Investments*, December 2024.

Boundary Review includes proposals to enable firms to provide more tailored support to consumers without it constituting regulated advice, which is critical to this area.<sup>41</sup>

- **Finalising prospectus regime reform.** The FCA is expected to publish the final rules of its prospectus reforms in July 2025. These will come into application at the same time as the Public Offers and Admission to Trading Regulations 2024; together they create a new UK prospectus regime which will replace and streamline the current EU law-based regime. This framework is expected to facilitate secondary equity capital raising by reducing the number of prospectuses required.
- **Launching the Private Intermittent Securities and Capital Exchange System (PISCES).** The framework for the PISCES secondary market for unlisted share trading has entered into application. It will permit shareholders and employees in PISCES companies to buy/sell shares to each other and a range of professional and sophisticated investors during short and intermittent windows of time. The PISCES Sandbox is available for applications from operators, and it is anticipated that trading in PISCES companies will be operational by the end of 2025. Regulations exempting transfers of shares in PISCES companies from stamp duty/stamp duty reserve tax will come into force in July 2025.<sup>42</sup>
- **Proceeding with digitalisation.** The Final Report of Sir Douglas Flint's Digitisation Task Force is expected to be published in July 2025. The Task Force has been consulting on recommendations to move to a digital UK shareholding regime, and its work would lead to the abolition of UK paper share certificates, in time.<sup>43</sup>
- **Updating market infrastructure.** Progress continues on the UK's transition to T+1 settlement by 2027, with the Accelerated Settlement Taskforce publishing its first quarterly review.<sup>44</sup> Meanwhile, a UK bond consolidated tape provider (CTP) is expected in 2026, and the FCA is consulting on a potential equity CTP.

**Reforms to corporate governance and stewardship have continued in parallel.** The updated UK Stewardship Code 2026 has been published.<sup>45</sup> This follows a wide-ranging review of the UK Stewardship Code 2020.<sup>46</sup> The 2026 Code will apply from 1 January 2026, and first applications will be accepted in Spring 2026. A transition year will operate during 2026, enabling the FRC to support existing signatories as they start reporting against the revised Code. The FRC is consulting until 31 August 2025 on draft guidance to assist applicants with reporting to the UK Stewardship Code 2026, with a view to finalising the guidance in Autumn 2025.<sup>47</sup> Additionally, a revised UK Corporate Governance Code was published in 2024, with the majority of its provisions applying to accounting years commencing on or after 1 January 2025. Complementary to this, the Investor and Issuer

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<sup>41</sup> FCA, *Advice Guidance Boundary Review*, June 2025.

<sup>42</sup> London Stock Exchange, *Counting down to the UK's pioneering private markets initiative – PISCES*, 17 April 2025.

<sup>43</sup> HM Treasury, *Digitalisation Taskforce*, 20 July 2022.

<sup>44</sup> FCA, *FCA welcomes the final report of the Accelerated Settlement Taskforce and supports the UK market's move to T+1 settlement*.

<sup>45</sup> FRC, *The UK Stewardship Code 2026*, 3 June 2025.

<sup>46</sup> FRC, *The UK Stewardship Code 2020*, 23 October 2019.

<sup>47</sup> FRC, *UK Stewardship Code 2026 Guidance*, 3 June 2025.

Forum has been established to foster constructive engagement between UK companies and institutional investors.<sup>48</sup>

**The reform agenda continues to address the structural shortage of domestic risk capital.** Following the 2023 Mansion House Compact, an updated accord was signed on 13<sup>th</sup> May 2025.<sup>49</sup> Seventeen of the UK's largest pension funds have agreed to invest up to £50 billion in private market assets by 2030, with half allocated to the UK. It is anticipated that the accord will lead to at least 10% of their workplace pension schemes being invested in private market assets and aims to support domestic businesses, infrastructure, and clean energy. The *Pensions Investment Review* confirms plans for DC workplace pension scheme consolidation to double the number of UK pension megafunds by 2030.<sup>50</sup> The Pension Schemes Bill was introduced to Parliament on 5 June 2025.<sup>51</sup> The bill contains a 'reserve power' in relation to the allocation of DC pension arrangements to private assets, and HM Treasury has confirmed that there will be a sunset clause.<sup>52</sup> In addition to these, from the introduction and reclassification of Long-Term Asset Funds (LTAFs) to include retail investors,<sup>53</sup> the launch of the Value for Money Framework,<sup>54</sup> proposals on pension disclosures, and on-going reforms to investment advice and guidance.<sup>55</sup>

**However, the UK's public equity markets stand at an inflection point.** On the one hand, the UK has positive momentum through on-going reforms and a strong innovation ecosystem. Nevertheless, if current trends continue unchecked, there is a risk of London's markets drifting into irrelevance, with fewer domestic champions and lower investor interest, leading to an inability to support homegrown high-growth companies. To re-establish its momentum and attractiveness as a market, the UK needs a new narrative that accounts for the changes in market dynamics.

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<sup>48</sup> Investor Forum, 'New Investor & Issuer Forum launches to enhance UK equity market effectiveness', Press Release 6th September 2024.

<sup>49</sup> City of London, *Mansion House Accord 2025*, 13 May 2025.

<sup>50</sup> HM Treasury, Department for Work & Pensions, and Ministry of Housing, Communities & Local Government, *Pensions Investment Review: Final Report*, 30 May 2025.

<sup>51</sup> UK Parliament, *Pension Schemes Bill - Parliamentary Bills*, 30 June 2025.

<sup>52</sup> Rt Hon Rachel Reeves, Chancellor of the Exchequer, *Letter from the Chancellor to the Chair of the Treasury Select Committee: Pensions Investment Review*, 29 May 2025.

<sup>53</sup> FCA, *PS23/7: Broadening retail and pensions access to the long-term asset fund*, Policy Statement, June 2023.

<sup>54</sup> The Pensions Regulator, *TPR welcomes proposals to boost scale and value in the pensions system*, Press Release, 29 May 2025.

<sup>55</sup> FCA, *Advice Guidance Boundary Review*, June 2025.

# Where should the UK go further to revitalise its public markets?

**The LSE needs a new narrative accompanied by complementary reforms.** Any reform strategy must work equally for FTSE companies that are more domestically focused, as well as those which generate most of their revenue overseas. Our capital markets must serve scaling domestic companies, while recognising the City of London has a long history of supporting globally significant companies, often in industries in which the UK has a limited domestic footprint, such as mining. The UK's role as a global centre of financial excellence provides substantial economic benefits, underpinning innovation, productivity, employment, and significant tax revenues.

**It should be built on a broad consensus, drawing on the UK's sources of comparative advantages as a hub for innovation and globally oriented businesses.** Part of the exercise involves reframing, moving from a narrative of decline to one of potential and opportunity. With multiple reforms underway that point to a more positive outlook once fully implemented, the UK can start to promote a differentiated market proposition unique amongst equity markets.

**The recommendations that follow set out a practical agenda to revitalise the UK's public markets.** They are grounded in extensive engagement with the CBI Listed Companies Group, the CBI's wider membership, industry stakeholders, government, and regulators. Each set of recommendations is explored in turn in the sub-sections that follow.

## Developing a new narrative

### Building on the comparative advantages of the LSE

Policymakers and market participants should act decisively to implement recent reforms and capitalise on London's position as one of the world's largest and most liquid stock markets. The UK's capital markets combine global scale with institutional strengths, including a deep international investor base, a trusted legal and regulatory system, and comparative advantages in capital raising for mid-sized public companies. These foundations are complemented by a dynamic, innovative ecosystem and a well-regarded institutional framework.

<b>1 Enabling environment</b>	<b>Globally renowned common law system</b>	<b>Lingua franca</b> <b>1.5bn</b> Speakers globally	<b>GMT time zone</b> enables ease of cross-border interaction
<b>2 Markets &amp; economics</b>	<b>Strong service sector</b> <b>2<sup>nd</sup></b> exporter of services globally	<b>Global financial nexus</b> across FX, rates, clearing and derivatives	<b>Strong home market</b> <b>6<sup>th</sup></b> largest economy
<b>3 Technology &amp; innovation</b>	<b>Investment in tech</b> <b>1<sup>st</sup></b> in Europe	<b>Birthplace of</b> <b>163 Unicorns</b> (> FR, DE, NL combined)	<b>Renewables</b> <b>6<sup>th</sup></b> globally in energy generation
<b>4 Human capital</b>	<b>Excellent universities</b> <b>4</b> of global top 10 institutions	<b>Human Capital Index</b> <b>11<sup>th</sup></b> globally	<b>Job satisfaction</b> <b>12<sup>th</sup></b> globally
<b>5 Geopolitical position</b>	<b>Strong connections</b> with commonwealth countries across the world	<b>World leader</b> with crucial voice in all key supranational organisations	<b>Solid defence capabilities</b> <b>5<sup>th</sup></b> global firepower

Source: International Institute for Management Development (IMD) World Competitiveness Centre, Resolution Foundation, UK Government, Atomico, Business Magazine, Ember, QS World university rankings, World Bank Human Capital Index, Randstat Workmonitor, Global Firepower ranking.

The UK possesses a well-developed private market ecosystem that facilitates firm growth from early-stage funding through to scale-up, supported by venture capital and private equity markets. It leads Europe in technology investment and has generated more unicorn-status firms than France, Germany, and the Netherlands combined. The depth and performance of private markets are critical to the future health of public markets, as high-growth firms constitute the primary pipeline for future IPOs. Recognising the need for better alignment between private and public capital markets, the UK has introduced initiatives such as the PISCES to support smoother transitions to public ownership.<sup>56</sup> Complementary reforms, including the British Growth Fund and the Mansion House Accord, seek to address structural barriers in scale-up financing that contribute to the premature acquisition or international listing of UK-based growth companies.<sup>57</sup>

To consolidate these strengths, we recommend targeted positioning in five areas:

- **Non-domestic issuers:** London is the leading venue for non-domestic issuers and global investors and has a comparative advantage in global reach. The UK is the largest equity market in Europe, with a total market capitalisation exceeding that of Euronext

<sup>56</sup> The 'Private Intermittent Securities and Capital Exchange System' (PISCES) is the world's first major regulated cross-over private-public market. It creates a regulated environment where private companies can auction their shares at a specified periodicity, using public market intermediaries, and providing liquidity to enabling wider institutional investment. In so doing, it assists with both price discovery for private companies and capital recycling.

<sup>57</sup> Future Governance Forum, *UK risks driving high-value firms abroad without action to boost scale-up growth*, 12 December 2024; House of Lords Communications and Digital Committee, *AI and creative technology scaleups: less talk, more action*, 2<sup>nd</sup> Report of Session 2024-25, 3 February 2025; Barclays, *Scaling growth-stage climate tech companies*, July 2024.

Paris or Deutch Börsefile. Since 2019, 25% of the LSE's IPOs have come from companies incorporated outside of the UK, compared to 19% of IPOs on the NYSE by companies outside of the US.<sup>58</sup> FTSE 100 firms generate more than 80% of revenue from outside the UK (55% of the FTSE 250), and the shareholder registers of UK companies are more geographically diverse (upwards of 60% non-UK investors) than for those listed on the NASDAQ and NYSE.<sup>59</sup> Furthermore, looking at aftermarket IPO price performance in the years 2018-2023 for companies raising over US\$100 million at IPO (excluding SPACs) on the NYSE and NASDAQ, non-US or international companies have underperformed US domestic companies by 33%.<sup>60</sup>

- **Sector specialism:** Harnessing sector expertise in both the UK's domestic strengths as well as in more globally dispersed industries can deliver a powerful competitive edge. Domestically, deepening specialisms in areas such as financial services, life sciences, advanced manufacturing, and creative industries will build on our proven strengths, fostering innovation clusters and attracting patient capital. The UK's world-leading universities have a critical role to play in this, as do foundational sectors of the economy, which underpin the ambitions outlined in *The UK's Modern Industrial Strategy*.<sup>61</sup>
- **Additional listings:** The LSE should continue to build on the momentum generated by the new "international commercial companies secondary listing" category implemented last year,<sup>62</sup> which has already yielded notable successes (e.g. CK Infrastructure Holdings).<sup>63</sup> While London already hosts the highest proportion of international companies among global exchanges, there remains a strategic opportunity to deepen its appeal to firms with existing listings elsewhere. Many Asian markets are growing faster than the UK,<sup>64</sup> but this presents an opportunity. London can offer companies in these regions a complementary venue for additional listings, particularly at a time when any Asian companies are becoming more cautious about extra-territorial US capital markets regulation. These listings not only enhance investment opportunities for UK investors but also contribute to professional services revenues to the wider economy. It has also been noted that the terms "primary" and "secondary" listings are anachronistic and unhelpful so should be avoided in promoting additional London listings.
- **Index accessibility:** With more than half of global equity assets now managed passively, inclusion in major indices is an increasingly important driver of liquidity and capital flows.<sup>65</sup> If a market or stock is not included in a major index, it receives correspondingly lower trading volume from passive capital. The UK's weight in global indices (e.g. 4-5% of MSCI World or similar) is small, although commensurate with its market capitalisation. Within the UK market, again commensurate with market capitalisation (the FTSE 100 is roughly 6.6x the market capitalisation of the FTSE 250),<sup>66</sup> and the overall effect of passive capital flows can be to concentrate liquidity in larger

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<sup>58</sup> Pinsent Masons data analysed by J.P. Morgan Cazenove.

<sup>59</sup> London Stock Exchange Group, *FTSE Russell Insights: The UK's very global country index*, March 2024.

<sup>60</sup> Dealogic data analysed by the J.P. Morgan Cazenove; Non-US determined based on company nationality.

<sup>61</sup> HM Government, *The UK's Modern Industrial Strategy*, June 2025.

<sup>62</sup> FCA, *UK Listing Rules Sourcebook*.

<sup>63</sup> Reuters, *Hong Kong's CK Infrastructure gets approval for secondary listing in London*, 14 August 2024.

<sup>64</sup> SIFMA, *Primer: Global Equity Markets Comparison*, September 2024.

<sup>65</sup> ISS Simfund, Refinitiv Eikon, Morningstar as of November 2024.

<sup>66</sup> Comparison using net market capitalisation as of December 2024 using LSE data.

markets and companies, which can be a headwind for UK-mid caps or any company outside the large indices. Though US equity markets are likely to retain their draw given their sheer size, there are ways in which the UK offers relative strengths:

- **Faster and more transparent inclusion:** The FTSE indices have clear, rules-based entry criteria, in contrast to the more discretionary and opaque selection processes used by major US indices like the S&P 500. For example, UK firms CRH and Ferguson, which moved their primary listings to the US in 2023 and 2022 respectively, have been included in several indices (MSCI, CRSP, Russell) but are still awaiting S&P 500 inclusion.
- **Lower size thresholds:** Companies need a market capitalisation of ~£4.4 billion for the FTSE 100 and just ~£0.5 billion for the FTSE 250, compared with \$20.5 billion for the S&P 500. FTSE Russell has recently lowered the fast-track threshold for new listings: a company listing on the London Stock Exchange will be placed in the FTSE 100 or FTSE 250 after its fifth day of trading if it qualifies based on the close price on the first day of unconditional dealings and has an investible market capitalisation of £1 billion.<sup>67</sup>

These features make the UK one of the most accessible and index-friendly markets globally. Promoting this strength should be a priority for the UK's financial ecosystem as part of the UK's broader capital markets offer to global companies.

- **Mid-cap IPO specialism:** The LSE, through its Main Market and Alternative Investment Market (AIM), has a strong history for serving mid-caps and smaller firms, although the latter in particular faces challenges. The combination of the above (faster and more transparent inclusion, and lower size thresholds) offers small and mid-cap firms earlier visibility and access to passive capital more easily than US markets. At a time when index dynamics are reshaping public markets, this is a comparative advantage the UK should actively promote and build on.

To reinforce London's role as a global listing venue, the government and FCA should build on recent reforms by reviewing the broader Listing Regime, including company law, tax, and governance frameworks, to better support additional listings. A coordinated marketing effort should promote the LSE's international strengths, improved index access, and recent reforms. The CBI and market participants should champion London listings and monitor the delivery of key reforms such as the prospectus regime overhaul and digitalisation of shares. Meanwhile, investors and analysts should consider how to build mid-cap coverage, and all actors should seek to build market specialism in sectors aligned with domestic strengths and global opportunities.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li>• The government and the FCA to build on reforms to the Listing Rules by reviewing the structure of the Listing Regime to make London a more attractive venue for additional listings of companies with primary listing elsewhere. This could include potential action by the government in areas within its remit that</li> </ul>

<sup>67</sup> London Stock Exchange Group, *FTSE Russell announces FTSE UK index series methodology changes*, 3 March 2025.

influence a firm's choice of listing venue, such as company law, fiscal treatment, and corporate governance frameworks. It also includes regulatory oversight by the FCA, encompassing not just the Listing Rules, but also the Disclosure Guidance and Transparency Rules (DTRs) and the prospectus regime.

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- Industry to lead**
- Launch a coordinated marketing campaign to promote the advantages of the LSE as the pre-eminent home for international businesses; promote a variety of indexes with competitive eligibility criteria; and promote itself more effectively to companies in other markets as a further listing venue. It should also undertake financial education about the recent reforms, which make the UK market one of the most attractive in the world to offer an IPO.
  - CBI, with support from UK corporates and other market participants, to champion London listings and support prioritisation of the delivery of existing capital markets reforms, such as the UK prospectus regime restructuring and digitisation of shares.
  - Consider how asset managers, institutional investors and sell-side may be able to deepen coverage of UK mid-caps to help expand comparative advantage in this area. This may involve championing yet to be delivered reforms in the Kent Review.
  - Identify and act on opportunities to build market specialism in areas aligned to the domestic economy, as well as in areas suited to highly international firms.
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## **Creating a reporting and disclosure regime that works for international investors and companies**

Well intended financial and non-financial reporting requirements have grown to become a material administrative burden for listed companies. While financial and non-financial disclosures play a critical role in ensuring market integrity, it is important that requirements are proportionate and strike the right balance between the needs of investors (decision-useful information) and the burden for companies (time and resources which could be deployed elsewhere). It is also important that reporting requirements for UK listed companies are aligned to international standards so that there is no disincentive for choosing a UK listing compared to listing in another jurisdiction.

In October 2024, the Secretary of State for Business and Trade set out the ambition to modernise and streamline the UK's non-financial reporting regime within the Companies Act 2006.<sup>68</sup> The review is intended to ensure that information captured in non-financial reporting is decision-useful and accessible for investors, while giving due consideration to the different reporting obligations faced by public and private companies. With only around 36% of the UK's top 500 companies now listed, listed firms face markedly greater obligations,

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<sup>68</sup> Rt Hon Jonathan Reynolds, Secretary of State for Business and Trade, *The UK's Modern Industrial Strategy*, UK Parliament written statement UIN HCWS126, 14 October 2024.

particularly around remuneration, board composition, and sustainability disclosures. It should be noted that in the UK the private equity industry also complies with the voluntary Walker Guidelines for disclosure and transparency in private equity, industry guidelines that require best in class disclosure requirements for private equity firms and their UK portfolio companies which are comparable with FTSE 250 companies. Overall, this has led to a widening regulatory divide between public and private companies, which is one factor that could perhaps deter (or delay) future listings.<sup>69</sup>

The government's efforts to create UK Sustainability Reporting Standards (UK SRS) are a welcome step towards enhancing transparency and aligning with global best practice, most recently through consultation on the exposure drafts of UK SRS. Simultaneously, the government is also consulting on transition plan requirements for financial institutions and FTSE 100 firms, as well as on introducing a voluntary register for sustainability assurance providers. However, without careful sequencing, these reforms risk widening the existing reporting divide between listed and private companies. While sustainability disclosure and assurance requirements introduced via the Companies Act 2006 would depend on future legislation, reporting obligations introduced into the Listing Rules by the FCA can take effect earlier. As stated publicly, the FCA intends to consult separately on how UK SRS and transition plan requirements would apply to listed companies.<sup>70</sup>

In addition to this, multinational corporations are navigating an increasingly fragmented international landscape for sustainability reporting. While progress has been made in some respects, not least with the development of the International Sustainability Standards Board (ISSB) standards under the IFRS Foundation, there is a growing risk of fragmentation, and of companies with international operations (i.e. most companies listed on the LSE) having to report against multiple standards. Not only is there divergence between the EU, US, and ISSB, but the implementation of ISSB in different jurisdictions is starting to result in local variations.<sup>71</sup> For example, while the UK has proposed only minor amendments to the ISSB baseline, even small deviations can add to compliance burdens for firms operating across borders. To maintain clarity for investors and minimise duplication for companies, the implementation of ISSB standards in different jurisdictions should be carried out with minimal changes, preserving global consistency wherever possible<sup>72</sup>.

This is creating an increasingly complex environment for listed companies with multinational operations, and for investors. Fund managers must navigate fiendishly complex matrices of requirements between asset owners' preferences and reporting regimes, which differ by market and often conflict. FTSE 100 and FTSE 250 firms, over 80% and 55% of whose revenues come from outside the UK respectively,<sup>73</sup> must frequently report under multiple regimes, which creates significant compliance costs for listed firms.

To reduce this burden and preserve the UK's attractiveness as a listing venue, we recommended that the government should try to narrow the gap between the reporting

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<sup>69</sup> Financial Times, *UK ministers explore shelving stricter audit rules for private companies*, 24 January 2025.

<sup>70</sup> Department for Business & Trade, *Exposure draft of UK Sustainability Reporting Standards: UK SRS S1 and UK SRS S2*, 25 June 2025.

<sup>71</sup> Slaughter and May, *ISSB update: growing adoption of disclosure standards, but divergence remains likely*, 9 June 2024; IFRS Sustainability, *ISSB Update*, May 2025.

<sup>72</sup> International Regulatory Strategy Group (IRSG): *A roadmap for the adoption of ISSB Standards*, 13 March 2025.

<sup>73</sup> London Stock Exchange Group, *FTSE Russell Insights: The UK's very global country index*, March 2024.

requirements of public and private companies. The government's *Future of Corporate Reporting* consultation, expected later this year, is a welcome step towards rationalising reporting in a way that focuses on information that is decision-useful to investors.

In parallel, the government should pursue an approach based on the principle of equivalence in sustainability reporting for multinational companies. To reduce the administrative burden and cost of complying with multiple non-financial reporting regimes, the government should prioritise regulatory convergence to promote international interoperability where possible. However, in recognition of the difficulties of doing so, the government should explore equivalence-based exemptions where appropriate. Under this model, UK regulators would determine which international frameworks meet appropriate thresholds for transparency, governance and comparability. Companies already applying those frameworks comprehensively at a group level could then be exempted from duplicative UK-specific requirements. This approach would preserve comparability for investors while reducing duplicative compliance burdens for globally operating firms. This flexibility would be beneficial given the diverse nature of business models and operational footprints of large, listed companies in the UK.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li data-bbox="459 936 1369 1167">• Department for Business and Trade (DBT), FCA, and FRC to rationalise existing reporting included in the annual report to focus on information that is decision-useful and provided in an accessible format that best meets the needs of investors and other users as part of its Future of Corporate Reporting consultation later this year.</li> <li data-bbox="459 1182 1369 1971">• HMT, DBT, FCA, and FRC should develop a framework for equivalence in sustainability reporting. Areas for exploration to include:               <ul style="list-style-type: none"> <li data-bbox="544 1308 1369 1413">○ Prioritising convergence with globally recognised standards such as the ISSB baseline, while minimising UK-specific deviations;</li> <li data-bbox="544 1429 1369 1771">○ Establishing an equivalence-based exemption mechanism, whereby UK regulators designate certain international sustainability reporting frameworks as meeting appropriate standards of transparency, governance, and comparability. UK-listed multinational companies applying such frameworks at a group level could be exempt from duplicative UK-specific requirements to reduce administrative burden while retaining integrity and promoting comparability; and,</li> <li data-bbox="544 1787 1369 1971">○ Ensuring that sequencing of sustainability-related reforms, particularly those introduced via the FCA and those legislated through the Companies Act, does not inadvertently accentuate differences in reporting obligations.</li> </ul> </li> </ul>

## Allow UK companies to compete for global talent

Over 80% of FTSE 100 revenues are generated from outside the UK.<sup>74</sup> So to remain an attractive and competitive listing venue for global businesses, the UK must permit remuneration frameworks and practices aligned with international standards, not uniquely UK ones.

Executive remuneration remains a contested issue in UK public markets, with some companies citing difficulty attracting and retaining the international talent required to drive growth and long-term value. However, recent developments have signalled a shift. In October 2024, the Investment Association revised its Principles of Remuneration, simplifying its guidance and explicitly permitting greater flexibility in pay structures where justified by global competitive pressures.<sup>75</sup> There are signs that investors in UK companies are willing to accept more internationally competitive remuneration packages, as was reflected in the 2024 and 2025 annual general meeting seasons, when several large companies obtained shareholder approval for updated remuneration policies.<sup>76</sup> However, there is still further progress needed.

Listed companies have expressed mixed views on Non-Executive Director (NED) compensation. The UK Corporate Governance Code (UKCGC) states that remuneration for NEDs should not include share options or other performance-related elements of remuneration to preserve independence and objectivity of NEDs. In other markets, while performance-based incentives like long-term incentive plans (LTIPs) for NEDs are uncommon due to concerns over independence, companies often encourage NEDs to hold shares to align their interests with those of shareholders, especially in the US.<sup>77</sup>

Some feedback suggests the stance of the UKCGC may inadvertently encourage risk-averse board cultures, although this view is by no means the consensus. Anecdotally, it seems that this is more pronounced at the small- and mid-cap level. Others have proposed increasing NED fees to reflect the increasing time commitment and complexity of the role, and to attract global talent, with part of the fees paid in shares and a minimum shareholding requirement.

Our recommendations focus on two further areas of consultation. Firstly, the government should assess whether current executive pay reporting requirements remain fit for purpose, balancing transparency with administrative simplicity, to help shareholders better evaluate performance-linked incentives. Secondly, in response to growing discussions, the government may wish to consult on whether carefully designed share-based incentives could align NED interests more closely with long-term shareholder value without compromising NED objectivity.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li>DBT and FRC to assess whether current executive pay reporting requirements remain fit for purpose, balancing transparency and clarity with administrative simplicity, to help shareholders better evaluate performance-linked incentives.</li> </ul>

<sup>74</sup> London Stock Exchange Group, *FTSE Russell Insights: The UK's very global country index*, March 2024.

<sup>75</sup> The Investment Association, *Principles of Remuneration 2025*, 8 October 2024.

<sup>76</sup> Slaughter and May, *London calling: Is the UK stock market set for a comeback in 2025?*, 2025.

<sup>77</sup> WTW, *The non-executive director pay landscape in Japan, the U.S., and Europe*, 22 January 2025.

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- DBT and FRC to undertake a targeted review to assess whether the existing UKCGC principles for NED remuneration (reflecting time commitment and responsibilities of role) remain fit for purpose and specifically whether there should be an acknowledgement that there may be circumstances where share grants, share options or other performance-related remuneration could be appropriate for NEDs provided strong safeguards are maintained to protect independence and objectivity. As listed companies are already free to pay NEDs wholly or in-part in their own shares, more could consider doing this before any such review.
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### **Broadening the investor base to encourage retail participation**

A robust public equity market depends not only on institutional investment but also on vibrant retail participation. Yet the proportion of households with direct stock market exposure through retail savings remains stubbornly low. In 2022, barely 12% of households directly owned stocks and shares,<sup>78</sup> and the FCA reported that 58% of adults with at least £10,000 of investible assets kept three-quarters or more of it in cash.<sup>79</sup>

A recent study by Aberdeen found that UK adults hold the smallest share of their wealth in equities and mutual funds of any G7 country, at just 8%, compared to 33% in the US.<sup>80</sup> This low equity exposure may reflect a rational preference for cash, given the UK's high household wealth concentration in property, much of it leveraged via mortgages. As of the end of FY2022/23, the Office for National Statistics (ONS) reported that there was approximately £294 billion held in Cash Individual Savings Accounts.<sup>81</sup> While cash offers certainty, it comes at an opportunity cost. Between 1900 and 2023, real annual returns averaged 5% for equities, 1.7% for bonds, and just 0.4% for cash, according to the UBS Global Investment Returns Yearbook.<sup>82</sup>

Understanding the drivers of low participation is challenging given the complex array of circumstantial and systematic factors. Circumstantially, factors include the desire for reduced volatility with either highly leveraged property ownership or expected property purchases, as well as old age, where a +5-year time horizon may not be well suited. Systemically, Stamp Duty Reserve Tax (SDRT) contributes to making foreign, or cash-based assets, comparatively more attractive to retail investors.<sup>83</sup> This is amplified by blunt disclosures and risk warnings, the wording of which is not prescribed in legislation. Research by The Investing and Saving Alliance (TISA) found that more contextualised risk warnings could

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<sup>78</sup> New Financial, *Widening Retail Participation in Equity Markets*, September 2023.

<sup>79</sup> FCA, *Consumer Investments Strategy – 1 year update*, 15 June 2023.

<sup>80</sup> aberdeen, *Tell Sid and tell him again: Lessons for the UK from overseas in how to encourage healthy retail participation in capital markets*, January 2025.

<sup>81</sup> HM Revenue & Customs, *Commentary for Annual savings statistics: September 2024*, 4 December 2025.

<sup>82</sup> UBS, *Global Investment Returns Yearbook 2025*, 2025.

<sup>83</sup> Financial Times, *Don't make Isas a great British failure*, 15 May 2025.

increase the amount of retail investment by 14%, which would translate into approximately £4 billion of additional investment a year.<sup>84</sup>

Given the recent indications of a formal review process into the ISA system, the government should consider that attempts to redirect cash savings are unlikely to be sufficient without a parallel effort to build trust and reduce friction in the retail investment journey.<sup>85</sup> For industry, this could come in the form of more balanced risk disclosures, focusing on fair and contextual messaging, and a retail focused marketing campaign. Recent reports, such as *Get Invested* or *A New Message to Tell Sid*, offer a compelling case for a national movement to reinvigorate retail investment.<sup>86</sup> For government and regulators, our recommendations focus on the FCA Advice Guidance Boundary Review (AGBR) and implementing the reshaping of the UK prospectus regime, which is expected to reduce costs and procedural barriers for follow-on fundraisings, making it easier for retail investors to access equity investment.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li>Finalise the FCA Advice Guidance Boundary Review to enable swifter action in this area.</li> <li>Implement the reshaping of the UK prospectus regime.</li> </ul>
<b>Industry to lead</b>	<ul style="list-style-type: none"> <li>A consortium of market participants, in collaboration with HM Treasury (HMT) and the FCA, should launch a mass market campaign designed to increase retail investment participation, focused on entry-level and standardised investment products, with agreed risk profiles.</li> </ul>

## Improving liquidity and competitiveness

### Returning DB scheme surplus capital to support reinvestment

With many DB schemes now holding substantial surpluses, enabling the possibility for businesses to have greater access to these surplus funds could significantly increase productive investment. According to the Department for Work and Pensions (DWP), approximately three in four schemes are in surplus on a low dependency basis, amounting to £160bn of surplus assets.<sup>87</sup> These DB surpluses have typically been built through a combination of deficit repair contributions (DRCs) by sponsors, with prudent investment strategies and management of pension portfolios by trustees, for the ultimate benefit of members.<sup>88</sup>

<sup>84</sup> The Savings and Investment Association, *How do risk warnings impact investment choice?*, March 2024.

<sup>85</sup> Financial Times, *Rachel Reeves prepares to launch ISA review*, 10 May 2025.

<sup>86</sup> RetailBook, *Get Invested*, June 2025; Barclays, *A New Message to Tell Sid*, April 2025.

<sup>87</sup> Department for Work & Pensions, *Government response: Options for Defined Benefit schemes*, 29 May 2025.

<sup>88</sup> The latest PPF 7800 data shows that £202.5bn is held in aggregate surplus on a 's179 basis' Source: PPF, The PPF 7800 index: May 2025 update. A S179 surplus is the approximate the value an insurance company would need to be paid to take on

Under the forthcoming Pensions Schemes Bill, the government proposes a statutory override allowing trustees to amend scheme rules, alongside lowering the release threshold from full buyout to a “low dependency” funding level. This gives companies a path, within updated fiduciary duty and regulatory standards, to access some of the surplus funds in a more structured way. Trustees, therefore, retain a duty to always act in members’ best interests, but the power provides a framework to increase surplus sharing intent, with over three quarters of trusts signalling a willingness to participate.<sup>89</sup> Analysis by DWP suggests that £8.4bn could be released over the next decade, with half benefitting members and half employers.<sup>90</sup>

To ensure these reforms translate into tangible outcomes, the immediate focus must be on legislating and then operationalising the Pensions Schemes Bill. The introduction of a statutory override to allow the amendment of scheme rules, combined with the lowered surplus release threshold, creates a clearer legal route for surplus repayment. As trustee discretion remains pivotal, the DWP, The Pensions Regulator (TPR), and the FCA should provide a detailed implementation framework, and accompanying guidance and governance support. This will help trustees assess employer covenant strength, manage risk, and deploy surpluses responsibly.

In addition to this, both employers and trustees should consider preparing by developing funding strategies aligned to a low-dependency basis, supported by actuarial certification of funding adequacy.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li data-bbox="459 1182 1350 1368">• The government should legislate and bring into operation the Pensions Schemes Bill, creating a clear legal route for surplus repayment through the introduction of a statutory override to amend schemes rules, combined with a lowered surplus release threshold.</li> <li data-bbox="459 1391 1350 1458">• To support employers and trustees, DWP, TPR, and the FCA should jointly issue implementation guidance.</li> </ul>
<b>Industry to lead</b>	<ul style="list-style-type: none"> <li data-bbox="459 1487 1350 1594">• Employers and trustees should consider preparing by developing funding strategies aligned to a low-dependency basis, supported by actuarial certification of funding adequacy.</li> </ul>

### **Increasing the liquidity of the London market by encouraging defined contribution pension fund investment in UK equities**

Despite efforts to increase DC portfolio allocations to UK assets, overall allocations to the UK remain low. The DC pensions market offers less scope to pool risk than in collective DB

<sup>89</sup> a DB scheme with PPF levels of compensation. See: Pension Protection Fund, *An explanation of pension valuations*, 23 April 2021.

<sup>89</sup> Pensions Expert, *Three quarters of trustees are open to using surplus release power*, 10 June 2025.

<sup>90</sup> Department for Work & Pensions, *Pension Schemes Bill Impact Assessment: Summary of impacts*, 29 May 2025.

schemes, due to the individualisation of pots. However, as DC schemes are still gathering assets (in 2024 employer and employee contributions amounted to £22bn, and total assets rose by 25% to £205bn) they have far greater scope for investment in public and private assets, as opposed to DB schemes which are nearly all closed and in run-off.<sup>91</sup> As it stands, DC schemes are already relatively well invested in global equities, with 55% of the total allocated to global developed market equities. However, their equity investments have been focused on markets outside the UK. In aggregate, only around 6% of DC assets are allocated to UK equities.<sup>92</sup> The ‘home bias’ of UK DC schemes, approximately 2 times the UK’s stock market’s weight in global indices,<sup>93</sup> is significantly less than the equivalent in Australia (nearly 30 times) and many other European countries (approximately 20 times).<sup>94</sup>

Through the Mansion House Accord, the government and the fund management industry are trying to encourage investment in private assets. The latest Mansion House Accord aims for a 10% allocation to private markets, of which half should be in the UK.<sup>95</sup> It is therefore unlikely to have a positive impact on flows of funds into listed markets. The government is now seeking a reserve power to mandate asset allocations in UK private assets.<sup>96</sup> However, it would only exercise this power if the fund management industry did not achieve the targets set out in the Mansion House Accord, and HM Treasury has confirmed that there will be a sunset clause.<sup>97</sup> The appropriate role of government in influencing institutional asset allocation has been the subject of considerable debate among policymakers, investors, and industry participants.

Acknowledging the complexity of these discussions, further attention may be required for public equity markets. The view taken in this report is that the UK requires well-functioning capital markets, from seed funding through secondary markets in listed equities. Whilst the Mansion House Accord has focused on unlisted investments, the role of public markets should not be ignored. Robust private markets seed innovation, but thriving public equity markets are essential to provide liquidity, price discovery, and a pathway for high-growth firms to scale and stay in the UK.<sup>98</sup>

Public markets also enable institutional capital to be recycled efficiently, while retaining the economic activity generated by growth companies in the UK. In the UK, more than 4,100 firms valued in aggregate at more than £200 billion remain unexited by their VC or PE owners, limiting capital recycling.<sup>99</sup> Moreover, public listings also underpin the visibility and staying power for UK-founded firms. Without vibrant domestic markets, many are absorbed by overseas acquirers, hollowing out the UK’s long-term capacity to generate innovation-led

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<sup>91</sup> The Pensions Regulator, *Occupational defined contribution landscape in the UK 2024*, 4 March 2025.

<sup>92</sup> Pension Policy Institute, *The DC Future Book 2023*, 2023.

<sup>93</sup> As at December 2024.

<sup>94</sup> New Financial, *Comparing the asset allocation of global pension systems*, 2024.

<sup>95</sup> City of London, *Mansion House Accord 2025*, 13 May 2025.

<sup>96</sup> HM Treasury, Department for Work & Pensions, and Ministry of Housing, Communities & Local Government, *Pensions Investment Review: Final Report*, 30 May 2025.

<sup>97</sup> Rt Hon Rachel Reeves, Chancellor of the Exchequer, *Letter from the Chancellor to the Chair of the Treasury Select Committee: Pensions Investment Review*, 29 May 2025.

<sup>98</sup> The Purposeful Company, *The Growth Trilogy: Purpose, Innovation and Growth*, January 2025.

<sup>99</sup> The Purposeful Company, *The Growth Trilogy: Purpose, Innovation and Growth*, January 2025.

growth.<sup>100</sup> Recent UK growth companies that listed in London have also struggled, with eight of the 33 companies that raised more than £100 million by listing in London in 2021 having since been sold, delisted, or fallen into administration.<sup>101</sup>

It is therefore vital that the UK's approach to mobilising capital towards productive investment incorporates public equity markets. Diminishing allocations to UK equities by UK pensions over the last decades have been a rational response to changes in accounting rules, regulatory requirements, the growing trend of globally weighted portfolios particularly for DC schemes, and the broader macroeconomic environment. However, given that this has resulted in an ever diminishing participation in UK equity markets, and an ever increasing concentration of assets in one jurisdiction, the US, it is increasingly necessary to question whether such an approach is sensible and prudent for UK pensions. In setting their investment strategy, trustees have a fiduciary duty to deliver the best risk-adjusted returns for scheme members, and the benefits of geographic diversification are vital.<sup>102</sup> Diversification however should be real diversification and not swapping concentration risks in one jurisdiction for concentration risks in another jurisdiction. Clarity in this duty is viewed as being key to addressing concerns about future retirement adequacy and to ensuring effective governance. Policymakers must be mindful of this while determining what course of action to take.

A helpful step forward would be transparency: the disclosure of allocations of assets to the UK should be clear. The Pensions Regulator (TPR) already requires DC pension schemes to disclose portfolio allocations, but there is work on-going which seeks to go further. This would involve DC pension schemes to indicate the level of asset allocations to the UK. Ahead of the Value for Money (VfM) joint framework, the TPR and FCA joint market-wide data collection exercise, which will include asset allocation information in workplace DC schemes, is a welcome step.<sup>103</sup>

While fiduciary duty remains the cornerstone of DC pension fund investment decision-making, fiscal incentives to savers can potentially play a complementary role in aligning investor interests with the country's broader economic priorities. In the context of the UK's ambition to channel more long-term capital into productive domestic assets, including UK public equities, there is a case for examining the tax system in shaping portfolio allocation decisions.

At present, structural features of the UK tax system may inadvertently disincentivise domestic equity investment. Addressing these distortions, such as SDRT could improve the relative after-tax returns of UK-listed equities for institutional investors. These factors, while often marginal in isolation, may cumulatively influence asset allocation decisions across the DC market. Such measures would not require mandates or asset allocation quotas but could

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<sup>100</sup> Centre for Business Research, *Selling Less of the Family Silver: Better UK innovation and industrial policies for economic growth*, July 2024.

<sup>101</sup> Financial Times, *A quarter of top companies in London's IPO class of 2021 quit stock exchange*, 13 June 2025.

<sup>102</sup> Bridgewater Associates, *Geographic Diversification Can Be a Lifesaver: Yet Most Portfolios Are Highly Concentrated*, February 2019.

<sup>103</sup> The Pensions Regulator, *TPR welcomes proposals to boost scale and value in the pensions system*, 4 March 2025.

shift the relative attractiveness of UK equities within the parameters of trustees' fiduciary obligations.

Beyond this, as the UK government explores mechanisms to mobilise the vast pool of pensions assets, it is imperative to couple such initiatives with a comprehensive and credible growth strategy. To ensure pension investment returns sufficient yields to provide adequate savings for retirement, the government must also focus on enhancing the attractiveness of UK assets to investors.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li data-bbox="459 647 1362 837">• The Pensions Regulator to require disclosure of asset allocation to the UK. Steps have already been suggested by the FCA within their value-for-money consultation. There may be opportunities to support the swift implementation of these measures so that they can assist with policy making.</li> <li data-bbox="459 853 1362 999">• Following on from the Pensions Investment Review, the government should consult on options to increase DC pensions investment in UK public equities, whilst recognising the fiduciary duties of trustees to act in the best interests of members.</li> </ul>
<b>Industry to lead</b>	<ul style="list-style-type: none"> <li data-bbox="459 1025 1362 1211">• Industry to consider adjusting default fund structures to geographically diversified funds with higher UK allocation, while enabling people to retain the ability to opt for alternative products, and while recognising the fiduciary duties of trustees to act in the best interests of members.</li> </ul>

## Removing fiscal disincentives for domestic investors to invest in the UK

Beyond capital availability, the UK's tax regime plays a pivotal role in shaping where businesses choose to start, invest, grow and list. Within capital markets, transaction taxes, most notably Stamp Duty on Shares (SDS) and Stamp Duty Reserve Tax (SDRT), are levied at 0.5% on UK share dealings. In this regard, the UK's tax regime puts the LSE at a competitive disadvantage to other major markets, since in Germany and the US there are no federal share-transfer taxes, and France applies just 0.1%.<sup>104</sup>

This creates a range of distortionary effects. Evidence suggests these higher rates dampen liquidity, especially in smaller-company stocks, leading to lower valuations, reduced access to growth finance and a less attractive listing environment.<sup>105</sup> Furthermore, SDRT places a disproportionate burden on retail investors, while institutional investors can use derivatives, contracts for difference, and American Depositary Receipts to gain exposure to UK shares without triggering SDRT. It makes it more expensive for investors, retail or otherwise, to invest in UK equities than international equities, which is contrary to the government's

<sup>104</sup> PwC, Worldwide Tax Summaries Online, June 2025.

<sup>105</sup> See for example: Institute for Fiscal Studies, *Stamp duty on shares and its effect on share prices*, June 2004; Oliver Wyman, *The Impact of the EU-11 Financial Transaction Tax on end-users*, January 2012..

ambitions. Moreover, because buy-backs incur SDRT, whilst debt does not, these levies magnify a structural “debt bias” that steers capital away from equity financing and towards borrowing.

Given the distortionary effects of SDRT, we would welcome a formal government review to explore options to remove it. While the government is understandably concerned about the fiscal cost of SDRT reform, there are a variety of options. Although it would be preferable to remove SDS and SDRT, an interim measure could include a targeted removal of SDRT on ISAs as part of efforts to increase retail participation. Since our recommendations would increase the volume of trading, this could be fiscally neutral.

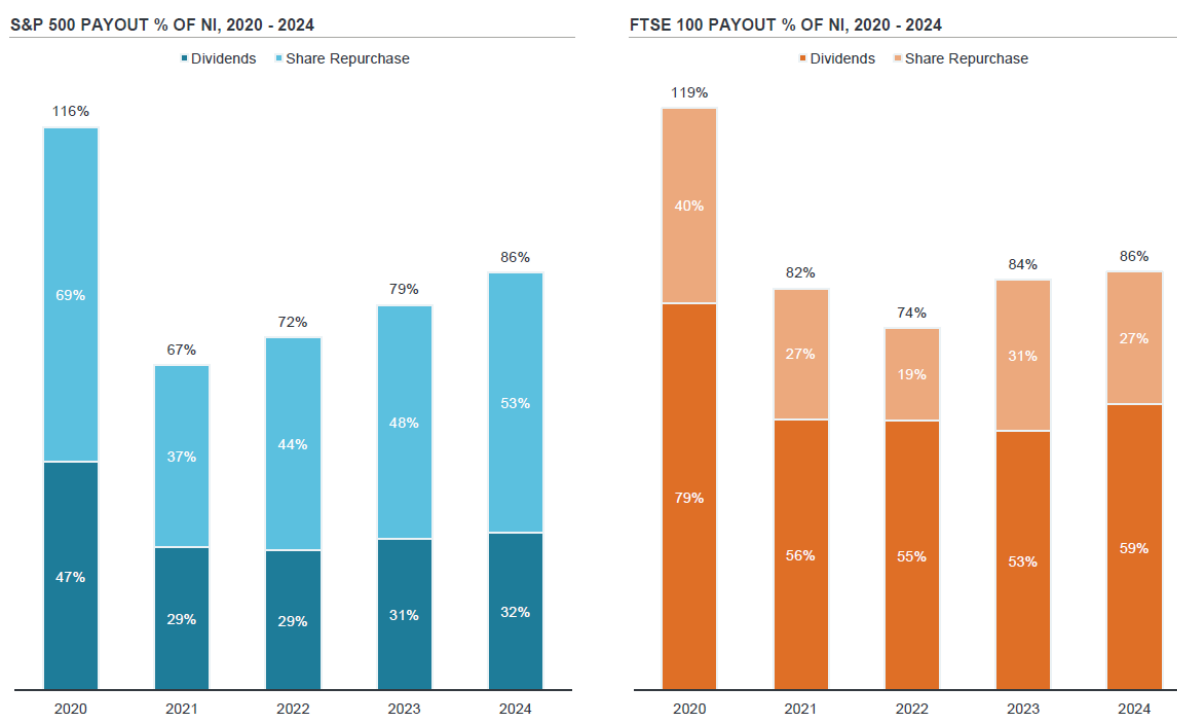
Type	Recommendation
<b>Government &amp; regulators lead</b>	<ul style="list-style-type: none"><li>• HMT to remove SDS and SDRT to ensure our tax system supports, rather than hinders, retail investors. An interim measure while working towards full removal could include a targeted removal of SDRT on share transfers into, within, and out of ISAs as part of efforts to increase retail participation, which would be relatively low cost.</li></ul>

### **Shifting the risk appetite of UK investors to focus more on investment for capital growth rather than dividends and share buy-backs**

Historically, UK investors and pension schemes valued equities primarily for their steady dividend flows, a preference particularly pronounced before DB schemes shifted heavily into bonds. As beneficiaries approached retirement, asset managers typically adopted increasingly cautious strategies, favouring income stability over growth potential. This historical legacy still shapes UK investor behaviour today, resulting in an investment culture more focused on dividends compared to other major markets.

This dividend-centric approach contrasts sharply with markets such as the US, where investors often prioritise companies' reinvestment of profits into growth initiatives. Between 2020 and 2024, the S&P 500 companies paid out an average of only 34% of their net income in dividends, compared to an average of 56% for FTSE 100 companies.<sup>106</sup>

<sup>106</sup> J.P. Morgan Cazenove analysis of FactSet and Bloomberg data.



Source: J.P. Morgan analysis of FactSet, Bloomberg; Members as of 12/31 of a given year end and includes all cash dividends paid; S&P 500 and FTSE 100 constituents as of Dec 31 in each year and excludes financial and investment funds companies; 2024 based on LTM as of Sep 30, 2024.

The UK’s strong preference for dividends has several underlying drivers. Historically, DB pension schemes favoured steady dividend flows to match predictable liabilities, embedding a cautious, income-oriented culture among institutional investors. Regulatory requirements, such as solvency and liability-matching rules, have reinforced this conservative stance. This is exacerbated by a lack of deep capital pools, and, combined with insufficient incentives or guidance from regulators and policymakers, has further entrenched dividend-driven investor behaviour.

It should be noted that consultation on this topic yielded mixed views, and consequently, policymakers should proceed cautiously. Increasing corporate reinvestment would bring many benefits, particularly as it would lead to increased research and development expenditure, which tends to be concentrated domestically.<sup>107</sup> Nevertheless, there remain benefits to strong dividend streams (e.g. for pensioners requiring a steady income).

It is understood that DBT explored options in this area under the previous government but never proceeded to a full consultation. Consequently, we would recommend that the government launch a consultation to explore options to increase reinvestment by UK listed companies, allowing for engagement with corporates as well as actors throughout the investment chain.

<sup>107</sup> Belderbos, R., Leten, B. & Suzuki, S. *How global is R&D? Firm-level determinants of home-country bias in R&D.* J Int Bus Stud 44, 765–786 (2013).

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"><li>• HM Treasury (HMT) or DBT to launch an exploratory consultation on options to increase reinvestment by UK corporates, considering both dividend preference and share buy-backs. This could be linked to the later recommended review on PIPEs, which give an opportunity for wide market engagement on capital efficiency.</li></ul>

## Strengthening the IPO pipeline

### Making public capital more competitive

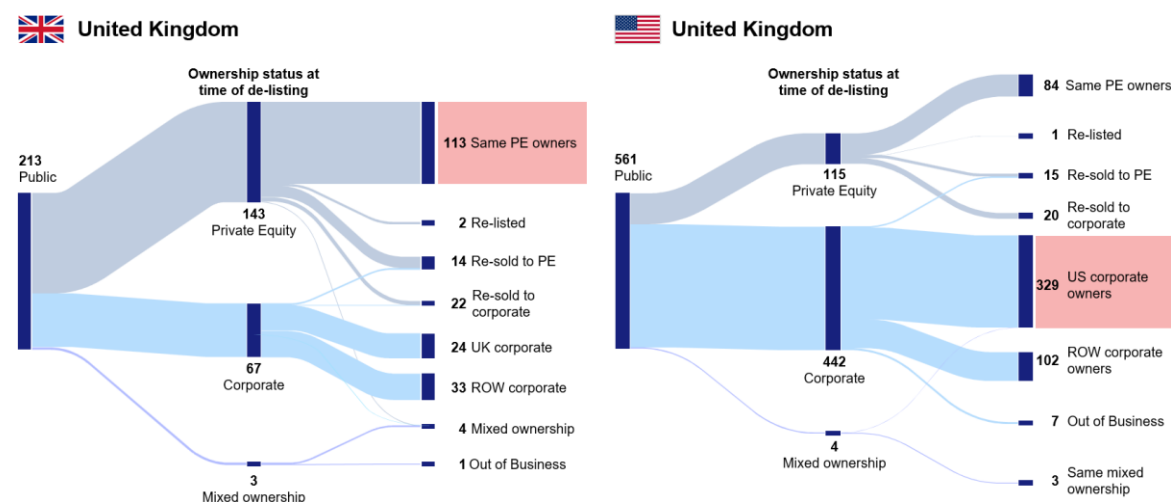
One of the most profound shifts in recent years has been the growth of private equity and debt globally. Private equity, venture capital and private debt markets now provide companies with abundant capital without needing a public listing. This trend has delayed IPOs, as companies can stay private for longer, and fuelled a wave of public-to-private transactions. The UK has been particularly exposed to this latter shift, while the former has resulted in British scale-ups leaving the UK for the US, where post-Series B financing tends to be larger.

Though this is a global phenomenon, the implications are far more pronounced in the UK than the US and Europe. From 2012 to 2024, US public equity market capitalisation increased by 196%, while private equity assets under management (AUM) increased by 277%. The corresponding figures in Europe were 142% for public markets and 221% for private markets. Meanwhile in the UK, private markets increased by 160% and public markets decreased by 25%. This shows that the growth of private capital has been a global phenomenon, is more pronounced in the UK, and public capital has struggled to remain competitive.<sup>108</sup>

A significant part of this divergence is due to the higher rate of public-to-private transactions in the UK compared to the US, with a larger share of UK firms remaining private for longer. Of the 213 UK companies that delisted since 2016, 67% (143 companies) were acquired by private equity through take private deals. Most of the remainder were acquired by corporates through M&A. In contrast, in the US, only 20% of 561 delistings were take-privates by private equity. Moreover, many (329 companies) of the US corporate acquirers were themselves publicly listed, meaning the acquired firms stayed within public markets. This has driven a decapitalisation of UK listed equity markets.

<sup>108</sup> J.P. Morgan analysis of World Federation of Exchanges, individual exchange reporting, and S&P CapIQ Private markets data as of Feb 2025; Note: 2024 represents as of June 2024.

**Ownership status of large companies that delisted via privatisation (take-privates) since 2016, as of May 2025<sup>1</sup>**



<sup>1</sup> For US, considers large companies with valuation >\$100M at point of delisting

Source: PitchBook; Press search.

The UK’s deep private capital markets could strengthen public markets by generating a pipeline of IPO-ready businesses when the time comes to exit. Currently, 113 companies remain under the same PE ownership as when they delisted, suggesting that some may be ready for or approaching an exit. To support more integrated public-private markets, policymakers and market participants should consider how to encourage a meaningful share of these companies to relist in the UK. Given that exiting is central to PE’s value model, it may be possible to align incentives based on mutuality, to the benefit of PE owners, future investors, and companies.

This could be complemented by making the IPO process more efficient and attractive for prospective issuers. IPOs are time-consuming, costly, and uncertain. The lack of tax deductibility for IPO expenses reduces the net proceeds retained by companies and may deter listings. Allowing such costs to be tax deductible could improve incentives for companies to raise capital through public markets. Complementary reforms to SDRT would also support this objective by enhancing post-IPO liquidity.

Beyond this, there may be scope to improve the capital efficiency of public companies through greater leverage tolerance and increased use of private investment in public equity (PIPE) transactions. The PIPE market is rarely used in the UK but plays a significant role in the US, where it accounted for \$261bn in 2024, or 15% of total equity issuance excluding special purpose acquisition companies.<sup>109</sup> The UK’s robust pre-emption rights regime has traditionally been a key challenge for executing PIPEs, and there are clear benefits to strong shareholder protections for UK public equity markets. While PIPEs are unlikely to become widespread, combined with reforms to the prospectus regime, it may increase the availability of flexible and strategic financing.

UK listed companies have historically operated with lower levels of leverage than their US counterparts. In 2024, the median debt-to-EBITDA ratio stood at 2.2x for FTSE 100 firms compared to 2.7x for companies in the S&P 500, reflecting a more conservative corporate finance culture in the UK.<sup>110</sup> While lower leverage may contribute to financial resilience, it

<sup>109</sup> J.P. Morgan Cazenove analysis of Dealogic as of Feb 2025.

<sup>110</sup> J.P. Morgan Cazenove analysis of FactSet, Bloomberg as of Nov 30, 2024; Note: Constituents excluding Financials as of Dec 31 of each year. Median leverage as of Dec 31 of each year, except 2024 which is as of Sep 30, 2024

may constrain a firms' ability to maximise capital efficiency. A modest shift toward greater leverage tolerance, especially for firms with stable cashflows, could support higher growth potential across the UK corporate landscape. Further, it may also be relevant in the context of reintroducing companies to the public markets following private equity ownership. This area is unlikely to be an area for government-led reform, but rather changing market practice.

To strengthen public capital markets, policymakers should consider three reform area. Firstly, make IPO processes smoother and more cost-effective. Secondly, conduct targeted market engagement to understand potential regulatory or policy barriers that prevent privately held companies from returning to public markets. Finally, explore reforms to improve capital efficiency, such as higher tolerance of leverage or private investment in public equity (PIPE) structures, which enable companies to receive and access funding faster than through traditional public offerings.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"> <li>• Consider reforms to make IPO costs tax-deductible, incentivising firms to undertake IPOs and increasing the net proceeds available for reinvestment and growth.</li> <li>• Conditional on sufficient market interest, the government, in collaboration with the FCA, should conduct a targeted review to identify regulatory barriers to PIPEs, assessing whether targeted policy reforms could remove unnecessary barriers to PIPE transactions, while continuing to protect shareholders. This could be conducted in conjunction with the proposed review into corporate reinvestment. As no prospectus is required on a PIPE where the PIPE Issue is less than the admission prospectus threshold and is made to institutional investors, it is helpful that reforms envisage that the admission prospectus threshold will increase in 2026 (up from 20% of issued share capital) and will exempt offers to existing shareholders.</li> </ul>
<b>Industry to lead</b>	<ul style="list-style-type: none"> <li>• CBI, with support from HMT and BVCA, to conduct market engagement to identify and address policy and/or regulatory barriers preventing privately held companies from returning to UK public markets.</li> </ul>

## Rebalancing stewardship

### Adapting governance practices and rules to reflect the significant growth in passive funds

Beyond capital flows, passive capital represents a profound change in the corporate governance and stewardship dynamics in public equity markets. While passive funds offer a low-cost means by which investors can access the market, they also risk diluting the incentives for deep engagement, potentially leading to less effective corporate governance.

It should be emphasised that passive funds bring a very wide range of capabilities, particularly in terms of their ability to engage with issuers. Some have the scale as well as active management funds running in-house, which allows them to apply effective governance across both active and passive funds.

However, effective stewardship is an expensive service for investors to provide, the public benefits of which often exceed the private cost. FCA analysis from 2019 found that there is little evidence to suggest that the rise of passive strategies materially distorts pricing or market efficiency. But it did underscore that the incentives of any single investor to invest heavily in stewardship are weak. This is because the benefits derived from stewardship are effectively a public good benefitting all investors via improved corporate governance, creating a classic free-rider problem.<sup>111</sup>

The increase in the proportion of funds invested in passive strategies is a structural and long-term trend that neither can nor should be reversed, but issuers have told us that the governance landscape has not yet evolved to this ‘new normal’. An investor who could neither buy nor sell stock unless they entered or left the underlying index, or changed their weighting in an index, was not a widespread model when “Comply or Explain” was introduced as a principle. While passive investment strategies offer low-cost diversified equity products and easy access to markets by retail investors, there is concern that the current arrangements in the UK may be calling into question the principle of “Comply or Explain”, creating a disconnect between boards and investors and therefore diminishing the relevance of the Code. To enable long-term decision-making, greater ambition, and more risk-taking, it is therefore important to improve the relationship between boards and investors in recognition of these changes.

In addition to this, there is a particular stewardship challenge for small and mid-cap issuers. While the classic free-rider problem of engagement is shared across all market capitalisations, it becomes especially acute for smaller companies, given that active managers often hold only marginal positions in them. As the expected benefit from successful engagement is so modest, and the cost of in-depth analysis and investor communication remains high, it is increasingly uneconomic for those managers to expend the necessary resources. This is exacerbated by smaller issuers’ limited investor relations capacity: if a proxy advisor recommends voting against management, this leaves little scope for a contextual explanation by the issuer. Larger firms, by contrast, have more robust investor relations teams and can more readily conduct the outreach needed to clarify any irregularities or mitigate proxy-advisor critiques. The resulting disparity not only constrains effective stewardship but can also undermine the UK’s attractiveness as a listing venue, as smaller companies may view a rigid voting framework and limited engagement opportunities as detrimental to their public market experience.

The FRC’s newly published Stewardship Code 2026 reflects these dynamics. It streamlines stewardship principles and strengthens expectations around engagement, particularly regarding proxy advisors. For the first time, proxy advisor signatories must now disclose how many of their clients are using customised voting versus standard ones. Meanwhile, the

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<sup>111</sup> FCA, *Research Note: Does the growth of passive investing affect equity market performance?: A literature review*.

Code’s revised “How to report” prompts reciprocal engagement between investors, proxy advisors, and companies.

Though these are welcome, we retain the view that the FRC should go further in promoting collaborative engagement between investors, proxy advisors, and issuers, particularly when investors or proxy advisors are voting a meaningful proportion of a company’s equity. This could involve ensuring that holders of more than 1% of a company’s equity engage constructively with a company if they intend to vote against a material board resolution. The proposed recommendations could be incorporated into the FRC’s guidance.

Type	Recommendation
<b>Government &amp; regulators to lead</b>	<ul style="list-style-type: none"><li data-bbox="459 647 1362 719">• Following publication of the Stewardship Code 2026, the FRC should update the draft guidance on the Code to:<ul style="list-style-type: none"><li data-bbox="507 734 1362 846">• Promote collaborative engagement between investors, proxy advisors and issuers, with all parties providing sufficient time and knowledgeable resource for reciprocal engagement; and,</li><li data-bbox="507 862 1362 1126">• Promote as best practice that where an investor or proxy advisor intends to vote against the recommendations of a board and is voting a meaningful proportion of a company’s equity, they will notify the board of their intention and the reasons for dissent in advance of voting and will also afford the board reasonable opportunity to engage constructively before any votes are cast.</li></ul></li></ul>

# Acknowledgements

In early 2024 the CBI launched its Listed Companies Project, the purpose of which was to give a voice to companies whose shares are listed on the LSE. Listed companies have the most direct interest in the success of the LSE, yet historically their views have often been less prominent in discussions.

The CBI has convened from its membership Chairs and C-suite representatives from over 30 quoted companies, 22 of which are listed in the FTSE 100, to participate in the Listed Companies Project. In the development of this publication, we would like to acknowledge in particular the contributions of Anglo American, AstraZeneca, Auto Trader Group, BAE Systems, Barclays, BP, BT Group, Centrica, Diageo, HSBC Holdings, International Airlines Group, International Workplace Group, Keir Group, Legal & General Group, Marston's, National Grid, Peel Hunt, Phoenix Group Holdings, PZ Cussons, RS Group, Schroders, Serco Group, Shell, SSE, and Sage Group. In delivering this work, we have been supported by McKinsey, JP Morgan Cazenove, and Clifford Chance. The report has been authored by Tom Maitland, and the project has been directed by Megan Bulford.

The objective of the project is to identify policies and actions that could be taken to reverse the decline of London markets in recent years and restore it to its formerly pre-eminent position. In developing this report, we took the following steps:

- **February to August 2024:** Developed and refined the project scope; formalised the CEO/Chair group; and identified necessary external expertise.
- **September to December 2024:** Publicly launched the CBI Listed Companies Group ahead of CMIT Conference 2024; conducted a problem diagnosis phase by undertaking research and analysis across issues identified during scoping; and tested initial findings with CBI Listed Companies Group.
- **January to July 2025:** Developed policy positions; refined analysis; drafted report through multiple iterations; and tested findings with external stakeholders.

This report outlines why the LSE matters to the UK economy and proposes a vision for UK public equity markets, before posing a series of policy initiatives that the CBI Listed Companies Group believe need to be addressed to help the UK's public equity markets thrive.

July 2025

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