News

Mansion House speech: Reforms to UK pensions and green light to PISCES – Implications for UK ECM

19 November 2024

On 14 November 2024, the Chancellor delivered her inaugural Mansion House speech, announcing plans to promote UK economic growth through reforms to the financial services sector. Most pertinently for UK equity capital markets, she announced reforms to:

- Financial regulation – the Government believes that the UK must move from regulating for risk to regulating for growth, competitiveness and investment.
- Pensions – the Government will consolidate the assets of the Local Government Pension Scheme into eight 'pension megafunds' and legislate for a minimum size and maximum number of defined contribution (DC) pension scheme default funds.
- Trading in private companies – legislation for the Private Intermittent Securities and Capital Exchange System (PISCES) will be introduced in May 2025. PISCES will enable secondary trading in private company securities.

In this bulletin, we take a look at these reforms and provide our views on how they might help re-boot UK equity capital markets.

Regulation – Regulating for growth

The Chancellor stated that the UK has been regulating for risk, but not regulating for growth. She noted that while it was correct to make regulatory changes in response to the Global Financial Crisis, such regulation has gone too far and resulted in a system which seeks to eliminate risk taking. While she acknowledged the importance of upholding international standards of regulation and protecting the stability of the financial system, the Chancellor emphasised the need to rebalance the regulatory approach and take forward the next stage of reforms needed to drive growth, competitiveness and investment. In that regard, the Chancellor has issued new growth-focused remit letters to the FCA, the PRA, the Bank of England's Monetary Policy Committee and the Payment Systems Regulator. The FCA has since responded to highlight that it is a "partner for growth" and supports the Chancellor's vision for achieving it.

Pensions reforms – scaling up to level up

The Chancellor announced that the Government will introduce a Pensions Schemes Bill in 2025. The bill will propose pooling the assets of the Local Government Pensions Scheme, which are currently valued at £350 billion and spread over 86 separate authorities, into eight Canadian- and Australian-style 'megafunds', and consolidating the workplace DC market. The Government expects these reforms will deliver around £80 billion for investment in critical infrastructure projects and businesses.

Local Government Pension Schemes

Government analysis (published in its Pensions Investment Review: interim report) highlighted that the fragmented nature of the UK's pensions landscape means that the small size of UK pension funds hinders their ability to invest capital in a diverse range of potential assets, which, in turn, limits returns. By consolidating assets split across 86 separate local authorities into eight megafunds, the Government believes the funds will benefit from the resulting economies of scale, generating greater capital for investment in a wider range of assets, at a lower cost. The Government believes this will increase returns, boosting individual pension pots and driving economic growth.

Each pension 'megafund' will be authorised by the Financial Conduct Authority, run by a professional fund manager and subject to rigorous governance standards. Local administering authorities will be required to set out their high level objective on local investment in their Investment Strategy

Statement, including a target range for local investment as a proportion of the respective 'megafund'. The Government is consulting on its detailed proposals and its proposed indicative timeline for the completion of pooling by March 2026.

For more detail on the proposals, see the consultation paper: Local Government Pension Scheme (England and Wales): Fit for the future.

DC pensions schemes

The Chancellor also emphasised the investment potential of the UK's DC pension schemes. According to estimates, around 60 different multi-workplace schemes are expected to manage approximately £800 billion of assets by the end of the decade. The Government will legislate for a minimum size and maximum number of DC pension scheme default funds to encourage the DC market to consolidate into fewer, larger funds that are better placed to invest in productive assets and deliver greater returns. The Government is also proposing new legislation to facilitate fund managers moving savers from underperforming schemes to those that deliver higher returns.

For more detail on the proposals, see the consultation paper: Pensions Investment Review: Unlocking the UK pensions market for growth.

PISCES – New trading platform for shares in private companies

The Government will legislate for PISCES in May 2025. PISCES is intended to facilitate secondary trading in the shares of UK and overseas private companies on an intermittent basis in a controlled regulatory environment. For more information on PISCES, see our briefing here.

The Government proposes to legislate for the regime largely as proposed in the March 2024 consultation by the previous Government – save for one key aspect where the Government has decided that PISCES should not be subject to a bespoke market abuse regime. Instead, the FCA will be given powers to create a new and bespoke disclosure regime for the platform. Under this regime, disclosures and pre- and post-trade transparency will be required to be shared with all investors participating in a PISCES trading event but will not be required to be made public.

To encourage participation, the Government recently announced that it will legislate to exempt transfers of shares on a PISCES platform (and for onward transfers to end purchasers which result from trading on a PISCES platform) from stamp duty and stamp duty reserve tax.

The new platform is designed to bridge the private to public gap for companies; providing them with a practical opportunity to diversify their shareholder base, engage with institutional investors, and enable secondary trading of their shares in a regulated environment for a short period. The Government hopes that PISCES will support a strong IPO pipeline in the UK.

Implications for UK equity capital markets

The factors behind the UK's ailing capital markets have been well-debated in recent times, with many market participants attributing poor performance to a combination of systemic issues in the UK's wider investment 'ecosystem'. These include, among others, the regulatory impediments in the UK listing and capital raising regimes, a risk averse investment culture, shallower pools of domestic capital for investment in equities, the lack of high quality investment research in certain sectors and a perception of higher liquidity and valuations offered by US markets.

Past and present Governments, together with regulators, have sought to address regulatory impediments and investment research through various workstreams, including the introduction of the FCA's new UK Listing Rules in July 2024, the new public offers and admission to trading regime, and the work undertaken to implement the recommendations of the Secondary Capital Raising Review and the Investment Research Review.

Regulating for growth, not risk is a prominent theme underlying the Chancellor's Mansion House reforms. While acknowledging that regulation provides important investment protections, the Chancellor noted that it has at times been disproportionate, citing the Senior Managers and Certification Regime as an example of being 'overly costly and administratively burdensome'. It remains to be seen what form "regulating for growth" will take in the context of the UK's capital markets and how much of a cultural shift the Government's reforms can invoke in the UK investor community. What will be important is that the appropriate balance is struck between investor protection and regulation for growth as properly regulated markets have historically proven to improve outcomes.

PISCES is expected to provide private companies with an innovative opportunity to raise their profile and diversify their investor base for a short period, while facilitating shareholder liquidity. Its intended introduction signals the Government's belief in the utility of an intermediate capital raising framework for private UK companies in light of the increasing amount of time that companies are spending in private ownership. There is, however, a risk that the success of the platform might be counter-productive - with some commentators concerned that PISCES provides companies with a 'comfortable' alternative to going public sooner. PISCES will operate in a sandbox regulatory environment for five years, during which time the Government will consider how to legislate to make PISCES a permanent feature of the UK regulatory regime if the platform is deemed successful.

Another factor cited as significant to the decline in UK equity capital markets is a perceived aversion to risk in the UK and resulting lack of capital being deployed into UK equities by institutional investors (including insurance and pension funds) and retail consumers. The reforms to the pensions industry are hoped to tackle this issue in part – particularly if they are successful in unlocking greater capital investment in UK-listed companies in the long term. While the Chancellor has not mandated that pension megafunds invest in the UK, they should now have greater capacity to do so, although the tension to balance investment risk with the interests of its fund beneficiaries remains. However, lower risk appetite is driven by many complex issues including changes to investment strategy in funds (particularly, by defined benefit schemes required to meet short term pay-out timeframes for an ageing population), regulatory pressure to diversify and de-risk by pursuing global allocation of equities, frictional cost of share transfers (through stamp duty tax costs) and a lack of financial awareness within UK households. The outcome of the second phase of the Government's pensions review on retirement adequacy to be launched later this year and the separate ongoing policy development with respect to defined benefits schemes will also have an impact – and are likely to form an important component in collective reforms to ensure that the UK's investment ecosystem is fit for purpose.

If you would like to discuss any aspect of the Chancellor's Mansions House speech or the impact of the reforms on the UK's equity capital markets, please get in touch with your usual contact at Hogan Lovells or one of the listed contacts.

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