



Owners without a cause?

Genuinely re-empowering shareholders is key to rejuvenating investor enthusiasm for UK public markets, says **Jon Moulton**

I'm sad to say that we are witnessing the UK stock market's steady decline. The latest statistics show that at the end of August the value of companies on the London Stock Exchange came to \$3.42tn, putting it just behind the National Stock Exchange of India – \$3.5tn. AIM struggles to find any enthusiasm from investors or companies. And it seems that going privates are the strongest transaction theme for the immediate, perhaps the foreseeable, future. I hope my prediction is wrong, but stockbrokers are struggling with the tiny volume of fundraising transactions, and IPOs really are very rare. It gives me no pleasure to report on this trend.

I am close to despair that many of those who possess influence in the financial markets think they have solutions to this concerning decay of the stock markets. There have been a number of lurches to very minor liberalisations, which invariably – and at a snail's pace – add 20-30 pages to the rule books and, on balance, probably result in further decline.

Complex matters

Received wisdom is that more complex and expensive regulation makes things more attractive for investors. But the steady growth in private markets seems to have passed these souls by.

It's probably worth me explaining at this point that I am not commercially insane. I have reached an age and position such that I can risk a midnight raid from the Financial Conduct Authority (FCA) and can therefore write freely. And I must apologise that I can only cover a tiny bit of an organisation so large that *The FCA Handbook* costs £3,823.05. The irrational precision of that pricing is maybe a clue as to the behaviour to expect from this organisation. It has recently been seriously criticised in a report by the All Party Parliamentary Group on Investment Fraud and Fairer Financial Services. Particularly juicy quotes include "not fit for purpose" and "incompetent at best, dishonest at worst".

My contacts with the FCA have been unreasonably slow and mostly 'tickboxing' exercises, and they have been about as enjoyable to deal with as a tooth extraction. That said, a tooth extraction has a pretty definitive outcome. But as the years pass, the FCA's

rules have grown ever larger and its language ever more convoluted. Reading its rules is far from easy and no living soul could master the full body of its regulation.

More focus

Over time, the FCA has chosen and to some extent been pushed in a social and political direction. It now sees social mobility and diversity as central objectives and its publications have blown up thereafter. It's actually quite a stretch to include social mobility and diversity in either the FCA's statutory objectives or its 12 principles. You could readily imagine that such objectives might deserve a different skill set and organisation than fixing bank capital requirements. But the FCA does it all, or at least sets out to try to do it all. The FCA now has a growth agenda, but not much seems to be happening.

A smaller FCA with a less ambitious, more focused set of objectives is appealing. I think this would go much further in achieving a growth objective.

I now risk attracting much abuse, but here it comes. Most investors, above all, want companies to make money. However, given the political environment, they are increasingly less likely to express that sentiment, or certainly not in such unsophisticated terms. I am not in any way opposed to companies that want to do some form of good by doing just that. If the shareholders want to donate to charity or generously remunerate and benevolently train staff, then that should clearly be open to them. But let the shareholders vote on it.

Virtually no-one reads much of the environmental, social and governance, five-page audit reports and social content of today's bloated financial reports. In my view, companies should be open with shareholders about the costs and let them vote on whether they want to incur the expense of these 'extras' or not. Similarly, if shareholders want to appoint a CEO as chair on a fat multi-year contract they should be allowed to do so.

Owners should be allowed to govern. I really think this would perk up our stock markets. The US is already moving, and will move more, towards less regulation in the Trump era. Where America goes, we often follow – but we should make sure we are ahead of our curve and not continuing to drag behind.

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