Jon Moulton's Diary

Regulations around public companies have contributed to squeezing out private investors

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

Generally, the UK stock markets are going backwards. The number of listed companies, full or AIM, is in long term decline.

The main market has declined over the past decades with trading volumes down about 40% in the first four months of this year compared to last year. The AIM is down to 800 companies – it peaked at 1,347 companies in 2007 while volumes of trading have been awful recently. The first five months of 2023 had six new issues raising £39m. Being an AIM based stockbroker is hard at these levels. The LSE has not adjusted the significant figures used in its own reporting to fit the new world of smaller numbers – it quotes transaction sizes to one-tenth of a penny.

Over the years we have progressively made new issues much more highly regulated. I can remember prospectuses in the 1980s that were a dozen pages long and featured nice pictures and quite a bit on reasons to invest. You could fairly cheaply do a proper public (human applicants!) issue with half a page in a daily newspaper. Scandals and corruption were no worse than they are today.

Compare and contrast the useless and almost totally unread modern version. Risk factors dominate the offer document, and you will struggle to ascertain much about the business and its prospects. An AIM listing document is about 100 pages – bizarrely it is often considered that individual investors cannot even access these documents after listing without agreeing to a long "hold harmless" agreement – so much for disclosure. Main market documents can be even longer. Private investors will not read this stuff.

The attitude of our regulators is nicely illustrated by the recent, catchily titled, FCA publication *Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms*. It contains a CBA (cost benefit analysis) outline that is remarkable for its failure to value the benefits of the proposals. Just costs.

Sets of accounts grow ever larger and less read. In 2014, the FRC published a guide on conciseness in annual accounts. They praised Prudential for reducing its pagination to 379 in 2013. In 2022 they published 456 pages. The tide is relentless.

The growth in the size of IPO documents has placed bigger barriers in the way of individual shareholders

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This is all down to ever increasing regulation: some from Europe – Mifid 1 and 2, prospectus directives, elaborations; and further regulations from UK regulators – a greatly extended Takeover Code, corporate governance codes, statute (eg modern day slavery), increased accounting standards and the full width of ESG and diversity structures and reporting.

The lawyers love it – they largely write the non-accounts documents, which explains the turgid, repetitive and complexly composed text. It is perhaps a blessing that so few attempt to read these documents. Certainly, private investors will not.

The Takeover Code was an excellent example of clever and short principles-based regulation when launched in 1968. It is painful to see it bloated to 428 pages – which inevitably means that there are loopholes galore being sought and the costs of transactions growing ever greater. I really doubt that 400 of its pages actually have utility. Most people can see unfairness, and apply principles, far better than any text can cover.

New issues and placements rarely provide decent access to investing for private investors in the UK. Given the loss of accessible research post Mifid 2 for many companies, particularly for smaller companies, individuals struggle to get any information.

In practice institutions get direct access to management who, in the privacy of one-on-one meetings, frequently provide data not available to private investors – whatever the rules say.

In a highly regulated world, most companies and brokers regard individual shareholders as a bit of a nuisance. Which begs the question – does this discarding of individual shareholders matter?

This is actually largely a political question – does making part of the public feel like owners of industry do good? Mrs Thatcher thought so but others clearly are less clear on the issue.

The regulators' view is apparently – "Let them eat pooled funds!"

We need radical reforms to get the UK stock markets back into robust growth.

I'm not optimistic.

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