# The Investment Association

## Response to the Financial Services Growth and Competitiveness Strategy

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# Executive Summary

The Investment Association (IA) is the trade association representing the UK's world-leading investment management industry. The industry strongly supports the government's search for growth, and it is our industry that can power that ambition.

Britain needs investment to grow. Investment makes us all richer over time: Individual households can build their financial security by owning a stake in thriving businesses, and the wider economy is pushed forward by the improved productivity that investment can unleash.

Investment management was a major driver of the UK's economic growth and modernisation in the late 20th century. A combination of deep domestic pools of risk capital and increasing global attractiveness for a wide range of international players resulted in one of the most diverse investment management eco-systems anywhere in the world.

A key challenge today is how we can re-invigorate this environment, ensuring the UK is a highly attractive location both to invest in and from. We have had too little investment for too long. The practical problems this causes are becoming all too evident. For example, despite almost identical population sizes, the UK has under 30 million homes, while France has around 37 million. Britain has not built a nuclear power station since 1987, leaving the country vulnerable to shocks in global energy prices. Just 38% of British railways are electrified, compared to 71% in Italy, 61% in Germany, and 55% in France. The figure for India is a massive 94% after a 10-year rail investment programme.[1]

Two fundamental changes are needed to put this right:

- Britain needs to move beyond warm words about investment, and put in place concrete changes to planning, business, and tax policies to make the UK the destination of choice for investment – both international and domestic.

- We must enable better use of risk capital, both from institutional investors such as pensions schemes and from unproductive savings accounts through an inclusive investment strategy which puts households' savings to work. It is estimated by Barclays that there is £430bn of UK consumer savings, held in cash by 13 million individuals that could be invested[2].

While some levers are more clearly in the hands of Government, a new partnership between Government, regulators and industry, as part of the modern industrial strategy, is needed to help deliver this more dynamic environment. Some aspects of this are already under way. The recognition by the authorities of the dangers of 'safetyism' and the need for a new approach to risk-taking will help the industry support investors to make better provision for their financial futures, without compromising high standards of customer

[1] https://ukfoundations.co/
[2] https://home.barclays/insights/2024/09/are-there-uk-savers-who-could-become-investors

protection. 'Sophisticated scale' in the pensions system will also help unlock investment for some parts of the domestic economy, notably through access to private markets.

Britain's low productivity levels caused in part by underinvestment are a historical exception: for centuries we have been more far productive than comparable nations and the first to implement major reforms when that position began to slip. Now is the moment we need to reinvigorate how we connect pools of international capital with UK businesses. If we do not do so, there is a serious risk of backsliding, hitting not just our relative global position but the prosperity of ordinary people around the country.

As we look ahead to the transformative potential of technological change, there is also a more ambitious prize. The UK has a unique advantage in that it is the most global investment management centre with unrivalled skills and expertise. However, in order to maintain and take advantage of this unique position, we need to transform to become the **world's leading digital centre for investment management**, underpinned by an effective regulatory regime, an unrivalled talent pool, and a particular edge in green finance. This would deliver:

- A new **culture of inclusive investment** empowering ordinary people to access the capital markets and improve their financial resilience.
- More **attractive and efficient capital markets** that can attract more capital and more easily channel those savings to the businesses and infrastructure projects which power the economy.
- A **renewed sense of dynamism in the UK investment management sector** that will help drive both domestic delivery and wider international competitiveness

This is crucial. Today, investment management sits at the heart of the UK economy, but the world is moving on. There is a prize to be seized if we choose. But if not, we risk not just missing out on new rewards but also losing our current advantages.

In total, Investment Association members **manage £10.5 trillion** for savers from the UK and around the world. The money we channel into the UK economy funds thriving businesses and the infrastructure programmes that growth depends on. Our expertise and reputation for excellence make the UK the most international investment management centre outside the US and larger than the next three European centres combined. This means that we are responsible for **6.7% of the UK's service exports.**

This is a thriving sector, already underpinning the UK's economy:

- As an industry in our own right, we are a core driver of exports, tax revenue and good jobs.
- We are the lynchpin of the UK's wider financial services expertise.
- We are the engine of growth for businesses and projects across the economy.

But our continued growth is not linear, nor is it guaranteed. Like many other sectors, growth in investment management has stumbled in recent years. The sector is changing at lightning speed, thanks to developments driven by the industry and broader economic and social realities.

We are therefore thankful that asset management has been identified individually as a priority growth opportunity within Financial Services alongside the sectors that are intrinsically connected to this—fintech, sustainable finance, and capital markets (including retail investment). These areas can all be supercharged to make the UK the leading global centre for digital asset management.

With focused effort from government and industry, in the next 10 years we have an ambition to:

- **Increase our export earnings by nearly 50% from £11.7 billion to £15 billion a year.**
- **Increase to 75% (from 23%) the proportion of the UK population who hold an investment product, matching the number who hold a cash savings account today.**

Getting this right will support not just the investment management sector, but the whole economy.

## Section One:
## Investment management powering growth across the economy

This section provides background information on the role the investment management industry plays in generating growth across the economy, putting in context our answers to the specific questions asked.

### Investment management's own role in growth

UK investment management is a growth powerhouse. Assets under management in the UK, the key measure of the industry's scale and global success, have grown from £5 trillion a decade ago to £10.5 trillion today.

This allows the IA's 250 member firms to support over 120,000 jobs across the country, mostly in highly skilled professional roles. More than a third of these roles are outside London, with a particularly important cluster in Edinburgh.

The UK's investment management industry is one of the strongest, and by far the most international, in the world. It is second in size only to the US, and with £10.5 trillion managed in the UK it is larger than France, Germany and Switzerland combined. This is in large part thanks to the UK industry's global focus. Savers and investors from around the world look to us to help them to secure their financial futures. Almost half of the money managed here in the UK is on behalf of overseas clients, up from 38% a decade ago.

Our expertise in the UK makes our country a natural home for Australian savers looking to manage their money. Australia's largest pension scheme, AustralianSuper, which manages assets on behalf of 1 in 10 Australians, chose to establish its European base here in 2016. AustralianSuper investments in the UK include the London King's Cross development and Heathrow Airport, and they plan to invest a further £23 billion in the UK and Europe over the next 5 years.

This helps the UK economy in a very direct way. Investment management is responsible for **£11.7 billion of net annual exports, 6.7% of the total export of services from the UK.** The opportunity for the industry to export its services globally benefits the UK directly as it boosts tax revenue, provides high-skilled jobs based in the UK and encourages more overseas firms to trust the expertise of UK investment managers when it comes to looking after their money.

This also gives the UK an essential voice in the global financial system. It helps British policymakers and regulators lead the setting of high global regulatory standards that safeguard financial markets in our highly interconnected economy and makes it easy for companies to trade across borders. It also enables the UK to lead international collaboration on issues such as setting professional standards, making it straightforward for British citizens and companies to work and do business worldwide.

## Underpinning UK financial services

The UK's world-leading financial services sector cannot exist without underpinning from a thriving investment management industry.

Without a strong buy-side, there is a weak incentive for the sell-side (the firms that issue, sell, or trade securities, including investment banks and advisory firms) to locate in the UK. The cluster effect of these firms working together is strong and should parts of the buy-side build strength outside the UK, it is likely the sell-side would follow.

A strong buy-side is also crucial for the strength of the UK's capital markets, including our ability to attract innovative, high-quality, high-growth companies to list on UK markets.

These companies want to list close to where their investors are. Important steps have been taken in recent years to prevent the UK's public markets from losing ground, including the Listings Review. But more needs to happen if the UK is to retain and build on its place. This should include removing tax anomalies that hit the UK's competitiveness and embracing tech change, covered in our answer to question 5.8. So too must we recognise the growing importance of private markets as companies stay private for longer. Investment managers are increasingly supporting customers of all types to access the returns on offer here.

Our strong capital markets are key to economic dynamism: end investors such as people with pensions or stocks and shares ISAs benefit from innovative, high-quality, high-growth companies finding growth capital in the UK. And perhaps more fundamentally, it boosts growth across the economy. Companies often shift their centres of gravity to their listing location: not just head office and financial functions, but over time the teams that create value and generate jobs. We are therefore glad that government recognises the importance of strong UK capital markets.

In addition to the general financial services cluster, investment management has a particularly strong role to play in boosting **FinTech**. Investment managers are key investors in FinTech. However, in addition, FinTech is having a transformational effect already within investment management firms. Advances include AI and machine learning algorithms enhancing predictions and tailoring investment strategies, and blockchain technology enabling the decentralised and secure management and tracking of investments. Looking further ahead, Quantum Computing has already started to be used in our industry. It has the potential to revolutionise algorithmic trading strategies, improve risk management and analysis, and level up data analysis capabilities for investment managers.

This inflection is leading to rapid growth in the scale and economic impact of the UK FinTech sector which has erupted to service investment management. The IA's own FinTech accelerator, Engine, alone is actively supporting 150 buyside-focused FinTech companies, and has built a network of 14 hubs globally, centred on the UK.

In November 2024 a Memorandum of Understanding was signed between the Investment Association and the New Jersey Economic Development Authority, backed by the New Jersey Governor Phil Murphy, to strengthen connections on FinTech developments in London and New Jersey. New Jersey, as the host of much of the operational activity supporting New York's financial hub, is a key market for FinTech development, and the Memorandum of Understanding will support co-operation with this key market in a practical way.

## Powering wider economic growth

Investment management is crucial to the UK economy as the industry directs people's savings towards businesses and projects looking for the finance needed to expand, develop new products and create new jobs. **IA members invest £1.4 trillion in the UK economy** through productive investments such as company shares and bonds, and infrastructure projects. People's savings are channelled towards businesses and projects looking for finance through capital markets.

Schroders Capital, part of the wider Schroders Group, has received £500mn from the UK Government and fellow IA member Phoenix Group as part of the Long-Term Investment for Technology and Science Initiative. This important public/private partnership will fuel growth in the UK's innovative tech and life science sectors while enabling pension savers to access these critical growth opportunities.

Just as government has identified growth sectors in the wider Modern Industrial Strategy, investment managers are constantly searching for sectors which will thrive over the longer term. Here, our interests are aligned in seeking to understand where growth will come from in the future. It is then the role of investment managers to channel funds into those businesses in which we see potential. Examples of how we do this are throughout this document.

Royal London, in partnership with British Land, has invested £385 million to build a world-class science and innovation centre within London's Knowledge Quarter in Euston. This provides brand new labs which will help Britain's leading scientists to deliver the innovations we need to drive the UK's economic growth.

Strong capital markets allow the UK to unlock the potential of businesses based here and attract growing businesses from around the world, which have long looked to the UK as a source of the finance they need to expand. These businesses provide jobs, contribute to the UK tax revenue, and spread wealth by giving investors around the UK the opportunity to invest in successful businesses.

M&G, alongside the UK Infrastructure Bank, has invested £40 million into Pragmatic, a world leader in semiconductor innovation, headquartered in Cambridge. They produce ultra-low-cost chips with a wide variety of innovative applications across multiple sectors. This investment will enable Pragmatic to scale-up its County Durham based factory and build two new production lines.

The UK’s capital markets have thrived for centuries, but we need to make sure that we continue to be competitive with other markets such as the US. To do this the financial services industry must keep providing the products people need and deliver high standards of service. Government and regulators also have a part to play in establishing a legal, policy and tax framework which fosters innovation, supports investment and makes the UK an attractive destination to do business.

Investment management will play a core role in providing the tens of billions needed to **finance the net zero transition**. Investment management requires taking a long-term view because we are managing money for people who are looking to provide for their future financial health – such as through their pension – and may not need the returns on their investment for many decades. Taking a long-term view means investment managers must think about resolving long-term threats such as climate change and target investments accordingly. Our industry, therefore, has a vital role to play in financing the transition to a cleaner and greener economy.

We support government goals to decarbonise the economy by investing in low-carbon projects. We also encourage the companies we invest in to consider and report their environmental impact. The Climate Change Committee estimates that an additional £50-£60 billion of capital investment will be required every year over the next decade to deliver the UK’s net zero ambitions.

Our industry is playing its part by allocating capital to companies and projects leading the transition and supporting programmes such as the UK Green Gilt. This allows institutional investors to buy a government bond (also known as a gilt), specifically used to fund renewable energy projects, energy efficiency tools and the development of clean transport.

Border to Coast, one of the UK’s largest Local Government Pension Schemes, has invested £114 million into six green energy projects, which include the Outer Dowsing offshore wind farm off the Lincolnshire coast. The wind farm has the potential to power over one million homes by 2030, and the return on investment will finance savers’ retirements.

The Global Green Finance Index confirms the UK already leads the world in green finance thanks to the money invested here in clean projects, and the expertise available in sustainable finance. Continuing to improve access to responsible and sustainable investment opportunities will not only drive long-term economic growth, but it will also allow UK investors to contribute to the planet’s environmental well-being and play a role in adapting to climate change.

**Background: our role in the pensions market**

The Investment Association's members include a broad range of those managing money for UK pension schemes and pension savers:

- Domestic and international investment managers providing products and services to Defined Benefit (DB), Defined Contribution (DC) and personal pension schemes, including retirement income portfolios.
- Occupational Pension Scheme (OPS) firms that are in-house investment management entities for several corporate OPS.
- Local Government Pension Scheme (LGPS) pool companies.
- Wealth managers and platforms operating more directly with the retail market.

These managers invest over £2 trillion for UK pension schemes in a range of public and private markets, including infrastructure, in the UK and across the world. They are also significant holders of government debt.

In the context of the ongoing Pensions Review, we support the emphasis on scale as a key enabler of efficiencies and investment diversification. As this is developed, we believe it should focus on the concept of 'sophisticated scale', as size alone will not set schemes up for investment success. Scale must be accompanied by the requisite expertise and effective internal and external management.

**Question 3.1: Do you agree with the proposed objectives set out in paragraph 3.6?**

The objectives set out in paragraph 3.6 are sensible and will support financial services in playing its fullest possible role in wider economic growth.

One further objective should be added, ensuring that the UK **has a fully inclusive investment environment which enables the broadest range of people possible to confidently invest to grow their long-term financial security.**

High levels of financial confidence and understanding are needed now more than ever, as the rise of Defined Contribution pensions and the Pension Freedoms means that ordinary people have immense amounts of responsibility for their later-life prosperity. Too many people don't have sufficient rainy-day savings. But many people do. Over 15 million adults in the UK have investable assets of over £10,000, but more than half of these people have at least three-quarters of these assets in cash.[3]

Research from IA member abrdn shows that three-quarters (74%) of British adults are savers outside of their pension, but for most this simply means keeping their money in cash. For those investing in listed company shares (19%), four people in 10 do not use an ISA tax wrapper. Only 11% of adults are investing in funds or investment trusts, which diversify risk, but ISA take up is much higher in this group (81%)[4].

[3] https://www.fca.org.uk/publications/financial-lives/financial-lives-survey-2022-key-findings
[4] https://www.abrdn.com/en-gb/corporate/savings-ladder

This means that they are missing out on the potential investment growth while being exposed to the detrimental impact of inflation. If these consumers had put £10,000 in a cash ISA a decade ago, it would be worth less than £8,500 today due to inflation. If they had *invested* that same £10,000, for instance in a Global Equity Fund, they would have over £18,000.

In addition to the impact on household finances, this also means that the economy is missing out on the capital that could be channelled into businesses and infrastructure programmes.

We must end the sense that investing is 'not for people like me', which often entrenches existing economic inequality. For instance, September 2024 research by the IA shows that only 14% of women hold a stocks and shares ISA, compared to 26% of men. Research by Boring Money found that the gender investment gap in the UK stands at £567 billion as of January 2024.

This isn't fair, and isn't sustainable. The fact that it can be simpler and feel less daunting to take out debt (such as overdrafts or credit cards) than to start investing can lead to perverse outcomes, both for consumers and for the wider economy.

Fixing it must involve:

- Consideration of the potential for a '**financial resilience score'**, in addition to the existing credit score. This would map people's overall financial health, rather than simply their record of repaying debt, acting as a nudge towards positive financial behaviour.

- **More effective financial education** throughout life so that core concepts (including the power of compound growth, inflation risk, and the very fact that ordinary people can participate in capital markets) are understood. This should start at school but must continue throughout life. Although support around the point of retirement is helpful, this will be less effective (and perhaps even less likely to be sought out) by people who do not already have a basic level of understanding and confidence with money.

- **The Advice and Guidance market must continue to evolve.** Too few people have the professional support they need to invest productively and secure their financial futures. Just 12% of people currently receive help from a financial adviser, and this service is often limited to those who already have the most secure finances. The UK is a global outlier in this – we have about half the number of financial advisers per capita than comparable countries, including the US and Australia.

  The steps currently being taken to reform Advice and Guidance (included toward targeted support) are vital, but this must be carefully monitored and open to constant evolution over the next decade to ensure that the reforms work and appropriate advice and guidance remain easy to access. In particular, it is imperative that the advances in AI, which might revolutionise the cost and availability of financial advice and guidance, are carefully and appropriately nurtured.

- **Regulatory decisions should consider the differing financial literacy levels and existing attitudes towards participating in investing which different groups of consumers have.** A live issue today is that of disclosures. Risk disclosures should be reformed to inform and empower consumers, rather than simply warn them. This aligns with presenting both the risks and potential rewards, fostering a deeper understanding of the investment landscape. This approach encourages more confident and engaged investors who are better equipped to make informed decisions. Findings by our members show that traditional risk warnings ('Capital at Risk') often discourage women more than men. However, when risk warnings are framed differently (such as stating, "Investing can over the long term outperform cash. However, investments can go up and down and you may lose money as well,") customers, especially women, felt more engaged.

- **Gaps in financial literacy should be considered when regulating all financial products**, including cash products and cryptocurrencies, which should be subject to the same requirements to fully inform consumers in a balanced, useful way as investment wrappers, accounts, and other products. Currently, many consumers are unaware of the risks associated with holding cash long-term, particularly the erosion of value due to inflation. Just as with other investments, consumers should be informed that while cash may seem safe, it carries its own set of risks over time.

## Question 3.3: What do you consider to be the most important trends or changes likely to affect the financial services industry over the next 10 years?

We see three megatrends as likely to impact financial services over the next 10 years:

### Megatrend one: Demographic change

The needs and impact of the UK's ageing population must be factored into the future financial services strategy.  Two factors in particular need to be considered, pension provision and the differing attitudes between generations.

**Pension provision is still inadequate** to meet the needs of people living longer and increasingly requiring care, with 12.5 million working-age people still undersaving for retirement[5].

[5] https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes/analysis-of-future-pension-incomes#:~:text=Just%20over%20half%20of%20the,88%25%2C%2030.4%20million).

To accommodate this:

- **More people should be saving for later life**. The immense success of Auto Enrolment means that 84% of people now have a workplace pension. But there are gaps remaining in the system, notably the self-employed who should be brought into the system.

- **Even those who do save often do not save enough**. Contribution levels of 8% are simply not high enough for most to have the retirement incomes they expect, which means that we face a generation of savers who are disappointed with their retirement incomes. Not only will this hit their standards of living in later life, but we risk suggesting to not only current pension savers but also their children who see their predicament that investing and saving for later life isn't worthwhile.

  Phoenix, an IA member firm, has calculated that currently half of Defined Contribution pensions savers (around 14 million people) are not on track for the income they expect. Worryingly, they are not just slightly 'off track'. For 68% of them, their pension pot is over £100,000 too small to provide their expected income.

  Increasing contribution rates is the most effective policy lever government can pull to close this gap. Lessons should be taken from international schemes (such as Australia's 'save more tomorrow' campaign) to shape this.

**New decumulation and in-retirement financial products** are needed to cater for the increasing numbers of people who are reaching later life, wishing to remain prosperous, and who have more control over their own finances. The old approaches to investing (then annuitising) have proven insufficient and there is the potential for a new product set to fix this. In particular, allowing UK authorised funds both to distribute capital and retain income instead of paying it all out, will allow for the design of investment products that are geared to delivering the stable income that retirees need. This would be both a competitive advantage for UK funds and would also help achieve a policy priority for the government and FCA through helping customers fully unlock the benefits of pension freedoms. This will be globally important as other nations' populations age, so there is an opportunity for the UK to innovate and be copied internationally to the benefit of our investment management industry that can offer its services to other nations.

**We are seeing wealth transferred between generations and** inheritance has become increasingly significant in personal financial planning. Across the 2010s, the number of adults receiving an inheritance over a two-year period rose from 1.7 million in 2008-10 to 2.1 million in 2018-20.[6]

This means that significant numbers of people are receiving relatively large amounts of money later in life. We need to ensure that they have appropriate financial advice and

[6] https://www.resolutionfoundation.org/publications/intergenerational-audit-2024/

guidance available to them, in a form that they find accessible and appealing. We also need to ensure that appropriate products are available to them. These might be different in style and substance to those available at the moment.

This is an immense opportunity. Younger generations are more focused on financial security than their older relatives, already have higher standards of financial literacy, and are more willing to upskill further. We are pushing at an open door to encourage further participation here: UK investors are younger than the wider population, with just under half (42%) of the investor base aged 18- 35.

### Megatrend two: Investment managers will support society's response to the climate emergency

As a consequence of our wider economic role, investment management will play a core part in providing the tens of billions needed to finance the net zero transition. Investment management requires taking a long-term view because we are managing money for people who are looking to provide for their future financial health – such as through their pension – and may not need the returns on their investment for many decades. Taking a long-term view means investment managers must think about resolving long-term threats such as climate change and target investments accordingly. Our industry, therefore, has a vital role to play in financing the transition to a cleaner and greener economy.

The Moray East Offshore wind farm has built its capacity thanks to a £268 million investment from Legal & General. It can now power 1.4 million homes with green energy, and the return on doing this will help to finance savers' retirements.

We support government goals to decarbonise the economy by investing in low-carbon projects. We also encourage the companies we invest in to consider and report their environmental impact. The Climate Change Committee estimates that an additional £50-£60 billion of capital investment will be required every year over the next decade to deliver the UK's net zero ambitions.

Our industry is playing its part by allocating capital to companies and projects leading the transition and supporting programmes such as the UK Green Gilts. This allows institutional investors to buy a government bond (also known as a gilt), which is specifically used to fund renewable energy projects, energy efficiency tools and the development of clean transport.

Schroders Greencoat, the specialist renewables and energy transition manager that is part of IA member Schroders, owns 430 renewable energy assets globally generating enough energy to power 3.6 million homes, equivalent to the size of New York, at the same time as generating returns for long-term investors like pension funds.

The Global Green Finance Index confirms that the UK already leads the world in green finance thanks to the money invested here in clean projects, and the expertise available in sustainable finance. Continuing to improve access to responsible and sustainable investment opportunities will not only drive long-term economic growth, but it will also allow UK investors to contribute to the planet's environmental well-being and play a role in adapting to climate change. This theme is further discussed in section 4 on sustainable finance.

### Megatrend three: Technological change offers new opportunities

We are on the cusp of a revolution in how technology can help more consumers to access investment, and in ways which better suit them.

Domestically, this can be the key to greater retail participation in capital markets and therefore greater funding potential for the UK economy. It would also have a highly complementary international competitiveness element. Establishing operating principles for digital investment would make the UK a more attractive place to do business, creating a new financial market infrastructure through this tech-powered ecosystem. While there is no 'big bang' regulatory equivalent that can replicate the opportunities generated in the late 1980s, technology can help to create a different energy, connecting UK capital pools and investment management expertise with the best of breed internationally.

Leading the pack on this change is distributed ledger technology (DLT) and generative artificial intelligence (GenAI). These are already having an impact on the design and delivery of investment management services, and in the case of machine learning and other types of conventional artificial intelligence (AI), have done for some time.

The world will look significantly different in 2035 because of the convergence of these technologies. When channelled towards a long-term strategy for growth and competitiveness, the combination of these technologies has the ability to supercharge the economy and set a powerful course for engaging more effectively with investors and provide significant growth opportunities for the industry and the UK in the future.

To that end, the shape of a fully digital investment ecosystem is becoming increasingly clear. While the UK has the beginnings of such an ecosystem, much more needs to be done to coordinate it effectively. Whether on digital wallet usage, digital ID, digital securities and investment funds, or digital pounds, the groundwork is emerging for us to capitalise upon.

At the same time, the gap between today's reality and this vision of the future remains wide. Although no jurisdiction internationally has achieved what we would see as critical mass, other countries are starting to pull ahead in the energy and practical enabling of this new world. The UK can still catch up and emerge as a global leader. Still, it needs investment in infrastructure throughout the value chain and a coherent plan to move forward in what is a very challenging project defined by a high number of dependencies.

These issues are covered in more depth in Section 3 on FinTech.

**Question 4.1: Do you agree with the list of policy pillars that the government intends to focus on? Are there other areas that should be included?**

We support the inclusion of all the identified policy pillars in the strategy. As detailed throughout this response, they are crucial to the future success of our financial services sector and, subsequently, the wider UK economy.

One refinement might be to include the tax environment as part of the regulatory environment pillar. This should not necessarily involve the consideration of overall tax levels, rather the predictability; stability; simplicity and competitiveness factors which feed into business decisions on where to locate and grow.

**Question 4.2: Please rank the list of pillars in order of importance to your business or organisation for i) day-to-day operations and ii) longerterm plans for investing in the UK: 1. Innovation & Technology 2. Regulatory Environment 3. Regional Growth 4. Skills & Access to Talent 5. International Partnership and Trade**

**i) Day to day operations**

**1)** Regulatory environment
**2)** Innovation and technology
**3)** International partnership and trade
**4)** Skills and access to talent
**5)** Regional growth

**ii) Longer-term plans for investing in the UK**

**1)** Innovation and technology
**2)** Regulatory environment
**3)** International partnership and trade
**4)** Skills and access to talent
**5)** Regional growth

*Investment managers see regional growth as vital, as set out in our answer to question 4.9. We see it being best achieved through the four other factors listed above.*

**Question 4.9: How can we capitalise on synergies between different regional financial services hubs to support growth?**

Investment management has its most important impact in every region of the UK thanks to the funding we channel into businesses and infrastructure projects in every corner of the country. However, we also see the potential to increase our own business footprint in the nations and regions in two key areas.

## Scotland has immense digital potential

Investment management in Scotland enjoys a centuries-old heritage that developed alongside London as a financial centre. Some of the world's largest investment management businesses were established and are still headquartered in Scotland. Edinburgh, in particular, plays a key role in UK investment management as the second largest hub outside of London.

The share of UK assets managed from Scotland fell by one percentage point between 2021 and 2022, accounting for 6% of UK AUM. However, this masks a sharp fall in nominal assets under management year-on-year from £700 billion to just under £500 billion, almost 30%, reflecting differential operating experiences across UK-based firms through recent volatility. Over the past decade, the share of Scottish AUM as a percentage of UK AUM has fallen by almost half (11% in 2012). This, in part, reflects some major changes in the corporate structure of the Scottish asset management industry.

Despite this there is a strong base to build on and arrest this decline. There is opportunity to build on Scotland's traditional strengths, and Scottish Financial Enterprise[7] has identified Scotland's strength here as being based on:

- A strong talent base in investment management
- Competitive operating costs
- Well-developed education system
- Globally leading capabilities in data, AI and emerging technologies

These factors mean that we see the potential for Scotland to be a core part of the UK's wider asset management strength.

We discus elsewhere the importance of data, AI, and emerging technologies, meaning that Scotland's existing strengths here are going to be driven ever more to the fore.

There may also be an opportunity to build on Scotland's existing boutique investment management cluster: the search for yield will undoubtedly leave a space for high-quality, targeted, smaller asset managers.

To explore this further, work should be done looking specifically at the relationship of investment management clusters in London and Edinburgh, and how the two can develop symbiotically.

## Fund Administration provides opportunities for the UK regions

Although employment in investment management is clustered in the traditional heartlands of London and Edinburgh, fund administration and support services are most often provided in thriving hubs outside of London.  In centres including Manchester, Glasgow, Belfast, Exeter, Bournemouth and Leeds, fund administration activity provides well paid, stable and highly skilled jobs.

[7] https://www.sfe.org.uk/news-database/new-sector-growth-strategy-sets-out-plan-to-boost-the-contribution-of-financial-services-to-scotlands-economy-and-society

We see growing this fund administration and support services work as key driver of growth in the UK regions.  The outlines of how this could be achieved are below, but to fully grasp the opportunity, government should commission the Asset Management Taskforce to undertake a study on the '**domicile of the future' for digital funds**. This should look at the lessons that can be learned from the forward-looking domiciles of today (notably Singapore), ensuring that the UK can both become the centre of digital portfolio management, and benefit from the back-office jobs this would create.

Until now, centres including Luxembourg and Dublin have been stronger than the UK at attracting fund domiciles, the key driver of associated fund administration and support services work.  This is in large part driven by two tax considerations.

First, the **UK tax systems for investment funds is complex** and difficult to navigate compared to other fund centres. Despite the fact that investment funds themselves do not pay any taxes, the process for allowing this is painstaking and can be off-putting for overseas firms looking to locate in the UK.

Second, the UK has not been able to utilise its success as a fund management location to become a centre for fund domicile thanks to our internationally **uncompetitive VAT treatment**. The UK has for decades, originally as part of the EU, adopted the VAT exemption for fund management activities. The purpose of the exemption was to ensure that retail savers and investors did not incur VAT simply for choosing to invest via a fund instead of making direct investments, thereby promoting access to UK-regulated investment services, top-tier governance, and portfolio risk diversification.

However, The UK VAT regime has since not kept pace with how investment management and financial services are delivered to end customers and is increasingly being applied in its narrowest sense by tax authorities. This results in a perverse outcome that makes it more expensive to manage a UK fund than a non-UK fund. This outcome is sub-optimal for investors who would get a worse return for investing in a UK fund than in a fund with an identical strategy outside the UK.

This damages the UK economy as we lose out on activities and tax revenue associated with fund administration and support services that are typically intrinsically linked to the fund location jurisdiction. The position more recently being adopted by UK tax authorities in challenging the UK VAT exemption on important fund management and administration services puts the £1.4trn[8] which is invested in regulated UK funds, and the tens of thousands of jobs linked to the maintenance and running of these funds in financial hubs outside London at risk.

There is also increased contagion risk to other fund management activities if non-UK investment funds continue to be more attractive and cheaper due to the tax burden associated with their UK counterparts. With delegation of portfolio management services continuing to be under review by regulators in other jurisdictions combined with an

[8] Source: IA Investment Management Annual Survey 2023-24

increased focus on substance and increased economic activities in the fund jurisdiction location, more pressure is likely to be felt on these activities being carried out in the UK for funds domiciled overseas.

In addition to protecting the current size of the funds market, the UK needs to position itself to seize new opportunities in the private markets. Globally, private market assets have grown substantially, with AUM in alternative investments reaching $17trn in 2023, up from $7trn in 2010, according to Preqin data[9]. Offering a competitive VAT regime that provides a level playing field for the management of these private assets in UK-based funds, as is the case for the management of non-UK funds, can help unlock one of the biggest barriers to the UK establishing itself as a credible location of choice for setting up funds offering professional investors access to these important markets and the UK benefitting from the associated services and tax revenues from the increased activities.

The introduction of VAT zero-rating for UK management of funds can help address the above issues by levelling the inconsistent VAT treatment of management of UK and non-UK funds and removing the arbitrary application of the exemption in the fund management supply chain. It would offer instantaneous and urgently needed legal certainty for businesses as to the application of VAT within supply chains, eliminating the need for long-drawn out litigation in this field. It would also remove the need for additional legislation or policy review to fix the existing VAT regime for funds, help futureproof the domestic funds market, and permanently maintain the UK's competitive advantage in investment management.

It will also send an important signal of intent, which, together with wider policy and regulatory measures, could reset industry perceptions of the UK as a fund domicile, particularly for private assets.

Research commissioned by the IA in 2023 showed the likely benefits of a more competitive UK funds regime, including VAT zero rating, to the UK economy through increased activity, growth, and jobs in the form of:

- increase UK funds under management by up to £683 billion after five years of change in the regime arising primarily from new funds providing investors access to a wide range of investment opportunities in the private markets
- increase total tax revenue by up to £693 million after five years of change in the regime due to the economic activity it would generate across the UK.

**Question 5.8: Are there any barriers to growth in capital markets that are not being targeted by existing government reforms? How can private and public markets be grown so that they best support UK growth?**

Investment managers play a crucial role in capital markets. They channel capital from individual savers and institutions to public and private companies which use it to finance their operations and achieve growth.

[9] Source: IA Investment Management Annual Survey 2023-24

As of the end of 2023, 98% of IA members invested in equities (shares), 85% in fixed income (bonds), 68% in property and 27% in alternatives, such as private markets. As an industry, we are deeply committed to maintaining efficient and effective capital markets, which are essential for generating economic growth and stability, supporting companies, and fostering innovation.

**Modernising capital markets**

The UK's vibrant and dynamic capital markets remain some of the strongest and deepest globally and we welcome the Government's commitment to build upon this strong foundation. At the IA, we champion **"Modernising Capital Markets"** and have supported and engaged all significant initiatives, including the reform of the UK listing rules, the development of a UK consolidated tape for all asset classes, the transition to T+1, and the review of the UK research market and creating optionality for payments for investment research.

The investment management industry is also at the forefront of championing the role of private markets investment in supporting new infrastructure projects and high-growth startups, and the IA is providing the buy-side perspective on all important new initiatives in this space, including the establishment of **PISCES** (the Private Intermittent Securities and Capital Exchange System). The rapid growth of private markets attracts considerable interest from all stakeholders, including savers and investors.

This growth brings new opportunities, but we also understand that regulators and policymakers must take proportionate action to manage any potential risks to the rapid growth of this market. The IA has already engaged closely with the FCA as part of the multi-firm review of private markets valuations, and we are keen to continue that engagement throughout 2025 and beyond as we look to ensure a proportionate regulatory framework that allows for innovation growth while ensuring consumers are protected.

With so many initiatives already underway, the government has already enacted significant reforms, which will go a long way towards advancing UK growth and competitiveness.

Nonetheless, we must never stop looking for new ways to improve and grow UK capital markets. Focusing on "innovation" and developing novel solutions to new and existing challenges will ensure globally competitive, world-leading, efficient, and effective capital markets in the UK.

**IPO Automation**

The industry is playing its part here too. In December 2024, the IA published The Automation of IPOs[10], a call for action focused on one such area of potential innovation.

IPOs and secondary market placements remain one of the few areas within the capital market that are still reliant on manual processing to communicate the demand. In the current placement processes, sell-side brokers take multiple calls or messages from various

[10] https://www.theia.org/news/press-releases/investment-association-publishes-position-paper-automation-ipos-and-placing

sources to place orders. This practice is inefficient and prone to errors or misinterpretation in order transmission. There is also a risk of order amendments before they reach the syndicate book, which can leave investors unaware of their commitments or exposed to wrongly placed or received order errors during the IPO offer periods.

The buy-side community strongly favours a streamlined process to place orders electronically, but progress towards this remains minimal. Our members trust that, with new order placement services coming to market, it should be possible to achieve electronification of the IPO process without requiring a challenging amount of infrastructure change from market participants. Furthermore, it is our firm view automation of the IPO process will not only benefit to the buy-side, sell-side, and the wider market ecosystem, but that this work could be a stepping stone for further areas that would benefit from automation, such as the fixed income new issuance process. We would therefore welcome governmental support for this and similar initiatives.

No policy change is needed here; simply a change in market practice would be sufficient. Therefore, a straightforward step that the government could take to encourage growth would be to encourage this progress (and similar ones over the coming years).

**Market digitalisation**

More broadly, the IA supports the **wider digitalisation of the market**. As explored in more detail in section 3 on FinTech, we have published a paper entitled "UK Fund Tokenisation - A Blueprint for Implementation", which we submitted to the Asset Management Taskforce. This year, we followed up with an additional paper entitled "Further Fund Tokenisation - Achieving Investment Fund 3.0", in which we further identified possible next steps in the development of fund tokenisation, involving allowing on-chain fund settlement via digital money, enabling funds to hold tokenised assets in their portfolio, and expanding the scope of solutions to include the use of public permissioned networks.

This has been the springboard for wider IA work on tokenisation, and we are keen to work with regulators and policymakers to develop new and innovative technologies which will boost growth.

To encourage further success and innovation within the market and within the kinds of industries the Government has identified as key to UK growth, we also need to consider how investment is currently incentivised. In particular, we note that the tax treatment of trading in UK equities creates a barrier to investment.

**Tax competitiveness**

Unlike many other major markets, the UK maintains a form of financial transaction tax on the transfer of main-exchange UK listed shares via the **Stamp Tax on Shares** (comprising Stamp Duty and Stamp Duty Reserve Tax or SDRT) rules. For example, the transfer of standard equity shares in the UK is subject to an SDRT of 0.5%, which is higher than that of France (0.3%), Hong Kong (0.2%) and India (0.2%). The US maintains no form of financial transaction tax on either of its main exchanges.

It is ultimately a cost for businesses to consider and influences investor behaviours. It both directly and indirectly drives up transaction costs and lowers the yields from UK-listed assets. This negatively impacts trading volumes and discourages high-frequency trading of asset types caught within its net. Moreover, Stamp Duty and SDRT's reach is inconsistent across all classes of equity and can incentivise investment into synthetics rather than direct exposure of UK-listed shares.

It is unrealistic to expect UK equities to compete in international capital markets unless there is a level playing field when it comes to transaction costs. To redress this long-running competitive asymmetry, the Government must consider the abolition of Stamp Taxes on Shares of UK-listed equities in an effort to re-invigorate interest in UK markets.

Abolition need not necessarily be completed in a single act. A credible path to abolition could signal to investment markets the UK’s intention to correct this longstanding disadvantage for UK companies. Incremental reductions in the rates of Stamps Taxes on Shares could first be introduced for subsectors of the FTSE that the Government wish to actively support or promote, such as the Small or Mid-Cap sector or specific industries like Life Sciences, Semiconductors, Defence, Alternative Energy, Medicine & Biotech. Other more mature market segments could follow when the fiscal environment allows.

We acknowledge that the Government may be concerned about the impact of removing Stamp taxes on taxation revenue. However, Stamp Tax on Shares receipts have diminished significantly over the last decade. With less listing and trading activity in London, the revenue raised by the tax has fallen from a 2007/08 high of £4.1bn to £3.78bn in 2022/23. Adjusted for inflation, this represents a staggering 44% drop in real value over 15 years and is likely to fall further in real terms as the UK continues to lose ground to other jurisdictions in the race for commercial listings.

**The pensions market**

In addition to market structures, **changes to the policies governing corporate defined benefit (DB) pensions schemes** could push further capital market growth. These include new guidance for trustees, an increase in protection offered by the Pension Protection Fund (PPF), and mechanisms to support surplus sharing.

UK DB pension schemes hold around £1.5 trillion of capital, and those in a favourable funding position have an estimated surplus of around £225 billion, which IA members estimate could grow by another £100 billion over the next decade.

Regulatory reform could unlock this pool of capital to support UK growth through investment in a broad spectrum of assets, including the much-needed capital for the green transition.

**Growth areas**

Finally, HMT should commission a study of two potential areas of growth. The first should look at the role of AIM. Jurisdictions across Europe are looking to promote their junior markets, but recent changes (particularly IHT) may make AIM less attractive. Consideration should be made of its role in the UK’s wider capital markets, and how this could be rejuvenated.

The second should look at the potential for regional municipal bonds, which could help to power the UK's regions and the infrastructure needed within them.

**Question 5.1: Do you agree with the priority opportunities that have been identified?**

We firmly support the priority opportunities identified. As detailed throughout this paper, these areas (in particular for our purposes, investment management; capital markets (including retail investment); and sustainable finance) have an immensely important role to play in powering the UK's economic growth and individual households' financial wellbeing.

The Financial Services Competitiveness and Growth Strategy must not see these as siloed. The identified areas are interwoven: strong capital markets encourage retail participation, and thriving asset management provides the tools to enable this. Building on our lead in sustainable finance has the potential to both encourage more retail investment; and to ensure that our capital markets can thrive in the face of our changing climate.

Wider than this, these areas are the backbone of the wider UK economy. Therefore, the priority opportunities need to be seen not just as the engines of growth in their own right, but also as pillars of the UK's wider financial services ecosystem; and the rest of the UK economy.  We hope that not just the Financial Services Competitiveness and Growth Strategy, but the Modern Industrial Strategy takes this into account.

**Question 5.2: Which of the following business areas and activities do you see as high growth opportunities for the sector?**

1. Asset Management
2. FinTech
3. Financial Advice
4. Sustainable Finance
5. Financial Market Infrastructure
6. Pensions

## Section Two:
## A competitive regulatory environment

**Question 4.6: What is your assessment of the UK's current regulatory environment?**

The regulatory environment for investment managers is complex. The industry must consider the interwoven and sometimes conflicting approach and messaging from institutions that go beyond the core financial services regulators to bodies such as the Pensions Regulator (TPR), the Financial Ombudsman (FOS), the Financial Services Compensation Scheme (FSCS), the Takeover Panel and the Competition and Markets Authority (CMA). We also have a stake in the effectiveness of the regulators for the industries in which we invest, such as utilities, as they impact the attractiveness of these assets for investment.

As such, we welcome moves by this government to boost regulatory competitiveness. We also welcome consultation by the FCA on the future shape of the UK regulatory regime, which should allow for changes to support greater competitiveness, for example, setting a clearer demarcation between retail market regulation and the wider institutional market. The next step is to push for greater focus on the tangible outcomes of this work, and to ensure that regulators are more aligned.

The FCA is particularly important to the investment management industry's competitiveness and growth, and our detailed assessment of the current regulatory environment focuses on it. We view the FCA's operation in two ways.

1. **At the highest level, the FCA and PRA's objectives (and their leaderships' commitment to those objectives) are appropriate.**

It is right that the FCA's primary objectives to protect consumers and the integrity of the market remain its central focus. However, fully implemented, the new secondary objective for competitiveness and growth supports the UK's world-leading financial services industry in powering the wider economy and innovating for our customers' benefit.

This should not be in conflict with the primary objectives. No financial services centre will thrive if it has a reputation for low standards, and low standards do not create growth. Growing the UK investor base is good for competitiveness and growth, and this can only happen if high standards reassure the public. This too feeds into perceptions of the FCA around the world, giving the UK a particularly influential voice when regulation is discussed at an international level.

We welcome the FCA's firm and public commitment to the importance of its new competitiveness and growth objectives.

2. **But this must be mirrored throughout their work**

Positive objectives and supportive leadership are only valuable if it is followed by action throughout the organisation, with a reflexive focus on competitiveness and growth in all actions. We are not here yet. Research from New Financial into market outcomes in the UK since the creation of the FCA across nearly 60 metrics of financial services activity shows a fall in just over half of the metrics in real terms and in two-thirds of them relative to GDP. In 80% of the metrics, growth in activity has been lower than in the US.[11]

This is not solely due to the regulatory framework, nor would we expect this to be turned around in the brief time since the secondary objectives have come into force. But it does illustrate the scale of the shift needed to allow financial services to play their fullest potential in powering growth across the country.

In part, this is due to an approach rooted in 'safetyism' which is hampering our collective risk appetite. Safetyism is the over focus on eliminating risk without considering the wider unintended consequences. Agreeing what is appropriate risk is a challenge that we need to face head on if we are to maximise investment managers' ability to drive financial returns and efficiently allocate capital.

We have not got the balance right in recent years. The proportion of household financial assets in the UK sitting in cash (earning a negative real return) has increased from less than a quarter in 2014 to nearly a third today. The proportion of UK pension assets invested in fixed income has tripled to 47% over the past 25 years.[12]

Two things need to change to allow this to happen. At the highest level, all regulatory policy decisions need to be taken with all objectives in mind. The debate around the FCA's enforcement proposals shows that this does not happen consistently. This proposal is of course now much altered. But this debate, coming late in the process and very publicly, will do little to dispel a sense that this policy was designed with little thought to its effect on competitiveness. Damage may well have been done to the UK's standing by the process, as much as the policy itself.

At a working level, the objectives and the leadership's intentions too often aren't translated into practical activity. The implementation of SDR clearly illustrates this. Although as of December 2024 funds are starting to receive labels in larger numbers, the process towards this has been complex. Delays have been caused both by very slow working processes, and by interpretation of the rules which remain complex and may not have factored in the potential impact on UK competitiveness.

We would like to see attitudes which support competitiveness and growth echoed not just in policy setting, but in the way that regulators work with the financial services industry. We would like to see the FCA focus more on the 'service' they provide to firms, particularly at the point of authorisation. This doesn't mean lowering standards, but rather being responsive and willing to engage to find practical solutions when there are blockers to firms starting or expanding their work in the UK.

[11] New Financial, A FOCUS ON MARKET OUTCOMES: EVALUATING THE UK REGULATORY FRAMEWORK, October 2024
[12] New Financial, The future of smaller company capital markets in the UK, October 2024

This approach should be taken when considering the regulatory architecture as a whole as it is often the interaction of different bodies that has the greater impact. This can be seen in the role of the Financial Ombudsman Service ('the FOS'). The FOS considers each case on its merits, however there is a risk of unintended consequences if the reach or implications of FOS decisions stretch beyond the individual. Without the application of useful checks and balances, there is a risk of unintended consequences for the sector, and ultimately consumer harm.

Finally, an important part of the UK's competitiveness is looking at the total cost of our regulatory system and its fair allocation. An example that should be considered here is that of the FSCS levy. Section 213(5) of FSMA states that the regulators must take account of the desirability of ensuring that the amount of levies imposed on a particular class of authorised person reflects the amount of claims made, or likely to be in made in respect of that class of person.

However, the implementation of the "look through" methodology for calculating the levy, introduced in 2018, has resulted in investment managers disproportionately bearing a significant portion of the costs. Investment managers accounted for around 20% of the total FSCS levy in 2022/23, despite the sector never having been the cause of a claim. This not only contravenes section 213(5) of FSMA, it also generates a clear competitive drag on the sector and must be reconsidered urgently.

### Question 4.7: How can regulation support responsible and informed risk-taking?

Regulation often starts by considering 'how can we prevent harm', but this is only half the picture. It should also consider what people or businesses are hoping to achieve. In the asset management and retail investment sector, these ambitions will usually be associated with supporting their financial well-being or saving for later life. Regulatory decisions should more often consider 'how will this help people to achieve their goals'. Preventing harm is a vital part of this, but so too is enabling positive choices to be made.

Within this, regulation should actively consider the barriers to people achieving their financial aims, and how regulation should remove them. This needs to consider the range of financial decisions people might be taking.

By way of example, too many people are deterred from investing because they perceive it as risky. Yet, these same individuals routinely take other risks in different parts of their financial lives, for example, by opening a credit card or a low-interest savings account, with greater confidence.

Growth and prosperity require taking informed risks, whether in business, infrastructure, or planning for later life. It's essential to understand risks, but not all risks should be avoided—some should be embraced for their potential rewards. Indeed, often the biggest risk is taking no risk at all. The fear of investment risk is often amplified by how these risks are presented, primarily through regulatory disclosures that focus on warnings rather than explaining and informing the consumer of the product they are purchasing.

In our submission to the 2024 Budget, we proposed reforming this in two ways:

- reforming the disclosures on investment products so they inform not just warn consumers; and
- providing consistent risk information across all financial products, including cash products where consumers are often unaware of the associated inflation risks.

These ideas are illustrative of a wider approach to supporting positive choices, not simply protecting from harm.

Regulators should also consider who is taking risks. Retail customers sit at one end of the investment management value chain and need appropriate regulatory protections to ensure that they can safely and confidently participate in capital markets.

However, many asset management businesses work solely with other businesses—sophisticated businesses with large risk functions and a clear understanding of their role. Different regulatory procedures must be applied to retail and business relationships, but this does not always happen. This is a serious waste of resources for both businesses and regulators and a drag on competitiveness.

**Question 5.13: In what ways could the regulatory landscape for asset management or wholesale services adapt to the needs of organisations over the next 10 years?**

The asset management sector is likely to change fundamentally over the next 10 years in response to the megatrends set out in response to Question 3.3.

At a high level, three things must be kept in mind when facilitating this.

- We need to support responsible and informed risk-taking, as set out in question 4.7.
- The development of regulation must become more forward-looking and responsive as the pace of change picks up.
- The cumulative weight of regulation needs to be kept in mind. As a highly regulated sector, investment managers are subject to myriad overlapping regulatory requirements, which are always burdensome and can be contradictory. Efforts should be made to streamline this.

Changing the regulators' culture to enable this could include ensuring that staff are empowered to truly assess risk rather than simply apply their interpretation of rules, where mistakes can be acknowledge and quickly unwound, and where teams start from the assumption that established businesses are aiming to do the right thing by their customers.

## Section Three:  Building on our global competitiveness

**Question 3.2: [For Financial Services Organisations] For firms operating in more than one jurisdiction, what are the main drivers affecting your decisions on where to invest?**

The IA undertakes significant efforts to promote the attractiveness of the UK as a destination for investment management. As part of that work, we have spoken with firms from around the world considering the UK as an investment destination. We also undertook, collectively with the City of London Corporate and the Department for Business and Trade, a range of interviews with senior leaders in investment management to inform the development of “Global Investment Futures”, an international promotional campaign.

Through our work, we have collectively identified the following factors impacting investment decisions:

- Economic fundamentals,
- Competitive landscape, including barriers to entry; and
- Perception as influenced by government promotion.

First, investment managers seek markets with strong economic fundamentals that indicate growth potential.  This involves evaluating the overall economic environment, including GDP growth, inflation rates, and employment levels. It also includes identifying and evaluating various risks, including political, currency, and market volatility.

By understanding these risks, investment managers can develop strategies to mitigate them and protect their investments or to avoid these markets and their risks altogether. We welcome, therefore, the modern industrial strategy and the opportunity to help shape the financial services strategy for the long term as important aspects of making the UK an attractive destination for investment.

Understanding the competitive landscape is another essential aspect. This includes analysing the number and strength of competitors in the market, market share distribution, and, importantly, the barriers to market entry. By assessing these factors, investment managers can identify markets where they can achieve their objectives. This includes, for example, the ability to launch new products and services and, therefore, offer greater opportunities for savers and investors. Firms will decline to enter markets that make the process of entry too difficult and exit markets when the conditions become unworkable.

In addition to the economic and competitiveness aspects of a jurisdiction, the attractiveness of a specific destination to both invest in and to delegate portfolio management to, is also affected by the ability and willingness of that jurisdiction to promote itself, challenge preconceived notions, and celebrate successes.  However, promotion is more than just sharing good news. Promotion must provide confidence in the market and set out with clarity and accuracy the legal, tax, and regulatory issues.

Therefore, from our experience, for the UK to be a ‘go-to’ destination for investment management it needs to prioritise legal, fiscal, and regulatory measures to ensure that the market is demonstrably competitive internationally, efficient, and perceived as open for business. The UK must also go one further. It should look to imitate the success elsewhere of a tripartite approach to promotion which draws together government, industry, and regulator. The relative success of other jurisdictions in the financial services arena is driven by an agile regulatory environment combined with strong and enduring political and regulatory support in promoting those jurisdictions' business interests internationally.

The UK has many strengths to draw on to shape the approach to promotion. As part of the Global Investment Futures, senior leaders in investment management highlighted the importance of the following factors in the attractiveness of the UK:

- Access to assets (either primary access or through partnerships for those interested in direct investment)
- Access to information, relationships, and ease of building networks
- Ease of talent mobility and access to diverse talent able to operate across the global markets
- Ease and cost of doing business, including effective tax laws
- Responsible investment opportunities and expertise
- Rule of law, clarity, and stability in regulation.

As we highlight elsewhere in our response, the UK must continue to improve in these areas if it wishes to maintain and grow its international competitiveness.

**Question 4.12: What barriers do international financial services firms face in either establishing and operating in the UK, or using UK markets?**

The UK is competing globally to attract firms willing to take the risk, meet the cost, and invest the time in expanding overseas. Nearly half of the UK's assets under management are from abroad, so it is clear that the UK has markets and services that are attractive for portfolio management. However, practical challenges also threaten the UK's pre-eminent position in investment management.

The ability to attract and move talent is essential. Measures like those found in the UK-Japan CEPA that provide more flexibility for Japanese and British companies to move talent into each country are welcome. For global firms reliant on the immigration system, the visa system needs to be flexible enough to meet the industry's rapidly changing needs. For the financial services sector, FCA certification plays a role in senior leader mobility. Consideration should be given to simplifying this process, for example, linking senior executives' visas and FCA certification to eliminate two different approval processes.

The culture of safetyism in regulation has also had a negative impact. The IA attended a senior roundtable hosted by a senior UK government representative in New York when a version of the consultation question was posed. The number one barrier raised by the executives was the difficulty in setting up bank accounts. Access to banking facilities was also raised as an issue by a prominent Australian pension fund setting up in the UK, and again at a recent roundtable with the British Embassy in Washington D.C. The risk-averse approach applied to both individuals and corporate entities with both finding it difficult to open accounts.

The culture for prudential regulation also is more challenging than other jurisdictions, and a new balance of risk needs to be found. For example, capital requirements are imposed today on all firms with a convoluted, complex formula but should be imposed only on market intermediaries and with a simple formula based upon net capital for brokers and non-banks, and solvency capital for banks. Non-market intermediaries, such as investment managers, should not have capital requirements. As an example, we cite a complete lack of capital requirements for SEC-registered investment advisers and will say more in answer to question 5.12.

The strategic decision to invest in long-term relationships with financial institutions rather than short-term and transactional ones is where the Department for Business & Trade has greatly improved. Previously there were two problems. The first was that the reporting cycle looked for "wins" annually and even quarterly, which does not fit with the decision-making process of major financial institutions. The second was how the Overseas Market Introduction Service (OMIS) was used as a metric. The need for OMIS support by industry was counted as a "success" and income from this source was encouraged. In fact, the necessity of an OMIS for a market was an indication of how opaque it was, and not a measurement of business friendliness, or of successful trade and investment opportunities being present.

Finally, in principle, and ideally, it would benefit the UK to move to a regime where overseas firms wishing to enter the UK markets are allowed to: (a) establish local operating entities, which are regulated based on prudential regulation by the home country regulator (e.g. capital, only if required) and conduct of business by the UK regulator; or (b) engage in business with UK clients – individuals or institutions – via "substituted compliance" or equivalence. Negotiated carefully, this approach would open markets to UK financial services firms in their turn and provide great opportunities for UK investors.

## Question 4.13: What opportunities should the government seek to advance through its international financial services relationships?

### EU financial services relationships

The IA supports a closer relationship between the UK and the EU on financial services. The EU represents the single largest market for investment management products and services from the UK. Specifically, as mentioned earlier in our submission, we urge the government to preserve the UK's position as a major global portfolio management centre, noting the £2.4 trillion of assets alone currently managed in the UK under delegation arrangements for EU-based clients. Given the status of fund domiciliation globally, restrictions on the ability to delegate portfolio management functions to UK-based entities – actual or perceived - would severely disrupt member's business operations, undermine the UK's competitiveness as a global financial services hub, and by extension its attractiveness for future activities to be located in the UK by global firms.

In addition, the IA supports greater certainty being provided regarding settlement, trading, and clearing activities for market participants based in the UK and EU. The government's efforts to 'reset' relations following elections in the UK and EU mark a key departure from previous years. Members have expressed concern regarding the forthcoming expiry of temporary provisions offered post-Brexit for clearing. The industry relies on efficient and open access to such infrastructure. Industry also relies on unconstrained access to deep liquidity pools for trading activity, and cross-border cooperation on settlement can help mitigate risk to financial stability across both markets.

Finally, the IA calls on the government to strengthen its support for the Joint Forum on Regulatory Cooperation, including possible industry participation, scheduled for its third meeting in early 2025. Since its inception in 2023, the Forum has demonstrated the benefits of close dialogue with the EU based on the concept of 'shared solutions to shared challenges'. In particular, this has included monitoring developments on financial stability, compatibility of sustainable finance frameworks, and other emerging issues like the use of AI in financial services.

**Global financial services relationships**

Looking worldwide, the UK should promote the investment management industry's excellence and expertise in discretionary portfolio management services. This is the factor that underpins the UK's role as a global investment powerhouse.

As mentioned above, the ability to provide investment management services from the UK is predicated on the ability for international asset owners to delegate the management of their assets – known as portfolio management – to UK based managers. Consequently, advancing and embedding the principle of delegation of portfolio management into international relationships – not just European ones - is vital.

The government should also advance the concept of "deference" which was identified by the G20 Leaders as a tool that authorities may use to help make reforms across jurisdictions interact better and facilitate the meeting of the objectives of the reforms. The common ground is that assessments should focus on regulatory outcomes, taking into account different regulatory frameworks, local market practices and characteristics across jurisdictions. An equivalence or substituted compliance assessment should be based on an understanding that similar regulatory outcomes may be achieved through the implementation of detailed rules, or an applicable supervisory framework, or both.

The growing international reach of the investment management industry can be seen through the IA's own Investment Management Surveys which reported in 2005 that only 20% of the AUM was managed on behalf of international clients. The proportion of total AUM managed on behalf of overseas clients rose to 49% in 2023; a growing overseas client base is a key indicator of the strength of the UK as a global investment management centre.

The IA is committed to working with the government on future trade agreements (as well as current dialogues) and with international partners to ensure that UK-based managers have the routes to access markets throughout the world and the world is able to invest in the UK too.

There is no single model for successful international financial partnerships as their content is wholly dependent on the unique bilateral relationship the UK. However, the programmes that support long term economic partnerships are the most beneficial for the UK. The government should therefore use the full “toolbox” of measures to enable international investors to access UK investment managers, and the world-renowned expertise found in the UK.

It is in the UK’s interests to achieve mutual recognition, or “substituted compliance” for the U.S., to encourage cross-border establishment of firms. The “toolbox” for this is a range of measures that include:

- Government, regulator and industry participation in multilateral bodies to help set the global agenda or offer high level guidance.
- Bilateral regulatory and industry dialogues, for example establishing the regulator-regulator relationship that is essential for MoUs or establishing with clarity for policymakers the contribution of investment management to economic growth.
- Economic & Financial Dialogues, government-led sessions that can provide the political framework for further in-depth discussions, such as the possibility of a Free Trade Agreement (FTA).
- Participation in the detailed negotiations required to create modern FTAs and mutual recognition agreements such as the groundbreaking Berne Agreement with Switzerland (confirming the ability to delegate portfolio and risk management services).
- Participation in FinTech initiatives and partnerships such as Project Guardian and the creation of cross-border regulatory sandboxes or innovation labs.
- The double tax treaty network is an asset but one being eroded by overseas authorities who place technical or practical barriers that prevent treaty benefits from being obtained. It is important to renegotiate significant tax treaties and Memorandum of Understandings (MOUs) to protect and recognise the international nature of funds and simplify treaty access procedure.
- Harmonised cross-border offerings of securities, listings and private placements is a possibility as the U.S./Canadian Multijurisdictional Disclosure System shows. The UK should investigate a British-U.S. version with the incoming SEC Commission.
- Support and participation in UK Government visits to international markets, assisted by preparing ministerial briefings specific to them; and inward visits by key policymakers and major investors.
- Partnership with economic development bodies across the UK where appetite and infrastructure to run promotional campaigns already exist.
- Private sector-led advocacy and initiatives in key markets. The IA plays a leading role in its European (EFAMA) and international (IIFA) trade bodies, leveraging its technical expertise to showcase the UK’s role as a global hub for the industry. In addition, the IA works directly with its counterpart organisations in national markets to support bilateral relations.

The government should also use its network of international posts and its bilateral relationships to showcase the role and value of the investment management industry. For our part, we will launch a new "Investment Management UK" international campaign and follow up our inaugural, industry-financed, Global Investment Management Summit with a new one in 2025. This could reach even more of the world's asset owners and reinforce the UK's status as a leading global investment management destination if given firm Cabinet-level in-person participation and support. It will be an opportunity to set out the government's investment priorities while demonstrating how the partnership with business can achieve them.

### Question 5.12: What are the barriers to setting up and conducting business as a UK asset manager or conducting wholesale services in the UK?

One hallmark of the safetyism agenda is treating institutional/wholesale clients like retail consumers. That is, strenuously checking market entrants, imposing fit and proper requirements, and high bars to entry that might be applicable for dealing with consumers and individuals but are not appropriate for the institutional markets.

New market entrants bring innovation, energy, and the unique talents and skills of individual entrepreneurs. Their presence enriches the UK's financial ecosystem. So, in addition to the points made in 4.12, the government should be aware that capital requirements pose significant barriers for new managers setting up and conducting business in the UK.

The U.S., the largest market in the world for money management, does not require investment advisers to have a capital requirement – this requirement is a regulatory divergence from the U.S. without a sound prudential basis. The U.S. policymakers are aware that investment managers/investment advisers are not market intermediaries (unlike banks, brokers and others) and do not have custody of client assets and only give advisory and discretionary advice. In 2003, when the U.S. SEC proposed for comment the Advisers Act Compliance rule, Rule 206(4)-7, it sought comments on a "fidelity bonding requirement" for Registered Investment Advisers. Commenters replied that this should not be done, and it was never adopted. Crucially, the Commission stated that "[t]he Advisers Act does not require advisory firms to have a minimum amount of capital invested …" and proposed U.S. legislation on this was discontinued. The U.S. approach has been in place for the last 85 years and was based on (then) British legal precedents.

The FCA has made improvements in the speed of authorisation of individuals and firms. However, there remain concerns that these processes, along with the application of SM&RC create unnecessary delays and complexity for new business in the UK. We welcome the government intention to review SM&RC to ensure it remains fit for purpose and not a barrier to entry.

Further thoughts on immigration related barriers are found in the section related to UK and International Talent.

## Section Four:
## FinTech: Opportunities for consumers and the UK's place in the world

### Question 4.4: What is your assessment of how effectively the UK supports innovation and the adoption of new technology? What could be improved in the financial services sector?

An example of effective support of industry innovation was the Asset Management Taskforce's (AMT) recent work as a vehicle for fostering collaboration on emerging technologies. By establishing a valuable partnership between the UK authorities and the private sector, the AMT has facilitated significant progress in the integration of emerging technology within the investment management industry for consumer benefit, with knock-on positive impacts for other sectors.

There is now a pressing need to provide a new mandate to the AMT, with the objective of establishing the UK as the leading global centre for digital asset management. This can also ensure the implementation of the previous recommendations made by the taskforce.

There currently exists a lack of clarity regarding the UK's direction in several key areas. These include digital identity (dID), the digital pound (d£) and wholesale Central Bank Digital Currency (wCBDC), financial market infrastructure (FMI) and the potential for further sandboxes, as well as the realms of cryptocurrency and artificial intelligence (AI). Success can be achieved by co-ordinating these disparate initiatives more clearly and with an articulated vision.

### Question 4.5: Which technologies do you think have the most potential to transform financial services over the next 10 years? And in which financial services sectors or functions do you see these being applied most effectively?

Both distributed ledger technology (DLT) and generative artificial intelligence (GenAI) are already having an impact on the design and delivery of investment management services, and in the case of machine learning and other types of conventional artificial intelligence (AI), have done for some time. The critical question for Government and industry is what more needs to be done to harness these developments most effectively, both from a domestic delivery and international competitiveness perspective.

Different aspects of these changes create quite distinct challenges and opportunities. DLT underpins a shared infrastructure on which the future financial system may increasingly run. This means that the ability of any single jurisdiction – or set of firms – to determine decisively the direction of travel suffers from multiple constraints. In contrast, the harnessing of AI at enterprise level – or at different levels within enterprises – can provide immediate commercial advantages that are less dependent on others within the system, or the system as a whole.

The Asset Management Taskforce's recent work, summarised below, showcases how progress can be made in both tokenised and AI-powered delivery, providing clear signalling that the UK is open for business in these areas.

- **UK Fund Tokenisation: A Blueprint for Implementation[13]:** This report from the Technology Working Group of the AMT outlines an implementation plan for the tokenisation of the UK investment funds industry whose full value chain is operated on DLT.
- **Further Fund Tokenisation: Achieving Investment Fund 3.0 Through Collaboration[14]**. The era of 'Investment Fund 3.0' can only be fully achieved through industry collaboration and progressing the identified use cases. Through close engagement with HM Treasury and the FCA, the paper has shown where funds are able to complement recent developments in the digital assets sector.
- **Artificial Intelligence: Current and Future Usage within Investment Management[15]** . The report details the current posture of firms across the industry with respect to AI innovation, including both proven and developmental use cases utilising generative AI. Additionally, it explores key internal and external issues that will ultimately determine the industry's success in realising the technology's true potential.

More needs to be done to provide a vision for the longer-term and to capitalise on further developments. While we can look at these technologies individually, the investment management process and the consumption of services will not – and should not - do so. The next ten years will not look like the last and the world will look significantly different in 2035 as a result of the convergence of these technologies.

Effective investment propositions require both the expertise for constructing and generating the products and services and the network infrastructure for their execution. For example, conventional AI and GenAI are assisting investment managers in analysing vast datasets to decide upon target investment cases and identify optimal timing and portfolio construction opportunities. DLT will provide the execution route via the future financial market infrastructure on which transactions and assets are executed and held. Smart contracts within a DLT network, enable scaling of automated processes via executable code driven by pre-defined and logic-based workflows. Down the line, quantum computing has the potential to overlay these and be used in both elements, to help provide the computing power for the data analysis, and to provide speed and efficiency in the market space.

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[13] https://www.theia.org/sites/default/files/2023-11/UK%20Fund%20Tokenisation%20-%20A%20Blueprint%20for%20Implementation.pdf
[14] https://www.theia.org/sites/default/files/2024-03/Further%20Fund%20Tokenisation%20-%20Achieving%20IF3%20Through%20Collaboration%20%20Mar24.pdf
[15] https://www.theia.org/sites/default/files/2024-10/Technology%20Working%20Group%20AI%20Report%20Oct%202024.pdf

The integration of these modern technologies can contribute to the long-term strategy for economic growth and competitiveness. This combination may enhance engagement with investors and provide growth opportunities for the industry and the UK in the future.

The shape of a fully-digital investment ecosystem is becoming increasingly clear. And while the UK has the beginnings of such an ecosystem, it requires further coordination. Whether on digital wallet usage, digitalID, digital securities and investment funds or digital pounds, the groundwork is emerging for us to capitalise upon.

At the same time, the gap between today's reality and this vision of the future remains wide. Although no jurisdiction internationally has achieved what we would see as critical mass, some countries are starting to move ahead. The UK can keep up and emerge as a global leader, but it needs investment in infrastructure throughout the value chain and a coherent plan to move forward.

Progress towards tokenisation should be supercharged by putting in place a senior strategic oversight group to define what a fully digital UK retail investment eco-system will look like in practice. This should set out a vision of the future retail experience from individual investors with digital wallets to the underlying investment delivery architecture. Building on extensive existing reforms to modernise communication (CCI regime), investor support (Advice Guidance Boundary Review) and consumer protection regulation (Consumer Duty), this project will provide the technological momentum to make the UK one of the most forward-looking jurisdictions in the world.

A project that has multiple domestic benefits – greater retail participation in capital markets and greater funding potential for the UK economy – would also have a highly complementary international competitiveness element. It would establish operating principles for digital investment making the UK a more attractive jurisdiction to operate in and from, creating a new financial market infrastructure. While no 'big bang' regulatory equivalent can replicate the opportunities generated in the late 1980s, technology can help to create a different energy, connecting pools of capital in the UK and investment management expertise with the best of breed internationally.

We recognise that we cannot solve all the moving parts in this market, nor is the intention to try to create some form of centralised steering group. We contend is that by better defining what the market will look like, from the wallet to the investment process, we can better articulate and accelerate the process of development.

We aim to make a significant contribution to long-term UK competitiveness and growth in a key strategic area of the economy, while also delivering greater inclusion in the UK retail investment market.

**Question 5.3: What do you see as the most important ingredients for a thriving UK fintech sector in coming 10 years?**

A clearly defined vision enables firms to strategically plan and invest with a specific long-term objective. This vision opens up opportunities for fintech companies and also attracts resources and capital from large multinational investment and FMI firms. Additionally, it would bring support from various ancillary firms, such as legal services and FinTechs themselves for a well-supported ecosystem.

## Section Five:
## Sustainable finance: Supporting green opportunities

**Question 5.5: In the UK's sustainable finance framework, as set out in the Chancellor's Mansion House package, do you see barriers or gaps that would support the growth and competitiveness of the UK sustainable finance market?**

We welcome the Government's proposed objectives for the Financial Services strategy, which include a key goal to ensure that the UK remains "a world leading sustainable finance centre and global destination of choice for firms to raise green capital".
We are particularly pleased to see a clear signal on commitment to international standards across sustainable finance and UK leadership on emerging issues such as the regulation of ESG ratings providers, which also require an aligned cross-border approach. The complexity and speed of change here means that is vital that the approach is dynamic, focused on outcomes rather than prescriptive standards.

The sustainable finance framework set out by the Chancellor at Mansion House is consistent with UK Government policy over the last four years. Indeed, a taxonomy was first announced by a previous Chancellor in November 2020 and most other elements of this package predate and feature in the 2023 Green Finance Strategy. The Mansion House speech is welcome confirmation of a renewed commitment to sustainable finance under new political leadership. The delay in publishing consultations or initiating the endorsement process for UK Sustainability Reporting Standards are not the responsibility of the current Government however, the time between announcement and implementation of these initiatives may have an impact on the competitiveness of the UK sustainable finance market.

The IA was an early supporter of the incorporation of the IFRS sustainability standards in the UK and we regard transition planning and transition plans as an important element in the provision of financially material information to investors. As has been noted by the Green Finance Institute (and others), there are now nearly 50 taxonomies in use globally. The IA is in dialogue with the investment management industry on the potential use cases for a taxonomy and will respond to the consultation. The UK might make a virtue of the time it has taken to bring forward this consultation by seeking to learn from the errors that may have been made in other jurisdictions. Such an approach would allow consideration of how the overall package can support growth, alongside the important consideration of how to minimise the risk of greenwashing.

Overall, we do not consider there to be notable gaps in the sustainable finance package – although the lack of ability for firms to operationalise responsible investment activities on a global basis due to the proliferation of different regulatory demands can create barriers to an effective cross-border market for investments – we address this issue in more detail under question 5.6.

We encourage the Government to move fast to ensure there is no impact on the competitiveness of the UK sustainable finance market due to lag between announcements and implementation. We also encourage the Government to focus the next phase of work on developing the UK sustainable finance market around the emerging and established asset classes which will be essential to financing sustainable transitions, including carbon markets within the Paris Agreement framework, the wider adoption and issuance of green bonds (and potentially green dGilts), and how the National Wealth Fund can support the growth of green infrastructure investment in the UK.

In essence, the Government should look to tie the loose ends of the 'greening finance' work programme and turn its attention to working in partnership with the private sector on 'financing green'.

### Question 5.6: What do you think should be the UK's priority when engaging with the global sustainable finance agenda, both bilaterally and at a multilateral level?

In answer to Question 5.5 we urged that the Government should look to implement its 'greening finance' package promptly and turn to the growth and competitiveness opportunities of making and building individual sustainable finance markets.

In this vein, the UK's priority when engaging with the global sustainable finance agenda should be to achieve, to the greatest extent possible, international adoption of sustainability standards which are compatible with UK sustainability standards.
The processes associated with sustainability reporting carry a financial cost, and while this cost can be justified where it leads to better financial outcomes for clients and beneficiaries, policymakers should consider the impact of such costs on growth and competitiveness when developing standards. The creation or adoption of differing standards in different jurisdictions adds friction for companies and investors that operate across borders and multiplies the potential cost of compliance.

As the UK completes the process of consultation on its sustainable finance framework and concludes the endorsement process for UK SRS, we expect the settled policy will prioritise growth and competitiveness. The UK Government should then seek the adoption of similar standards internationally, focusing on leading financial centres. As an initiative that has been international and multilateral since conception, the IFRS sustainability standards are the most logical area of UK focus.

This engagement should include support for transition plans since the Transition Plan Taskforce materials have now been transferred to the IFRS. The UK's priority should be to ensure that other jurisdictions do not adopt expectations on transition plans which are incompatible with the approach that is (yet to be) adopted in the UK. It would, however, be overly prescriptive for the UK to seek the wholesale adoption of the TPT Disclosure Framework in other markets. If the UK adopts a green taxonomy focused on promoting growth and competitiveness, it should similarly seek to encourage other jurisdictions to ensure that their taxonomies (where they exist) add value to the investment process.

Concurrently, the UK should continue to engage through international platforms, including the UNFCCC, IOSCO and the G20, to ensure that the growing UK sustainable finance market can benefit from the establishment of more developed global markets for carbon credits and green bonds.

Lastly, we must emphasise the importance to investment management firms, companies and clients and ultimately, the UK economy, of international harmonisation of standards for sustainable finance. Many of the IA's member firms conduct business on a cross-border basis and fragmented approaches across different jurisdictions regarding sustainable and responsible investment disclosure requirements risk unnecessary complication and diseconomies of scale.

Whilst there is currently limited interoperability between the UK's Sustainability Disclosure Requirements (SDR) and investment labels regime and other prominent regimes (e.g. the Sustainable Finance Disclosure Regulation (SFDR) in the EU), the UK needs to ensure its regime is as compatible with other initiatives internationally as far as possible and where it is in the best interest of the investor. Effective interoperability or equivalence across cross border markets should be a guiding principle. The danger is that UK regulatory divergence works against a competitive and dynamic product market to the disadvantage of customers and as a hindrance to sustainable and inclusive growth.

### Question 5.7: What are the opportunities and barriers for the financial services sector in developing the products and/or services necessary to facilitate investment into the net zero transition?

The net-zero transition is an economy-wide challenge. At its core, it is a challenge concerned with decarbonising the energy system and changing methods and habits of industrial and domestic energy consumption. Financial institutions cannot develop products and services in isolation from the transition which must take place in the real economy. The opportunity arises from the potential agglomeration effect of a world-leading services sector operating in a domestic market which has demonstrated leadership in greening its energy system. There are two challenges that follow from this.

The first is that the UK's success so far leaves a more limited range of opportunities for further and future investment in the UK's decarbonisation. The UK's private financial institutions have played an important role in developing initiatives including the UK Emissions Trading Scheme and Contracts for Difference to encourage the growth of the UK renewables sector. While these were by no means straightforward achievements, it is acknowledged that the remaining decarbonisation pathway, which will require changes in surface transport, agriculture and land use, among others, presents complex challenges in areas which have not seen the desired progress in recent years.

The UK's investment management industry is investing to support this transition already and is looking for further opportunities to invest, including through infrastructure investment and equity and debt investment in corporates with credible transition plans.

However, for the transition to take place at the pace demanded by the Paris Agreement goals and the UK's carbon budgets, this investment will depend on a clear roadmap of supply and demand-side policies against which the transition plans of market participants can be judged, and which can give investors the confidence to identify and back innovation. A second challenge following from the UK's decarbonisation success relates to the need to support the global transition.

As was clear from the recent UN climate conference, the transition in emerging and developing economies will require climate finance from developed economies. The UK Government is among those that has argued that a share of this finance should be met by private finance. The UK investment management industry is global in nature and has ambitions to support the transition worldwide. Inevitably, less developed economies have less developed capital markets, and it will be important to consider the role the UK Government can play in allowing the UK financial services sector to support the transition in these economies. This may require more careful consideration of how the role of private finance is incorporated in multilateral discussions (and whether it is feasible for this to include the UNFCCC process).

It is also important to ensure that the policy environment around UK financial institutions is flexible enough for it to work across markets where attitudes differ from the emerging norms in the UK and Europe. The UK's success in phasing out coal should be celebrated but is of limited value in isolation. Indonesia's announcement that it plans to phase out coal by 2040 is one example of an ambitious target to which UK financial institutions can contribute with the right investment support.

Indonesia's phase out will not look the same as the UK's, and while there may be opportunities for UK financial institutions to support initiatives based on the lessons learned in the UK phase out and transition to renewables, it is equally important to be open to new methods. For example, policymakers in Singapore are pioneering the development of high-integrity transition credits to help accelerate and scale the early retirement of coal-fired power plants. Such an approach places an emphasis on avoided emissions which makes measurement and reporting on outcomes complex and may dissuade investment from markets with similarly complex regulatory disclosure standards. We encourage UK policymakers to work with their international counterparts to ensure a balance is struck between disclosure and innovation to enable UK financial institutions to support the global transition to net zero.

## Section Six:
## Growing UK and International Talent

**Question 4.10: What is your assessment of the UK's ability to attract global talent to the financial services sector?**

Access to global talent reinforces the UK's position as a leading investment management hub. Many of the world's most talented people choose to work in the UK. Partly this is the lure of working as part of a global asset management hub, but pulls outside our industry's direct control range from our cultural life to the exceptional education on offer for family members.

Attracting global talent is core to our ability to grow. UK-headquartered firms are responsible for just 38% of AUM in this country, compared to US-headquartered firms which are responsible for 51%. European-headquartered firms are responsible for another 10%. If the UK isn't an attractive place for those US and European senior teams to live and work, we will see the industry shrink.

But today it is not always easy for people to relocate and we do not always make people feel welcome, even those who could make an outsized personal contribution to UK growth. This is reflected in decision making: in the 'footloose index', which assesses the attractiveness of countries to internationally mobile talent, Britain has slipped from 6th to 14th place since 2010.

Practical problems include a slow and often difficult regulatory authorisations process (even when moving within companies from similar jurisdictions) and complex visa rules. Changes in the tax regime, particularly on inheritance tax, have led to perceptions that the UK is not welcoming to highly skilled workers.

Global investment managers need access to leaders with experience in global markets to remain competitive and innovative in an increasingly interconnected world. Professionals with international experience bring critical insights into market dynamics, customer preferences and regulatory landscapes. This expertise enables UK businesses to drive growth, increase investment and enhance their competitive edge in the global marketplace. As the global marketplace continues to grow and evolve, businesses will need to adapt to a more interconnected and competitive environment, making future access to global talent and expertise increasingly important.

To attract global talent, accessible immigration policies that encourage global leaders to move to the UK and enable them to continue to work in the UK are essential. Furthermore, international talent should have the opportunity to build and develop a community in the UK. Therefore, allowing them to bring dependents and family members should be an integral part of any immigration policy to attract global talent.

In addition to having accessible immigration policies, a tax system that appeals to global talent is vital for attracting skilled professionals with international experience. Competitive tax rates and stable, predictable tax policies are key. Frequent changes or unpredictability can deter high-skilled earners from relocating to the UK due to the risk of unexpected increases or complications, which are unhelpful when making significant life decisions. By maintaining consistent and stable tax policies that ensure professionals are not disadvantaged compared to other countries, the UK can attract and retain a world-class, mobile workforce.

Other countries, especially in Europe, are vying for international talent by offering incentives like tax breaks and simplified visa processes. The Portuguese government, for instance, has a clear strategy to actively invite skilled foreign workers to locate there through programmes including a 20% flat tax rate on certain professional incomes.

To enable the UK investment management industry to attract global talent and meet its skills needs, it is essential to offer favourable post-education working visas that allow employers to attract entry-level candidates with diverse skill sets to address skills shortages. Additionally, facilitating a smooth transition from the graduate visa to the skilled worker visa would further support this effort. For top international students, the opportunity to transition seamlessly from education to employment is a critical factor in choosing where to study. Simplified and favourable visa processes improve the UK's appeal, offering students the chance to apply their skills in sectors like investment management.

**Question 4.11: What is your assessment of the UK’s ability to effectively upskill and reskill domestic workers for roles in the financial services sector?**

The UK's ability to upskill and reskill domestic workers for roles in the investment management sector is built on a solid foundation, with a history of investing in skills and a culture of continuous professional development. However, as technological innovation and digital transformation continue to reshape the industry, ensuring workers have the necessary skills remains an ongoing challenge.

Investment managers recognise the critical need to upskill the broader workforce in key areas such as data analytics, cybersecurity, digital literacy, software development and artificial intelligence: today 15% of the industry’s workforce is in a tech related role.

This will rise in the future, and addressing these emerging skills gaps is essential, reflecting the increasing complexity of roles driven by technological advancements and digital transformations in the sector. Equally important is meeting the demand for highly specialised expertise in these fields, which requires more targeted and advanced training initiatives. Building a sustainable talent pipeline is crucial, as these advanced skills are not only vital to investment management and in growing demand but are also increasingly sought after across the wider economy. This underscores the need for cross-sector collaboration and long-term workforce planning.

Businesses are now putting greater emphasis on reskilling existing staff rather than relying on external hires. Critically, this promotes internal talent mobility, but in order to be effective, efforts in this space need to be more strategic and wider reaching. To ensure UK competitiveness in the future, consistent commitments must be made to improving access to training, ensuring that a wide range of the workforce is supported in developing the skills necessary to keep up with the sector's rapid technological changes. Just as important is the creation of adaptable learning pathways that can evolve alongside the sector's technological and market shifts.

Government initiatives, including apprenticeships, can support skills improvement across both emerging talent and the existing workforce. Funded through the employer-paid Apprenticeship Levy, apprenticeships offer an employer-led solution to upskill and reskill. However, greater flexibility is required to ensure that the industry can stay responsive to skills needs as they change in a fast-paced global marketplace.

Allowing flexibility in the new Skills and Growth Levy to fund short courses at all levels will enable UK investment managers to upskill and reskill domestic talent in business-critical areas. Employers should have responsibility for defining priority skills and there must be recognition that these will change as industry needs change.

Furthermore, the cross-border apprenticeship system within the devolved administrations, inhibits firms' ability to take an efficient nationwide approach to skills development and training.

Given the scale of demand for skilled professionals, it is essential that we engage the broader domestic population, ensuring that those still in school, college and university consider investment management as a viable career choice. Investment management is less well understood by tomorrow's talent pool compared to other sectors, partly because it lacks a high street presence and is also affected by low levels of financial literacy among young people, with only 47% of children having meaningful financial education, according to the Just Finance Foundation. To address this, the investment management industry looks to the government to support efforts to improve financial literacy through the school curriculum.

Critically, the industry seeks government support in extending an existing industry-led initiative which provides jobs and connects future talent to the sector. Investment20/20 was launched by industry leaders to take a sector-wide approach to accessing future talent pools and providing essential entry points into the sector.

Investment20/20 has supported over 2,700 young people to start a career in investment management, and through its education outreach programme, it has raised awareness among students in schools, colleges and universities about the wide range of careers in investment management. Investment20/20 reaches young people who may have limited familiarity with the sector, especially those without networks in the industry. It also works closely with investment managers to provide accessible entry-level roles that focus on hiring potential and offers a development programme to build necessary skills.

Equally important to these initiatives is the provision of work experience, which enables students to gain practical exposure to the sector. Government support can play a crucial role by incentivising firms to offer more structured work placements and internships, particularly for those who lack direct access to such opportunities. This real-world experience not only enhances employability but also ensures that young talent is equipped with the foundation skills and understanding needed to thrive in the evolving investment management sector, thereby supporting the industry's future skill needs.

Alongside addressing the necessary skills development, so too is there a greater need for robust support systems, such as career counselling and mentorship programmes, to help workers navigate their upskilling and reskilling journeys more effectively.

In conclusion, while the investment management industry has made significant progress in promoting technological, data and digital skills, as well as reaching future talent, ongoing collaboration between the government, education and training providers, and the industry is essential. This will be key to effectively addressing skills shortages and ensuring that workers are prepared for future roles in this rapidly evolving sector.

## Appendix 1: The Market Context

The stage in an economic cycle significantly impacts market outlooks. After the global financial crisis, central banks used accommodative monetary policies, leading to higher asset values and equity market returns. From 2011 to 2021, UK-managed assets grew at a compound annual rate of 9%.

Post-COVID, rising inflation, exacerbated by the Russia/Ukraine war, led central banks to raise interest rates to stabilise inflation. In 2024, as UK inflation neared the Bank of England's 2% target and inflation stabilised in the EU and US, central banks began cutting rates, benefiting companies valued on future earnings, easing borrowing costs, and improving the outlook for equity growth strategies.

However, as fiscal policy in the UK, the US, and Europe develops, the outlook for inflation is less certain, leading central banks to reassess the pace and scale of rate cuts. This will have a near-term impact on the outlook for market performance. In the long term, markets expect that interest rates of between 2% and 3% will be the new normal.

Markets prefer fiscal discipline, and the UK government's commitment to long-term, stable fiscal policy could make the UK relatively attractive compared to other developed markets. In the US, the president-elect's policies on trade and the economy could support economic growth, although significant growth will be inflationary. This could accelerate the flight to US equities as the major driver of returns and continue to draw international and domestic capital away from UK and European equities.

Looking at the US market also gives clues to future UK growth. Exceptional market performance in recent years has been driven by the very largest tech stocks. Performance excluding this has been good, but less notable. Therefore, seeing a similar performance in the UK markets will likely rely on encouraging the next wave of the most innovative companies to list here. Modernising the listing environment, including a drive towards digital asset management, will be key to this (explored in our answer to question 5.8).

Driving up household participation in the UK domestic market is a critical theme. The US market's dominance in driving returns also supports the shift to indexing strategies that we have seen since 2018, as investors do not want to be underweight the magnificent seven stocks – Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla —this could bring concentration risk. However, low-cost indexing strategies will continue to be a key building block of investor portfolios, and we have seen costs fall across active and indexing strategies in the UK to an average of 0.74% for funds with clean share classes compared with 0.90% a decade ago.

For active managers, a more complex outlook for global markets and trade could bring opportunities to deliver superior returns. The re-drawing of global supply chains along new lines and the dynamic between developed markets and centres of global trade, such as China, will significantly impact markets in the next 10 years. In the active space, the growth of private markets is a significant trend that will continue to accelerate as investors benefit over the long-term from an illiquidity premium and lack of correlation with public markets

– private credit, infrastructure, and real estate are all growth areas that can deliver strong returns and investing in private assets is an important opportunity to deploy productive capital into the UK.

## Appendix 2: Policy recommendations included in this document

**Question 3.1: Do you agree with the proposed objectives set out in paragraph 3.6?**

- Ensuring that the UK has a fully inclusive investment environment which enables the broadest range of people possible to confidently invest to grow their long-term financial security should be an additional objective in the Financial Services Competitive and Growth Strategy. This should include:
    - Consideration of the potential for a 'financial resilience score'
    - More effective financial education
    - Enabling the advice and guidance market to continue to evolve
    - Ensuring that regulatory decisions consider the differing financial literacy levels, and existing attitudes towards participating in investing, which different groups of consumers have. For example, in crafting disclosures and risk warning; and
    - Gaps in financial literacy should be considered when regulating all financial products, including cash products and cryptocurrencies, to ensure consumers are fully informed in a balanced and useful way.

**Question 3.3: What do you consider to be the most important trends or changes likely to affect the financial services industry over the next 10 years?**

- Ensure that pensions saving and retirement incomes are adequate through:
    - Bringing the self-employed into the Automatic Enrolment system
    - Increasing contribution rates from the current 8%, when appropriate; and
    - Fostering the creation of new decumulation and in-retirement financial products

**Question 4.1: Do you agree with the list of policy pillars that the government intends to focus on? Are there other areas that should be included?**

- Include 'the tax environment' as part of the regulatory environment pillar with a focus on the predictability; stability; simplicity and competitiveness factors which feed into business decisions on where to locate and grow.

**Question 4.9: How can we capitalise on synergies between different regional financial services hubs to support growth?**

- Support the Scottish investment management cluster to develop its technology, data, and boutique expertise.

- Support regional growth by encouraging the UK to become the domicile of choice for funds by reforming the UK's internationally-anomalous and uncompetitive VAT regime.

**Question 5.8: Are there any barriers to growth in capital markets that are not being targeted by existing government reforms? How can private and public markets be grown so that they best support UK growth?**

- Continue to champion "Modernising Capital Markets" including ongoing work such as the reform of the UK listing rules, the development of a UK consolidated tape for all asset classes, the transition to T+1, the review of the UK research market, the development of PISCES and creating optionality for payments for investment research.
- Support the buy-side community's work towards the automation of IPOs, making the UK listing process more efficient.
- Support the wider digitisation of the market, including policy and regulatory work on tokenisation.
- Consider the abolition or phased reduction of stamp taxes on shares of UK-listed equities, which is an international outlier, to re-invigorate interest in UK markets.
- Encourage changes to the policies governing corporate defined benefit (DB) pensions schemes to push further capital market growth. These include new guidance for trustees, an increase in protection offered by the Pension Protection Fund (PPF), and mechanisms to support surplus sharing.
- Commission a study on the role of AIM, echoing recent work on junior markets across Europe, to ensure that it continues to be attractive in light of changes (particularly IHT) which may have has a negative impact on perceptions of it.
- Commission a study on the potential for regional municipal bonds, which could help to power the UK's regions, and the infrastructure needed within them.

**Question 4.6: What is your assessment of the UK's current regulatory environment?**

- Ensure that the support shown by the FCA and PRA's leadership for competitiveness and growth is echoed throughout all levels of the regulators' work.
- Regulatory attitudes which support competitiveness and growth should echoed not just in policy setting, but in the way that regulators work with the financial services industry and in the interaction between regulators including the work of the FOS.
- Reconsider the FSCS 'look through' rule, which currently means that investment managers account for around 20% of the total levy despite the sector never having been the cause of a claim.

**Question 4.7: How can regulation support responsible and informed risk-taking?**

- Ensure that regulation considers positive outcomes, in addition to harm prevention. By way of example, this should include reforming regulatory disclosures by:
    - reforming the disclosures on investment products so they inform not just warn consumers; and
    - providing consistent risk information across all financial products, including cash products.

- Ensure regulation takes into account the difference between wholesale and retail financial services and does not apply unnecessary burdens on wholesale services which are designed to address specific retail circumstances.

**Question 3.2: [For Financial Services Organisations] For firms operating in more than one jurisdiction, what are the main drivers affecting your decisions on where to invest?**

- Take a tripartite approach to promoting UK financial services which draws together government, industry, and regulator – an approach successfully adopt by other jurisdictions competing with the UK.

**Question 4.13: What opportunities should the government seek to advance through its international financial services relationships?**

- Support a closer relationship between the UK and the EU, our single largest market for investment management products, on financial services. Specifically, government should preserve the UK's position as a major global portfolio management centre.

- Provide greater certainty on settlement, trading, and clearing activities for market participants based in the UK and EU.

- Strengthen government support for the Joint Forum on Regulatory Cooperation, including possible industry participation, scheduled for its third meeting in early 2025.

- Support the concept of “deference” which was identified by the G20 Leaders as a tool that authorities may use to help make reforms across jurisdictions interact better and facilitate the meeting of the objectives of those reforms.

- Work with industry on future trade agreements (as well as current dialogues) to ensure that UK-based managers have the routes to access markets throughout the world and the world is able to invest in the UK.

- Achieve mutual recognition, or “substituted compliance” for the U.S., to encourage cross-border establishment of firms.

- Redouble support for the industry-financed, Global Investment Management Summit in 2025. This could reach even more of the world's asset owners and reinforce the UK's status as a leading global investment management destination if given firm Cabinet-level support.

**Question 4.4: What is your assessment of how effectively the UK supports innovation and the adoption of new technology? What could be improved in the financial services sector?**

- Reconvene the Asset Management Taskforce, with the objective of establishing the UK as the world's leading digital centre for investment management. This can also ensure the implementation of the previous recommendations made by the taskforce, including on tokenisation and AI.

**Question 5.5: In the UK's sustainable finance framework, as set out in the Chancellor's Mansion House package, do you see barriers or gaps that would support the growth and competitiveness of the UK sustainable finance market?**

- Ensure there is no impact on the competitiveness of the UK sustainable finance market due to lag between announcements and implementation.

- Develop the UK sustainable finance market around the emerging and established asset classes which will be essential to financing sustainable transitions, including carbon markets within the Paris Agreement framework, the wider adoption and issuance of green bonds (and potentially green dGilts), and how the National Wealth Fund can support the growth of green infrastructure investment in the UK.

**Question 5.6: What do you think should be the UK's priority when engaging with the global sustainable finance agenda, both bilaterally and at a multilateral level?**

- Achieve, to the greatest extent possible, international adoption of sustainability standards which are compatible with UK sustainability standards.

- Prioritise growth and competitiveness as the UK completes the process of consultation on its sustainable finance framework and concludes the endorsement process for UK SRS. The UK Government should then seek the adoption of similar standards internationally.

- Whilst there is currently limited interoperability between the UK's Sustainability Disclosure Requirements (SDR) and investment labels regime and other prominent regimes (e.g. the Sustainable Finance Disclosure Regulation (SFDR) in the EU), the UK needs to ensure its regime is as compatible with other initiatives internationally as far as possible and where it is in the best interest of the investor.

**Question 5.7: What are the opportunities and barriers for the financial services sector in developing the products and/or services necessary to facilitate investment into the net zero transition?**

- Provide a clear roadmap of supply and demand-side policies against which the transition plans of market participants can be judged, and which can give investors the confidence to identify and back innovation.

**Question 4.10: What is your assessment of the UK's ability to attract global talent to the financial services sector?**

- Champion accessible immigration policies that encourage global leaders to move to the UK and enable them to continue to work in the UK, including through bringing dependents and family members.

- Develop a tax system that appeals to global talent to attract skilled professionals with international experience through competitive tax rates and stable, predictable tax.

- Offer favourable post-education working visas that allow employers to attract entry-level candidates with diverse skill sets to address skills shortages. Facilitate a smooth transition from the graduate visa to the skilled worker visa.

**Question 4.11: What is your assessment of the UK's ability to effectively upskill and reskill domestic workers for roles in the financial services sector?**

- Allow flexibility in the new Skills and Growth Levy to fund short courses at all levels, enabling UK investment managers to upskill and reskill domestic talent in business-critical areas. Employers should have responsibility for defining priority skills and there must be recognition that these will change as industry needs change.

- Support the extension of existing industry-led initiatives which provides jobs and connects future talent to the sector, such as Investment20/20 which takes a sector-wide approach to accessing future talent pools and providing new entry points.