LEADING THE PACK

Keeping UK investment management world leading

July 2021

ABOUT THE IA

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad.

Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.5trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. IA members hold in total over one third (36%) of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account.

INTRODUCTION

INVESTMENT MANAGEMENT IS VITALLY IMPORTANT TO THE UK ECONOMY.

In total, UK investment managers look after £8.5 trillion. This makes the UK the second largest investment centre in the world, second only to the US in scale, and bigger than the next three centres in Europe (France, Germany and Switzerland) combined. Over a third of the total assets under management in the UK – £3.6 trillion – is managed on behalf of savers from outside the UK.

The UK has many natural advantages which have helped us to build this position, among them our legal system, time zone and the English language. But the right regulatory system, skills and outlook is needed to transform this into true competitiveness.

This brings immense benefits to communities all across the UK. The scale and success of the industry contributes directly to the economy: it is responsible for 4% of the UK's exports in services and contributes £4.5 billion in tax each year.

There are many indirect benefits, too. Having a world leading investment sector right here in the UK makes it easier for British savers to access the very best products and expertise. Overall, three quarters of UK households use the services of an investment manager to help them to invest their savings and, in particular, to plan for their later life.

It also means that investment decisions are made close to the UK businesses and infrastructure projects which rely on the capital channeled into them by investment managers. In total, IA members have invested over £1.6 trillion in the UK economy through shares, bonds, property and infrastructure.

This is precisely the moment that the UK's strength in investment management should be nurtured. Our recovery from the pandemic means that the jobs, tax revenue and export earnings that the industry provides are needed more than ever.

It also means that businesses across the economy have needed fresh capital to weather the storm and to reshape their activity for the new world: in the six months after the UK's initial lockdown in March 2020, investment managers channelled over £22 billion into the UK to help businesses to ride out the storm and to reshape themselves for the new world. Investment managers are most often thought of as investing in FTSE companies, but they also provide capital to small companies and private businesses all around the UK.

But this position is not automatic, and other leading centres (notably Shanghai, Hong Kong and Singapore) are beginning to challenge. If the UK does not stay innovative and welcoming to international business, this risks being lost.

Now is therefore the right time to cement the UK's position, making sure that we are more attractive not only than the traditional financial centres in Europe and North America, but also from newer locations which might be perceived as more dynamic: today we are competing globally not just against established markets.

This document sets out how that could be done by optimising the business environment; encouraging innovation; and capitalising on our global outlook.

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1. A SUPPORTIVE BUSINESS ENVIRONMENT

The UK is already a leading centre for international investment management, built on strong businesses working together with a supportive policy environment. The wider context in which investment managers work needs constant refinement to ensure that the world's leading businesses choose to locate here and so that domestic firms can thrive.

Engage with business effectively

Positive, timely and open engagement from all parts of government is more valuable now than ever before, as businesses continue to review their operations to meet the demands of the evolving regulatory and political environment and make long term business and investment decisions.

This includes both areas of new legislation and policy changes as well as navigating through existing legislation. It needs to be ensured that any policy initiatives and new legislation are introduced with advanced notice and sufficient prior consultation; and that existing legislation (and tax policies) are applied on a consistent basis.

We urge that as the government considers the future tax regime in particular, strong emphasis is placed on a coherent, longer term strategy that is widely communicated and builds in sufficient time for consulting with stakeholders.

Make the UK the go to destination for international businesses and talent:

One in five of the people employed in UK investment management are international workers, bringing with them expertise and innovation not just about this specific service, but about the global investment opportunities available and the needs of consumers around the world.

This international outlook is what has made the UK a global hub for investment management. Today, teams based in London use the expertise of native Italian speakers to trade Italian equities; of French analysts to price French bonds; and Brazilian economists to make decisions on Brazilian infrastructure investment, all pooling their expertise to help savers from across the UK find the very best opportunities.

This openness to international workers must be protected, not simply in terms of ensuring that people with the right skills and expertise can work in the UK, but also that the immigration and visa system is flexible enough to allow businesses to recruit easily, and simple for both firms and individuals to administer.

In particular, fast track FCA approval for senior managers – those most likely to be brought in to roles which will boost productivity – would help to ensure that world class leaders bring their expertise to the UK. So too would a smooth process for intra-company transfers, allowing organisations to make sure that the very best of their global workforce can come to the UK.

These issues are given particular resonance as international travel restrictions ease as we emerge from this phase of the pandemic. Business travel should be made simple as it is restarted: keeping travel routes open and safe and providing as much clarity as possible on the documentation and restrictions needed to keep movement secure will encourage this vital flow of talent.

Building British Talent

Companies thrive when they are made up of the most talented people from all backgrounds, and the investment industry is focused on making sure that people from across the UK can have successful careers with us.

A vital part of this is Investment20/20, the Investment Association's talent service with a focus on widening access to diverse talent as people start their careers. Investment20/20 encourages people from all walks of life to take advantage of the career opportunities offered in investment management. It aims to ensure the investment management industry has a diverse domestic entry-level talent pipeline and provide an approachable and informative careers service for teachers, lecturers, careers guidance experts and the students themselves across schools, colleges and universities.

This is also why the IA has become the only industry body in the UK to provide a gateway to the Kickstart Programme, aimed at supporting young people hit by the pandemic into successful careers, without taking public money.

Creating a supportive regulatory culture

A regulatory culture which is positive, supportive and effective is one of the most important factors in allowing home grown businesses to thrive and global businesses to choose to base here.

Following the UK's departure from the EU, we now have a unique opportunity to update our regulatory framework ensuring that it remains appropriate to meet the social, economic and geopolitical challenges that are ahead. This is timely: our regulatory system must have competitiveness hard wired into it, ensuring that the UK is the best place to offer and consume investment management. It must also be nimble, able to support rapid innovation in areas such as climate change and FinTech.

In particular, the current system of formal post-implementation regulatory reviews should be augmented with a 'fail fast' mechanism for policy changes that are not meeting cost benefit analysis criteria or achieving the intended outcomes. This should help to address any failing regulations which threaten to undermine the UK's competitiveness before harm is done.

A high cost regulatory regime acts as a powerful disincentive for firms to establish themselves or stay in the UK and the current inexorable rise must be addressed. The stand-out item in this regard is the FSCS levy.

Our industry has seen a rapid increase in its contribution to the scheme. Despite its relatively low risk profile, which has remained unchanged over a number of years, we now fully fund 24% of the cost (£200m of £833m levy). This unreasonable level of increase cuts deeply against the proportionality of costs levied on industries (given that FSCS levy increases are driven by poor behaviours outside the investment management sector). An urgent review of the purpose and scope of the FSCS levy is long overdue, including consideration of reinstating the "polluter pays" principle.

Protect the position of the UK as a leading international financial services hub

As a widely recognised international norm, delegation is central to the proper and efficient operation of the investment management industry. In the same way using global supply chains allows a plane manufacture to acquire a fuselage in one market, wings in another, and an engine in a third – minimising costs and leveraging local expertise in the process - the ability to delegate portfolio management functions to the UK has proven integral to its success as a world leading investment management centre.

Portfolio management sits at the beginning of the financial services value chain with many other related financial and professional services existing to support the sector. Of the nearly 114,00 people employed directly or indirectly in our industry in the UK, 24% are in portfolio management roles with an addition 14% in supporting roles such as research, analysis and administration. Critically, of the £8.5trn in assets currently under management in the UK, £2.1trn is for clients based in Europe using delegation arrangements.

When carried out under robust supervision and oversight, the delegation principle allows fund managers in one jurisdiction to benefit from the experience and investment expertise in another, all while lowering costs for investors thanks to the economies of scale that can be created. It also helps to reduce barriers to entry for new fund providers by permitting the outsourcing of core functions that would otherwise be too prohibitive to carry out internally, in turn fostering competition and innovation in the fund industry. The UK's investment management industry is built on the delegation principle and the British government agrees that maintaining it is critical.

Stabilise our future relationship with the EU

The UK and EU will need to work closely together as our regulatory regimes develop separately, letting companies work across the UK and the EU seamlessly. As the new process for doing this is established, the IA encourages policymakers from all sides to:

★ **Empower consumers:**
Individuals should be empowered to make investment decisions that work best for their own circumstances, considering both the risks and opportunities, and enjoy access to a wide range of products. The UK and the EU should work to ensure consumers are treated fairly and supported by meaningful, transparent disclosures, with respective regimes cognisant of the unique requirements of each other's local market.

★ **Promote regulatory and supervisory coherence:**
Recognising the global nature of the industry, the UK and the EU should strive for more consistent regulatory and supervisory approaches to be adopted based on agreed international norms, especially in areas such as sustainability which cross national borders. Where appropriate, the UK and the EU should seek to align positions within international fora, promoting a more coherent set of standards for those operating on a cross-border basis.

★ **Facilitate cross-border investment:**
Firms should be able to offer products and services freely on a cross-border basis, without limitation based on geographic location. The UK and the EU should seek to promote open international trade, acknowledge the benefits of supervisory deference, and support fair competition amongst market participants – taking into account wider concerns regarding financial stability and market integrity.

★ **Inspire the use of technology and digital innovation:**
The transformation of the industry, and levels of investor engagement, will depend on the availability of secure, affordable, and high-quality data. The UK and the EU should build upon existing data adequacy arrangements and adopt more innovative and agile methods of sharing critical market-related information between the two jurisdictions. The UK could look to leverage its fintech expertise to encourage more efficient methods of supporting clients in the EU.

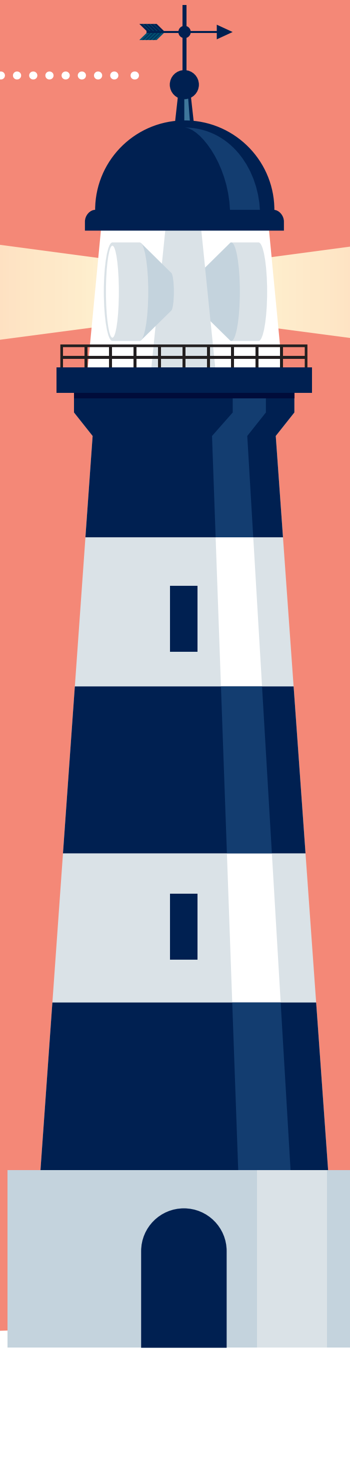
Allow UK capital markets to thrive

Capital markets play an important role in advancing opportunities for both investors and businesses, and increasing diversification and risk sharing, and the depth of liquidity in UK markets is an important factor in our global standing. It is imperative that this is protected and enhanced.

In particular, London's place as a deep and sophisticated capital market is underpinned by its role as a venue for new listings. As the needs of companies looking to list changes, we need to consider whether the UK's listings regime should adapt. We support the government's work in this area through Lord Hill's listing review, to attract a diverse range of high-quality, innovative companies from high growth sectors to list and operate in the UK.

It is important government is aligned in its thinking across Whitehall to ensure the UK is strategically positioned to attract a diverse range of high-quality companies from key sectors to list and operate in the UK is essential to providing jobs, investment and tax revenues and delivering a sustainable economic recovery that supports the UK in achieving its net zero commitments. For example, some of the measures included in the National Security and Investment Act may act as a deterrent to the types of companies which the listings Review is seeking to attract.

Crucial to the UK's international competitiveness is our reputation as a leader in stewardship and corporate governance. The UK enjoys a high level of investor confidence, attracting the capital of both domestic and overseas investors to UK equities. Higher governance standards, flexibility through the comply and explain regime and an appropriate regulatory approach combined with effective investor engagement are seen by overseas investors as representing lower risk, meaning companies can raise capital at a lower cost than competitors in markets which are perceived to have lower standards.



To support the strengthening of stewardship in the UK, the investment management industry is working with HM Treasury's Asset Management Taskforce to improve stewardship practices in the UK. Last year we published Investing with Purpose, a report for the Taskforce on placing stewardship at the heart of sustainable growth. This work will further improve stewardship practices and embed the consideration of material environmental, social and governance (ESG) in UK companies.

It is also important to remember as the audit sector is reformed that investors rely on the information presented in a company's annual report and accounts and other disclosures to make informed investment decisions and hold companies to account. The quality and robustness of the audits of these accounts and disclosures is therefore essential and should be at the forefront of the audit reforms. Having a world leading audit regime will be important to the UK's future ability to attract international capital.

Ensure the UK is home to a competitive, predictable tax regime

It is imperative for the UK to have a tax regime that is competitive, stable and predictable, so that businesses have the confidence to make long term decisions. The UK's exit from the EU as well as the increasing pressure on the public finances as a result of COVID-19 raise important questions about the future of the UK's tax regime in the immediate and the longer term.

In particular, we need a clear roadmap across the range of taxes, including corporate tax, income tax, capital gains tax and VAT combined with early consultation with sufficient lead time for taxpayers and businesses to prepare for upcoming changes. Frequent incremental changes to the tax rules without a broader longer-term strategic plan, have the effect of undermining the competitiveness of the tax system. Much like the UK regulatory regime, there need to be formal post-implementation reviews of tax policy, augmented with a 'fail fast' mechanism for policy changes that are not meeting wider economic cost benefit analysis criteria or achieving the intended outcomes.

It is important to ensure that the tax competitiveness is looked at holistically and the anticipated VAT in Fund Management review has the primary aim of enhancing competitiveness and commences formally as soon as possible running in parallel and in coherence with the UK Fund Regime review.

It is encouraging to see the government recognising the importance of innovation and investment and we very much welcome the announcement of super deduction for new investments and the review of the UK's Research & Development (R&D) tax credit regime. The investment management industry, is a great consumer of technology and innovation. A regime that supports and encourages this, will have a positive effect on the role that the sector can play in promoting the wider government objective of increasing R&D spend as a proportion of GDP. It is critical that the UK VAT regime also keeps up with technological changes in the way in which businesses is carried out and services delivered so that it can truly be brought into the 21st century.

More generally, we urge the government to take both a stronger and more pragmatic line on issues where there is perceived risk to the tax base. Recent announcements with regard to reducing the 'Tax Gap' through the Uncertain Tax Positions, Transfer Pricing Documentation and Making Tax Digital for Corporation Tax have looked at generalised solutions to specific problems and while we agree with the objectives set out by HMT and HMRC, it is important to take a proportionate approach that does not unduly add significant compliance and systems costs for businesses chipping away at competitiveness.

The UK should also protect the interest of savers and investors in UK funds. This must involve reviewing double tax agreements with EU27 member states with a view to removing withholding taxes that UK funds now suffer from following the UK's exit from the EU. This significantly impacts on the returns of savers and investors in UK funds, thereby damaging the competitiveness of UK funds investing in the EU compared to their EU counterparts.

2. LEADING THE WORLD

We have a chance now to reshape the policy and regulatory environment to further enable world-class delivery of products and services both to UK savers and investors, and the millions of overseas customers served directly or indirectly from the UK. As we review the overall UK regulatory architecture we can put in place changes to increase the UK's commercial attractiveness, providing opportunities for firms to develop new products and seek new trading opportunities, giving the UK an edge over international competitors.

Develop sector-specific net zero transition plans

Climate change is one of the most urgent and significant systemic risks the world faces, and we are committed to the UK's vision for a successful COP26 that drives change. This will both support the action on climate change we need, and cement the UK as a home for the activity that underpins this. We recognise that if the threat of climate change is not addressed it will fundamentally undermine the basis on which our economy, businesses and jobs are founded. We have welcomed the government's intention to set out a roadmap to ensure mandatory Task Force on Climate-related Financial Disclosures (TCFD) reporting across the economy by 2025.

We ask the government to set out, as soon as it is able, clear, long term signals and guidance on the nature and speed of the UK's transition to net zero, including the specific actions that will be necessary in every sector of the economy. The industry is keen to work with policymakers to help identify clear pathways to transition for different sectors of the economy and help tackle any gaps between the intention and delivery of the Paris Agreement goals. This will enable investment managers to factor climate transition risks more accurately into their investment decisions for the long term benefit of their clients and the planet.

A reputation for sustainability

The UK has a world-wide reputation for sustainability – in 2008 we became the first country to set a legally binding climate change target – and this bolsters a particular expertise in sustainable finance.

The Z/Yen Global Financial Centres Index (GFCI) is the leading tool for measuring the attractiveness of financial centres. While London is ranked on GFCI as the second most competitive financial centre in the world, it is also ranked as the third highest green financial centre on Z/Yen's Global Green Finance Index. No other financial centre ranks higher on both indexes.

Hosting COP26 in Glasgow later this year has placed an impetus towards sustainability and responsible investment in the UK. A level of investment industry expertise which has been decades in the making has been supplemented by activity from UK policymakers which is accelerating the UK's assent to being the preeminent global centre for sustainable and responsible investment. The legacy of COP26 should not only be in the area of global agreement on climate action but in the enhancement of an industry in the UK which can play an important part in serving global needs.

Introduce Green Gilts

We strongly welcome the government's plan to issue a Green Gilt, as a signal of the importance they place on the UK as a home for green investment. This comes at an opportune time: not only in striving to achieve the UK's net zero target but also in seeking to meet social and economic needs in order to support post-Brexit, post-COVID-19 sustainable growth which is in line with the government's 'levelling up' goals.

The gilts must now be designed to meet both the government's funding needs and the needs of savers looking to invest for the future. This should ensure that proceeds are strictly used for their intended purpose, they are medium or long dated to match the time horizon of the projects they are invested in, and that their sustainable objectives are audited in line with the International Capital Markets Association Green Bond Principles.

The IA believes that it is particularly important that the projects funded by these gilts have social benefits, as well as environmental ones, to ensure that they are truly sustainable for communities as well as the planet. No other similar gilt has this requirement, and including it would demonstrate the UK to be a world leader on social and environmental financing.

Maintain a leading-edge on FinTech

The FCA is already seen as the leading global regulatory body for FinTechs. This could be enhanced by scaling-up Project Innovate, the FCA's FinTech arm, to strengthen support for domestic and foreign FinTechs operating within investment management and related buy-side sectors.

We also recommend including FinTech as part of the UK's economic diplomacy (and the openness agenda), specifically by creating and fostering buy-side specific FinTech partnerships.

An example of such partnerships can be seen within the Global Partner Programme put together by the IA's fintech accelerator Engine, which focusses on establishing relations and facilitating the sharing of insights with key international FinTech Hubs.

The UK FinTech Hub

Investment management is underpinned by swiftly evolving technology, transforming every aspect of our systems and processes, from finding investment opportunities to operational efficiency and customer communications.

This is already happening, facilitating new products such as exchange traded funds, cost effective ways of reaching customers (such as robo-advice) and dramatic changes in the speed and process of trading in capital markets.

Increasingly, UK investment managers are benefitting from working alongside the UK's growing FinTech hub. This will help to drive competitiveness and innovation, leading to better products and services at lower cost.

To help create the right conditions for UK FinTech to flourish, in 2018 the IA established a FinTech hub and accelerator, Engine. Engine is boosting the investment management industry's adoption of new technologies and helping investment managers to identify new investment opportunities, work more efficiently and cut costs, ultimately benefiting our customers in the UK and around the world.

The IA Engine's Global Partnerships programme enables the innovation of UK buy-side FinTechs to work hand-in-hand with both member firms and in overseas markets, such as the Gulf, Japan and Singapore.

Show the UK's innovation through the Long Term Asset Fund (LTAF)

The Long Term Asset Fund (LTAF) is a new fund structure, developed by the IA and HM Treasury, allowing wider access to assets such as infrastructure and private companies which are not regularly traded. It will provide the benefits of greater diversification for pension savers and investors, while helping to provide much needed additional investment for the UK economy.

There is growing international demand for access to long term assets such as infrastructure and building projects, so structures such as the LTAF will help the UK to keep its place as a leading global centre for investment management, linking to wider important opportunities such as the development of green finance as part of the wider focus on sustainable long term growth. It should also be used as a tool to show the UK's innovation and ability to provide solutions increasingly needed by the wider world.

Create a globally attractive UK funds range

There is an opportunity right now for the UK to create a globally attractive fund regime – our shop front for funds which can be marketed around the world. Government is in the process of looking at reforms which are intended at enhancing the UK's attractiveness as a fund domicile, and potentially with it, wider investment management activity.

The UK's opportunity is to attract new investment approaches especially in areas where we already excel such as green finance.

Investment is a dynamic, not static process, and the UK needs to be innovative and responsive, with support from government and regulators. In a post-Brexit context, developing a more attractive fund domicile may also mitigate the risk of a more challenging approach to delegation in the EU, should this arise, resulting in relocation of portfolio management capability outside the UK.

This should be done though:

- Developing both the Long Term Assets Fund LTAF and the Onshore Professional Fund (OPF) regime and enhance the flexibility of the Qualified Investor Scheme. The OPF could in turn be prioritised according to areas which are the most straightforward to implement in terms of legislation, notably the Professional Investor Fund (PIF) contractual scheme structure.
- Working with industry to establish a branding and naming approach that will aim to provide a coherent and attractive UK framework, from the OPF through to UCITS.
- Implementing a competitive direct tax and VAT regime for funds that aims at greater simplicity and stability in the longer term, while minimising administration costs.

Taken together, these areas will help to increase the confidence in the UK which will in turn provide the key ingredients for future success as a fund domicile.

3. A GLOBAL ATTITUDE

The government and regulators should encourage an open and outward looking attitude, priming investment managers to take advantage of the global opportunities on offer.

Support trade ambitions

Britain's investment managers are ambitious and adventurous, constantly looking for new markets. This is most effective when it is backed by practical support from government.

This has already proven to be a successful model: the UK-Brazil Economic & Financial Dialogue encouraged Brazil to lift the regulatory hurdles placed in front of Brazilian pension funds, making it easier now for them to use IA members to diversify their investments overseas.

This can and should also be reflected in trade agreements as the UK starts to reshape its trading links. The new UK-Australia FTA is an example of this, including its investment protection provisions for portfolio investment, a recognition of the role of back-offices to stop forced localisation measures, a recognition of the need to keep free flows of data, and steps to make it easier to move staff between UK and Australian offices.

This type of practical support from government backed by a can-do attitude and regular dialogue with exporters should continue, giving companies the backing they need to turn opportunities into outcomes.

As an example, the tripartite approach of government, industry and regulator, as used successfully in other major markets, should be adopted in the UK. The relative success of other jurisdictions has been driven by an agile regulatory environment combined with strong and enduring political and regulatory support in promoting those jurisdictions' business interests internationally.

Draw on the full international toolbox for mutually beneficial cooperation and mutual access

Working with the industry to identify key markets, HM Treasury should use the full range of policy routes to advance cooperation, including free trade agreements (FTAs), regulatory dialogues, MOUs, tax treaties and data agreements, with mutual recognition as the key platform. The role of FTAs and regulatory dialogues are to clear the way for savers and investors to have the maximum choice of fund and fund manager, placing the UK at the centre of international capital allocation.

This approach is reflected in the inclusion of financial services regulatory dialogue in the UK-Japan Comprehensive Economic Partnership and the UK-Swiss MOU with its intent to negotiate an ambitious, outcomes-based mutual recognition agreement between the UK and Switzerland. For the latter, the IA has made separate representations and is supportive of the Chancellor's belief that, "it is possible to achieve genuinely fluid cross-border trade in financial services, while recognising that different jurisdictions can achieve the same outcomes in different ways".

Strengthen the UK's voice in global rule-making

The UK has a well-respected reputation as a leader on financial services regulation. The government has developed a meaningful dialogue with free trade agreement partners to address market access issues and take advantage of the opportunities from greater cooperation. The IA is a member of the government's Financial Services Trade Advisory Group which provides HM Treasury and the Department for International Trade with strategic insights into how the sector is responding to trade developments. We recommend the UK leverage strong bilateral partnerships with the major markets, their regulators and governments as part of a wider approach to economic diplomacy and that the UK makes the representation of the UK's interests on international bodies, such as IOSCO, a metric for measuring the performance of the FCA, PRA and other authorities. In future this will become particularly important in areas where the UK can play a natural leadership role, for instance as the norms governing sustainability and green finance are fixed. The UK has an opportunity to lead here, establishing a set of rules which allow seamless work across borders and simplifying the process of living up to the standards of sustainability which are increasingly expected of us.

A world leading investment management industry gives world leading benefits at home.

The scale and success of the industry contributes directly to the economy: it is responsible for 4% of the UK's exports in services and contributes £4.5 billion in tax each year.

It makes it easier for British savers to access the very best products and expertise: overall, three quarters of UK households use the services of an investment manager to help them to invest their savings and, in particular, to plan for their later life.

And it means that investment decisions are made close to the UK businesses and infrastructure projects which rely on the capital channeled into them by investment managers. In total, IA members have invested over £1.6 trillion in the UK economy through shares, bonds, property and infrastructure.

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THE INVESTMENT ASSOCIATION

The Investment Association
Camomile Court, 23 Camomile Street, London, EC3A 7LL

www.theia.org
@InvAssoc

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