Department for Business Innovation & Skills

Mr Jonathan Djanogly MP
Chair – APPG on Corporate Governance
House of Commons
London
SW1A 0AA

The Rt Hon Anna Soubry MP
Minister of State for Small Business, Industry and Enterprise

1 Victoria Street
London
SW1H 0ET

T +44 (0) 20 7215 5000
E enquiries@bis.gov.uk

www.gov.uk/bis

Our ref: MCB2016/09884

Dear Jonathan, 12 May 2016

Thank you for your letter of 20 April to the Rt Hon Sajid Javid MP, highlighting the report on 'The Decline of the Public Corporation' that the London Business School has produced for the All-Party Parliamentary Group on Corporate Governance. I am replying in view of my responsibility for business finance policy within BIS.

The report is a valuable and thoughtful contribution to the debate around the on-going relative decline of public market financing for business. There are of course many reasons cited for this trend both in the UK and globally, including the rise of Private Equity, the significant reduction in equity holdings by pension and insurance funds over the past 20 years and perceptions around the costs and regulatory requirements of taking a company to public market and keeping it there.

While some aspects of this trend are benign and even positive (such as the development of more alternative sources of finance), I agree that a long-term continued move away from public equity financing would be a concern. At its best, equity financing drives more knowledgeable and long-term investment, coupled with greater transparency in the ownership and use of the assets of publicly listed companies.

The Government has taken steps in recent years to support the London Stock Exchange (LSE) in attracting more companies to list on the LSE's Alternative Investment Market (AIM) and through the LSE's new High Growth Segment (HGS). These include the abolition of stamp duty on AIM and HGS shares in 2014, and the extension of ISAs to include AIM shares in 2013. The LSE has also introduced a not-for-profit programme which supports high growth businesses build a path to IPO on AIM or the Main Market.

Additionally, the European Commission's Capital Markets Union Action Plan contains a number of commitments to promote stronger European equity markets and to reduce the costs of taking companies to market. These include a major reform of the Prospectus Directive, with which the UK is closely engaged, that has great potential to reduce the cost and time needed by companies to prepare equity prospectuses for investors.

The APPG on Corporate Governance may also wish to note, if it has not already seen, the publication in March of a major action plan on long-termism by the Investment Association. The plan includes tangible commitments to align better the incentives across the investment chain, and promote a more unified investor-company approach based on common KPIs for long-term value creation. This provides a valuable opportunity to revitalise the public corporation model as an efficient allocator of capital while increasing the attractiveness of public markets to new and established companies.

Thank you again for bringing the London Business School's report to our attention and for highlighting this important issue.

Yours ever,

AS

THE RT HON ANNA SOUBRY MP