NAPF Response
HM Treasury Consultation 'A new approach to financial regulation'

1 About NAPF

The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector. UK pension schemes directly own around 13 per cent of the UK equity market, a figure which is considerably increased once indirect holdings through insurance policies and unitised products are taken into account. They are also major investors in international equities, in gilts and in corporate bonds.

As major institutional investors dedicated to the provision of occupational pensions for millions of workers and pensioners, our pension scheme members have a particular interest in the integrity and efficient functioning of the capital markets. We are grateful for the opportunity to reply to the Treasury's consultation on its proposed approach to financial regulation.

2 Summary

Our response is restricted to Questions 17 and 18. We argue that primary and secondary market regulation must be undertaken within the same regulator. In the model proposed in the consultation document this would be the Consumer Protection and Markets Authority (CPMA).

3 NAPF response

3.1 *Question 17. The Government would welcome views on whether the UKLA should be merged with the FRC, as a first step towards creating a companies regulator under the BIS.*

3.1.1 Primary markets regulation is essentially a matter of financial and securities regulation rather than of company law. Little more than one twentieth of the 20,000 securities admitted to the Official List are equity securities issued by UK companies, the bulk of the remainder being UK and international corporate bonds and sovereign debt. The UK Listing Authority (UKLA), as the UK's primary markets regulator, thus sits more logically with financial markets regulation than with company law. In the model proposed in the Treasury's consultation document, this would be the markets division of the Consumer Protection and Markets Authority (CPMA).

3.1.2 Practical considerations also point to the need for UKLA to be considered a part of financial markets regulation:

i issues relating to market conduct, particularly market abuse, cut across primary and secondary markets. Primary and secondary markets regulation thus needs to be closely integrated. It is difficult to see how this can be done effectively if it is not only the responsibility of different regulators but subject to a different legislative regime.

ii Operationally, similar skills are required for primary and secondary markets regulation. In particular, both require real-time monitoring and response. This is very different from the work of the Financial Reporting Council (FRC) and calls for a different approach and culture which will not mesh easily within the same organisation. Indeed, one of the main reasons behind the government's proposed new regulatory architecture was the difficulty of combining the cultures required for financial supervision and conduct of business regulation within the Financial Services Authority.

iii securities and markets regulation is very largely driven by EU legislation. The UK accounts for 60-80 per cent of EU securities trading and is a truly international centre for new issuance. Yet it will have only seat on the Board of the European Securities and Markets Authority (ESMA), which will be held by the CPMA. It is essential that the interests of both the UK's primary and secondary markets be directly represented in ESMA.

3.2 *Question 18. The Government would also welcome views on whether there are other aspects of financial market regulation which could be made more effective by being moved into the proposed new companies regulator.*

We cannot think of other aspects of financial regulation that could be made effective by being moved into the proposed companies regulator. We would however like to put on record our belief in the effectiveness of the Panel on Takeovers and Mergers. We believe that its current structure enables it to operate with a speed and authority that would be difficult to replicate in another way.

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