

RESPONSE FROM CAPITAL CONNECTION LTD

Dear Sirs

We have only heard about this consultation late in the day (Sat FT) and would be able to say more if time were given Please take these comments on board.

Q13: What regulatory constraints or costs impact on access to equity finance for growing firms?

The major constraint is not permitting a proportion of personal pension to be invested in unquoted companies when the time profile of companies and pension fund match so well (ie long term).

Provided a prospectus is signed off by an authorised person, any investor should be free to invest in it. Protection should be enhanced on the prospectus approval side rather than forcing investors to use advisers to invest, many of whom rubber stamp the process and just take commission.

Important General Comments

1) The proposals do not seem to cover diversification. An investor is at much greater threat from putting all his or her £1m into one unquoted company than a person with only £100,000 who puts 10,000 in that company and spreads the rest around nine other unquoted companies. Yet the proposals say the former needs no advice and the latter must be hand held.

2) Currently, rules permit directors to raise money through a prospectus for an unquoted company for one purpose and decide, say a month later, to change the investment objectives of the new company and move into a much higher risk area without permission from shareholders. If unquoted companies were required by the FSA, as a condition of their money raising, to get that permission from shareholders for any significant change in investment / activity strategy which increased the risk of the company from that advised in the prospectus, this would do far more to protect unsophisticated (as well as sophisticated investors than rules requiring those with less than £X in the bank to go through an authorised person.

3) There is no professional qualification required by the FSA for employees or advisors in the financial services industry regarding investing in unquoted companies (ie venture capital) so you and the FSA cannot say which authorised persons are sufficiently trained to give advice to unsophisticated investors for any unquoted company raising money.

Graham Cox
Capital Connection Ltd

A company assisting small companies to raise funding.