

INFORMAL CAPITAL RAISING AND HIGH NET WORTH AND SOPHISTICATED INVESTORS

RESPONSE BY THE SHARE CENTRE TO H M TREASURY'S CONSULTATION DOCUMENT

The Share Centre ("TSC") is an independent retail stockbroker with substantial experience in helping small and medium sized enterprises to raise funds to develop their businesses.

TSC is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. TSC also runs ShareMark, an auction based web stockmarket for matching bargains in SMEs. TSC has recently been appointed by Advantage West Midlands to be the market operator for their proposed Local Business Exchange which is primarily to assist companies caught in the equity gap.

Our response broadly follows the headings in the consultation paper.

Introduction and the existing exemptions

We welcome the review of the operation of the existing exemptions from the financial promotion restriction for high net worth ("HNW") and sophisticated investors.

We would agree that the exemptions have not worked in the way that everyone would have wished and our experience is that intermediaries are unwilling to certify individuals even they would meet the well defined criteria set out for HNW individuals. We believe that this is largely because the balance between consumer protection and the establishment of classes of knowledgeable investor is out of kilter. If a knowledgeable investor such as either a HNW or sophisticated investor is deemed capable of understanding an investment perceived as having a greater risk profile then arguably he does not need the full panoply of protections afforded a less experienced investor. Accordingly intermediaries are suspicious of certifying an investor if there is a likelihood that they may be liable for a poor investment decision made by the certified investor.

Anecdotal evidence from American brokers also suggests that they do not find the system of accredited investors has been wholly satisfactory in enabling them to have access to investors on helpful terms.

The business angel network is quite disparate and we believe it encompasses a number of completely different groups of potential investors with widely differing investment objectives. Too often we speak to companies who have been offered money by a business angel where that person wishes to join the board to mentor the management and watch over his investment; companies tend to view this arrangement as not only adding cost to their operation but also threatening the existing management structure.

We believe that much capital in the equity gap is provided by friends and families of entrepreneurs and that most of these people would not be capable of being regarded as either high net worth or sophisticated investors.

Options for change

We see little value to the continuation of a regime which creates a category of private investor deemed to have greater knowledge than others but retaining the benefits of investor protection.

We do, however, recognise that the European directives require some process of certification in order to assess the "suitability" provisions. The concept of self certification therefore is probably a way forward. However in order to avoid any risk to intermediaries who might rely on this self certification we believe that the government must maintain (perhaps through the FSA) a list of sophisticated and high net worth investors that intermediaries could use safe in the knowledge that there would be no recourse to either an intermediary or company seeking to raise funds from those investors. The establishment of such a register would not only recognise sophisticated and high net worth criteria but also personal and local knowledge which are appropriate to particular investment opportunities.

The way forward

TSC believes that the optimum way to channel investors' funds to growth companies in the equity gap is to encourage all retail investors to understand the opportunities available within the smaller company market. In this respect we make no distinction between quoted and unquoted companies.

TSC would encourage the government to educate investors to understand the mechanics of investing in equities, preference share and fixed income securities where the maximum loss is limited to the actual cash investment. In conjunction with such an education programme we would expect to see an easing of the existing FSA regulatory regime which effectively forces intermediaries to channel retail investors' funds into FTSE 350 securities to avoid any possible retribution from investors in smaller companies which have not performed particularly well.

We would suggest that retail investors in corporate securities are over protected when the same people have no such protection when encouraged to participate in things such as spread betting where there is the opportunity to lose more than the original stake.

TSC has just launched ShareStream, a service to bring together companies needing capital and retail investors wishing to have the opportunity to invest in potentially high growth securities. Using web technology we are seeking to assist companies that have published a document complying with the POS Regulations by making that document available to a database of retail investors who wish to see investments in their chosen market sectors.

We would be happy to discuss our ideas and the operation of ShareStream with H. M. Treasury's officials in an attempt to improve the supply of capital to growth companies. We would also draw your attention to the new stockmarket to be launched by Advantage West Midlands ("AWM") which, using ShareMark as its basis, is seeking to assist companies not yet mature enough to take advantage of all the facilities of the AIM market and the Official List. As market operator to that market we will be working closely with AWM and will be happy to share with you our thoughts on how that will be successful.

The Share Centre 19 April 2004.