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Primary Markets Policy Team
Financial Conduct Authority
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By email: cp23-10@fca.org.uk.

28th June 2023

Dear Sir / Madam,

Financial Conduct Authority (FCA) Consultation Paper CP23/10 - Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms

We welcome the opportunity to comment on the FCA's consultation on the Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms.

The Chartered Governance Institute UK & Ireland is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead 'effective governance and efficient administration of commerce, industry and public affairs' working with regulators and policy makers to champion high standards of governance and providing qualifications, training and guidance. As a lifelong learning partner, the Institute helps governance professionals to achieve their professional goals, providing recognition, community and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and in many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. Many of our members work in listed companies. They are therefore well placed to understand the important issues raised by this consultation document and it is fair to say that there was a divergence of opinion on some issues. For the avoidance of doubt, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below.

General comments

This is an important consultation about an important subject, and we share the FCA's desire for the UK Listing Regime to be more accessible, effective, easier to understand and competitive. As the consultation paper notes, the market should be "open to innovation, underpinned by high standards of market integrity and consumer protection."

There is clear evidence that the UK market is shrinking, and a package of reforms is required that will reinvigorate the attractiveness of the UK to both newly listing companies and new public capital. There are many reasons why companies chose to list in one market over another, some of these relate to factors of market infrastructure but others, as the consultation paper identifies, to "founder preferences, home market bias or company-specific considerations, such as the location of operations, customers, or investors, [which] may still sway decisions on whether and where companies choose to list."

The challenge for the FCA - and the focus of the debate that we have had amongst members - is how and where to balance the relaxations of rules to encourage more companies to list in the UK market against the potential associated loss of valued investor protections.

This is an important exercise. As the consultation paper says, "Access to a potentially wider range of companies listing will provide greater opportunities for investors in UK markets and help create jobs and growth." This is not something which lies entirely within the gift of the FCA – changes to the Listing Rules are one important element of a package of reforms that the UK government and regulators need to take to reinvigorate the UK's capital markets for the benefit of investors of all types, and wider society.

As you will see from our answers below to your specific questions, we support the efforts of the FCA to ensure consistent and proportionate standards across the UK listing regime but have concerns about some of the proposals on which the FCA is consulting here, particularly those relating to rules around related party transactions and to controlling shareholders. In short, we question whether some of the proposals quite strike the right balance between attracting issuers and attracting investors.

For example, whilst we agree that "increased accessibility of listing and capital on UK regulated markets" and the "potential increase in attractiveness of a UK listing to new applicants" are laudable goals, for some of our members, the pendulum may be swinging too far in the direction of open access to the UK market and too far away from the strong corporate governance that we believe is a significant advantage – indeed a USP - for the UK market. This is a particular concern where the requirements that it is proposed to remove are those which offer important investor protections, for example the requirements for shareholder approval for related party transactions.

We note that paragraph 5.31 of the consultation document states that "According to [some market participants], there is a significant portion of firms which regard the inclusion of a requirement for shareholder approval in general meeting in current RPT rules as such a significant burden that they simply do not pursue consideration of a UK listing in the first place as a consequence."

For a number of years now, we have received regular delegations from other jurisdictions keen to learn from the UK corporate governance model which is, rightly, seen as a gold standard. As the consultation document notes (paragraph 5.53), “Good standards of corporate governance are generally viewed as a strength of the UK and promote confidence in markets.”

Whilst we accept that a relaxation in legal and regulatory requirements does not mean there has to be a diminution in good governance overall, that can be an outcome, and it is one that we wish to avoid. Our view, as the professional body for governance is, quite simply, that a director who expresses reluctance to embrace UK corporate governance standards is offering strong evidence that they are not a fit and proper person to be the director of a UK company. Similarly, those companies which are deterred from a UK listing by UK corporate governance requirements may well be companies that we should not be wanting to list here. They seem to be giving evidence that something is not up to the required standard.

We understand the principle set out in paragraph 5.37 of the consultation document, where the FCA states that “Our rules cannot prevent every risk to shareholder value or be a substitute for investors carrying out their own analysis to support investment decisions.” However, we believe that a UK listing is seen as giving evidence of a commitment by the company to strong corporate governance, with an active and powerful regulator ensuring that this is not mere lip service. This gives great confidence to investors.

But all this is not to say that we should not review and update our standards to reflect changes in market practice. The status quo is not an option. Although we are proud of the UK governance model, we must ask ourselves why it is that, if our governance model is so attractive, some companies choose not to list here. Having the most perfect governance model in the world is of no use when there is no market.

We are therefore excited to see that the FCA has taken a bold approach to potential changes to the listing regime and welcome the proposal to move to a single listing category.

However, we do believe that these relaxations must be very carefully managed to avoid any risk that a weakening of governance requirements underpinning the UK listing regime which is, we are led to believe, one of the more attractive features of the UK market has the unintended consequence of driving capital away rather than attracting it. Striking the right balance between attracting issuers and attracting investors is paramount.

Specific questions asked in the consultation form

Q1: Do you agree with the proposal to remove specific financial information eligibility requirements for a single ESCC category? If not, please explain why and any alternative preferred approach.

Yes. This is likely to create greater flexibility for growth companies at an earlier stage of their development, but we would welcome further consideration of reporting requirements for such companies.

Q2: Do you agree with a proposal to explore a modified approach to the independence of business and control of business provisions for a single ECSS category, with a view to enhancing flexibility, alongside ensuring clear categories for funds and other investment vehicles?

Yes.

Q3: Do you have views on what rule or guidance changes may be helpful, and whether certain disclosures could also be enhanced to support investors and market integrity, or any alternative approaches we should consider?

We have no views on this question.

Q4: Do you agree with our proposed approach to dual class share structures for the single ESCC category and the proposed parameters? If you disagree, please explain why and provide any alternative proposals.

This is a question on which our members had mixed views.

We are aware that some respondents, particularly from the investor community, have a very strong view on dual class share structures but, from a governance perspective, we have no fundamental concerns subject to it being made abundantly clear in the prospectus and other company documents that this is the situation so that all investors know exactly what they are getting for their money.

We also believe that investors should not be forced to hold shares in a company with a dual class structure against their, or their clients' wishes. But this is a difficult outcome to ensure. The simplistic answer would be for investors to include in their client mandate whether or not they will invest in such companies, but the whole rationale of passive investment is that they hold shares whether they wish to or not – that is their business model. An alternative might be for such companies to be excluded from inclusion in leading market indices such as, for example, the FTSE 350. However, if a company cannot be listed in an index, then it is not available to passive investors and that largely defeats the object of listing.

Overall, however, we are confident that the market will find a solution and see no real need for the proposed restrictions or, indeed, the sunset clause. The latter may be a significant disincentive to listing by a founding entrepreneur who may be reluctant to agree to a sunset clause while they remain a controlling shareholder.

Q5: Do you agree with our proposed approach to the controlling shareholder regime for a single ESCC category? Do you have any views on the suitability of alternative approaches to the one proposed?

On balance, no. We believe that it is appropriate to, as indicated in paragraph 4.30 "impose a standard of behaviour for the independent operation of the listed company and, in conjunction with rules around RPTs, give minority shareholders a veto on all transactions between the company and a controlling shareholder when the relationship between the company and the controlling shareholder is such that the risk of harm to independent shareholders is increased." Given the FCA's proposal to remove the vote on related party transactions, we do not believe that disclosure is an appropriately stout 'stick' in this instance.

Q6: Do you agree that our proposals as regards controlling shareholders align with our need to act, as far as is reasonably possible, in a way which is compatible with our strategic objective of ensuring markets work well and advances our market integrity and consumer protection objectives? If you don't agree, how do you believe these should be balanced differently?

No. See our response to Q5 above.

Q7: Do you agree with the proposed approach to significant transactions for a single ESCC category? If not, please explain why and any alternative proposals.

No. We agree with the intention to streamline the process around significant transactions, but believe that the removal of a shareholder vote goes a step too far. There are many interests at play when a significant transaction is under consideration; the right transaction can generate transformative value for a company and its shareholders. However, little destroys value more quickly than one that is wrong for the company, and it is all too easy for management to convince themselves of the benefits of a transaction if they are able to do so without effective challenge. There is also the consideration that, in some cases, executive remuneration packages will be affected by the implementation of a transaction, regardless of its subsequent success. A shareholder vote provides an important opportunity for investors to take an independent view of the proposed transaction.

We understand that this may cause a delay in the transaction and that this may impact its commercial terms, but the reality is that most do progress without an issue. We would attribute this to the awareness of shareholder oversight, although of course there are other views.

One area where we found less consensus was that of whether any relaxations in the UK model should be permitted – for example removing the requirement for a circular (and FCA approval) or raising the

threshold for qualifying transactions. Some of our members argued persuasively in favour of this, which would align more closely with some foreign jurisdictions, whereas others saw it as symptomatic of a race to the bottom in terms of governance standards.

The key issue for the FCA is to strike the appropriate balance between the needs of issuers, investors and international competitiveness.

Q8: Do you consider that additional disclosure could be considered to further support transparency to shareholders on significant transactions and, if so, what (e.g., considering current circulars)?

We believe that Class 2 transactions should also be disclosed around the time of the transaction.

Q9: Should we consider further mechanisms prior to a significant transaction being formally completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed commercial company equity issuers in place of shareholder approval? What should those mechanisms be and why?

Please see our response to question 7. Mandatory delays are artificial and can lead to unforeseen consequences, especially if not all shareholders wish to engage or are available at the required time. However, this is probably the next best alternative were the FCA to decide to remove the shareholder vote.

Q10: Should the sponsor's advisory role in assessing whether a potentially significant transaction meets the proposed disclosure threshold be mandatory or optional, and what are your reasons? Do you agree with our proposal that sponsors have more discretion to modify the class tests, including substituting the tests with alternative measures, without seeking formal FCA agreement to the modifications? If you disagree, please provide your reasons and alternative proposals.

We believe that the sponsors role should be mandatory. We do not agree that sponsors should have discretion to modify the class tests, including substituting the tests with alternative measures, without seeking formal FCA agreement to the modifications. In our view, the sponsor regime is one of the weaker elements of the UK listing regime, with inherent conflicts of interest, which the FCA might usefully review. Were sponsors to be given such discretion, they could be put in an invidious position and, given their quasi-regulatory role, are likely to be overly prudent to avoid censure (or worse). They may also become conflicted, especially if the board of the company in question pressures the sponsor to weaken class tests to get a questionable transaction through.

Q11: Should we consider expanding the sponsor's role further on any aspects of significant transactions?

As noted above, we believe the sponsor role to be one of the weaker elements of the UK listing regime. There are many criteria relating to the ability of a sponsor to advise and support its clients with respect to its engagement with the market, but little to require that sponsor to have a meaningful understanding of the governance issues that may affect the company. We understand that although sponsors very often have excellent experience in bringing a company to market, they do not always have the appropriate experience for advising a company on ongoing governance issues.

Q12: Do you agree with the proposed approach to RPTs for a single ESCC category, which is based on a mandatory announcement at and above the 5% threshold, supported by the 'fair and reasonable' assurance model which includes the sponsor's confirmation as described above? If not, please explain why and any alternative proposals in the context of a single ESCC category.

Yes and no. This was another area of significant debate when we were preparing our response. For some members, the existing premium listing RPT rules provide fundamental protections for minority shareholders and so should be retained in their entirely; for others, changes in market practice, especially around the structure of listed groups, have brought a wide range of transactions into scope of the RPT regime which do not, in practice, constitute conflicts of interest which might adversely affect investors. As one member observed, "in our own experience, many transactions that could be caught by the rules are negotiated on fiercely competitive terms between 'related parties' in our own group."

The consultation paper observes in paragraph 5.31 that "there is a significant portion of firms who regard the inclusion of a requirement for shareholder approval in general meeting in current RPT rules as such a significant burden that they simply do not pursue consideration of a UK listing in the first place as a consequence."

They may well have a point and we believe that some rebalancing of the rules is necessary. That said, the Institute's own experience when dealing with foreign organisations has been that RPTs and, in particular, the UK requirement for shareholder approval, are an area that many of them simply 'don't get'. We would therefore urge caution in taking this too far.

On balance, we wonder whether the consultation proposals go just a little too far in resetting that balance.

Q13: Do you consider that additional disclosure requirements could be considered to further support transparency to shareholders on RPTs, and should we consider requiring certain mechanisms prior to a deal being completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed companies to replace the requirement for independent shareholder approval?

These options would be helpful were the FCA to press ahead with their proposal to do away with the existing premium listing RPT rules, in particular the requirements for a mandatory independent shareholder approval of RPTs at or above the 5% threshold, or for RPTs involving a controlling shareholder where circumstances require a vote below this level; related requirements for shareholder circulars, FCA pre-approval of a circular, and excluding a related party or its associates from voting on a shareholder resolution; and modified RPT requirements for smaller transactions above 0.25% and below 5%.

Q14: Should it be mandatory for a listed company in the single ESCC category to obtain guidance from a sponsor on the application of the LR, DTR and MAR whenever it is proposing to enter into a related party transaction (irrespective of the size of the transaction), or should it be at the company's discretion?

It should be mandatory. To allow the company discretion would create a significant potential for conflicts of interest driven by remuneration considerations and associated targets.

Q15: Should it be mandatory for the sponsor to consult with the FCA and agree any modifications to the class tests and classification of a proposed RPT, or should the sponsor have more discretion? Please explain your reasons.

As noted in our response to questions 10 and 11 above, the sponsor should not be given more discretion – this is already a potential area of weakness in the UK listing regime.

Q16: Are there any broader, alternative mechanisms that existing shareholders or prospective investors would want to see in place of, or made use of, in order to strengthen shareholder protection in relation to RPTs in the event that these changes are made to our LR? If so, would these be matters for inclusion in our LR or are they found, for example, in legislation or market practice?

No.

Q17: Do you agree with the proposed approach to cancellation of listing for the single ESCC category, and do you have any views on other possible changes to the existing cancellation process?

Yes. Again this is an important protection for minority shareholders.

Q18: Do you think that the notice period proposed for the single ESCC category for de-listing should be extended (taking the approach of other jurisdictions) and if so to what? What would the benefits be?

We believe that the current requirements are reasonable, but see no harm in extending the notice period for cancellation. The longer this is, the more time anyone adversely affected by it has to take appropriate action. As paragraph 5.45 says, "This may encourage companies to retain their listing, or give shareholders more time to consider the de-listing decision or more opportunities to exit their investment if a cancellation is pursued." We cannot see a downside to such an extension.

Q19: Do you consider the policy for cancellation of listing by the FCA after a long suspension should be revisited? If so, how?

It seems reasonable to revisit the policy for cancellation of listing by the FCA after a long suspension. Requiring companies in this situation to reapply for listing seems a proportionate approach. As paragraph 5.45 notes, "Companies that are 'returning to listing' from suspension after such a prolonged period tend to be materially different from that which was the case prior to suspension."

Q20: Do you agree with retaining shareholder approval provisions on discounted share issuance and on share buy-backs, as currently required by the premium LR, as part of a single ESCC category, or would these be problematic for certain issuers?

Yes, we agree with retaining shareholder approval provisions on discounted share issuance and on share buy-backs, as currently required by the premium LR. We do not regard them as in any way problematic.

Q21: Do you agree with our proposed approach to reporting against the UK Corporate Governance Code for companies listed in the single ESCC category, and are there any other mechanisms the FCA could consider to promote corporate governance standards?

Yes, and we welcome this encouraging sign of the FCA and FRC working harmoniously together. We hope that this will develop further as the FRC transitions to ARGA.

For the avoidance of doubt, we see the 'comply or explain' model as an important safeguard and would emphasise that a good explanation constitutes compliance. The Code is not, and should not be treated as, a prescriptive set of rules and there are often good grounds for a company stepping outside the provisions of the Code. Indeed, a decision to do so and provide an explanation often demonstrates more considered examination of a governance issue than blind compliance.

Our view is that the two regulators have complementary, but different, purposes and that responsibility for setting governance and reporting provisions and standards should rest with the FRC, with the role of the FCA being to take appropriate regulatory action in cases where the FRC has identified that a listed company has fallen below the standards required.

We do not see any meaningful barriers or frictions for overseas companies that also follow codes set in their own jurisdictions. If they wish to list in the UK market, then they must also comply with UK requirements and, should there be a conflict, this would be an appropriate case for an explanation. This is a model that works successfully in other jurisdictions, for example for those companies wishing to list in the United States.

Q22: Do you have any views on the proposed application of reporting requirements under LR 9.8 (i.e., premium LR requirements) as the basis for the single ESCC category?

We agree with the proposed application of reporting requirements under LR 9.8 (i.e., premium LR requirements) as the basis for the single ESCC category.

Q23: Do you agree with our proposed changes to the LR principles? If not, please explain why and provide details of any alternative suggested approach.

Yes. We agree with the proposed changes to the LR principles.

Q24: We are considering applying the principles as eligibility criteria, to clarify expected standards and reflect the fact that in practice these requirements need to be complied with at the point of listing. Please provide details if you foresee any issues with this approach.

We see no issues with this approach. Anything different runs the risk of having a two tier market - those companies that reach and maintain the required standards and those that have been permitted a lower level of compliance. The potential for investors to be exposed to risk and value loss would be relatively high and so would be priced into any valuation as part of the listing process.

Q25: Do you agree with our proposed changes to strengthen co-operation and information gathering provisions as outlined in this section? If not, please explain why and any alternative suggested approach to addressing the issue identified.

Yes.

Q26: In relation to our proposal to ask issuers to provide contact details of their key persons, do you think this should include details of the CEO, CFO and COO? Do you have any other suggestions as to other key roles that we should consider? Also, are there circumstances where it would be appropriate for an issuer to nominate a third party (such as an FCA authorised advisor), as a key person and, if so, why?

We believe that the Company Secretary should be the key point of contact between the FCA and the company, given their responsibility to the board. Contact details of the CEO and CFO should be secondary to this. We see no need for the COO to be included. The COO, while a senior executive, is unlikely to be a director and so would not necessarily have insight into board-level information and views to the same extent as the CEO, CFO and Company Secretary. The latter should always be the regulators first point of contact with the board of the company, or in respect of governance issues.

We do not see circumstances in which it would be appropriate for an issuer to nominate a third party as a key person.

Q27: Are there specific considerations we need to take into account for different issuer or security types, in relation to our proposals in this section, that we should take into account as we develop our proposals further?

We are not aware of any such considerations.

Q28: Do respondents have any concerns about the availability of sponsor services as a result of the proposed changes to the listing regime and the sponsor role?

No.

Q29: We welcome views from sponsors on whether they would be able to adapt or willing to provide services to a potentially wider and more diverse range of issuers? We particularly welcome any information or data on the implementation and ongoing costs sponsors may incur as a result of our proposals.

Not applicable.

Q30: Do sponsors have any concerns about performing the sponsor role and providing sponsor assurances within the model proposed? Please provide details.

Not applicable.

Q31: Do you have any concerns that sponsors will be able to demonstrate continued competence under our proposed approach? What matters should the FCA take into account when assessing sponsor competence?

Not in terms of the existing requirements for sponsors. However, as outlined in our response to Q11 above, we believe that the FCA should go further in ensuring that sponsors have the necessary experience and knowledge to advise a company effectively on governance issues in support of its continuing obligations.

Q32: We welcome views on proposed restructure of the listing regime set out above. In particular, do you agree with our preliminary proposals for dealing with issuers that are not issuers of equity share in commercial companies?

We have no observations on this issue.

Q33: Have we identified the impacts on different issuer types and sufficiently delineated between them? If you have alternative suggestions that we should consider, please provide details

We have no observations on this issue.

Q34: We welcome views and suggestions on our proposed approach as outlined above and in Annex 4, for updating the LR sourcebook.

We have no comments, at this stage, on the proposed approach to updating the LR sourcebook, but replacing the existing LR Sourcebook with a new LR sourcebook is the appropriate way forward.

Q35: If you have views on what transitional arrangements may be required, please provide details.

We have no observations on this issue, other than to ask that sufficient time be allowed for the change to bed in. We would suggest 12-24 months.

Q36: How long do you think issuers may need to prepare for and implement the various changes proposed in this consultation? For example, how long would commercial company issuers of standard listed equity shares need to prepare to ensure they could meet additional obligations proposed under the ESCC listing category, such as those relating to significant transactions and related party transactions (discussed in Chapter 5). Please also provide reasons.

This is a difficult question to answer without more detail on the final rules as the time necessary for issuers to prepare will depend on the materiality and impact of the changes that they are required to make. Again, we would suggest 12-24 months.

Q37: Have we identified the areas where cost to issuers, advisors or sponsors may be increased as a result of our ESCC single segment proposals? If not, please explain the additional costs that we should consider in our CBA.

We believe so, although, again, this is a difficult assessment to make without sight of the final rules.

Q38: Please provide estimates for familiarisation costs and implementation costs for the different policy elements of the proposed new ESCC category, if possible.

We have no observations on this issue.

Q39: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs that might arise to issuers, advisors or sponsors.

We have no observations on this issue.

Q40: Are there any other considerations we should take into account?

We are concerned by the apparent acceptance by the FCA that these proposals will lead to "Potentially reduced corporate governance standards related to 'start-ups' (e.g., due to a potential lack of experience)." This is a huge, latent reputational risk for all concerned. It would also be likely to prompt attempts to be designated as a 'start-up' and thereby avoid corporate governance standards, leading to poorly managed companies being listed with all the attendant risks and potential for value destruction.

As noted in our general comments above, we believe that UK standards of corporate governance are a significant strength of our market and, indeed, a primary reason why investors choose to list here. Lowering those standards is, therefore, something about which the regulator should be very careful.

Q41: Have we identified the areas where cost to issuers or sponsors may be increased as a result of our overarching proposals? If not, please explain the additional costs that we should consider in our CBA.

We believe so, although, again, this is a difficult assessment to make without sight of the final rules.

Q42: Please provide estimates for familiarisation costs and implementation costs for the proposed new overarching provisions, if possible.

We have no observations on this issue.

Q43: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to issuers, advisors or sponsors.

We have no observations on this issue.

Q44: Are there any other considerations we should take into account?

We have no observations on this issue.

Q45: Have we identified the areas where our proposals may impose additional costs on investors? If not, please explain the additional costs that we should consider in our CBA.

We have no observations on this issue.

Q46: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to or other impacts on investors.

We have no observations on this issue.

Q47: We do not know how index providers will react to our proposals, but we invite feedback on estimated impacts and costs associated with any re-balancing of indices that may arise.

We are not convinced that the impact on commercial service providers is a material matter for consideration. The strength of the UK listing regime is rather more important than that. The FCA should, after consultation, do what it thinks is right. The index providers will naturally adjust their portfolios to the new market conditions and to meet their client's requirements

Q48: Have we correctly identified the costs to parties in relation to indexation as a consequence or follow-on from our proposals? To assist us to quantify these costs or any other costs we should consider, please provide data or additional information to explain the additional costs or other impacts.

We have no observations on this issue.

Q49: Do you agree with the benefits of our proposals that we have identified above? If not, please explain why.

Not entirely. As indicated above, there is clear evidence that the UK market is shrinking, reflecting the changes in investment strategies of the traditional insurers and pensions funds away from equities into other asset classes, and we agree that the UK Listing Regime needs to be more accessible, effective, easier to understand and competitive. As the consultation paper notes, the market should be “open to innovation, underpinned by high standards of market integrity and consumer protection.”

A package of reforms is required that will reinvigorate the attractiveness of the UK to both newly listing companies and new public capital. The status quo is not an option. The challenge for the FCA - and the focus of the debate that we have had amongst members - is how and where to balance the relaxations of rules to encourage more companies to list in the UK market against the potential associated loss of valued investor protections.

With that in mind, we agree with the proposal to move to a single listing category with consistent and proportionate standards. However, we have concerns about some of the proposals on which the FCA is consulting here, particularly those relating to rules around related party transactions and to controlling shareholders. In short, we question whether some of the proposals quite strike the right balance between attracting issuers and attracting investors, particularly from the retail market with less resource to undertake their own due diligence on investee companies.

In our view, there is a strong likelihood that a weakening of governance requirements underpinning the UK listing regime will tend to drive away capital as we are led to believe that it is one of the more attractive features of the UK market. There is a good argument that those companies which are deterred from a UK listing by UK corporate governance requirements are, in all probability, likely to be companies that we should not be wanting to list here.

For some of our members, the pendulum may be swinging too far in the direction of open access to the UK market and too far away from the strong corporate governance that we believe is a significant advantage – indeed a USP - for the UK market. This is a particular concern where the requirements that it is proposed to remove are those which offer important investor protections, for example the requirements for shareholder approval for related party transactions.

Q50: Are there any additional benefits that we should consider in our CBA?

None that we have identified.

Q51: What do you consider to be the most important factors in deciding where to list (for example, regulation, valuations, depth of capital markets, comparable peers, investor / analyst expertise, taxation, director remuneration requirements, indexation, location of main operations). Please rank your factors in order of importance.

We believe that different organisations have different priorities for listing but that, generally, regulation, depth of capital markets and comparable peers are important with, perhaps, the most important factor in driving companies to list in the UK being the reputation for high standards of corporate governance and the consequent credibility in the eyes of international investors.

Q52: Do you have any suggestions as to how we might quantify the benefits of our proposals? And can you provide any evidence of the cost savings to issuers that might arise from our proposals to no longer obtain shareholder approval for certain significant transactions and RPTs?

No. we do not believe that these cost savings are sufficient to justify the reduction in investor protection that they entail.

If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,

Peter Swabey

Policy and Research Director

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