



Response: FCA Primary Markets Effectiveness Review
14 September 2021

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over \$95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Overview

The WFE welcomes the ambitious proposals put forward by the Financial Conduct Authority (FCA) to address specific aspects of the Listings Rules which may act as barriers to entry for issuers who are considering entry to the UK markets.

Whilst the WFE generally supports the proposals that have been put forward, our members believe that changes to the Rules should not be approached in a way that focuses solely on attracting companies within high growth sectors to list in UK markets. Whilst we understand the need to target these companies, proposals to encourage listings eg. Weighted Voting Rights (WVR), should be applied to listing applicants across all sectors and industries. To this end, the WFE supports the 'levelling-up' of the UK capital markets with the benefits being clear in terms of increasing the attractiveness of listing in the UK for issuers compared to the choice of global markets they have access to at IPO, and in turn encouraging more private companies to go public.

The debate on Dual Class Share Structures (DCSS) is one which has attracted a lot of attention from different market participants. They are increasingly being adopted across our membership and we recognise their attractiveness to some issuers and indeed investors. However, the FCA should ensure that any Rule changes are done in a way that is consistent with the existing high standards of corporate governance in the premium listed sector.

As gatekeepers to the public equity markets, exchanges play a key role in creating access to the capital markets through: (i) provision of deep pools of capital (ii) enabling price discovery, and (iii) sharing wealth creation. However, our members recognise that addressing the challenges associated with deterrents to listing requires an entire financial markets ecosystems approach recognises that these challenges are dynamic and will evolve over time as markets develop and investor attitudes change. It is important that all parts of the ecosystem are able to perform their function for these reforms to be effective.

Specific commentary

Dual- class share structures (DCSS)

Given the existing high standards of governance and strict eligibility requirements of the premium listed segment, the FCA should ensure that investor confidence and integrity in the markets is not compromised. We therefore support the initiative to consider measures designed to further that objective (which in this instance would involve a time limited sunset clause). This serves as an important safeguard against controlling shareholders whose voting rights are entrenched in a way that diminishes external accountability to other shareholders and stakeholders. We further support the idea of requiring a shareholder resolution where a company seeks to extend its DCSS arrangements beyond the five year period. This is an important shareholder enfranchisement tool and in particular ensures the involvement of minority shareholders. Where possible, we believe this approach should mirror some of the FCAs recently adopted investor protection measures for Special Purpose Acquisition Companies.

With regards to the weighted voting rights attached to any given dual-class structure, it is right that they are determined at an individual jurisdiction level by listings authorities and regulators and should be accompanied by sufficient investor safeguards. We agree with the FCA's approach to impose limits on the circumstances in which the voting rights can be used, such as deterring a takeover or preventing the removal of a director.

We further note that companies listing on the premium listed segment are automatically required to comply with higher standards of corporate governance such as the UK Corporate Governance Code (the Code), which is underpinned by the Listing Rules. With the majority of directors on the board required to be Non- Executive Directors' under the Code, we are satisfied that there will be a sufficient amount of independence and objectivity, as well as challenge to management to ensure that the company is run for the benefit of all shareholders. To ensure that these issuers are caught under its existing supervisory regime, we would ask the FCA to closely monitor the corporate governance disclosures of DCSS issuers and to report on these periodically.

Increasing the Minimum Market Capitalisation requirement to £50 million

There is a lot of IPO activity that takes place from Small and Medium Enterprises (SMEs -- in the case of the UK, at the level of £10-40 million Market Capitalisation) who under this proposal would be blocked from entering the standard or premium listed segment. Companies can mature at varying paces and should be able to move onto the next segment of the market when they are ready, rather than when they meet the MMC.

We recognise that companies with a lower MMC are statistically speaking more likely to be suited to alternative markets such as the Alternative Investment Market (AIM), which provides for designated corporate advisors (NOMADS) that are able to guide a company through the admissions process and its subsequent life as a public company. Similar help could be made available to issuers looking to list on the standard and premium segment, without increasing the MMC so significantly.

Free Float Requirements

Free float requirements have traditionally been viewed a means of safeguarding liquidity and reducing volatility in public markets. A free float requirement dictates what makes a company 'public', as a proportion of shares should be in the hands of public shareholders. This ensures that external shareholders, who consequently have some 'skin in the game', are incentivised to scrutinise management and raise concerns with them.

The regulator notes that higher free float requirements may be acting as a deterrent to listing in the premium and standard listing segments, with a lower requirement providing greater control to owner/founders around the dilution of their shareholdings. Practice across our membership is quite broad, with some exchanges requiring no

minimum free float, while others require at least 25% within their 'premium' market segments¹. This suggests that the relationship between the free float generated at IPO and liquidity in the secondary trading market can vary, depending on local considerations.

Whilst our members agree in principle with the proposal to reduce the free float to 10%, it could be more effective if the FCA were able to retain its existing discretion and flexibility to adjust the requirement in exceptional circumstances, depending on the size of the issuance. For example, a lower level of free float may be accepted in the event of very large issuances.

Track Record Requirements

We understand that the purpose of these measures is to be able to demonstrate to investors that issuers have operated continuously for a certain number of years prior to listing. Our members believe that there may be benefit in allowing flexibility in limited circumstances. For example, Special Purpose Acquisition Companies (SPACs) and companies that have undergone recent acquisitions may be unable to provide the information required. In these circumstances the requirement to provide a three-year-financial track record covering at least 75% of the business could be reduced.

¹ STAR in Borsa Italiana and the Official Market in Zagrebacka Burza require 35%. There are generally lower (or sometimes no) free-float requirements on the lower-tier segments, eg. Xtend Market of the Budapest Stock Exchange or the Standard Segment of the Bulgarian Stock Exchange.