WORLD FEDERATION OF EXCHANGES

Exchange issuer-related initiatives- Can responses to the pandemic encourage greater SME listing?

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1. Executive summary

In 2020, as the pandemic hit, the WFE coordinated exchange responses globally, with a section of the WFE website collating and keeping up to date measures across the world.

This paper is based on internal WFE work, including a survey of WFE members in 2020 that focused on issuer-related initiatives in response to the pandemic. The findings suggested that exchanges, alongside stakeholders including regulators and government, were able to provide temporary relief to issuers from the impacts of the pandemic. In this report, we take stock of the various measures that were introduced with a view to determining whether they could be utilised again. We also consider whether some of these measures would have a purpose outside of pandemic-related relief -- in particular, whether they can be utilised to encourage Small and Medium Enterprises (SMEs) to list.

The report is split into seven sections which look into how WFE members, alongside other key stakeholders, addressed COVID-related challenges for listed issuers:

1. **Capital-Raising Measures:** Raising money from the public markets offers a way for companies to enhance their profile and facilitate growth, create a market for the company's shares, and help provide an objective value of the company's business. During the pandemic, accountability and transparency to external shareholders were relaxed to enable emergency fundraising.

2. **Extension of Filings for Annual Disclosures:** The timely disclosure of financial accounts is key to enabling shareholders to assess how a company has performed during the relevant accounting period. However, during the pandemic there was recognition that for companies to remain solvent they needed flexibility to help them to manage the 'cost of compliance'.

3. **Virtual/ Hybrid AGMs**: Amendments to companies' Articles of Association enabled them to hold virtual AGMs and fulfil their obligations to shareholders regarding engagement and voting.

4. **Online Investor Roadshows:** Roadshows, a key aspect of the IPO process, conducted online enabled savings in both cost and managements' time. However, there is a recognition that virtual roadshows may not be suitable for all markets, especially those that struggle to access investors.

5. **Alternative Audit Procedures:** Auditors are required to provide a "reasonable level of assurance" regarding a company's financial accounts. With the pandemic interfering with audit engagement and preparation of reports, the international audit community worked together with issuers, exchanges, and regulators to overcome these challenges and meet the requirement.

6. **Financial and Education Campaigns for Issuers:** A number of WFE members conducted webinars and other events to understand the main challenges facing issuers and investors, and sought to provide solutions.

7. **Exchange Engagement with Regulators and Other Bodies:** Exchanges were required to coordinate and collaborate even more than usual with key stakeholders to bring about the flexibility that issuers needed to meet the challenges of the pandemic.

2. Introduction

Over the past 25 years, public equity markets have faced increasing challenges. The number of companies listed in developed countries has roughly halved and the value of new issues has fallen by two thirds.[1] This has been driven by:[2] (i) the rise in alternative sources of capital, especially private equity and venture capital; (ii) an increase in disclosure requirements for listed companies; and (iii) a structural shift in the banking and finance industry towards scale and technology. This has encouraged larger companies to list to the detriment of smaller issuers and the ecosystems that support them. The number of listed SMEs was already decreasing when the pandemic hit (Figure 1). Businesses, particularly Small-to-Medium Enterprises (SMEs), have further struggled to navigate the impact of COVID-19 on their operations.

SMEs are typically seen as the backbone of many economies -- they drive growth, lead innovation, and provide a critical source of jobs and economic welfare. The World Bank states that SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies. During the pandemic, SMEs reported declining revenues but also a number of related issues[3] including: (i) concerns about defaulting on loans; (ii) concerns about their ability to retain employees and sustain their supply chain; and (iii) expectations of reducing their headcount in the aftermath of the pandemic and postponing growth projects. In response to these concerns, governments across different jurisdictions announced a number of support measures for SMEs including grants, loans, furlough payments, and business rates reliefs.

Public markets support listed companies at all growth stages as they raise capital to strengthen their balance sheets and fund research and growth. Stock exchanges help to finance ecosystems through markets in different jurisdictions but have had variable levels of success in developing a viable market for SME funding.[4] Access to capital for high-growth companies is improving, with a variety of capital available to companies across all stages of their development from traditional debt and equity to newer platforms such as crowdfunding and peer-to-peer lending. In 2018, the WFE published a report on SME Exchanges that proposed a “toolbox” of options needed to build a successful SME market but as of now no universal model has emerged.

During the pandemic, there was a clear message from governments, regulators and participants within the financial services ecosystem that highlighted the role that equity and debt markets play in providing finance to business to aid recovery. It was vital for capital markets to remain open and orderly. Both users and preparers of accounts faced unprecedented challenges during this period including (but not limited to): uncertainty in a company’s financial position, potential delays in the provision of financial information, and the need for auditors to undertake additional work to support their audit opinions.

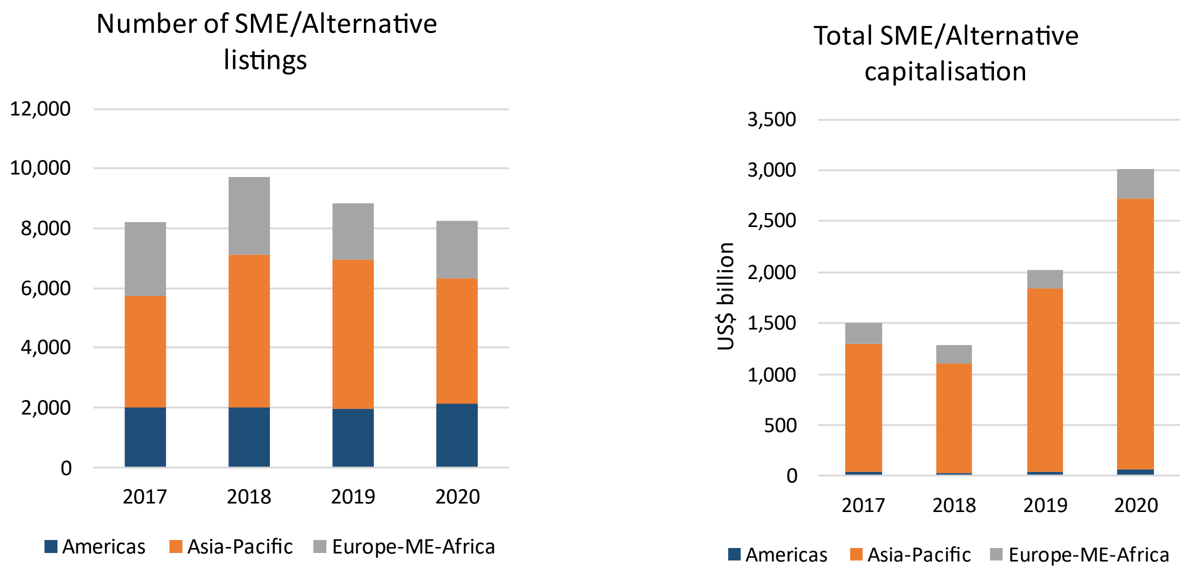
[1] The Wider Context on UK Public Equity Markets- New Financial

[2] Private Retreat: Are We Witnessing the Decline in Public Equity Markets, Oxera, 2020

[3] How Covid is affecting UK SMEs- McKinsey

[4] WFE Report on SME Exchanges (p.4)

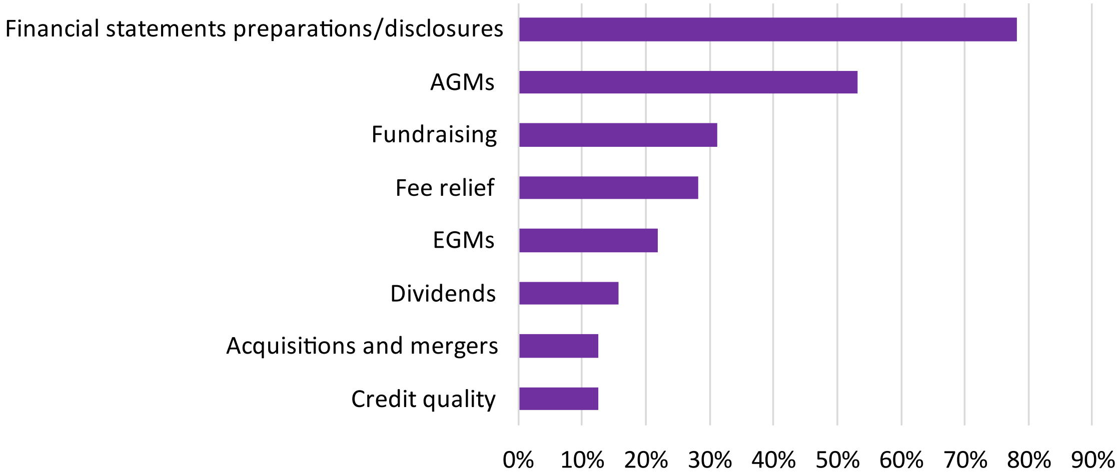
Figure 1: Evolution of SME investment



The charts show that, while market capitalisation of SMEs has increased in US dollar terms across regions in the last three years, the number of listings has been decreasing. *Source: WFE database*.

In May 2020 the WFE conducted an internal survey to gather data about the initiatives that exchanges had introduced to help issuers. The responses showed most of the respondents (76%) were expecting to be involved in additional work to help navigate issuers through this difficult period. In particular, of 35 respondents to this question, 77% would introduce measures that relaxed filing requirements for financial statements and disclosures, and 54% would introduce flexibilities related to the Annual General Meetings (AGMs) (Figure 2).

Figure 2: Areas where future work on issuer-related matters is planned to be focusing on



Source: WFE Survey

Whilst exchanges have a role in encouraging SME listings, they are only part of an ecosystem that offers solutions to SME funding challenges. Other participants such as banks, private equity[5] and venture capital firms must also play their part. This paper outlines some of the key initiatives undertaken by exchanges, regulators, and other participants, and considers whether these policy interventions could be utilised to encourage SMEs to list in future.

[5] This is often considered cheaper and less burdensome than listing, whereas rules applying to companies listed on public markets are often associated with new challenges and costs.

3. Survey themes

3.1 Capital-raising measures

COVID-19 created cashflow issues for many listed companies in the short- to medium term, particularly for those that required funding to meet debt or other contractual commitments[6]. There was a clear risk that liquidity problems could turn into solvency problems. During the pandemic, governments intervened to introduce helpful measures such as furlough schemes and, in some instances, forbearance from banks. A wide range of listed companies also called on existing shareholders through a variety of follow-on equity offerings including rights offers, open offers and placings.[7] Globally, the number of follow-on offerings increased 20% from 1,805 in the first quarter of 2019 to 2,174 in the first quarter of 2020.[8] As we continue to emerge from the pandemic, these alternative transactions in the capital markets (discussed below) can present opportunities for both investors and issuers to benefit from capital-raising and investment opportunities alike.

UK Financial Reporting Council (FRC) disapply pre-emption rights

In the UK, the most common structure adopted by companies with premium listings that have undertaken pre-emptive secondary capital raisings in recent years have been rights issues that involve an offer of new shares, for cash, made to existing shareholders on a pre-emptive basis.

What is a pre-emption right?

The rights to subscribe for shares are first offered to existing shareholders in proportion to their existing holdings to prevent a dilution of shareholdings when the number of shares increases.

In April 2020, the FRC published a statement on behalf of the **Pre-Emption Group (PEG)** setting out its expectations around issuances during COVID. The PEG's Statement of Principles allowed for **pre-emption rights** to be relaxed and investors were asked to consider, (temporarily and on a case-by-case basis), supporting issuances of up to 20% of a company's issued share capital. The PEG extended its support through to 30 November 2020, after which companies were expected to revert to original pre-emption rights.

The PEG stated that an issuer wishing to make use of this temporary additional freedom should:

- Explain its circumstances fully, including how the issuer is supporting its stakeholders.
- Undertake the issue on a 'soft pre-emptive' basis, favouring existing shareholders in terms of participation as far as possible.
- Ensure that its management team participate in the allocation process.
- Consult a representative sample of shareholders.
- Disclose in its next annual report if the issuance is up to 20% of its Issued Share Capital.
- Maintain existing share awards to negate the dilutive effect of the extended issuance.

The PEG noted that directors of the company would be held to account for their decisions at the AGM following the use of this measure.

[6] How Will the Covid-19 Shock Affect the Cash Flows of UK Companies

[7] CMS Law Briefing on Pre-emption Group Expectations

[8] Global IPO Watch- PwC

For those companies that needed to raise more cash, shareholder approval or a cashbox structure was required. Given the need for speed and lack of existing shareholder authorities, a significantly large proportion of placings undertaken by UK listed companies used the cashbox structure.

UK listed companies raised £23.7bn of new equity in 2020, with 125 issuances constituting emergency fund-raising. Some commentators note that given the success, the PEG should consider adopting a more flexible approach in future, particularly in the context of the M&A process, and removing reliance on the cashbox structure. For example, the PEG's Statement of Principles normal issuance limits (5% for general corporate purposes and an additional 5% for specified acquisitions) could be amended to allow 10% for general capital-raising and a further 10% to fund acquisitions.

What is a cashbox structure?

This involves the issue of new shares in return for the Issue of preference shares (usually In a subsidiary). They are then immediately cancelled or redeemed, with the proceeds remitted to the issuer. The newly issued shares of the listed entity are treated as issued not in cash, but in consideration of the issue of the subsidiary's preference shares, so the statutory pre-emption rights do not apply.

Shenzhen Stock Exchange (SZSE) launches measures to strengthen growth of SME listings Founded in 2013, **NEEQ (National Equities Exchange and Quotations)** is the third national stock exchange approved by the State Council of China. It serves as a platform to connect the capital markets and innovation- driven, entrepreneurial and rapidly growing SMEs. SZSE has introduced measures that allow for a transition to the ChiNext Board that mainly serves growing innovative and entrepreneurial enterprises. Those companies looking to transfer must have been listed on the NEEQ "Select Tier" for longer than a year, have a minimum of 1,000 shareholders and cumulative trading of no less than 10 million shares within 60 trading days before the announcement to transfer.

A review of the transfer listing is required, but registration is not because the process doesn't require a new share offering. This reduces the approval time to six months.

Transitional periods for lock-up also must be examined. These are applicable to controlling shareholders and this period will be reduced to 12 months following a transfer listing.

In addition, SZSE pledged to reform the ChiNext board to enable "the capital markets to serve the real economy". The reform as well as the pilot of the registration-based IPO system will do the following:

- Optimise listing conditions to enhance market inclusiveness.
- Improve the market's transparency and authenticity with better-quality disclosures in the registration system, enabling investors to make their own value judgments. There will be a specific onus on improving disclosures relating to business risks and performance fluctuations.
- Improve the flexibility of equity incentives (including options) and stimulate the vitality of enterprises.

Nasdaq introduces exemptions from listing requirements and shareholder approval rules

In April 2020, **Nasdaq** announced that it would provide temporary relief from the continued listing bid price and market value of publicly held shares listing requirements. In addition, Nasdaq adopted Rule 5636T, which provided an exemption from certain shareholder approval rules for companies affected by the pandemic. This rule allowed companies to use securities without shareholder approval upon application to Nasdaq's Listing Qualifications Department if the following requirements[9] were met:

- The need for the transaction is due to COVID-19;
- The delay in securing shareholder approval could: (i) have an adverse impact on the company's ability to maintain operations under its pre-COVID business plan; (ii) result in workforce reductions; (iii) seriously jeopardise the financial viability of the enterprise; and (iv) adversely affect the company's ability to undertake new initiatives in response to COVID.
- The company's audit committee or a comparable body of the board of directors comprised solely of independent, disinterested directors has: (i) expressly approved reliance on this exception; and (ii) determined that the transaction is in the best interests of shareholders.

Whilst the exceptions in Rule 5636T are no longer available, a company can request an exception to the shareholder approval rules where the delay in securing shareholder approval would seriously jeopardize the financial viability of the company. Nasdaq will consider the impact of disruptions caused by COVID in its review of financial viability requests.

Source: Bulletin for Nasdaq listed companies about the impact of COVID-19.

[9] This is only a subset of the requirements. For the full list, see Rule 5636T: Temporary Covid-19 Exception.

3.2 Extension of filings for financial and annual disclosures

Public companies are legally required to complete statutory accounts. This is an integral part of running a business because they provide an overview of how the company has performed during the relevant 12-month accounting period and make up an important part of the company's tax returns. Typically, these accounts also will be filed on a public register, which allows the general public access to key company information such as ownership, registered office address, directorships, and the length of time the company has been operating. Statutory accounts typically are supplied to all company shareholders and those eligible to attend General Meetings, as a way of keeping track of the financial performance of the company. During the pandemic, jurisdictions took varying approaches to easing some of the administrative burdens associated with the filing of accounts, and by doing so they were able to support businesses by providing them with the flexibility to focus on remaining solvent during this turbulent period.

India relaxes its corporate filing requirements

India was badly hit by the COVID19 pandemic on various fronts. Healthcare, human capital, economic capital, education, and corporations were affected by the aftermath. The **Securities and Exchange Board of India (SEBI)** played an important role in relaxing disclosure requirements in line with guidelines issued by the Government and with measures by other regulatory bodies, like the Ministry of Corporate Affairs.

SEBI granted the relaxations from compliance stipulations specified under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR') to listed entities. The various circulars issued by SEBI are available on the SEBI & Exchanges website for ready reference. The measures related to: filing the corporate governance report, annual financial results and conducting AGMs for the top 100 listed entities by market capitalization for FY 2019-2020.

New York Stock Exchange (NYSE) provides targeted relief to issuers

During the pandemic, the number of listed companies in the US falling below required levels of compliance reached record numbers. It was on a similar scale to the 2008-9 financial crisis in terms of the number of companies, although much more widespread by industry. One unique challenge during this time was the sudden onset of the crisis. Much like the S&P 500 and other major indices, many companies lost a significant percentage of their market capitalization, in some cases upwards of 50% in a single week.

Listed below are a sample of targeted flexibilities the NYSE granted. The number of companies that used some form of targeted relief was minimal in terms of the total number listed. Those that took relief benefited by avoiding immediate delisting and/or raising capital without shareholder approval to provide immediate liquidity relief. Typically, these measures had the most impact. Specifically beneficial were quantitative standard relief from the minimum market capitalization requirement of $15,000,000 over a 30-day average and capital-raising transactions exceeding 1% dilution with related parties at least at market price.

Beginning on July 1, 2020, the NYSE froze all in-process and new-cure periods (the time relating to correct a deficiency) relating to the $1.00 30-day average share price and $50,000,000 30-day average market cap/equity standards. Effectively, this allowed companies to increase the cure period by up to an additional ten weeks when compared to the standard applicable cure period to address COVID-19 related complications. The NYSE was required by the SEC to continue notifying companies of non-compliance during this period, although these companies would benefit from the extended cure periods. Most of NYSE's continued listing standards, with the exception of the $15,000,000 market capitalization standard, have cure periods to enable companies to address the deficiency and regain compliance. During the pandemic, most non-compliant companies subject to cure periods would have been back in compliance before the cure period had ended, with or without the cure period extension from the regulatory relief.

Generally, there was support from issuers on the targeted relief available. Some companies expressed a desire for greater relief such as a moratorium on all non-compliance notifications. In addition, companies requested industry specific exemptions to best target relief towards companies and sectors hurt the most by the pandemic.

	Rule #	Rule	Description	Expired
SEC	SEC Releases No. 34-88318 and 34-88465	Reporting requirements - Timely periodic filings (10-K, 20-F, 10-Q)	45-day relief for companies that could not timely file reports due between 3/1 and 7/1/20, specifically due to COVID-19. Were able to request additional 5- or 15-day grace period under Form 12b-25.	7/1/20
NYSE	SR-NYSE-2020-21	Quantitative standard relief - $15m 30-day avg market cap	Relief from immediate delisting.	6/30/20
NYSE	SR-NYSE-2020-36	Quantitative standard relief – $1.00 avg price and $50m 30-day avg market cap / equity	Freezing of all in process cure periods, with new cure periods that began 7/1/20.	6/30/20
NYSE	SR-NYSE--2020-43	Shareholder approval relief– discounted issuances ≥ 20% - COVID-19 specific situation	Allowed issuances of 20% or greater at a discount to market price if need for transaction due to circumstances related to COVID-19 . Disclosure required at least two days before issuance along with audit committee authorization.	6/30/20
NYSE	SR-NYSE-2020-30, 2020-58, 2020-79, 2020-108	Shareholder approval relief- related party limitations	Waiver of 1% (officer, director) and 5% (substantial security holder) thresholds for cash transactions at least at market price. Also eliminated bona fide private financing exemption requirements.	3/31/21*

* Ultimately adopted a permanent amendment SR-NYSE-2020-85 in April 2021.

Source: NYSE

London Stock Exchange (LSE) works with the FCA to extend company filings

LSE worked in tandem with the UK Financial Conduct Authority (FCA) to deliver a series of measures to extend the deadlines for both the publication of financial results by listed companies and for filing audited accounts. The principal objectives were to provide companies of all types and sizes the space to (a) concentrate on navigating the challenges posed by the pandemic and (b) ensure that the published financial information continued to be of the quality that preparers and users of financial information expect.

In the first instance, the FCA temporarily permitted Main Market listed companies to delay the publication of their audited annual financial reports from four to six months from the end of their financial year. The FCA encouraged all companies to take advantage of this additional two-month period, so that they could undertake a full assessment of the impact that the pandemic could have on their business.

To support this, LSE announced that the Alternative Investment Market (AIM) quoted companies would also be able to apply for a three-month extension to the reporting deadline for the publication of their annual audited accounts under Rule 19 of the AIM Rules for Companies. This extension was initially available to AIM companies with financial years ending between 30 September 2019 and 30 June 2020. Any request for an extension had to be submitted to AIM Regulation by the AIM company's nominated adviser (NOMAD) prior to its current reporting deadline under the AIM Rules.

In January 2021, LSE confirmed that this temporary measure would remain available for AIM companies until further notice of an orderly transition back to standard reporting periods.

Furthermore, AIM companies were also allowed to utilise the additional one-month period for its half-yearly report. As with its annual audited accounts, it must notify its intention to do so, via a RIS, prior to its reporting deadline under AIM Rule 18. The company's NOMAD must inform AIM Regulation of this separately.

3.3 Virtual/ hybrid AGMs

The pandemic challenged the ability of listed companies to hold their Annual General Meetings (AGMs). The AGM is the annual meeting of shareholders and members of the board in order to provide transparency and accountability to company governance and decision-making. Typically, an AGM will involve the following opportunities:

- For the board to present its strategy and performance over the course of the year, including on matters contained within the annual report and financial accounts
- For shareholders to hold directors to account through questions to board members.
- For shareholders to exercise their voting rights on information presented within the annual report and accounts (for example, on a final dividend payment if recommended by directors as well as executive pay plans and reports).

Social distancing rules meant that physical meetings were disrupted, and companies had to find alternative means to engage with their key stakeholders. Companies took very different approaches to holding their AGMs, with some having a quorum of only a few members (typically their company secretary and chair). Meanwhile others embraced the flexibility that technology provided, which enabled a greater number of shareholders to participate.

Saudi holds listed companies' assemblies remotely

In March 2020, the Capital Markets Authority suspended assemblies for companies listed in the capital markets until further notice. Holding assemblies remotely enabled shareholders to participate on voting on decisions through Tadawulaty —a system provided by the Securities Depository Centre Company (Edaa). E-voting is not a new phenomenon for companies listed in the Saudi capital markets. The Tadawulaty system has been available since 2017 and provides shareholders with the opportunity to effectively exercise their rights while saving time and effort that would have been spent attending AGMs located in different geographical regions. Furthermore, e-voting enables shareholders to review agenda items in full detail before the assembly convention, helping them to make their own decisions and analyse them effectively.

Brazil embraces virtual and hybrid AGMs

Before the COVID-19 pandemic, AGMs were commonly held in person at the company's headquarters, with the possibility of voting remotely through a structured form provided by the company and filed by the shareholders with their voting intentions. Making remote voting available to shareholders is mandatory for any AGM and for any extraordinary general meetings held in order to elect members of the fiscal council or the board of directors (except when replacing only members elected solely by the controlling shareholder).

The shareholders may send the remote voting form straight to the company or, alternatively, through custodians and bookkeepers. Once all the remote votes are received by the company, a voting map is prepared consolidating the number of votes remotely casted for each deliberation. Such a map is then disclosed to the market on the eve of the shareholders' meeting.

Given the challenges imposed by the COVID-19 pandemic, in March 2020, the Brazilian government edited the Presidential Provisional Measure No. 931 (subsequently converted into Law No. 14,030, of July 28, 2021), which brought several regulatory flexibilities applicable to all corporations (including SMEs). Through this rule, especially given the restrictions related to people's movement, the Brazilian Corporate Law (Law No. 6.404/1976, article 124-A, §2º) enabled virtual annual general meetings.

Afterwards, the **Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM)** convened a public hearing to ask market participants about the best way to regulate these virtual/hybrid AGMs. The hearing resulted in the Instruction CVM No. 622, of April 17, 2020, which establishes specific requirements, such as:

- Virtual AGMs qualify as those in which the shareholders can only participate and vote through electronic systems, and hybrid AGMs are those in which shareholders can participate and vote both in person and through electronic systems.
- The call notice for the virtual/hybrid AGM must mention the possibility of remote participation through an electronic system, detailing the procedures on how shareholders can participate and vote. The electronic system under which the AGM will be held must ensure: (a) the registration of the shareholders' attendance; (b) their respective votes; (c) the possibility of expressing themselves during the meeting; (d) simultaneous access to new documents presented during the meeting; and (e) the full recording of the meeting and the possibility of communication between shareholders.
- The registration in the minutes of the AGM may be carried out by the chairman of the board and the secretary, whose signatures may be made by digital certification or recognized by other ways that guarantee their authorship and integrity.

3.4 Online investor roadshows

An investor roadshow is a series of meetings that are held between the management team of a company seeking to raise capital and institutional investors who are considering potential investment opportunities as part of the Initial Public Offering (IPO) process. The roadshow is a valuable tool in helping to build the order book and will aid underwriters to effectively price the marketed offering. After the issuer files for a preliminary prospectus, underwriters will arrange the meetings to discuss the offering. Typically, the roadshow process will involve presentations on the following:

- Background on the company, including its strategy, vision and mission.
- Information on the board and executives.
- Future plans and goals (including sales and investment projection).
- Financial performance and earnings history.
- Potential growth.
- IPO goals and targets.

Whilst the pandemic caused these events to move to a virtual setting, some commentators noted that far from mourning the physical roadshows' demise, bankers, investors and even some company executives appeared to be warming to the new way of doing things.

NYSE's virtual corporate access

The first half of 2021 saw a surge in deal activity as global economies recovered. Similarly, there was a flurry of corporate access activity, with the number of meetings brokered through IHS's event management offerings increasing by 67% in the first half of 2021, as compared to the same period in 2020. Post January 2021, monthly meeting activity was at least 35% higher than in 2020, with double the activity in April 2021 and June 2021. The pandemic forced in-person roadshows to become virtual. There is a general consensus that the safety of participants and ensuring that all participants feel comfortable with the choice of meeting format was of greatest importance. Virtual meetings can be set up at short notice, and the convenience of no travel and the ability to invite larger groups to participate are particularly helpful. There are also benefits in terms of cost savings for some companies who now bear more of the cost of online production, and this subsequently reduces the amount of time it takes to get equity- and debt-raising over the line. This could, in turn, help more companies come to market.

However, it was noted by some representatives on the buy-side that it is impossible to replicate the level of connection that in-person meetings provide. Nuances are lost, as is the ability to read body language. Furthermore, socialising after a meeting is an important aspect of building a well-established relationship. There is also a recognition that fully virtual meetings may not work for everyone, particularly in more volatile markets where issuers with a low profile may be unable to get the necessary engagement with investors without meeting in person.

Representatives from both the buy- and sell-side do not remain entirely convinced by the concept of a hybrid meeting, noting that in reality no one would be happy with the arrangements. There is also a risk of reputational damage to the broker if an investor attended an in-person meeting and was then required to take part in a virtual corporate meeting.

NYSE recognises that this practice is here to stay and puts forward the following best practice recommendations for running a good virtual meeting: (i) have a solid agenda; (ii) use visual aids but do not read out slides verbatim; and (iii) ensure in advance that all participants can use the chosen platform. Passive participation should be discouraged by keeping groups small, pairing like-minded investors together to solicit questions and using a fireside chat format.

Source: NYSE

LSE online investor roadshow experience

With restrictions on travel and physical meetings, the pandemic created significant constraints for the traditional IPO process that relies extensively on roadshows during which companies engage with investors to present their business and vision ahead of accessing public markets.

Technological developments have enabled companies and their advisors to engage with potential investors in a different way, using for example digital roadshows. In the UK, the London Stock Exchange (LSE) deployed support for issuers through **SparkLive**, a digital platform that enables public market clients to communicate remotely with their investors, offering seamless digital communication to both institutions and retail.

To complement or replace physical roadshows where it was required, the platform supported live, pre-recorded, or hybrid events, enabling investors to attend live or at their own convenience. It offered a Q&A functionality and an embedded ability to request follow-up meetings to enhance communication between investors, issuers and investment banks. It also helped issuers understand investor engagement through detailed data analytics of attendees, engagement, and interaction.

Investors could be contacted remotely on a large scale, whether they are retail, with personalised invitations which could be sent to up to 85,000+ Londonstockexchange.com retail investor accounts, or institutional, with distribution ensured via **Refinitiv** Eikon and Workspace platforms.

This initiative provided a high number of use cases of successful online roadshows. As with other solutions used to address constraints on travel during the pandemic, it is leading issuers to rethink their engagement long-term.

Relying on digital roadshows may lead to a reduction in CO2 emissions because of less travel for physical meetings. The development of dedicated platforms to support these services, which occurred in the UK and elsewhere, could therefore contribute to the net-zero strategies of issuers and financial institutions supporting them, successfully transforming a short-term solution into permanent improvements.

3.5 Alternative audit procedures

The consequences of the pandemic on financial reporting and audit engagements were difficult to navigate for both users and preparers of accounts. Auditors are required to provide a "reasonable level of assurance" over the estimates and judgments used by management within their financial reporting, for the benefit of investors and wider stakeholders. The pandemic created an unprecedented level of uncertainty around the future earnings and even solvency of companies — both of which are integral to financial reporting, and if misreported can provide a misleading picture of the underlying health of an organisation.

With both preparers and auditors being affected by travel restrictions, practical challenges emerged around: (i) audit planning and engagement (including risk identification and assessment); (ii) exercise of professional judgment and professional scepticism; and (iii) preparation of the audit report. Here we examine the global response taken by the audit community (including standards setters and regulators).

The impacts of COVID-19 on audit and assurance- a summary of key challenges and considerations from the Association of Chartered Certified Accountants (ACCA)

The ACCA produced a paper highlighting the practical challenges that auditors faced. This is further supplemented by actions taken by individual regulators to address these challenges.

Identifying and Assessing Risks of Material Misstatement

The pandemic had an impact on entity's operating environments, and auditors were required to consider how this affected their risk assessments. The UK's Financial Reporting Council issued a Bulletin that noted that for audits underway relating to periods ending after 31 December 2019, the auditor would need to revisit their risk assessment and proposed response to the identified risks.

The ACCA further noted that the pandemic would require more frequent impairment testing and greater scepticism. Given the heightened degree of uncertainty about future business performance and economic conditions affecting assumptions, valuations were likely to be more difficult to determine.

Audit Evidence

The ACCA noted that whilst auditors were unable to attend planned inventory counts physically in order to observe the process, they could do so virtually via videocalls or drone technology. In order to exercise independence and scepticism, the following practical observations were offered by auditors: (i) participation of more than one member of the audit team during observations can help to mitigate risk, and (ii) taking screen shots during the observation can enhance the evidence.

The pandemic further made it difficult for auditors to obtain sufficient audit evidence regarding the existence of inventory by being unable to attend physical inventory counting and being unable to perform audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. Where attendance is impracticable, alternative audit procedures may include the inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to physical inventory counting.

Auditing Accounting Estimates

Auditing accounting estimates is risky due to both the complexity and judgments involved. IAASB's Staff Audit Practice Alert noted that examples of areas with greater focus are (i) whether assumptions are appropriate in the context of applicable financial reporting frameworks, and (ii) whether data being used by an entity is relevant and reliable.

Going Concern

Going concern is a particularly challenging area for management and auditors because it is managements' responsibility to assess whether the going concern basis for accounting is appropriate, and for auditors to obtain evidence to conclude on the use of the going concern basis of accounting in the preparation of financial statements. The FRC Bulletin noted that as a result of COVID-19, companies and auditors may need to consider reporting on material uncertainties, but that these should be based on the facts and circumstances rather than generic reporting on material uncertainties. The IAASB's Staff Audit Practice Alert on Going Concern in the Current Evolving Environment – Audit Considerations for the impact of COVID-19, noted the following examples of events and conditions that may exist as result of the pandemic:

Loss of major market, key customer(s), revenue, labour shortages

Significant deterioration in value of assets used to generate cash flows

Counterparty credit risk

Solvency

The Australian Securities and Investment Commission expected issuers, preparers of financial reports, and auditors to pay close attention to solvency and going concern assessments for financial reporting by companies for years ending 31 December 2020.

Modifications to the Opinion in the Independent Auditor's Report

The auditor can issue one of three types of modified opinions: (i) a qualified opinion, (ii) an adverse opinion, (iii) a disclaimer of opinion. An auditor should disclaim an opinion where they are unable to obtain sufficient audit evidence on which to base their opinion. The UK's FRC issued further guidance on modifications of Independent Auditor's Opinions and Reports, which provides more detail on the circumstances in which specific modified opinions would be relevant.

Emphasis of Matters Paragraphs in the Independent Auditor's Report

An auditor may deem it necessary to include additional communication to draw attention to matters of emphasis that are fundamental to the understanding of investors. The ICAEW provided guidance on this, noting that "widespread emphasis of matters paragraphs may diminish the effectiveness of the auditor's communications about important matters". The Australian Securities and Investments Commission drew similar conclusions in its COVID-19: implications for financial reporting and audit FAQs.

3.6 Financial/ educational campaigns for issuers

The onset of the pandemic caused a number of practical challenges for both investors and issuers, many of which had not been previously considered. As intermediaries sitting between the two, market infrastructure providers saw this as an opportunity to provide much needed clarity to ensure well- functioning markets.

Exchanges provide guidance to issuers

In June 2020, **Tadawul** held a webinar for listed companies to educate them on the Best Practice for Investor Relations (IR) in a time of COVID-19. This focused on topics including, but not limited to: (i) whether KPIs have changed as a result of the pandemic; (ii) whether IR has assisted the C-suite and Board in navigating stakeholder communications; and (iii) what questions investors are asking as a result of COVID-19 and what the investment community can learn from this going forward.

Bursa Malaysia introduced disclosure guidance to encourage improvement in respect of the quality and adequacy of information provided by listed companies. The issuer communication made the following observations:

- Listed issuers were reminded to continuously assess and disclose material information. Information is considered material if it is reasonably expected to have a material impact on:
    - (a) the price, value or market activity of any of the listed issuer's securities; or
    - (b) the decision of a holder of securities of the listed issuer or an investor in determining his choice of action.

Singapore Exchange provided a series of guidance to aid issuers making material disclosures. The guidance to issuers included:

- Consideration of the disruption to the issuer's supply chain or impact on its goods and services;
- Consideration of the impact of COVID-19 on the issuer's financial prospects, including earnings, near-term liquidity and going concerns; and
- Changes in asset valuations.

In addition to providing guidance on financial disclosures, SGX also published guidance on what issuers should cover in their sustainability reports, in particular on the social factors affected by the pandemic. These include:

- Employees: the issuers' response to governments' calls to institute safe distancing measures at workplaces and working-from-home arrangements for employees;
- Customers: assistance rendered to customers such as not insisting on strict legal rights;
- Suppliers: an assessment of the impact to their supply chain;
- Community: how the issuer had supported the community during the pandemic.

SGX also provided a grant of up to S$5,000 per issuer to defray the costs of organizing Annual General Meetings (AGMs) in light of the safe distancing guidelines issued by the government, the "AGM Facilitation Grant".
Guidance also called for the disclosure regarding the pandemic's impact on the listed issuer's cash-flows, liquidity, financial position and its financial performance. Issuers should also disclose COVID-related investments.

3.7 Exchange engagement with regulators and other bodies

Even prior to the pandemic, it was clear that market infrastructure providers could act alone to bring about the changes required to encourage innovative, high growth companies to list. The following examples demonstrate ways in which exchanges can work alongside a wide range of stakeholders, including regulators and investors, to provide: (i) access to finance; (ii) learn from best practice abroad on serving SMEs; and (iii) support innovation-oriented development of SMEs.

Shenzhen Stock Exchange (SZSE) improves its services to SMEs.

In October 2020, SZSE and China SME Development Fund Co., Ltd. ("China SME Development Fund") signed a framework agreement on strategic cooperation. With the objective of facilitating the development of SMEs, China SME Development Fund expands equity investments in SMEs through market-based means, provides diversified financing services to SMEs, maintains the stability of the industrial chain, and serves the development of the real economy. So far, China SME Development Fund has set up four direct investment sub-fund entities and five of its invested enterprises are listed on SZSE. The two parties will continue to work together to build a comprehensive financing mechanism for SMEs and improve the breadth and depth of services for SMEs to assist them in accessing finance conveniently and efficiently.

Hong Kong Stock Exchange (HKEX) work closely with the Securities and Futures Commission

Since the outset of the pandemic, HKEX has worked closely with the Securities and Futures Commission to address the difficulties encountered by listed issuers due to travel and other restrictions. This has included proactively reaching out to issuers and issuing guidance materials. To help issuers to navigate their financial reporting challenges, HKEX published guidance on (i) timing relief for the publication of results announcements and annual reports; and (ii) relief from the publication of financial information and accounts. As noted in a HKEX publication issued in December 2020, most issuers released their results or material financial information in a timely manner.

Further, in light of the public policy measures on group gatherings, HKEX issued guidance on the timing and arrangements for issuers' general meetings, encouraging issuers to explore non-physical attendance and voting, including the use of virtual meetings and other technologies.

HKEX has also assisted the Government in administering its quarantine exemption scheme for issuers' directors and executives, to facilitate their business travelling between the Mainland and Hong Kong.

4. Conclusions

This survey demonstrates the pace at which issuers and investors alike had to respond to challenges brought on as a result of the pandemic. The highlighted initiatives are indicative of the contributions from the market infrastructure community in trying to bring about some clarity for issuers listed in their respective markets. What has become clear is that this was not a singular effort; exchanges had to work in collaboration with a number of key stakeholders including: regulators, government departments and the institutional investment community. As a consequence, the success of some of these measures cannot be attributed to exchanges alone. For example, temporary relaxations from various reporting requirements for listed entities may not have been as effective were it not for governments and regulators' across the globe mandating them.

The flexibilities discussed provided issuers with ability to (i) obtain emergency funding; (ii) embrace technology to find innovative solutions to engaging with shareholders; and (iii) provide business continuity. As we continue to emerge from the pandemic and 'build back better,' we believe the following could be utilised and further developed to encourage more companies and SMEs to list:

A hybrid AGM model

- The AGM is a key date for listed issuers. It offers shareholders a unique opportunity to question the board, engage with management and hear the views of other stakeholders to inform votes on key resolutions. A Financial Reporting Council (FRC) review of the 2020 UK AGM season highlights the different approaches taken by companies during their AGM. In particular, the report recognised that technological advancements have made it possible for all issuers to be able to engage with shareholders in a meaningful way. Whether this is through submitting questions to the board in advance or during the course of the AGM via a platform (and having answers displayed on a website), to using voting apps to cast votes on the day of the AGM or via proxy.
- Depending on the make-up of a company's shareholder base, being able to engage in this way allows for greater participation, and equally promotes greater transparency and accountability on the activities that the board has undertaken. We would recommend that some form of virtual engagement remains possible for shareholders in future. This could be built in as a Listing Rule requirement for newly listed companies and existing issuers, or perhaps added as a provision within respective Corporate Governance Codes. A further incentive initially could be provided to issuers to help with the cost of a hybrid AGM — similar to the SGX "AGM Facilitation Grant". However, we note that both government and regulators may need to provide additional clarity on the interpretation of company law in this area.

Incentives for SMEs—Listings Sandboxes

- The burden of ever-expanding reporting requirements is a leading contributor to preventing more companies from going public. Capital markets rely on timely and accurate disclosure of information.

Whilst it may not be appropriate to further delay the publication of this information in all circumstances, pre-listing sandboxes could be put in place to allow SMEs to achieve gradual compliance with the complex obligations of a listed company. These are already well established within the Fintech regulatory framework and would be particularly relevant to new listings applicants that have high growth potential, but do not meet traditional criteria such as profitability or operating history[10]. An initial monitoring exercise should be undertaken to determine eligibility. These sandboxes could be organised in the form of helpdesks, or national programmes co-ordinated by stock exchanges.

- Disclosure of sustainability-related information is seen as vital to informing investors' capital-allocation decisions and is increasingly important for regulatory and supervisory purposes. For those SMEs that achieve higher-quality sustainability disclosure, incentives could be offered such as an annual fee reduction or a reduction in the time taken to review listings and temporary relaxations could be introduced for the provision of audited corporate disclosures. These changes would apply specifically to those specialised segments of the market which are tailored to SMEs and high-growth companies (e.g. LSEG's AIM market). ESG-related disclosure will also be relevant where an SME wishes to move to a different segment of the market, and stock exchanges should assist issuers with the transition to enhanced levels of disclosure.

Permanent Relaxation of Pre-emption Rights

- Some stakeholders[11] have noted that there is a case for exploring whether the enhanced flexibility in relation to placings of up to 20% should be introduced on a permanent basis. As discussed, the UK's Pre-emption Group recommended that investors, on a case-by-case basis, should consider supporting non-pre-emptive placings by companies of up to 20% of their issued share capital over a 12-month period. This measure was extended to the end of 30 November 2020 and discontinued after this.

- Additional flexibility was well-received by the market and conditions attaching to its use were well observed. This included: (i) the consultation of shareholders in advance; (ii) the inclusion of retail investors where appropriate; and (iii) the application of soft pre-emption rights and the involvement of management in the allocation process. These points are being considered further as part of revisions to the UK Prospectus Regime as well the UK's Secondary Capital Raising Review, but care needs to be taken to ensure that the rights of retail investors are not eroded.

ANNEX 1: WFE Listings Sub-group Members

[10] A sandbox would act as a layer between SMEs, stock exchanges and National Competent Authorities and facilitates smooth fulfilment of listing requirements.

[11] FCA Listings Authority Advisory Panel response to the Call for Evidence for Lord Hill's Listing Review

The WFE gratefully acknowledges the valuable inputs to this document made by the experts listed here.

Country	Organisation	Name
Brazil	Brasil, Bolsa, Balcão S.A	Yasmin Fernandes Reis
Malaysia	Bursa Malaysia	Maizatulliza Zakaria
Malaysia	Bursa Malaysia	Tiffany Yan Wei Mee
Turkey	Borsa Istanbul	Mahmut Aydogmus
Hong Kong	Hong Kong Exchanges and Clearing (HKEX)	Bonnie Chan
United Kingdom	London Stock Exchange	Arthur Marquis
United Kingdom	London Stock Exchange	Callum Anderson
United States	Nasdaq	Benjamin Haskell
India	National Stock Exchange of India	Jayesh Taori
America	New York Stock Exchange	Justin Durbin
China	Shenzhen Stock Exchange	Dr Xiaojin Wang
China	Shenzhen Stock Exchange	Lily Ling
Singapore	Singapore Exchange Limited	Lim Qingyang
Saudi Arabia	Saudi Tadawul Group	Hamid Al Hamdi
International	World Federation of Exchanges	Dr Pedro Gurrola-Perez
International	World Federation of Exchanges	Sana Mirza-Awan

ANNEX 2: Survey respondents

The WFE survey on issuer-related initiatives related to COVID-19 consisted of 11 questions and was completed between 24 April and 30 May 2020. There were 42 responses across the three regions: Americas, APAC and EMEA. The following exchanges participated in the survey:

Amman Stock Exchange	Korea Exchange
Australian Securities Exchange (ASX)	London Stock Exchange Group
B3- Brasil Bolsa Balcão	Luxembourg Stock Exchange
Bahrain Bourse	Malta Stock Exchange
BME Spanish Exchanges	Nasdaq Vilnius
Bolsa de Valores de Colombia	Nasdaq Iceland
Bolsa de Valores de Panamá S.A	Nasdaq Riga
Botswana Stock Exchange	Nasdaq Tallinn
Boursa Kuwait	Nasdaq, Inc.
Bourse Régionale des Valeurs Mobilières (BRVM)	National Equities Exchange and Quotations (NEEQ)
Bursa Malaysia	Palestine Exchange
Colombo Stock Exchange	Philippine Stock Exchange
Deutsche Börse Group	Saudi Stock Exchange (Tadawul)
FMDQ Securities Exchange Limited	Shanghai Stock Exchange
Ghana Stock Exchange	Shenzhen Stock Exchange
Hanoi Stock Exchange	SIX Swiss Exchange
Hochiminh Stock Exchange	Stock Exchange of Mauritius
Indonesia Stock Exchange	The Stock Exchange of Thailand
Japan Exchange Group (JPX)	Taipei Exchange
Johannesburg Stock Exchange (JSE)	Taiwan Stock Exchange
Kazakhstan Stock Exchange	Tel Aviv Stock Exchange