THE INVESTMENT ASSOCIATION

Response to Consultation

CP21/21: Primary Markets Effectiveness

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.5 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 40% of this is for overseas customers. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

The IA welcomes the opportunity to respond to the FCA's consultation on Primary Markets Effectiveness.

The IA and its members have an ambition to re-energise primary public markets and create a savings and investment ecosystem which delivers for end savers and is attractive to both companies and global investors. We seek to widen both UK and international businesses' access to long-term pools of capital and maintain robust governance and control standards that will help deliver long-term returns to our clients and their beneficiaries, including retail and pension savers. Our members seek to help asset owners meet their objectives by channelling investment into the productive sectors that will create the employment and economic growth necessary to meet public policy targets for fiscal sustainability and a net zero carbon future. This is aligned with the objectives set out in the recent 'Investment Big Bang' letter sent to the investment industry by the Prime Minister and Chancellor. By channelling savings through capital markets, the investment management industry is a key source of funding for both the UK and global economies, providing financing to a wide range of companies at varying stages of development and maturity.

Investment managers' clients are both retail and institutional investors, from the UK and around the world, whose capital is at risk through exposure to the index, either through index strategies or where the index is used as a performance benchmark. The long-term nature of their investment philosophy means they are not targeting short-term gains but are seeking exposure to companies that will add sustainable value to their clients' portfolios and ultimately the UK and other economies into which investments are allocated, far beyond an initial IPO. We consider the UK's world-leading governance and stewardship standards as critical to the long-term success of the UK's equity markets. This success has a direct impact on pension and other savers in the UK and around the world as the value of their savings or pension pots are directly linked to the success of the companies in which they invest.

Discussion paper on the purpose of the listing regime

The UK's Premium listing segment is emblematic of the high standards of the UK market which enjoys a high level of investor confidence, attracting the capital of both domestic and overseas investors to UK equities. The UK's governance and stewardship standards are seen as some of the best in the world. Higher governance standards and effective shareholder engagement are seen by overseas investors as representing lower risk, meaning companies can raise capital at a lower cost than competitors in markets which are perceived to have lower standards.

As part of this review, we would like to see increased commitment from government, regulators, and other stakeholders to provide resources and political support to attract new companies to list and operate in the UK. There should be a proactive unit which brings resources from within government and the regulators to help this be achieved; this team would have objectives concerning the competitiveness of the UK listing regime. This would support our proposals set out in response to HMT's Future Regulatory Framework Review Phase II Consultation and the BEIS consultation on Reforming the Framework for Better Regulation, to amend the regulators' statutory objectives to reflect the changing environment and updates to FSMA in the FS Bill to support international competitiveness. The FCA should be on hand to provide support, resource, and expertise for companies wishing to list. This promotional drive will also need to include long lasting political support for businesses so that the best and most innovative global companies not only list but also choose to base their operations in the UK.

The purpose of the listing regime

We welcome the FCA's examination of the purpose of the listing regime in this discussion paper and thoughtful approach to soliciting views on its value for investors and issuers. An evidence-based approach is essential to understand what is deterring companies at all stages of development and maturity from listing in the UK, what is incentivising companies to delist and return to private ownership, and what solutions may help to reverse this trend. HM Treasury's review of the UK prospectus regime forms an essential pillar of this inquiry.

The current listing regime offers many alternative listing categories, from the Premium and Standard segments, and alternatives such as AIM and the High Growth segment. This provides listing opportunities for a range of companies seeking the benefits of the lower cost of capital that public markets bring. This diversity of listing opportunities suits the needs of investors, who are looking for investment opportunities which will meet their clients' varying investment objectives, which will be driven by their risk tolerance (including ESG risk), return objectives and other capital allocation objectives.

These listing segments should be seen as a continuum, providing companies with the opportunity to transition between listing segments at various stages of maturity, where shareholders will expect differing governance standards, reporting requirements and protections in return for providing capital to meet the company's evolving funding needs. The requirements and branding of the different listing segments need to be reviewed to ensure they are positioned to attract and support companies to the right segment at the right time and to transition over time between these segments.

More work also needs to be done to promote the flexibility offered by the current system and categories. The branding and positioning of the Standard segment specifically would benefit from a review. It is currently perceived as a second-class option in contrast to the Premium segment, rather than an important springboard for further growth and success. The FCA will need to consider the differentiation between the Standard Segment and the Premium segment following the proposed changes to the Listing Rules for Premium companies on Dual Class Share Structures.

The FCA should consider the role of the Premium and Standard segments alongside the role of AIM, the High Growth segment, and the role of private finance. A comprehensive review of the purpose of the Listing Rules would not be complete without considering the important role that AIM and other listing categories play in supporting a flourishing capital market ecosystem. We need a framework which supports high quality companies to grow and navigate different funding stages including through the transition from private to listed companies and through different listing segments.

As companies grow and develop, they should be encouraged to move between the different segments and the FCA should consider what role it has in facilitating this. At present there is insufficient movement between the listing segments. Investors are particularly concerned about those companies that have effectively 'outgrown' their current listing status but have little incentive to transition. This trend should be of concern to regulators, in the same way that poor governance standards of private companies is a risk to market integrity and public confidence in the financial system; large cap AIM companies should not be allowed to persist with lower governance standards. There should be some mechanism to review the status of companies within AIM. The LSE should consider their role in helping companies to graduate from AIM, with the FCA stepping in if appropriate rules or mechanisms are not introduced.

Key features of the listing regime

The Listing Rules need to be considered in their totality and how they work as a system to protect the interests of shareholders and wider market integrity. There is an important balance to be struck in any listing regime between the needs of companies, to raise capital on public markets, the needs of investors to deliver sustainable returns on behalf of their clients and the needs of society to ensure the integrity of public markets. The Listing Rules should play a key role in reducing information asymmetry and aligning incentives between the owners and users of capital as well as providing public accountability to engender the trust and confidence for the wider range of stakeholders that public companies impact.

Investors especially value those requirements which are designed to protect the interests of minority shareholders and protect value for investors by ensuring they can carry out accurate price formation - notably requirements on disclosure of price sensitive information, requirements on related party transactions and the controlling shareholder regime.

Listed debt

We welcome the consideration of the treatment of debt securities in the listing regime. IA members would like to see greater electronification of the new issuance process, to reduce the complexity of the process, increase transparency, streamline workflows, and reduce

the capacity for manual error on the part of all participants. These improvements will benefit not just the buy-side, but the market as a whole. IA members also believe that the minimum denomination size for bonds should be reduced to allow greater access for retail investors. However, any reduction in the minimum denomination size should be accompanied by strong disclosure requirements and potentially a higher standard for disclosures under the £250 million issuance level, to ensure there are sufficient protections in place for retail investors.

Prospectus regime

There are important links between this discussion paper and any future role of the FCA in setting prospectus content and requirements as proposed in HMT's consultation on the UK prospectus regime. Prospectus requirements should be streamlined to focus on providing investors with the information they need to make long-term investment decisions, as the current approach is too focused on managing liability. The FCA should consider further actions to encourage forward-looking disclosures and increase the decision usefulness of prospectuses. We ask that HMT and the FCA consider the implications of reforming prospectus requirements on pre-emption rights. The protection of minority shareholders from the dilutive effects of large non-pre-emptive capital raises provides investors with the confidence to invest their capital through the UK's listed markets. Please see our response to HMT's consultation on the UK prospectus regime for further detail.

Growing importance of ESG and sustainability

We encourage the FCA to look at the impact of these proposals alongside a range of other strategic policy initiatives. We note our in our response to the consultation element of CP 21/21 the interaction between BEIS' proposals on Corporate Governance and Audit Reform and the FCA's proposals to revitalise the UK listing regime. Another important interaction with this review is the FCA's and UK's government's ambitions on sustainable finance.

A key consideration for the FCA when considering the purpose of the listing regime, is how the Listing Rules will keep pace over time with growing investor and societal expectations on the sustainability of public companies and how the FCA's broader objectives on green finance and supporting the achievement of net zero carbon emissions interact with their role in setting the Listing Rules. The recent inclusion of TCFD reporting into the Listing Rules was welcomed by investors who are also supportive of steps to improve the diversity of publicly listed companies that are discussed under CP 21/24.

The UK listing environment needs to host more companies that will thrive in a green and digital economy, supporting the UK to build a sustainable economic recovery for the benefit of investors, savers, and the wider society. Public equity markets will be pivotal in the transition to a net-zero economy and creating a sustainable future. This will require existing companies to reallocate capital towards a sustainable transition, alongside new companies with innovative solutions to the world's most pressing sustainability challenges coming forward to list in the UK.

Strong governance standards and an engaged investor base (across both equity and debt) will play a key role in incentivising companies to reallocate capital towards a sustainable transition. The UK's Listing Rules promote these high standards through strong shareholder accountability mechanisms and world leading corporate governance and stewardship

standards. Public markets with high governance expectations will be more responsive to the changing expectations and risks associated with climate-related matters: investors in these markets will be better able to hold those companies who are not taking appropriate action to account; they will be able to allocate capital effectively to those companies creating sustainable value and contributing to a decarbonised economy; and they will be able to provide the appropriate support and challenge to companies that need to transition to more sustainable business models.

Consultation Paper on proposed changes to the listing rules

Lord Hill's Listing Review raised important questions about whether the UK's current listing regime continues to attract high-quality, innovative and high-growth companies to list in the UK and whether the balance of industries represented is serving the needs of the UK's economy as well as UK and global investors. We welcome the FCA taking forward a number of Lord Hill's recommendations through its own review of the UK's Listing Rules. The over-riding objective of this review must be to attract the highest quality companies not only to list but also to operate in the UK, as it is their operations that will provide jobs, investment, and tax revenues. Investment managers are seeking exposure to innovative and high-growth companies that are responding to global challenges to diversify risk and meet their clients' long-term investment objectives. Attracting high quality and innovative companies that address these global challenges will help to deliver a sustainable economic recovery and contribute to the UK meeting its commitment to achieve net zero carbon emissions.

We welcome the comprehensive, evidence-based examination of Lord Hill's and Ron Kalifa's proposals in this consultation paper. This evidence-based approach is essential to understand what is deterring companies from listing in the UK, what is incentivising companies to delist and return to private ownership, and what solutions may help to reverse this trend. We note that HM Treasury's review of the UK prospectus regime forms an essential pillar of this inquiry.

As we set out in our submission to Lord Hill's review into the UK listings regime, alongside Government, the FCA should consider the broad range of factors that influence the decisions of companies who are considering listing on public markets. IA members believe that the Listing Rules are not the sole barrier to attracting high-growth or founder led businesses to list and operate in the UK. One important consideration is how the UK can achieve a cluster of similar companies to list in the UK as it is this cluster effect that will support the investment in research and analysis needed to encourage further listings, essentially forming a 'virtuous circle'. Achieving this will require a number of developments from various actors, including intervention from regulators and policy-makers; increased expertise and focus from analysts, banks, and legal institutions; and ensuring that there is appropriate research provision for investors. There should be dedicated resources from across Government, regulators and wider stakeholders to support the active promotion of the UK as a listing destination with various options for companies to access public markets, from admission to the premium segment through to SPACs. Investors are particularly concerned about the lack of quality sell-side research on small to mid-cap companies and the lack of research expertise on biotech and deep technology investments in the UK Market in comparison with both the US and Hong Kong. The FCA and Government need to carefully consider how to increase the depth and availability of research to support better investor dialogue. The upcoming review of MiFID II should examine this carefully.

On the specific proposals for changes to the Listing Rules the IA's views are summarised as follows.

Dual Class Share Structures (DCSS)

The IA supports the limited introduction of DCSS into the premium segment. We recognise that the proposals on DCSS are aimed at reducing the barrier to entry to listing for companies in a proportionate and controlled way that gives due consideration to investor protection. We agree that introducing these changes removes *a* barrier, namely the high risk of unwanted takeover at a critical stage in the business' life cycle, to high-growth and innovative companies listing in the UK. These companies are seeking the potential for higher valuations and a stable investor base that comes with a premium listing. Attracting these companies to list in the UK may provide significant investment opportunities to UK pension funds and savers and be attractive to global investors familiar with and reassured by UK governance and stewardship standards.

This is a departure from the principle of one share, one vote, which ensures the equal treatment of all shareholders by allocating control of a company in direct proportion to economic interest. The FCA must therefore ensure that the reputation and attractiveness of the UK premium segment to UK and global investors and prospective companies is not diminished over the long-term by these proposals.

We support the limited period and range of circumstances under which weighted voting rights could be used and the fact that these rights are non-transferrable and that the holder must be an active Director. However, some of our members are concerned that the 20:1 weighted voting rights ratio is too high. This will allow a founder with as little as a 5% shareholding to exert significant influence. The IA recommends that the FCA carefully consider the appropriate weighted voting right ratio relative to existing thresholds in company law such as the ability to block a special resolution; requisition a resolution; or become a controlling shareholder. There is an important balance to be struck between the incentive for existing founders to list and the protection of independent shareholders.

Reduction in the minimum Free Float

IA members agree that having a higher free float may be considered a deterrent from certain types of company from listing, and 25% is perceived as a significant hurdle. However, our members have several concerns with the proposed minimum 10% free float, namely concerning the impact on liquidity.

The £5 million which would be derived from the new minimum market capitalisation and minimum free float is considered by investment managers to be too low. If there is insufficient institutional investor demand at this market value of the free float, this may impact the liquidity and orderly functioning of the market in these shares. Other concerns with the lower free float arise from a corporate governance perspective regarding the ability for minority shareholders to register significant dissent at company GMs and whether this could undermine the objective to reverse the trend of management taking companies private after short periods.

To address these concerns, we recommend that the FCA should adopt some mechanism to ensure that companies are required to increase their free float over 2-5 years to the current 25% level and introduce a minimum market value of free float shares. We believe these

amendments to the proposals will support the FCA's objectives to promote market integrity and increase investor confidence.

Reviewing success

It will be essential for the FCA to review the success of these proposed changes in future years. Lord Hill's proposals for the Chancellor to provide an annual 'State of the City' report to Parliament will be important for all stakeholders to consider the success of these proposals and whether wider reform is needed to ensure the UK continues to grow as a premium destination for innovative companies that will deliver long-term growth for UK savers. This Review should include a consideration of the FCA's success in fostering the right listing environment and how government departments such as HM Treasury, BEIS and DIT are co-ordinating with a common purpose to attract companies to list and operate in the UK.

The UK is rightly seen as a standard setter and global leader on sustainable finance and corporate governance and this leadership role is firmly in the spotlight this year considering the UK Government's role in hosting COP26 and the G7. This presents a significant opportunity for the FCA to lead the way in developing new rules that will attract the highest quality companies that will contribute to a sustainable transition. New rules will necessarily contribute to global norms and must not be seen as a race to the bottom of global standards.

Investors' views on the success of these proposals will be driven by their fiduciary duty to meet the asset owners' investment objectives and achieve long-term value on behalf of their clients. Success is not represented by the number of companies listing or on the volume of capital raised but by the quality of the companies coming to the market and the strength of their business model. A key barometer of success will be the long-term sustainable returns which these high growth companies deliver for their shareholders.

The FCA must conduct a dynamic review process to ensure UK markets remain competitive and these proposals increase the attractiveness of the UK as a listing venue for some companies by removing some perceived barriers. It will be important to have clear metrics of success for the FCA. We recommend a formal review of the impact of these proposals after 3 years to assess whether there have been unintended adverse consequences for investor protections and whether the proposed changes are meeting the original aims to encourage a thriving UK listing market, which serves the needs of both the modern economy and savers.

Finally, we encourage the FCA to look at the impact of these proposals alongside a range of other strategic policy initiatives. The Listing Rules, corporate governance and stewardship regimes and expectations need to be viewed holistically and consistently seek the same aim: to ensure the same behaviours and incentives across the investment chain. Of particular note is the interaction between BEIS' proposals on Audit Reform and the FCA's proposals to revitalise the UK listing regime. There is an important balance to strike between heightening expectations of director accountability and reporting expectations (as being proposed by BEIS' proposals) and providing more flexibility to ensure the right incentives for innovative companies to list in the UK.

It is important for the FCA to continually review the listing regime to ensure that it is attracting the right companies to list in the UK at all stages of development and maturity, not just at IPO. The IA and our members are keen to support companies, the Government, and regulators to achieve the right listing environment, which attracts companies to list and

operate in the UK and can deliver sustainable long term returns to their clients and provide positive benefits to the economy, society and environment.

Discussion Chapter

1) **Would a single segment for equity shares in commercial companies meet the needs of both issuers and investors?**

No, the IA does not consider that a single segment would meet the needs of investors.

We recognise there would be some benefits to having a single listing segment. There would be a clearer understanding of the requirements on issuers under a single set of rules, resulting in a reduction in compliance costs for issuers, which are ultimately borne by shareholders. Investors could, in principle, benefit from the higher governance standards for all companies if a single 'premium like' segment was adopted. With the proposed changes to allow the limited introduction of DCSS into the Listing Rules for Premium companies, it will be important for the FCA to consider the differentiation of the requirements for Standard and Premium issuers.

The introduction of DCSS into the Premium segment narrows the distinctions between the Standard and Premium segment. Moreover, over time the Standard segment has become a 'catch' all for a range of companies and securities with no clear attraction and proposition. The majority of our members believe there is still a need for the Standard listing segment that provides an attractive proposition for companies that cannot or do not wish to achieve Premium status. However, there are some members that see less of a need for a Standard Segment following the proposed changes to the premium segment rules. The FCA should seek to set out a clear proposition for the standard segment which is attractive for companies and meets the needs of investors and is clearly differentiated from the Premium segment.

We would be concerned about a dilution of governance standards that may come with moving to a one segment model. Considering the wider objectives of this review to remove barriers and incentives to companies to list, we would be concerned that a one listing segment model would necessarily result in the lowest common denominator of standards, out of step with recent developments which are in line with investor expectations (e.g., on TCFD reporting and diversity targets). Lower standards could lead to less capital flowing into the UK, meaning less liquid markets and less issuers attracted to the UK.

We would be particularly concerned if such a model resulted in investor protections and standards set by trading venues and index providers. Index investment strategies are unable to sell-out of their positions if they are concerned about the company strategy, governance or running of the company. They are reliant on the universe of companies meeting the Listing Rules and the individual index providers' index inclusion rules. The Listing Rules and the separation between the role of the FCA in setting these rules and index providers and trading venues in setting further admission criteria is an important dual line of defence for shareholder protection. When the Listing Rules are weakened this creates commercial pressures for the index providers to likewise reflect any changes; if they are strengthened then index providers must also raise their standards. Under a model where standards are set by index providers or trading venues it is not clear that there will be sufficient protections on issues which matter to investors such as related party transactions, or which would reflect evolving investor expectations. It is unclear if index

providers would rigorously uphold standards on an ongoing basis, rather than just on inclusion to the index and how conflicts of interest would be managed.

Moreover, IA members believe there are several important characteristics of the current listing structure, where companies have choices to become a public company through access to different listing segments, which suit their current maturity, growth aspirations, funding needs and risk profile. Supporting companies to transition through these different segments, from private to AIM, AIM to Standard or Premium, and Standard to Premium more effectively should be a key aim of this review.

Investors benefit from having the option to invest in companies with different risk-return profiles to meet the diversity of their client's investment objectives. Some client mandates for example won't allow investment in AIM companies, and in these instances, Standard listed companies provide a viable alternative in-terms of risk-return profiles. Some clients are seeking exposure to the largest companies with the strongest governance in place in the Premium segment. A multi-segment model supports the highest standards in the Premium segment and allows companies to transition over time to achieve these standards.

It is essential to consider the role of Premium and Standard listing segments alongside the role of AIM and high growth listing segments and the role of private finance. A comprehensive review of the purpose of the listing rules would not be complete without considering the important role that AIM and other listing categories play in supporting a flourishing capital market ecosystem. We need a framework which supports high quality companies to grow and navigate different funding stages including through the transition from private to listed and through different listing segments, appropriate to their fundraising needs and risk profile.

However, at present there is insufficient movement between the different listing segments. Investors are particularly concerned about those companies that have effectively 'outgrown' their current listing status but have little incentive to transition. For example, there are several companies within the AIM segment, which are sufficiently large to be considered significant constituents of the FTSE 100, which reasonably you would expect index investors to gain exposure to. However, these companies do not have significant incentives to transition to regulated markets. Some may be reluctant to adopt the higher governance standards and additional reporting requirements that comes with becoming a Standard or Premium listed company. They may also be concerned with tax liabilities their shareholders would experience from the company transitioning from AIM – some of their shareholders would lose out on Inheritance Tax and Capital Gains Tax reliefs. HMRC may wish to consider if there is a grandfathering scheme for such tax reliefs, for such companies.

This trend should be of concern to regulators, in the same way that poor governance standards of private companies is a risk to market integrity and public confidence in the financial system; large cap AIM companies should not be allowed to persist with lower governance standards. There are also concerns with how the broader market is functioning effectively if index investors are not getting exposure to some of these companies. The FCA should examine the incentives for companies to transition from AIM to Standard or Premium and consider whether there are any unintended consequences of the existing

regime which undermine supporting an efficient pipeline of funding for companies through different stages of maturity.

There should be some mechanism to review the status of companies within AIM, particularly where they meet a certain size threshold, which may trigger a review. The LSE should consider their role in helping companies to graduate from AIM, with the FCA stepping in if appropriate rules or mechanisms are not introduced[1].

There are also several companies that do not wish to transition from the Standard to the Premium segment but would benefit from doing so and the FCA should consider their role in supporting these companies to transition at the appropriate time.

2) Which elements of the existing listing regime would you consider it most difficult or least desirable for issuers and/or investors to operate without? Are there any particular elements you would reinstate? ie the controlling shareholder regime, or the free float requirements

The UK's listing regime has evolved over time to ensure it keeps pace with evolving market practice and in response to investor needs and public expectations for companies on the main market. A key benefit of investing in the UK market is the high governance standards which align the economic interests of the company with its shareholders. Companies benefit from the lower cost of capital that this assurance brings.

The Listing Rules need to be considered in their totality and how they work as a system to protect the interests of different actors. There is an important balance to be struck in any listing regime between the needs of companies, to raise capital on public markets, the needs of investors to deliver sustainable returns on behalf of their clients and the needs of society to ensure the integrity of public markets.

The Listing Rules should play a key role in reducing information asymmetry and aligning incentives between the owners and users of capital as well as providing public accountability to engender the trust and confidence for the wider range of stakeholders that public companies impact. For this reason, the UK listing regime cannot be viewed in isolation from corporate governance and stewardship regimes – these need to be viewed holistically and consistently seek the same aim: to ensure the same behaviours and incentives across the investment chain.

Below, we draw out some individual elements of the listing rules which are particularly important to investment managers. Of note are those requirements which are designed to protect the interests of minority shareholders and protect value for investors by ensuring they can carry out accurate price formation - notably requirements on disclosure of price sensitive information, requirements on related party transactions and the controlling shareholder regime. However, we would note that it is the combined impact of these requirements that offer significant investor protections and so they must be examined in tandem.

Company Disclosures Prospectus

[1] Please see the Investor Forum's paper on 'governing for growth' for an exploration of some of the factors which need to be considered to support high growth companies to evolve their approach to governance to ensure a focus on long-term value.

Through linking to the requirements under the Disclosure and Transparency Rules under Listing Rule 9.2.5, the listing rules ensure that companies are making disclosures to the market at the right time which allows well informed price formation decisions by investors and supports market integrity.

Investors value the disclosure of price sensitive information to the market at the time of companies coming to the market and on an ongoing basis in relation to annual reporting, significant transactions, new capital raises (including prospectus and working capital statements) and governance changes. This supports the need for a fully informed market.

A key aim of the disclosure requirements embedded in the Listing Rules should be to reduce the asymmetry of information between investors and companies to support efficient price formation.

Related Party Transactions

Rules on related party transactions for the main market enable investors to make informed valuation and investment decisions. If investors do not know what assets a company owns, they cannot complete their investment decision and make a fully informed assessment of a company's value. Equally, if a company can move assets between related parties with no prior disclosure or oversight from independent shareholders, the first that independent shareholders would know about the transaction would be post-event, when it is announced to the market and has impacted the share price of the company. Investors cannot have confidence in the company's valuation, or that it is being run in the interests of all shareholders. Therefore, it is essential for shareholders to have the opportunity to vote on any related party transactions.

Investors also value the opportunity to be informed about and vote on significant transactions under LR 10. Again, this allows efficient price formation and supports shareholders to cast a view on whether material capital changes at the company are in the long-term interests of their clients.

Controlling shareholder regime

The development of the controlling shareholder rules for Premium listed companies was an important recent development. The rules were brought in to address investors' concerns relating to the governance of certain Premium listed companies with a controlling shareholder, and in particular concerns that the company is being run in the interests of the controlling shareholders and therefore investors may find themselves unable to participate effectively in the governance of the listed company in which they had invested. The company is required to have a relationship agreement with the controlling shareholder which set out how they will interact. Investors highly value these requirements, as they protect minority investor interests by ensuring there is governance over how the controlling shareholder interacts with the company so there is a clear understanding of how the relationship is conducted and how any conflicts of interest are managed.

Independent directors should hold non-independent directors to account on the ongoing oversight and management of the company to ensure it is being run in the interests of all shareholders. The introduction of an independent shareholder vote on independent director re-election at company AGMs provides investors with important protections that

ensures independent directors are being held to account by independent shareholders on how they are managing the company in the long-term interests of all shareholders. It is important to note shareholder signalling mechanisms do not take control from the majority shareholders but require them to explain why they are taking a certain approach. It is this transparency, responsiveness and accountability that continues to push publicly listed companies to be better long-term propositions to investors.

Comply or Explain Regime

The Listing Rules require companies to comply or explain against the principles and provisions of the UK Corporate Governance Code. This Comply or Explain regime allows companies to make well-argued explanations to their shareholders if they choose not to apply all the provisions of the UK Corporate Governance Code. An important aspect of this regime is that investors signal their support, or otherwise, for a company's approach at the General Meeting, and the company responds to investor concerns. There is an important balance between this regime and Director accountability provided through shareholder protections.

Liquidity

As noted in response to the consultation element of CP21/21, IA members consider maintaining a minimum level of liquidity is an important aspect of the free float requirement in the Listing Rules. Investors in the UK market want to ensure that there is sufficient liquidity to ensure that they can trade in company's shares when needed, at a fair market price. In addition to providing a minimum level of liquidity, the free float requirement also provides important protections for shareholders whose capital is at risk. It provides a corporate governance protection for minority shareholders to allow them to signal investor concerns at a company's General Meeting (GM). IA members consider the number of shares in public hands as an important feature of the listing regime.

Evolving Investor and Society Expectations on ESG

While historically the Listing Rules have played an important role in reinforcing governance expectations of companies, in recent years we have seen developments which also focus on environmental and social risk factors, in line with evolving investor and societal expectations of public companies. The inclusion of TCFD reporting in the listing rules were an important development which the IA welcomed. We are also supportive of proposals to include Diversity and Inclusion expectations of companies as set out in CP 21/24. It is important for the FCA to examine in this review how the listing rules will continue to evolve in response to enhanced investors and societal expectations of companies on ESG factors and in line with its broader regulatory objectives on green finance.

3) Would the role of the sponsor be a significant loss? Is their role under any specific element of existing requirements considered significantly beneficial to issuers or investors currently?

Investors value the due diligence that a sponsor performs prior to IPO to assess the suitability and readiness of the company to be listed and to support them through the listing process. They can play an important role in improving the quality of the companies that come to the market by ensuring they are equipped to have a successful IPO and meet shareholder expectations. The track record of the sponsor is an important consideration for

investors, they will consider whether previous IPOs under their sponsorship were successful when considering the quality of the company coming to market and whether to participate in the IPO, this signals confidence to the wider market.

However, IA members have some concerns with the management of conflicts of interest by sponsors. While the FCA has an extensive regime to ensure sponsors manage conflicts of interest, considering the sponsor's role in advising and financing companies; investors are concerned about the divergent interests and incentives for sponsors and long-term shareholders. Investors would like to see better alignment of the fees of sponsors with the long-term interests of the company, with the fee based on the success of the IPO for the market and company share price not just the money raised for the seller.

4) What would be the benefit of being admitted to the Official List rather than just admission to a trading venue?

As discussed in response to questions 1 and 5, we consider the separation between the role of the FCA and trading venues as important in ensuring market integrity. The independence of the FCA in setting rules for admission to the Official list is essential as trading venues are subject to commercial pressures and do not have a duty to protect market integrity.

5) Should we have a role in approving the admission criteria set by trading venues and/or indices? Could adequate investor protection be maintained if different trading venues compete on admission requirements?

The Listing Rules act as an important gateway for ensuring that high quality and well governed companies list on the Premium segment and that shareholders have sufficient rights to hold them to account. An important second line of defence are the rules that index providers apply for index inclusion. Index providers therefore have an important role to play in upholding the standards of UK listed companies.

Index providers consult widely on the general rules for inclusion in a given index and shareholders are proactively engaged in this process. For example, FTSE Russell have numerous committees which look at the rules and approach of the index and these committees have significant representation from their clients - investment managers. However, these committees focus on whether a company meets the rules of inclusion against issues such as country of incorporation and free float, rather the ongoing governance and behaviours of the company. We do not believe a regulatory regime which incentivises further competition in admission requirements would be in the best interests of investors. This exposes shareholders to any reduced governance standards.

6) What types of issuers would find it hard to comply with the standards within the existing Premium listing segment and why?

The UK's Premium listing segment is emblematic of the high standards of the UK market which enjoys a high level of investor confidence, attracting the capital of both domestic and overseas investors to UK equities. The UK's governance and stewardship standards are seen as some of the best in the world. Higher governance standards and effective shareholder engagement are seen by overseas investors as representing lower risk, meaning companies can raise capital at a lower cost than competitors in markets which are perceived to have lower standards.

These standards have evolved over time to respond to changing market practices and investor demand. It is important to consider how these standards are positioned. They provide market discipline by providing a natural barrier to those companies which may struggle to meet them, they should also be seen as an opportunity to those companies that are capable of maturing to meet these standards It is appropriate that they are reviewed to consider whether they are providing the right balance between supporting the world's best companies to list and grow in the UK and meeting investor needs for sustainable investment opportunities. Maintaining these high standards and ensuring that companies and shareholders are working together to promote the integrity of the market over the long-term, should add value to the UK economy.

We consider that different listing segments can support companies at different stages of growth and maturity and with differing funding needs. AIM and Standard provide a listing destination for a range of companies which are seeking funding on public markets but may wish to have greater flexibility in their governance arrangements or are not ready to transition to the Premium market.

These different listing segments should be seen as a continuum, providing companies with the opportunity to transition between different listing segments at different stages of maturity, where shareholders will expect different governance standards and protections in return for providing capital to meet different funding needs. The requirements and branding of the different listing segments need to be reviewed to ensure they are positioned to attract and support companies to the right segment at the right time and to transition over time between these different stages. More work also needs to be done to promote the flexibility offered by the current system and categories.

The FCA should consider how to support companies to transition between these different listing segments at the appropriate time and ensure that the branding of the different listing segments targets the relevant companies. There should be a proactive unit which brings resources from within government and the regulators to help this be achieved; this team would have objectives concerning the competitiveness of the UK listing regime. The FCA should be on hand to provide support, resource, and expertise for companies wishing to list. This promotional drive will also need to include long lasting political support for businesses so that the best and most innovative global companies not only list but also choose to base their operations in the UK.

7) Do unlisted markets provide a suitable alternative to listed markets? Would a gap emerge for any issuer? Do you consider there would be any particular benefits or drawbacks to this approach?

Please see our response to question 1.

It is essential to consider the role of Premium and Standard listing segments alongside the role of AIM and high growth listing segments and the role of private finance. A comprehensive review of the purpose of the listing rules would not be complete without considering the important role that AIM and other listing categories play in supporting a flourishing capital market ecosystem.

AIM can be a target listing destination for high growth and innovative companies that the UK is seeking to attract. It can act as an important gateway for attracting companies that aren't yet ready for the Standard or Premium list and has several attractions, including:

- the role of the nominated adviser (playing a similar role to the sponsor for companies on the main market) to support companies to list;
- ease of undertaking related party and other transactions, the flexibility to do this may be more appropriate for companies at an earlier stage of maturity; and
- fewer disclosures and governance requirements, proportionate to the relative size of the companies typical on this market.

There is a balance between the greater flexibility of these governance standards and the relative levels of risk and return that investors are seeking to achieve. Some client mandates do not allow investment in AIM companies considering the higher level of risk they represent, and these companies are not considered for index inclusion.

An important role for the FCA is to ensure that these companies don't become 'stuck' on AIM as they continue to grow and mature but are supported by their investors and advisers to transition to the Standard or Premium. This is particularly relevant when considering the governance expectations of large cap companies who play a more substantial role in the market. A key premise of the UK's governance regime (e.g., the Corporate Governance Code and Wates' Principles for private companies) is that there are heightened expectations of larger companies who have more significant duties to a wider range of stakeholders to support market integrity and trust and confidence in public markets.

8) What types of companies or strategies should the 'alternative' segment be aimed at?

The current Standard segment provides a range of benefits for companies that are seeking admission to the official list but are not yet ready for the obligations that come with seeking a Premium listing or otherwise are not seeking the funding that comes with a Premium listing. It should provide a natural transition role for companies that are seeking to come off AIM and move to the official list or for companies seeking a primary listing who would look to transition to Premium over time.

There appears to be a perception problem with the Standard segment which may be acting as a disincentive to list in the UK. The FCA should review if this branding should be changed to ensure that the name of the listing segment is not discouraging companies to list on it and that it is positioned to attract companies at this transitional stage in their growth and maturity.

We agree with the FCA's analysis that the Standard segment has over time become a 'catch all' for different types of securities with no clear strategy which makes it appealing and marketable. It is important to consider whether different listing segments for different types of securities, with a clear differentiation between commercial companies and other types of securities, would support a clearer positioning of the Standard segment. The requirements and branding of the different listing segments need to be reviewed to ensure they are positioned to attract and support companies to the right segment at the right time and to transition over time between these different stages. More work also needs to be done to promote the flexibility offered by the current system and categories. Clarity over the purpose and objective of the Standard segment would help with this promotion.

9) **Do the existing provisions in the Standard segment need to be changed to suit these companies, either through relaxation or to provide additional shareholder protections?**

The branding of the different listing options from AIM to Standard to Premium, has become less clear; they appear as separate choices rather than an integrated range, and the array of flexibilities within each segment has only added to the complexity. The outcome is that the different segments are not viewed as cohesive range that supports a company through each stage of its growth. These different listing segments should be seen as a continuum, providing companies with the opportunity to transition between different listing segments at different stages of maturity, where shareholders will expect different governance standards and protections in return for providing capital to meet different funding needs.

The branding and requirement of the Standard segment specifically would benefit from a review, as it is currently perceived as a second-class option in contrast to the Premium segment, rather than an important springboard for further growth and success.

As companies grow and develop, they should be encouraged to move between the different segments. As discussed in response to question 1 at present this isn't occurring as much as it should, and several companies have outgrown their listing segment and should be proactively incentivised by the regulator to transition. The FCA should carefully the role that they can play in encouraging this movement through their supervisory role or through setting criteria to trigger a review.

10) **How important is our role in setting additional admission standards to listing in the 'alternative' segment? Are there any benefits to this role being performed by us rather than a trading venue, or market discipline?**

Please see our response to questions 1 and 5. We consider the separation between the role of the FCA and trading venues as important in ensuring market integrity. The independence of the FCA in setting rules for admission to the Official list is essential as trading venues are subject to commercial pressures and do not have a duty to protect market integrity.

11) **Do you consider the alignment between admission to the index and admission to the 'senior' segment to be important? Should the indices consider setting more objective admission criteria?**

Yes. Investment managers consider the listing rules and index inclusion rules to work in tandem. As we have discussed in response to questions 1, 5 and 10, the Listing Rules and the separation between the role of the FCA in setting these rules and index providers and trading venues in setting further admission criteria is an important first line of defence for shareholder protection.

The growth of index strategies and the need for all investment funds to be benchmarked against an index has led to a continued focus on the appropriateness of those companies in an index. Any changes to the listing environment will have repercussions for index inclusion rules and in turn those funds with index strategies or that benchmark against an index. At present the link between the Premium segment and index inclusion rules provides

important protections for investors in index-based strategies as it ensures the promotion of the highest governance standards and shareholder protections.

One area it would be helpful for the FCA to explore in this review is what role index providers should play in upholding the standards of companies within the index and responding to market concerns.

Index providers have an important role to play in stewardship and promoting the integrity of the market. This role is especially important for index investment strategies, where performance is contingent on the behaviours of all companies in the index, but is also important for active investors, who typically benchmark performance against these indices.

One of the recommendations of HMT's Asset Management Taskforce report 'investing with purpose, placing stewardship at the heart of sustainable growth' is that index providers should demonstrate how they support effective stewardship by becoming signatories to the service provider principles of the UK Stewardship Code.

12) How can the process for listing debt and debt-like securities be improved for issuers without jeopardising investor protection?

Members have several concerns about the provision of company information for listed debt securities in a regular and timely manner. While this is usually covered by a reporting covenant within the terms of the bond itself, members note that in many instances information provision is not as timely as it should be, with the result that investors do not always have the transparency they need.

Members would like to see greater electronification of the new issuance process, to reduce the complexity of the process, increase transparency, streamline workflows, and reduce the capacity for manual error on the part of all participants. There is a strong desire to see greater information being provided in a timely fashion to investors at the point at which a deal is brought, specifically electronification of the provision of deal information (including ISINs) along with a smoother workflow for order input. All these improvements will benefit not just the buy-side, but the market as a whole – including those ordinary clients whose money is being invested by investment managers.

IA members also believe that the minimum denomination size for bonds should be reduced to allow greater access for retail investors. There are concerns that retail investors are accessing debt like securities on alternative markets to gain exposure to this asset class (e.g., via peer-to-peer lending platforms) without the additional protection that listed debt brings due to the prohibitive size of the minimum denomination. However, any reduction in the minimum denomination size should be accompanied by strong disclosure requirements and potentially a higher standard for disclosures under the £250 million issuance level to ensure there are sufficient protections in place for retail investors.

13) Should there be a separate listing segment for debt and debt-like securities?

We agree with the FCA's analysis that the Standard segment has over time become a 'catch all' for different types of securities with no clear strategy which makes it appealing and marketable. It is important to consider whether different listing segments for different types of securities, with a clear differentiation between commercial companies and other types of securities, would support a clearer positioning of the Standard segment.

14) Which particular elements of the listing regime could be tailored to improve their effectiveness for other types of securities? In what way?

N/A

15) Do issuers consider the process of admitting further issues to both the FCA and the trading venue to be burdensome?

N/A

16) Would the existing procedures conducted by trading venues to ensure issuers comply with their disclosure obligations (production of a prospectus) need to be enhanced if we were to cease admitting further issues to the Official List? What costs would be associated with these, if any?

N/A

17) Are there any legal, regulatory or tax requirements that are connected with further issues being admitted to the Official List that could not be maintained by further issues being admitted to a trading venue?

N/A

Consultation on Proposed Measures

18) Do you agree with our rationale for introducing DCSS to the premium listing segment? Is there any additional evidence that we should consider?

The IA supports the need to bolster the attractiveness of the UK as a listing venue for high-growth and tech companies. Investors are seeking exposure to innovative and high-growth companies that are responding to global challenges in order to diversify risk and meet their clients' long-term investment objectives. There is a clear need to increase the representation of high-growth, innovative companies in areas such as deep technology, bio-tech and life sciences in the FTSE so that investors can benefit from both the strong governance regime that characterises the UK market and exposure to the potential returns of high-growth companies.

As global investors, a key benefit of investing in the UK market is the existence of high governance standards which align the economic interests of the company with its shareholders. Companies benefit from the lower cost of capital that this assurance brings. Institutional investors value the principle of 'one share - one vote' as it ensures the equal treatment of all shareholders by allocating control of a company in direct proportion to economic interest. This ensures that control of the company is directly related to the level of exposure to equity investment risk. Proportionate ownership means that management must remain accountable to all shareholders and protect the rights and interests of minority shareholders.

We recognise that several stakeholders consider that this principle, which prevents the introduction of dual class share structures in the premium segment, may be deterring certain high growth and founder led companies from listing in the UK. These companies are often seeking the potential for higher valuations and a stable investor base that comes with a premium listing. However, they are at greater risk of a takeover after taking their company public, particularly in the first few years after listing, where the market may not fully understand or value their strategy or approach. The flexibility to retain weighted voting rights to ensure they can support the company to grow through the next phase of its business strategy while benefitting from a premium listing is clearly reassuring to the founders of these companies. Without this flexibility there is a greater incentive for these companies to seek alternative listing venues, a standard listing or to remain private. UK based investors may be missing out on investment opportunities from these kinds of companies, and this could have a detrimental impact on the types of companies that asset owners and retail clients are exposed to.

Some investors consider that giving companies protection to implement their business strategy without the threat of a hostile takeover through the introduction of DCSS gives management a longer-term perspective. Giving management the opportunity to focus on long-term sustainable growth of the company is ultimately beneficial to shareholders who want to achieve long-term returns on behalf of their clients.

We therefore support the limited introduction of DCSS into the premium segment. We recognise, as the consultation document sets out, that the proposals on DCSS are aimed at reducing the barrier to entry to listing for companies in a proportionate and controlled way. With one exception, the IA agrees that the proposals for DCSS in premium segment has been introduced in a manner which will balance the needs of investors and companies.

As we argue later in our response, some of our members are concerned that the 20:1 weighted voting rights ratio is too high. But otherwise, the IA agrees that the proposals on DCSS provide specific safeguards to address the additional risks of introducing DCSS. We agree with the FCA's analysis that there is a benefit to high-growth companies listing in the premium segment, with the appropriate investor protections, compared to those companies remaining private or seeking an alternative listing in the standard segment or other jurisdictions. This should, in the long-term, lead to overall higher levels of governance given the other disclosure and governance requirements of the premium segment. The FCA will have to ensure that the reputation and attractiveness of the UK premium segment from UK and global investors and prospective companies is not diminished over the long term by misuse of these proposals.

The other risks which have been identified by IA members are as follows. The market value of the companies with DCSS structures will be discounted to reflect the fact that a take-over is unlikely to happen within the first 5 years post-IPO.

Depending on rule changes proposed by index providers, the introduction of DCSS to the premium segment may lead to investors who follow an index strategy being required to hold companies with DCSS which they may not wish to given the potential increase in governance risks. There may also be an impact on retail shareholders who may not be aware of the increased risk of investing in companies with a DCSS structure. UK based investment managers are well equipped to evaluate these risks and, through their engagement with the company management and board understand the risks to their clients and overall

investment case. Transparency over the implications of a DCSS must be made clear in communications to retail shareholders.

For investors, the proposed protections and the balanced introduction of DCSS is important. The FCA must also consider if the introduction of DCSS in a limited sense will meet the overall policy needs. Investment managers will be concerned if the Listing Rules are adjusted without this leading to changes in the number and range of companies listing in the UK. The FCA should continue to examine the incidence of companies listing in venues around the world, following rule changes to allow DCSS. In some other jurisdictions that have introduced DCSS (e.g. Hong Kong and Singapore), there has been little demand from companies, with only a few listings with DCSS in the Hong Kong market. Having introduced new rules in 2018, it was not until April 2020 that Singapore welcomed its first company with a dual class voting structure to its market.

While we agree that implementing the proposed flexibilities to include a DCSS option in the premium segment may increase the attractiveness of the UK as a listing venue for some companies by removing one perceived barrier, it is not clear that this would result in a step change in new IPO activity from the high growth companies that we are seeking to attract.

Companies in the pre-IPO process have set-out other key factors as significant drivers that must be addressed in improving the UK's attractiveness, such as:

- the clustering effects of likeminded business.
- location within or proximity to the natural market of choice.
- the cost of capital and depth of the pool of capital.
- the quality of research and supporting market infrastructure.
- the levels and quality of engagement from prospective investors.
- the cost and complexity of the listing process.

It is essential that there is a formal review of the impact of these proposals after 3 years in combination with other measures designed to improve the overall listings ecosystem in the UK to ensure that the cost:benefit analysis presented in the consultation is borne out and that there are no unintended adverse consequences or impacts on shareholders in companies with a DCSS. It is particularly important to address other factors in tandem, such as the depth and quality of research, particularly for high-tech and medium to small sized companies.

19) Do you foresee any limitations to our proposal if the weighted voting shares are unlisted?

The IA agrees with the proposal to limit the weighted voting shares to be unlisted. This will help the FCA retain the current listing principles, in particular Principle 4. This will also mean that the overall Principles of the UK listing regime will not be diluted and will help to maintain the reputation of the UK listing regime with global investors. The IA agrees with the proposals for these shares to vote on other resolutions at the company on a one share, one vote basis.

20) Do you consider that a five-year sunset period for DCSS in the premium listing segment is the correct length to protect companies from unwanted takeovers? Please provide evidence for your answer.

Yes. The IA agrees with the FCA's analysis that five years is an appropriate period to allow DCSS to limit unwanted takeover risk. Five years gives the management team and board sufficient time to address the specific issues which have been identified as drivers for the need to introduce DCSS, specifically to communicate and deliver on the company's business strategy. If the founding management is unable to deliver on the business strategy in the five-year timeframe, they should not be further protected from being removed from the board or able to effectively block a takeover. A change of ownership or management may be in in the best interests of wider shareholders who may expect alternative management to deliver on the appropriate strategy for the company and all its owners.

We also support the strict expectation set out by the FCA that issuers should not seek artificial means to prolong the five-year period. The practical enforcement of the provisions will be important to ensure that these additional voting rights are only available in the first five years from listing.

21) Do you consider that the mechanism proposed will be effective in providing a deterrent to unwanted takeovers? Please give reasons for your answer and any possible alternatives.

Yes. The IA agrees the proposals will provide a deterrent to unwanted takeovers as the DCSS will support the holders of the DCSS to exercise significant influence through their voting rights, on any issue, through minimal shareholdings following a change of control. This should act as a significant deterrent to hostile takeovers within the five-year period. The IA considers this is sufficient deterrent to a hostile takeover whilst retaining overall levels of good governance and the high standards of the premium listing.

22) Do you agree with the proposed controls around DCSS in the premium listing segment? Are there any additional controls that would make the regime more effective?

Overall, the proposed introduction of DCSS is very limited and balances the need to attract founder led, high-growth companies with the need for appropriate investor protections to address the potential risks of DCSS. We support the limited range of circumstances and period in which weighted voting rights could be used, the fact that these rights are non-transferrable and that the holder must be an active Director. The proposals achieve the right balance between providing an incentive for founder led companies and investor protections which support investors to steward investments on behalf of their clients.

The IA recognises that the circumstances in which the DCSS can be used prior to a takeover is only on the re-election of a director, and so is limited. After a change of control, the DCSS can be used on any resolution. This will give significant influence to the holder of the DCSS, particularly with a maximum weighted voting right ratio of 20:1. Some of our members are concerned that ratio of 20:1 may result in a disproportionate level of control to the DCSS holder, who would only need to amass a 5% shareholding to become a controlling shareholder (or less to block a special resolution). Under normal circumstances, a 5% shareholder is significant (e.g., it is the threshold over which a shareholder resolution can be requisitioned) but not considered a strategic holding, able to exert sufficient influence to determine company strategy.

In these proposals, following a change of control there would be a significant imbalance between the economic ownership of the company and ability to influence company strategy. There is a concern that under these circumstances minority shareholder interests may not

be duly protected. Investors would be particularly concerned if a founder director retained a shareholding of 5% or lower as this signals a lack of alignment to the long-term interests and performance of the company. Giving the opportunity to block a special resolution at the company to such a diluted shareholding may create perverse incentives inconsistent with promoting and enhancing long-term value. Given the very significant influence that the holder of the DCSS could influence after a change of control, the IA would recommend that the FCA carefully consider the appropriate weighted voting right ratio considering existing thresholds in company law.

The other issue which may need to be addressed explicitly in the FCA's proposals is recognition that there may not be a single holder of the DCSS. A common ownership structure of high-growth or tech companies is to have a small number of founders and owners. The rules will have to sufficiently reflect and consider the impact of multiple founders who have a right to DCSS. There might need to be a consideration of how the proposals will interact with other provisions if a group of founders have rights to the DCSS structure. It is important to ensure that these enhanced rights are beneficial to active directors of the company that are subject to shareholder re-election.

23) Do you agree with our proposal to raise the minimum market capitalisation for companies seeking to list under standard and premium listing to £50m? If not, please state your reasons and indicate what alternative threshold may be more appropriate along with any supporting evidence. We also welcome views on whether we should consider setting out conditions under which we might modify the proposed rule on the new threshold, and if so what criteria stakeholders think we could usefully consider.

Yes. We support the increase in minimum market capitalisation and believe that £50 million is an appropriate level for the reasons set out in the consultation document.

The IA supports a more regular mechanism for reviewing this threshold. It might be appropriate to have a periodic review every five years to consider the appropriate level of minimum market capitalisation. Any changes could be implemented through updating the listing rules following one of the periodic consultations which the FCA regularly conducts.

24) Do you consider that the current level of market capitalisation for listed debt remains appropriate? Please give reasons for your answer.

IA members are content with the current level of market capitalisation.

25) Do you agree with our proposal to reduce free float to 10% and to remove current guidance on modifications? Please give your reasons.

Our members have several concerns with the proposed 10% free float. They agree that having a higher free float may be considered a deterrent for certain types of company from listing, and 25% is perceived as a significant hurdle. However, over the longer term, they consider it is essential for market integrity for companies to achieve a significant free float level, closer to 25%. Whilst we note that there are some challenges with this approach, IA members believe the FCA should consider some mechanism to ensure that the required free float is increased over time.

Liquidity: IA members consider that maintaining a minimum level of liquidity is an important aspect of the free float requirement in the Listing Rules. Investors in the UK market want to

ensure that there is sufficient liquidity to ensure that they can trade in a company's shares when needed at a fair market price. If free float is reduced, they are concerned that this liquidity will not be maintained. It is important to consider the minimum market capitalisation and the free float in tandem, the market value of a £5 million minimum float through the combination of a £50 million MMC and 10% free float is unlikely to satisfy member needs for market liquidity. At this level of minimum market capitalisation and free float, there is likely to be insufficient appetite from institutional investors to participate in an IPO. This may lead to concerns with the liquidity and orderly functioning of the market in these shares. It is important for the FCA to consider these market dynamics and how they may impact price stability for retail investors. The FCA may wish to introduce a minimum market value of any free float shares to ensure that there is sufficient liquidity to create an orderly market.

Ease to return private: At a 10% free float there is a very low threshold for the founders or majority owners to take the company private again. Having benefited from the capital available through public markets, we have seen some companies swiftly return to private hands. This practice is not in the interest of long-term institutional investors or aligned with the objectives of Lord Hill's review to improve the depth and competitiveness of UK listed market. Having a higher minimum free float or requiring companies to increase the free float over time will mitigate the risk of companies being taken back private shortly after IPO.

Corporate Governance: In addition to providing a minimum level of liquidity, the free float requirement also provides important protections for shareholders whose capital is at risk. It provides a corporate governance protection for minority shareholders to allow them to signal investor concerns at a company's General Meeting (GM).

IA members consider the number of shares in public hands to be an important factor. We would argue that 10% free float does not support a critical mass of shares in public hands to signal investor concerns at a company's GM, thereby removing a key mechanism for investor accountability.

The current 25% free float does not guarantee that independent shareholders can impact voting outcomes at a GM. Even a special resolution would require all shares in public hands to be voted against management to defeat the resolution in this scenario. Nonetheless, the minimum 25% free float does ensure that if independent shareholders have concerns with how a company is being managed, a significant block of votes from independent shareholders enables them to signal their concerns to the Board and other stakeholders regarding the strategy or running of the Company.

The importance of this practice was codified by the FCA's introduction of a vote for independent shareholders on the re-election of independent Non-Executive Directors. The Director's election continues to be subject to a vote of all shareholders, meaning that the majority shareholder's preferences are unlikely to ever be overruled. However, the independent vote provides an important signal of support or concern and is an important tool for investors to influence the strategy and governance of companies with a majority shareholder – as in the case of founder led companies.

A key element of the UK's corporate governance regime is the comply or explain regime, which allows companies to make well-argued explanations to their shareholders if they choose not to apply all the provisions of the Code. An important aspect of this regime is that

investors signal their support, or otherwise, for a company's approach at the General Meeting, and the company responds to investor concerns.

Recognising the importance of this mechanism, the FRC introduced new requirements in the UK Corporate Governance Code for companies to acknowledge and respond to shareholder dissent if more than 20% of shareholders vote against any resolution. The IA has developed a Public Register, at the request of the Department for Business, Energy and Industrial Strategy, to track and highlight in one place those companies that receive a vote against a resolution of 20% or more at a GM and also highlights how companies have responded. The Public Register was developed to address concerns that companies were not sufficiently acknowledging or responding to investor concerns and dissent. If the free float was reduced to only 10%, we believe it will require the FCA, FRC and BEIS to carefully consider the impact and application of the comply or explain regime in the UK, whether there would be a need to put more elements of the UK Corporate Governance Code as legal requirements in Company Law or the Listing Rules. The FRC will also have to consider if 20% still represented the right level of dissent, as in some companies it would be impossible to achieve.

Increasing free float over time: If the 10% minimum free float is introduced, members consider that the FCA should have expectations on how this minimum free float will be increased over time to at least 25%. We recognise that there are some risks of requiring companies to increase the minimum free float over a specific period, which could require companies to issue new shares at an inappropriate time, such as where there are weaknesses in the share price for other business or market reasons, which would not be in the best interests of existing shareholders. However, members consider it is an important market discipline for companies to increase the proportion of shares in public hands over a short (2-5 year) period following their initial IPO. There should be some requirement to provide a glide path to a higher level of free float.

We support the guidance on modifications to free float being removed if 10% free float is introduced, as we could not see any circumstances where it would be in the best interests of the market for a free float of less than 10% to be introduced.

26) Would you find information about issuers' free float level useful to inform investment decision-making?

The IA agrees with the analysis that the suspension or delisting of shares for failing to maintain a minimum free float is not in the interests of shareholders as it will restrict them from realising their holdings if they so wish. We consider that additional disclosures will help investors to monitor the free float and take account of any additional investment or governance risks associated with a change in the position of the company's free float. This could be achieved through a requirement for companies to disclose their free float annually at year-end or on a record date.

In addition, companies should be required to disclose if they go through certain levels of free float within a certain period. For example, if the company's free float reduces below 20% or 15% this should be disclosed to the market so that shareholders are aware of a reduction in free float and can respond to potential change in investment risk.

27) Do you agree with our proposal to leave track record requirements as they are now, based on our assessment that this would only affect a small number of stakeholders?

If you disagree, please provide further evidence or examples of the wider impact this has on prospective listing applicants and proposed amendments.

Track record requirements provide important context and assurance on the past performance of the company, however the forward-looking statements on the strategy, as well as the investors' assessment of the quality of the management and board, are also important to investors. We agree that a thorough review of the Prospectus and Track record requirements is needed to assess what information is important to allow investors to make informed investment decisions – considering the balance of forward and backwards looking information required.

Track record requirements reduce investment risk, giving confidence about the profitability and balance sheet of the company and important context of performance over the last three years. When deciding to invest in a company, active investment managers need to assess the company's future strategy and the likelihood that this will generate long-term returns. This assessment is also informed by the quality and performance of the management team, the strength, expertise and independence of the Board, and the governance arrangements at the company. The track record requirements provide investors with confidence in the current position of the company and provides a needed body of evidence for investors to make informed decisions.

Any loosening of the track record requirements would need to be accompanied by robust forward-looking disclosures that gives confidence to investors about the company's strategy and financial resilience. It is therefore important for the FCA to review the track record requirements in tandem with any proposed changes to the prospectus content that may arise from HMT's review of the UK prospectus regime.

There is an important discussion to be had about the usefulness of the prospectus disclosure requirements. Investors are concerned that a significant portion of the disclosures are not essential to the investment decision-making process and duplicate publicly available information already contained in annual reports and accounts and therefore adds extra cost and time to the IPO process. There is an opportunity to review these requirements and explore opportunities to make use of digital technology to speed up the IPO process.

We therefore agree with the proposal not to make any changes to track record requirements at this stage and look forward to engaging with the FCA on a future review of the prospectus and track record requirements.

28) What types of companies struggle to meet the existing requirement in the premium segment for a 3 year revenue track record covering 75% of the business? What alternatives could be considered for these companies?

N/A

29) Do you foresee any unintended consequences of these changes intended to modernise the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules?

We see no unintended consequences of the proposed changes to the Listing Rules.