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Primary Market Policy
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Dear Victoria

ENHANCING THE EFFECTIVENESS OF THE LISTING REGIME

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of £4.2 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that in 2011 IMA members managed holdings amounting to 34% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in companies whose securities are traded on regulated markets. As such, we welcome this consultation and the FSA looking at enhancing the listing regime. Ensuring high standards of governance, transparency and minority shareholder rights is vital, in our view, to maintaining the long-term attractiveness and integrity of the regime. We set out our main observations on the proposals below.

Whilst the influx of overseas companies seeking a listing is testament to London's success in attracting major issuers, at times these may include issuers that fall short of the expected standards, due to capital or ownership structure or other governance issues. They thus run the risk of undermining the overall quality of the market. We do not consider that sufficient consideration is given to the promotion of the Standard segment as a destination for such issuers.

While improvements to the Listing Rules are necessary, it is inappropriate to try to codify the provisions of the UK Corporate Governance Code into them, as the Code's Principles are

not rules but provisions that may be complied with or explained away in a non-tick box fashion as appropriate for each company's individual circumstances. While enhancing the effectiveness of the Listing Regime may include applying the Code to companies outside the Premium area this should still not result in codifying the actual Code in the Listing Rules.

We consider that relationship agreements should be required where a company has a blockholder, or a shareholder whose stake gives them the right to appoint a representative to the board (Q2). Such an agreement should also include (Q3):

- Disclosure of any entitlement to board representation;
- Obligation to abstain from doing anything that would weaken protection of minority shareholder rights through company by-laws/articles of association;
- Obligation to abstain from actions that might have a detrimental effect on the company's business; and
- Fiduciary responsibility of blockholders' or controlling shareholder's representatives to promote the success of the company as a whole.

We do not consider that shareholders with 25% of the issued share capital, and thus able to block special resolutions, should be considered to be independent (Q10).

While we would support Option 1 (Q17) and the protections that it provides to minority shareholders, we would be concerned about implications for smaller companies that may find it onerous, and the shift from the 'comply or explain' approach, which has been fundamental to the UK's governance framework. An alternative might be to require that the appropriate board balance be an element of the relationship agreement.

We disagree with proposals on defining independence (Q18). Our members review the corporate governance practices of investee companies and have had to question the independence of certain directors. Our members will tend to engage with such companies and vote against directors that they do not consider to be independent. Also, in the case of smaller companies and/or foreign issuers, at times only limited information is available on a director candidate (usually provided by the company) for shareholders to independently assess his/her independence status.

Given that majority independence of the board represents a core protection mechanism under the proposals for controlled companies in the Premium segment, we believe it may be insufficient to rely on the issuer's own assessment of directors' independence. The UKLA should consider alternative ways of verifying directors' independence and the integrity of the nominations process.

We do not support the proposal for election of independent directors by two rounds of voting (Q21) as it effectively hands over control to the controlling shareholder, because unless the controlling shareholder's stake is below 50%, independent shareholders have no chance of winning the vote in the second round. The 90-day cooling off period will provide an "unblocking mechanism" only if a controlling shareholder is willing to engage, listen and compromise. Also, any 90-day stand-off between the controlling and minority shareholders is likely to be very damaging for the company's reputation and share price.

For the Option 1 above to be effective, independent directors should be elected exclusively by independent shareholders.

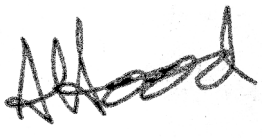
We do not agree that the FSA should be able to modify the requirement for a 25% free float (Q27). The 25% free float is already a modest requirement and any further reduction would be inappropriate. The FSA's proposal sets an effective floor at 20%, which would only exacerbate investor concerns with the existing regime. We believe reference to the 20% floor should be eliminated.

We do not support the proposal (Q36) to require a listed company to disclose all matters that need to be disclosed in the annual report and accounts in a single identifiable section, as we think that specifying the location of disclosures may make it more difficult to construct an annual report in an accessible and readable way.

We think that the continued obligations on directors set out in LR 9.8.6R (5) should not be limited to companies incorporated in the UK, but should apply to all Premium listed companies (Q43).

Please contact me if you would like clarification on any of the points in this letter or if you would like to discuss any issues further

Yours sincerely



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