THE INVESTMENT ASSOCIATION

IA Response to CP23/10

Primary Markets Effectiveness Review – Feedback to DP22/2 and proposed equity listing rule reforms

About the Investment Association

The IA champions UK investment management, supporting British savers, investors, and businesses. Our 250 members manage £10 trillion of assets and the investment management industry supports 122,000 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity;
- Help people achieve their investment aspirations;
- Enable people to maintain a decent standard of living as they grow older; and
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. The UK is the second largest investment management centre in the world, after the US and manages 37% of all assets managed in Europe.

Executive summary

The IA is grateful for the opportunity to respond to *FCA CP23/10 Primary Markets Effectiveness Review – Feedback to DP22/2 and proposed equity listing rules reforms*.

As a major allocator of capital, the investment management sector has a direct impact on the UK's economic prosperity and competitiveness. At the end of 2021, IA members had invested £1.6 trillion in the UK economy through equities, sterling denominated bonds, infrastructure, and commercial property. Of this, £950 billion is held in UK equities, corresponding to approximately 33% of the total UK equity market capitalisation.

To this end, the IA shares the ambition and fully supports the FCA's objective to ensure that the UK remains an attractive and trusted place to list, invest and conduct business.

To remain globally competitive, innovation is key and we welcome the FCA's new blueprint for significant reform and changes to the current rules that bolsters UK competitiveness while maintaining high standards of disclosure and transparency.

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We support the proposal to replace standard and premium listing share categories with a single segment for commercial company issuers of equity shares. We hope that this simplification will lower potential costs and complexities for issuers and encourage high-quality companies to list and operate in the UK.

Indeed, the IA supports the vast majority of the proposals put forward within this consultation.

The IA acknowledges concerns that, given the decline in listings in the UK in recent years, overly restrictive Listing Requirements and robust shareholder protections may have acted as one of several possible deterrents to some companies listing in the UK.

End investors do stand to benefit from innovative, high quality and high growth companies coming to the UK market. Unlocking the opportunity for more capital to be allocated to such companies has been the core aim and ultimate outcome of many of the reviews that have been carried out on this issue in recent years, such as the Kalifa Review, Hill Review, Secondary Capital Raising Review and indeed work of the UK Prospectus Regime Review and UK Wholesale Market Review.

Investment managers are supportive of those aims. Our industry's fundamental role is to deliver on our clients' investment objectives and aspirations and it is this commitment to clients and client outcomes that has dominated our thinking and ultimately our industry's position on these latest proposals.

The UK has long been regarded as the world-leader in Stewardship and Corporate Governance, combining high standards with flexibility and low regulatory burden, making the market an attractive place for both businesses and investors.

However, it must also be recognised that this is a cultural expectation, formed over many years of UK government and regulatory policy, including expectations of clients, and formed against the backdrop of high-profile company failures. This critically includes the development and evolution of the world-leading UK Corporate Governance Code and UK Stewardship Code, which set a high standards of governance for listed companies and for how money is invested on behalf of UK savers and pensioners. Both Codes place a strong emphasis on long-term, sustainable value creation for companies, beneficiaries, the economy and society.

This cultural expectation does not exist as strongly in other jurisdictions which instead rely on other mechanisms, such as litigation, company law and different forms of regulation, to protect investors. This makes it difficult to compare like-for-like or benchmark the UK against other such jurisdictions perhaps more importantly it should challenge us all to constantly think if existing rules and requirements are still relevant.

Of course, as long-term holders of investments, UK investment managers have an important responsibility to undertake stewardship of the companies they invest in and to promote good governance and to protect the company's value for their clients. This responsibility is only set to grow as investment managers play a critical role in a wider set of issues, including combating climate change, social inequality and the planet's sustainability.

This is our industry's job and we welcome the FCA's recognition that with these proposals, a greater onus is placed on investment managers to secure sufficient engagement with companies on key transitions. The challenge is to ensure that all firms, including all 250 IA members comprising both active and passive investment managers who combined manage a total of £10 trillion of assets under management, have the tools available to them to affect such critical changes.

In the UK, there are some key shareholder protections which act as important mechanisms by which shareholders can hold companies accountable. They are also crucial to protecting value for investment management clients, including ordinary British savers.

By proposing to remove these key shareholder protections, the proposals are placing some investment managers in a difficult position with a greater responsibility in terms of stewardship but a diminished ability to execute and hold companies to account.

This will inadvertently affect our industry's ability to protect value for clients, including British savers. It will also mean that UK government and regulator are explicitly relying on comply or explain mechanisms across an increasing number of areas.

The three areas of the proposals which, when taken together, significantly reduce the means available to **all** types of investment managers to protect their clients and hold companies to account are:

1. **The removal of a shareholder vote for significant transactions.**
    - The shareholder vote on significant party transactions is a vital tool for investors as they look to protect value.
    - The proposed changes, whilst retaining the requirement for disclosures, do not provide shareholders with any mechanism to actually take action on significant transactions at the time of the transaction. This means that by the time any action can be taken by shareholders value may have already been lost.
    - The IA does acknowledge concerns that the current approach to disclosing and approving significant transactions is overly onerous.
    - To help simplify the process and remove unnecessary complexities and costs, the IA is therefore supportive of: (i) slimming down the circular requirement for these transactions and (ii) moving to a Class test that is based purely on market capitalisation and revenue.

2. **The removal of a shareholder vote for Related Party Transactions (RTPs).**
    - We oppose these proposals. This is an important protection for shareholders. Removing it will impair investors' ability to make informed valuation and investment decisions.
    - We do not agree with the FCA that it is an ineffectual protection. The FCA observes that in practice RPT votes are relatively few in number, however, the IA considers it not unlikely that this is because these protections are currently in place.
    - Furthermore, our members anticipate a significant change in the type of company that will seek to list in the UK following any changes to the Listing Rules, and may include entities with regard to whom there is a particular importance in scrutinising RPTs.

- Particularly in the event that DCSS restrictions are relaxed (discussed in the next point), the IA considers that votes on RPTs should remain subject to the 'one share, one vote' principle.
- Though there are differing views, a number of our members have suggested there may be scope for increases in the thresholds both to the shareholder vote and to disclosure requirements.
- We would encourage the FCA to review this further to ascertain the level of industry appetite for this change.

3. **The watering down of Dual Class Share Structure (DCSS) restrictions**;
    - The IA has some concerns with the FCA's more permissive approach to DCSS and particularly the impact on shareholders to hold companies to account if other shareholder protections are also removed.
    - The FCA has only recently amended the Listing Rules on DCSS and we are wary of further reforms before the previous amendments have had sufficient time to bed in.
    - If the FCA does push ahead with proposals to remove key shareholder protections elsewhere, we would support the restriction of DCSS for votes as currently formulated on the change of control of the company and re-election of the founder.
    - We do not support proposals to weaken the sunset clause from 5 years to 10 years. Any further extension should at the very least be subject to a shareholder vote held on the 'one share, one vote' principle.
    - There should be an amendment of the "controlling shareholder" definition, which should be calculated by reference to voting rights and enhanced voting rights, and not solely the capital held.

We are committed to continue to debate these three aspects and to find a solution to calibrate them most appropriately such as to strike the right balance between:

(i) UK competitiveness;
(ii) the needs of companies and their ability to raise capital on public markets;
(iii) the fundamental role of investment managers to deliver sustainable returns and protect value on behalf of their clients; and
(iv) the risk appetite and needs of society and the economy to ensure the integrity of and public confidence in well-functioning public markets.

We also urge the FCA to consider and discuss with industry appropriate transitional arrangements for the suitable migration of already listed companies to the new single category.

Finally, we must note that the discussion around Listing Rules reform is only one part of a much wider debate about the factors and drivers impacting UK listings and the wider UK capital markets competitiveness.

The IA considers that while the Listing Rules play a role in determining where companies choose to list, it should be recognised that the decline in UK listings and wider concerns regarding UK capital markets competitiveness are likely being driven by wider structural factors. These include:

- Lower valuations, which are partly a function of lower liquidity and depth of capital in the UK compared to other jurisdictions. (as seen through higher relative valuations in the US, the market with the deepest liquidity and capital)
- A regulatory and commercial environment in the UK that disincentivises UK pension funds and retail investors from investing in the UK equities market.
- Concerns regarding a lack of long-term political stability and a supportive and competitive regulatory environment and eco-system.

The issues above can be addressed through identifying ways to overcome these barriers, both regulatory and cultural.

The IA is particularly keen to further explore factors and possible reforms that change the incentive for UK pension funds and retail investors to invest in UK equities, to encourage a broader and deeper pool of capital to invest into domestically-listed securities.

Executive remuneration is likewise often cited as a reason for why the UK may struggle to attract and retain talent and companies. The IA is supportive of efforts to ensure that the UK is able to recruit the right talent from a global pool, and continues to support efforts to ensure remuneration is linked to effective performance, appropriately benchmarked to the size and nature of the company in question.

We would also welcome a robust debate on the role Stamp Duty and Stamp Duty Reserve Tax (SDRT) play within the listings debate and would encourage further thought on how these effects can be evidenced and what solutions can be offered to mitigate their repercussions.

This is an area of vital importance for the IA and its members, and we look forward to continuing to work with the FCA, government and indeed all key stakeholders as we look to ensure a vibrant and healthy listings and investment environment in the UK.

Equity shares in commercial companies category & eligibility requirements

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

The IA agrees, in principle, to the removal of most of these requirements. In particular, we support the removal of the three-year financial track record and the provision of historical financial information on 75% of the business covering 3 years, provided there is appropriate disclosure where such information is not available. Members believe that the removal of these eligibility requirements will be most impactful to the type and profile of high-growth companies that are seeking to list in the UK.

We support the conclusion of the recently published FCA engagement paper on Protected Forward Looking Statements, which notes that a working capital statement is a key information source for investors.[1]

Disclosure of a working capital statement is key to investors in determining their risk tolerance and is seen as an indicator of quality. While members would not oppose removing the need for a clean working capital statement for a newly listed company, it is worth noting that there could be reputational damage to the market where a company is unable to demonstrate that it can meet its short-term obligations within its first year of operating.

However, we also note the FCA's Primary Market Technical Note 320.2[2], which requires that where an issuer finds it necessary to include qualifying wording or assumptions in a clean working capital statement, a qualified working capital statement should be provided. We take comfort from this, as at the very least, this would require that any qualifications are clear and will allow for key assumptions and sensitivities that underpin the statement to be made.

Equity shares in commercial companies category - initial and continuing obligations

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

In principle, the IA has no major concerns regarding this proposal, and notes that the FCA already has a number of these exemptions in place.

However, we are concerned about the interplay between the removal of these restrictions and other proposals put forward as part of this consultation, and in particular the removal of a shareholder vote on related party transactions (RPTs, covered in more detail in our response to Q5).

[1] FCA Engagement Paper 3 on Protected Forward Looking Statements, May 2023
[2] FCA Primary Market Technical Note 320.2, May 2022

If a company is not an independent business or is controlled, and shareholders have no approval over related party transactions, it is clear that there is a risk that key protections for end client's assets could be removed.

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

We agree that the FCA should continue to assess these business models on a case-by-case basis and that as a basic requirement they should be capable of complying with the listings, disclosure and transparency requirements. We note that the FCA is considering modifying disclosure obligations for these types of companies, however, at a minimum the IA considers that disclosures should be calibrated to ensure there is clear information provided on an issuers' corporate structure and business model and how it operates, both legally but also in practice. Such information should be provided to investors on an ongoing and timely basis. We take comfort in the fact that the FCA will continue to refuse an application to list for these complex corporate structures if it would be detrimental to the interests of investors.

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

The IA has significant concerns with the FCA's more permissive approach to Dual Class Share Structures (DCSS) and particularly the impact on shareholders to hold companies to account. Our members have long supported the 'one share, one vote' principle, which ensures the equal treatment of all shareholders by allocating control of a company in direct proportion to economic interest.

To that end, the majority of IA members support the current premium rules on DCSS remaining in place, with relatively minor amendments.

Below, we outline in detail our rationale for retaining the current provisions:

New Requirements introduced just 18 months ago

IA members have pointed out that the FCA only recently finalised its Rules to introduce a targeted and time-limited form of DCSS within the premium listing segment. While this represented a departure from the principle of one share, one vote, IA members supported these proposals and recognised that they tried to reduce the barrier to entry to listing for companies in a proportionate and controlled way, while having due regard for investor protection.

We are concerned that the rules are changing so soon after implementation and without sufficient time to bed in. This signals a lack of longevity in the FCA's decision-making process; indicates that there may be further weakening of investor protections further down the line in order to accommodate companies in newer, high growth, innovative sectors; and puts a broader question mark over the stability of the regulatory environment in the UK.

Inhibited shareholders' ability to hold companies to account

Members have noted that one of the concerns with a more permissive approach to DCSS is the impact on investors in being able to adequately hold companies to account, particularly for minority shareholders.

Unequal voting rights may entrench management and put minority shareholders at increased risk of value reducing actions. For index investors this presents an additional concern because they will be limited in their ability to exercise influence over company behaviour where multiple voting rights are used.

As such, we are concerned with the proposal to allow enhanced voting rights to be exercised on any shareholder vote (except issuing new shares at a discount of greater than 10%). This is particularly problematic when considering the changes to Significant Transactions and Related Party Transactions. Even if the FCA chooses to maintain these safeguards (but changes the thresholds), this is unlikely to make a difference to minority investors where a founder has multiple voting rights and the ability to exercise these rights in a number of circumstances.

We are also opposed to the removal of the voting ratio cap and are not convinced that it should be left to the market to negotiate a suitable level.

We note that the FCA is expecting investors to step in and moderate 'excessive' forms of DCSS, however it is not clear how this is expected given the unequal bargaining position with regards to voting rights. The majority of our members would prefer to retain the existing form of DCSS within the Listing Rules, which can only be exercised in the event of change in control of the company or removal of a director, are non-transferrable and for the holder of these voting rights to be an active director.

<u>The importance of Sunset clauses</u>

We agree that provision of a sunset clause is an important investors protection which signals that a company will transition towards equal voting rights for shareholders.

However, we are not supportive of proposals to weaken the sunset clause from 5 years to 10 years. We have previously noted that 5years gives the management team and board a sufficient amount of time to execute their vision as part of the business strategy, and address those issues which have been identified as drivers for the need to introduce DCSS, and indeed the academic evidence suggests that the benefit of a DCSS structure diminish after 5-7 years.

The 5 year limit was an evidenced-based decision by the FCA, and this is discussed in the FCA's statement in PS21-22 that "This number is also consistent with the various academic research highlighted in the consultation". We question the need to move away from evidence-based regulatory reform. We would therefore be wary of extending the DCSS structure for a further 5 years. In the event that companies want to extend the sunset clause for a further 5 years, at the very least, this should be subject to a shareholder vote operating under the 'one share, one vote' principle.

<u>Controlling Shareholder</u>

The IA is wary of the removal of the requirement for a controlling shareholder agreement, particularly in the context of the proposed removal of shareholder votes on RPTs and significant transactions.

The existing arrangement, introduced in response to harm suffered by minority shareholders in previous circumstances, is straight-forward and easily understood by all stakeholders. It is not clear why a Board that intends to act with integrity would object to it.

Likewise, we welcome the FCA asking whether the definition of “controlling shareholder” should be clarified to take into account the potential control due to enhanced voting rights. The IA proposes that there should be an amendment of the “controlling shareholder” definition, which should be calculated by reference to voting rights and enhanced voting rights and not solely the capital held.

Role of ‘comply or explain’ and shareholder accountability

The government and regulators have increasingly relied on a ‘comply or explain’ disclosure regime, which requires companies to comply or explain against the provisions of the UK Corporate Governance Code and increasingly elements of the Listing Rules on Diversity and TCFD.

Companies have the option to be able to explain why certain provisions may not be relevant to them. They have the opportunity to communicate to their shareholders how their governance structure is appropriate for their business model, and how it helps to deliver their strategy and generate long-term returns for investors, as well as how they manage the governance risks of applying a different approach to the UK Corporate Governance Code.

As part of this regime it is the role of investors to judge these explanations, taking into account the individual circumstances of the company, they will use engagement or may decide to use their voting power if the company does not appropriately respond. Companies in turn are incentivised to respond to areas of investor concern, so as to ensure that they have the support of their shareholders at the AGM.

However this regime does not work as effectively without a corresponding escalation mechanism for shareholder accountability. Shareholders are able to achieve change and progress through engagement, and particularly pre-IPO have strong mechanisms for effecting change (as otherwise companies may face valuation discounts to mitigate for perceived governance risks or even fail to attract investment at all). However, unless there is an approach to escalation through voting, there is not ultimate accountability of companies to their shareholders other than divestment. In many cases, even these options will be available only to active rather than passive investment houses, who have reduced discretion as to what companies to invest in. The resultant impact is asset managers being required to hold companies to account without the requisite tools to do so.

Indeed, we note that these proposals risk perpetuating concerns and criticisms relating to this regime; for example companies inaccurately stating full compliance, or providing poor explanations as to why they have deviated from the Code. This in turn creates a risk for investors, who, if disclosures are poor, are inhibited in their ability to challenge companies and hold them to account.

Under the Stewardship Code, the Financial Reporting Council are expecting asset managers to be able to demonstrate their approach to undertaking stewardship activities and the outcomes achieved. These proposals are removing asset managers’ ability in some instances to effectively undertake and discharge their stewardship obligations. This conflicting messaging is a concern for the IA, and potentially opens the asset management industry to being held to an unachievable standard, particularly at time where clients’ stewardship expectations of asset managers are increasing. This includes the Department of Work and Pensions' requirements on pension funds to report on financially material ESG issues and stewardship-including their engagement policies with investee companies in their Statement of Investment Principles and Implementation statements. In addition, the FCA's proposed Sustainability Disclosure Requirements (SDR) will place an emphasis upon the role of stewardship in order for funds to qualify for the Sustainable Improvers category. Public markets with high standards of governance will be more responsive to these changing expectations and better able to manage the risks associated with a transition to a more sustainable future.

Without the appropriate mechanisms to hold companies to account, the only option available to investors may be to divest (and even then only for active investors), which runs contrary to expectations that investment managers work collaboratively with their investee companies to guide them through their stewardship and sustainability journeys and may result in shares being held by those investors who are less focused on long-term value creation. We are further concerned that the focus on litigation as an accountability mechanism could result in a more adversarial relationship between issuers and investors, with divestment being more frequently utilised as an escalation mechanism.

It is important to note that in seeking to maintain these protections we are looking to protect the interests of investment managers' clients, who will ultimately be exposed to any loss in shareholder value resulting from these proposals.

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

The IA retains concerns regarding the proposed approach to the controlling shareholder regime.

If shareholders have concerns regarding a controlling shareholder's approach, there are limited options available to them when these rules are combined with the changes proposed to Dual Class Share Structures and reduced oversight of Related Party Transactions, more on which below.

Compulsory shareholder votes on related party transactions are an extremely important protection for investors. The FCA's rationale for the removal of the shareholder vote is that it is "ineffectual". This is a surprising conclusion given the reliance on stewardship to step in and oversee such controlling relationships and related party transactions, and the emphasis the Government has placed on the importance of stewardship and exercising voting rights.

Removing this requirement will impair investors' ability 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 worth. Equally, if a company can move assets between related parties with no prior disclosure or oversight from independent shareholders, investors cannot have confidence in the company's valuation, or that it is being run in the interests of the company as a whole, and thus whether it is likely to deliver shareholder returns. For example, the company could carry out a material transaction such as a purchase or sale of assets which would have a material impact on the valuation of the company without shareholder approval. The first that independent shareholders would know about it would be post event, when it is announced to the market and has impacted the share price of the company.

The FCA recognises that the removal of the vote may be an unattractive proposition to some investors and anticipate seeing market changes such as that "investment mandates and indexation criteria may drive market practice in this area". We struggle to see how this remedy could potentially work in practice as RPTs are potentially on-off events and the relevant information will no longer be available via the controlling-shareholder agreements. We are unaware of any precedent that would show that Indexation criteria could require a vote by shareholders on certain transactions or events, so consider it to be unworkable. Mandates could specify that the manager is unable to invest in any companies with a controlling shareholder, but that is likely to just restrict the investment opportunities for the fund and capital for the controlled company, so will not actually be beneficial to the UK listing environment.

The FCA does note that in practice RPT votes are relatively few in number. However, the IA considers it likely that this is *because* these protections are currently in place. The IA anticipates a significant change in the type of company that will seek to list in the UK following any changes to the Listing Rules, and may include entities with regard to whom there is a particular importance in scrutinising RPTs. Without these protections there could be a risk to the equitable treatment of shareholders.

To this end, we support the retention of certain investor protections (against controlling shareholders) for the single listing segment, particularly if the shareholder vote on RPTs is removed. These protections include the requirement to seek the prior approval of a simple majority of independent shareholders for a delisting and additional voting powers for independent shareholders on the election of independent directors. We believe that these will continue to provide investors with important protections that ensure 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. We would note that this is only a signalling mechanism, as the controlling shareholder is ultimately able to vote on the independent directors' re-election at the GM and ensure that the independent directors can be re-elected.

As noted in our response to Q4, as part of these proposed amendments to the Listing Rules, the government and regulator are explicitly relying on comply or explain mechanisms across an increasing number of areas; at the same time they are placing asset managers in a conflicting position as we have greater stewardship responsibility but a diminished ability to hold companies to account.

The FCA's suggested approach for shareholders to potentially use litigation as a tool for accountability has limited precedence in the UK market. Though this approach is used more often in the US, the US is a more litigious market and the liability regime for directors is different. It would be a huge change in corporate and investor culture to move to a more litigious environment, which is likely to lead to a less collaborative relationship between investors and corporates, and could ultimately end up promoting escalation measures such as divestment as well as a greater use of shareholder resolutions to express investor views. Secondly, it is unclear whether/how corporate law in the UK would support this approach. Despite the higher thresholds for bringing a class action in the UK, members do not believe that this should be relied upon as a means of investor protection. Finally, we note that this approach may not be economically viable for all shareholders – both in terms of legal costs and because the costs of compensation for any class action will ultimately be borne by the company and will impact on the value of the company and returns to shareholders.

We welcome the FCA thinking about how Independent Directors are able to raise concerns with the relationship between the Company and the Controlling Shareholder, particularly when no shareholder agreement is in place. We note that no current remedy or proposal to rectify this problem has been suggested by the FCA.

Q6: Do you agree that our proposals as regards controlling shareholders align with our need to act, as far as is reasonably possible, in a way which is compatible with our strategic objective of ensuring markets work well and advances our market integrity and consumer protection objectives? If you don't agree, how do you believe these should be balanced differently?
For the reasons highlighted in our response to Q5, namely that it would remove key mechanisms for shareholders to hold investee companies to account, the IA would disagree.

Whilst IA members will look to engage directly with companies, it is vital that they also have the tools available to them to hold companies and controlling shareholders to account through their voting activity. These proposals would result in them losing some of the key levers that they currently have available to them to do so, and in so doing create the risk of lost value for clients.

Equity shares in commercial companies category - continuing obligations

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

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

Q9: Should we consider further mechanisms prior to a significant transaction being formally completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed commercial company equity issuers in place of shareholder approval? What should those mechanisms be and why?
As questions 7-9 all relate to significant transactions we will provide one answer setting out our views on this issue.

Concerns with suggested approach to Significant Transactions
The IA strongly objects to these proposals.

Under the current listing rules, Premium listed companies are required to make an announcement to the market including certain specified information and seek prior approval of shareholders before undertaking a transaction. In raising the thresholds which would trigger the requirement for prior shareholder approval from 25% to 100%, the FCA suggests that the only a “reverse takeover” type transaction would qualify for prior shareholder approval.

Our members do not believe that this approach provides sufficient safeguards for investors, particularly for large “Class 1” transactions. After investing in a company, it should not be possible to alter the investment case without shareholder approval.

Some have argued that the 100% threshold for shareholder approval is perhaps a step too far for normal companies and should instead be an exception for certain types of companies such as SPACs where this is written into the corporate objectives or prior agreement.

The FCA notes that the relaxation of this rule will remove a significant administrative burden and mean that companies are no longer at a competitive disadvantage when participating in the M&A auction process in relation to an acquisition in competition with private company bidders or overseas listed companies (that are not required to obtain shareholder approval). Some members agree that this process does present a competitive disadvantage to private equity in auctions, but that equally communicating with shareholders in advance will typically come from the need to secure equity funding in the event of it being a material transaction.

As with RPTs, the shareholder vote on significant transactions is a vital tool for investors as they look to protect value. The proposed changes, while providing for disclosures, do not provide shareholders with any mechanism to actually take action on significant transactions at the time; by the time any action can be taken by shareholders value may have already been lost. Our members believe that the Significant Transactions Regime is a vital shareholder protection, and in particular the class tests and thresholds alert shareholders to transactions that are outside the ordinary course of the listed company’s business and as a result may change a shareholder’s economic interest in the company.

We note that following these proposals, the market will be reliant on Market Abuse Regulations for the disclosure of insider information around relevant events below a 25% market-cap threshold. The company will no longer be required to announce this to the market when the terms of the transaction are agreed, as this will only apply to transactions that exceed the 25% threshold but are below the 100% threshold.

This is high risk for investors, as there are differences between the MAR regime and the current significant transaction requirements. We think this increases the risk that companies will be able to make substantial transactions without the full information being available to the market until a significant period of time has elapsed.

Where there is a transaction at >25%, an announcement will need to be made to the market but there is a softening of sponsor requirements for this whereby sponsors will no longer need to sign off the announcement to the market, or for the FCA to pre-approve such an announcement in relation to a transaction exceeding the Class 1 25% threshold. However, no shareholder vote will be sought.

We note that these protections have already been used on a number of occasions by shareholders to prevent loss of value to their clients. There have been a number of high-profile examples of instances where shareholder value would have been lost as a result of significant transactions had the need to seek shareholder approval not been in place; given shareholder feedback these transactions never took place as it was clear that the company would not achieve shareholder approval.

As noted in our response to Q4 and 5, as part of these proposed amendments to the Listing Rules, the government and regulator are explicitly relying on comply or explain mechanisms across an increasing number of areas; at the same time they are placing asset managers in a conflicting position as we have greater stewardship responsibility but a diminished ability to hold companies to account.

Engagement with Shareholders and other stewardship mechanisms

While we recognise that the removal of the shareholder vote does not prevent a company from engaging with its shareholders, there will no longer be any compulsion to do so. As such, some members believe that a mandatory period of delay between exchange and completion of the transaction would provide an opportunity for companies and shareholders to determine a preferred level of engagement and to adjust their engagement strategies accordingly in order to scrutinise and influence any decisions on significant transactions prior to their conclusion. Ultimately, however, it will be for the management of the company and its Board to decide whether to act in accordance with investor views andwith the removal of the shareholder vote, investors are far more reliant on boards undertaking deals that increase long-term shareholder value.

Without the appropriate mechanisms to hold companies to account, the only option available to investors may be to divest (and even then only those investors without index-linked mandates), which runs contrary to expectations that investment managers work with their investee companies to guide them through their stewardship and sustainability journeys and in turn could create a more adversarial relationship between issuers and investors. With divestment being relied upon more heavily as an escalation mechanism, there is also a risk that shares being held by those investors who are less concerned with long-term value creation.

Suggested way forward

The IA does note that there are concerns that the current approach to disclosing significant transactions is overly onerous, particularly where the circular requires prior FCA review and approval before it can be sent to shareholders. We note that the FCA is proposing the removal of an FCA approved shareholder circular for Class 1 transactions (except in the case of a reverse takeover or when proposed by a company in financial difficulty). We believe that some form of disclosure is still required, however, in order to help simplify the process and remove unnecessary complexities and costs. The IA is therefore supportive of slimming down the circular required for these transactions, as well as moving to a Class test that is based purely on market capitalisation and revenue. In the event that these disclosures are removed, our members believe that a General Meeting could be called and a shareholder vote on the transaction should take place. Though there are differing views, a number of our members have suggested there may be scope for increases in the Class 1 or Class 2 thresholds. We would encourage the FCA to review this further to ascertain the level of industry appetite for this change.

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

seeking formal FCA agreement to the modifications? If you disagree, please provide your reasons and alternative proposals.

The IA is supportive of the independent process of the sponsor. We do consider that class tests should be simple clearly defined so that there is less of a need for discretion to modify, and modifications are the exception rather than the rule.

We are concerned that it may be harder for the FCA to hold the sponsor accountable and monitor competence of the sponsor if their role is more sporadic, particularly if there is no longer a requirement for the sponsor to sign off on the announcement to the market on a significant transaction or provide a private declaration from the sponsor to the FCA on Class 1 transactions. Ongoing trust and faith in the sponsor regime by investors is perhaps of greater importance under the proposed changes given the proposed reduction of other shareholder rights which would have ordinarily allowed investors to hold the company more directly accountable. We retain strong concerns regarding the simultaneous loss of shareholder protections elsewhere AND sponsor oversight.

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

As noted in our previous responses, having shareholder votes on significant transactions is paramount for the IA's membership.

Some members have commented on the watering down of the sponsors role in relation to significant transactions, particularly where guidance from sponsors will only be required to ensure the correct application of the Listing Rules, DTR and MAR. There will also be a further softening of the role of the sponsor in relation to no longer being required to sign off on the announcement to the market of the significant transaction or for the FCA to pre-approve an announcement in relation to a transaction exceeding the Class 1 25% threshold.

The role of the sponsor in this instance provides an additional layer of assurance to investors and should not be limited to providing guidance on transaction classification. The IA would not be in favour of the role of the sponsor being reduced in relation to significant transactions, particularly as this could lead to inconsistencies in flagging risks and emerging concerns relating to a company to the FCA in a timely manner.

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

As noted in our response to Q5, the IA is strongly opposed to these proposals.

The FCA is seeking to remove the requirement to obtain prior approval of the independent shareholders in respect of RPTs which exceed the 5% threshold. Compulsory shareholder votes on related party transactions are an extremely important protection for investors as they enable investors to make informed valuation and investment decisions. Existing investors in premium listed shares will lose disclosure and sponsor assurance on transactions between 0.25% and 5%, and the requirement for independent shareholder approval supported by the requisite shareholder circular at or above 5%. These protections are likely to be even more important given the profile of companies that are likely to list following these reforms. This could exacerbate the conflicts of interest that are inherent in some of these transactions.

The removal of these protections is likely to pose significant risks to investors, as without a fully informed understanding of the assets a company owns, it is difficult for investors to be able to reasonably value a company. Equally, if a company is able to move assets between related parties without any prior disclosure of oversight from independent shareholders, the first time that independent shareholders would know about the transaction would be post-event by which point an announcement will have been made to the market which would have an impact on the share price of the company.

The FCA have provided no evidence to support this removal. As previously noted, the FCA's rationale for the removal of the shareholder vote is that it is "ineffectual". This is a surprising conclusion given the reliance on stewardship to step in and oversee such controlling relationships and related party transactions, and the emphasis the Government has placed on the importance of stewardship mechanisms such as voting.

The FCA recognises that this may be an unattractive proposition to some investors and anticipate seeing market changes such as that "investment mandates and indexation criteria may drive market practice in this area". We struggle to see how this remedy could potentially work in practice as RPT's are potentially on-off events and the relevant information will no longer be available via the controlling-shareholder agreement. As noted in our response to Q5, we are unaware of any precedent that would show that Indexation criteria could require a vote by shareholders on certain transaction or events, so consider it to be unworkable. Mandates could specify that the manager is unable to invest in any companies with a controlling shareholder, but that is likely to just restrict the investment opportunities for the fund and capital for the controlled company, so will not actually be beneficial to the UK listing environment.

The FCA does note that in practice RPT votes are relatively few in number. However, the IA considers it not unlikely that this is *because* these protections are currently in place. The IA anticipates a significant change in the type of company that will seek to list in the UK following any changes to the Listing Rules, and may include entities with regard to whom there is a particular importance in scrutinising RPTs.

In the event that DCSS restrictions are relaxed, the IA considers that votes on RPTs should remain subject to the 'one share, one vote' principle.

Though there are differing views, a number of our members have suggested there may be scope for increases in the thresholds both to the shareholder vote and to disclosure requirements. We would encourage the FCA to review this further to ascertain the level of industry appetite for this change.

Q13: Do you consider that additional disclosure requirements could be considered to further support transparency to shareholders on RPTs, and should we consider requiring certain mechanisms prior to a deal being completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed companies to replace the requirement for independent shareholder approval?
Whilst the IA in principle is supportive of increased disclosures and transparency, removing existing thresholds and shareholder votes for Related Party Transactions (RPTs) are proposals that the IA's membership would not be supportive of. We do not consider that a

mandatory period of delay between exchange and completion would address these issues when the mechanisms by which investors can hold companies accountable are removed.

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

Q15: Should it be mandatory for the sponsor to consult with the FCA and agree any modifications to the class tests and classification of a proposed RPT, or should the sponsor have more discretion? Please explain your reasons.
Yes. In addition, class tests should be simple and clearly defined such that there is less of a need for discretion, and modifications are the exception rather than the rule.

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

Q17: Do you agree with the proposed approach to cancellation of listing for the single ESCC category, and do you have any views on other possible changes to the existing cancellation process? (refer p.52-53 for proposals)
The IA would be supportive of a shareholder vote on this process.

Q18: Do you think that the notice period proposed for the single ESCC category for de-listing should be extended (taking the approach of other jurisdictions) and if so to what? What would the benefits be? (refer p.52-53 for proposals)
No comment.

Q19: Do you consider the policy for cancellation of listing by the FCA after a long suspension should be revisited? If so, how?
The IA considers that six months would be a reasonable timeframe, with the FCA retaining the ability to extend to up to 12 months if necessary. The IA does not believe that a full re-listing is necessary, but can rely on general disclosure requirements both during and at the time of return from suspension.

Q20: Do you agree with retaining shareholder approval provisions on discounted share issuance and on share buy-backs, as currently required by the premium LR, as part of a single ESCC category, or would these be problematic for certain issuers?
The IA would agree that shareholder approval provisions on discounted share issuance and on share buy-backs are necessary, due to the impact that these share capital management decisions can have on the value of the company and their client's interests in the company.

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

The UK Corporate Governance Code sets a market-agreed standard of governance practices expected in the UK, with companies able to take an approach that is more suited to their business and strategy if they explain why that is the case, and how any additional risk is mitigated by not complying with the Code, including how long a departure from the Code is likely to last. As part of the regime, investors should fully consider these explanations and engage with the company if needed to fully understand the company's approach. Ultimately, voting at the General Meeting enables investors to signal their support or dissatisfaction with the company's approach, with the company being required to respond to any concerns.

This is a process that works and should be maintained, and extending the 'Comply or Explain' regime under the UK Corporate Governance Code to a wider range of companies on a mandatory basis ensures a greater level of director accountability and transparency to shareholders.

The IA would therefore be supportive of the FCA's proposed approach for companies on the single ESCC category to report against UK Corporate Governance Code, but recognise that a larger cohort of companies would potentially be required by the Listing Rules to follow the Code. As such we would encourage the FCA to consider transitional or smoothing provisions.

However, as noted earlier in our response, there is a dissonance between the government and regulator explicitly relying on comply or explain mechanisms across an increasing number of areas while simultaneously placing asset managers in a conflicting position as we have responsibility but diminished ability to execute.

On the one hand, regulators are expecting greater and more effective stewardship activity, and recently consulted on potentially strengthening regulatory requirements on stewardship and are proposing to weaken some corporate requirements which will lessen their ability to hold companies to account.

At the same time proposals such as those relating to DCSS protections, the controlling shareholder regime and significant transaction protections, and RTP protections risk removing asset managers' ability to undertake that role and without putting in place an alternative mechanism. This conflicting messaging is a concern for the IA, and potentially opens the asset management industry to being held to an unachievable standard.

Q22: Do you have any views on the proposed application of reporting requirements under LR 9.8 (i.e., premium LR requirements) as the basis for the single ESCC category?
We agree with the retention of climate related financial disclosures and diversity disclosures. Investors use this information to understand the risks that a company is facing and how that company is responding to ensure that there is no long-term impact on value. This disclosure based approach continues to ensure that investors have the information they need to make effective capital allocation decisions.

Overview of proposed new listing regime structure & cross cutting proposals

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

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

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

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

Q27: Are there specific considerations we need to take into account for different issuer or security types, in relation to our proposals in this section, that we should take into account as we develop our proposals further?
No comment.

Q28: Do respondents have any concerns about the availability of sponsor services as a result of the proposed changes to the listing regime and the sponsor role?
The IA holds reservations on the sponsor role with relation to Close Ended Investment Trusts, which is quite limited in comparison to commercial companies, as such an entity should be able to make a commercial decision on whether to opt into using a sponsor.

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

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

Q31: Do you have any concerns that sponsors will be able to demonstrate continued competence under our proposed approach? What matters should the FCA take into account when assessing sponsor competence?
The FCA should have flexibility in deciding which criteria should be used to assess competence, but these criteria should be clearly defined.

Some members have noted a potential conflict of interest in the ability of the sponsor to discharge their obligations effectively, particularly where they are being watered down. As such, it will be increasingly important ensure alignment between sponsor fees and the long-term interests and success of the IPO (including how the company performs in the first 12-18 months and how this impacts its share price).

Approach for other issuers

Q32: We welcome views on proposed restructure of the listing regime set out above. In particular, do you agree with our preliminary proposals for dealing with issuers that are not issuers of equity share in commercial companies?
The IA agrees with the proposed scope of these proposals applying to equity shares in commercial companies and having separate listing requirements for:

- Equity shares in Closed Ended Investment Funds
- Equity shares in Sovereign Controlled Commercial Companies
- Equity shares in Open Ended Investment Companies
- Equity shares in SPACs and cash shells
- Other shares, including secondary listings, preference shares and deferred shares
- Debt & debt-like securities
- Certificates representing certain securities
- Securitised derivatives; and
- Miscellaneous securities

The IA has previously had concerns regarding SPACs having access to the premium listings market – the creation of a new segment addresses those concerns.

We do note with concern that in the consultation paper the FCA notes that it will be consulting on removing the current Listing Category for Sovereign Controlled Commercial Companies and combining it with the "Commercial Companies" listing category. The assumption that Sovereign shareholders are aligned with minority shareholders and the long-term interests of the company have not been proven; which is why a separate category was originally created. The IA would likely oppose proposals to merge the two categories.

Q33: Have we identified the impacts on different issuer types and sufficiently delineated between them? If you have alternative suggestions that we should consider, please provide details.
No comment.

Q34: We welcome views and suggestions on our proposed approach as outlined above and in Annex 4, for updating the LR sourcebook.
No comment.

Transitional arrangements for implementation of the proposed reforms

Q35: If you have views on what transitional arrangements maybe required, please provide details.
On this basis, we agree that transitional provisions should be considered and we would encourage the FCA to ensure that an eligibility assessment is carried out for those companies who are keen to move to the proposed single segment. There will also need to be sufficient time allowed for companies not wishing to move to the proposed single segment to transition to alternatives.

We do note concerns that investors who have committed their capital to existing listed companies based on the existing rules and understandings about voting rights and corporate governance can reasonably expect to not have those rights altered retroactively.

If these proposals do proceed, we recommend that the existing listed segments should be grandfathered for already-listed companies, and the migration of those companies to a new single category should be subject to a shareholder vote on existing terms.

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

Initial cost benefit analysis considerations

Q37: Have we identified the areas where cost to issuers, advisors or sponsors may be increased as a result of our ESCC single segment proposals? If not, please explain the additional costs that we should consider in our CBA.
No comment.

Q38: Please provide estimates for familiarisation costs and implementation costs for the different policy elements of the proposed new ESCC category, if possible.
No comment.

Q39: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs that might arise to issuers, advisors or sponsors.
No comment.

Q40: Are there any other considerations we should take into account?
Given the proposed reforms, shareholders will become increasingly reliant on company directors, sponsors and controlling shareholders to act in their best interests. Given the conflicts of interest present in these relationships, there is a risk that these proposals will

lead to obligations being improperly discharged, and in some instances that there may be abuses of these responsibilities. There is a particular risk here to retail investors, who may be less able than institutional investors through due diligence to exit their positions. In the absence of a US-style class action litigation framework in the UK (as discussed in our response to Q5), it will be critical to the integrity of the market and its reputation in the eyes of retail investors that the regulator provides swift and robust enforcement in the event that abuses of responsibility occur.

We therefore note that an increase in the FCA's enforcement budget should be considered as one of the likely costs associated with these proposals.

Q41: Have identified the areas where cost to issuers or sponsors may be increased as a result of our overarching proposals? If not, please explain the additional costs that we should consider in our CBA.
No comment.

Q42: Please provide estimates for familiarisation costs and implementation costs for the proposed new overarching provisions, if possible.
No comment.

Q43: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to issuers, advisors or sponsors.
No comment.

Q44: Are there any other considerations we should take into account?
No comment.

Q45: Have we identified the areas where our proposals may impose additional costs on investors? If not, please explain the additional costs that we should consider in our CBA.
As noted previously, the IA considers that these proposals – in particular a watering down of investor protections and a removal of those mechanisms which allow shareholders to hold companies to account over issues such as significant transactions and RPTs - risk significant loss of value for investment managers and end clients.

In particular, members have expressed concerns around the increased due diligence costs and ongoing monitoring costs (outside of the usual investment process) which may be necessary as a result of the introduction of more permissive dual class structures. In addition, there will be further costs relating to engagement and collective engagement if companies do not respond to concerns that would normally have been addressed through a vote, as well as additional costs associated with analysing increased risks to investment managers and their clients. These costs may ultimately have to be passed on to the end client and some members note that this point has not been as prominently reflected in the initial CBA.

Q46: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to or other impacts on investors.
No further feedback available.

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

Ultimately, index providers will decide if there will be additional standards to those set by the FCA as a condition of inclusion to its indices. If it were to require additional conditions, then issuers who want index inclusion would have no choice but to comply in order to be accepted into the index. It should be noted that index inclusion one of the previous benefits of having a premium listing, and it is possible that in practice if index providers set additional conditions for inclusion this could end up resembling the existing split of premium listed companies that have access to the indices and those with a standard listing that don't.

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

No comment.

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

The IA is supportive of the FCA's proposals to create a single segment for equity shares in commercial companies to replace the previous premium and standard listings. It is hoped that this simplification will lower potential costs and complexities for issuers and encourage high-quality companies to list and operate in the UK. Indeed, the IA supports the vast majority of the proposals put forward within this consultation.

The IA acknowledges concerns that, given the decline in listings in the UK in recent years, overly restrictive Listing Requirements and robust shareholder protections may have acted as a deterrent to some companies listing in the UK. End investors do stand to benefit from new earlier stage and innovative companies coming to market. That has been the core aim of many of the reviews (such as the Hill Review) that have been carried out on this issue in recent years, and as an industry we are supportive of those aims.

However, it is important that a balance is struck between:

(i) the needs of companies and their ability to raise capital on public markets;
(ii) the fundamental role of investment managers to deliver sustainable returns and protect value on behalf of their clients; and
(iii) the risk appetite and needs of society and the economy to ensure the integrity of and public confidence in well-functioning public markets.

As noted above, there are a number of areas where the IA does have concerns regarding these proposals, particularly with regard to the removal of shareholder votes for significant and related party transactions, and the interplay with the removal of certain Dual Class Share Structure restrictions. It is important that in attempting to achieve the laudable aim of attracting and retaining high-quality companies, key investor protections which help to prevent a loss in shareholder value are not removed.

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

No comment.

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

Overall, there is no 'silver bullet' to address all issues that have led to a decline in UK listings. Rather, a coordinated approach is needed involving policymakers, regulators and industry (including UK pension asset allocators), to ensure a policy framework that works for all parts of the market and indeed the wider economy. The IA therefore strongly welcomes the work the FCA around listing rules and improving the attractiveness of the listings regime, and agrees that it forms one part of a much wider discussion that is already the subject of a number of reviews and consultations into which the IA has provided, and continues to provide, input.

The IA considers that while listings rules play a role in determining where companies choose to list, it should be recognised that the decline in UK listings and wider concerns regarding UK capital markets competitiveness are likely being driven by wider structural factors. These include:

- Lower valuations, which are partly a function of lower liquidity and depth of capital in the UK compared to other jurisdictions, as seen through higher relative valuations in the US, the market with the deepest liquidity and capital. A reduced number of peer companies in the UK compared to other jurisdictions may also affect valuation and willingness to list.
- A regulatory and commercial culture in the UK that disincentivises risk taking and in particular restricts the ability of UK pension funds and retail investors to access the UK equities market.
- Concerns regarding a lack of long-term political stability and a supportive and competitive regulatory environment and eco-system.

The issues above can be addressed through identifying ways to address the barriers, both regulatory and cultural, that impact the ability of UK pension funds and retail investors to invest in UK equities, thus ensuring that a wide and under-utilised pool of capital can be more effectively directed into domestically-listed securities.

There has been a long-term decline in institutional capital being allocated to UK equities. This has had the effect of reducing the pool of capital available to companies seeking a listing, which may be one of the factors in companies' decisions around where to list.

The decline in allocations to UK equities has been particularly evident in the Defined Benefit (DB) pensions and life insurance sectors. In both cases, the regulatory framework for DB pensions and life insurers has incentivised them to reduce equity exposure in favour of fixed income and other liability-matching investments. Broadly speaking, this has been to do with the guaranteed nature of the benefits promised by these institutional investors.

The shift in the UK from DB to Defined Contribution (DC) pension provision has partially offset the decline in pension scheme capital going into UK equities – but only to a limited extent, with the average allocation of DC default strategies to UK equities being just under 9% for members 30 years from retirement (with 66% of assets being allocated to overseas equities). Corresponding allocations for those 5 years from retirement are 6.2%/35.2% UK/overseas equities. [3]

The relative allocation between UK and overseas equities reflects an increasing globalisation in pension scheme asset allocation, which while optimal from an individual investor perspective, has been less positive for UK equity markets. However, it is important to note that this increasing globalisation in asset allocation also applies to overseas institutional investors, with the result that a proportion of UK equities are owned by overseas investors, thus leading to an increased pool of capital relative to one where overseas investors did not own UK assets.

While fiduciary duty means that asset owners will look globally for the best investment opportunities, it is relevant to consider in detail the drivers of UK equity allocations by institutional investors in order to understand what more can be done to deepen the pool of capital available to companies considering a listing in the UK.

Among the other drivers of listings, executive remuneration is likewise often cited as a reason for why the UK may struggle to attract and retain companies. The IA is supportive of efforts to ensure that the UK is able to recruit the right talent from a global pool, and continues to support efforts to ensure remuneration is linked to effective performance, appropriately benchmarked to the size and nature of the company in question.

The UK, unlike many other major markets, maintains a form of financial transaction tax on the transfer of main-exchange UK listed shares via the Stamp Duty and Stamp Duty Reserve Tax (SDRT) rules. For the transfer of standard equity shares, the rate of 0.5% it is higher than that of France (0.3%), Hong Kong (0.1%) and India (0.001%). The US maintains no form of financial transaction tax on either of its main exchanges.

Most of the other costs of transactions in financial markets – trading costs, custody costs, and so on - have declined very significantly in percentage terms over recent years, and are generally very modest. Stamp duty however has remained fixed and is therefore disproportionately large, or even dominant, as a percentage of total costs. Stamp Duty adds significant cost (and can be the largest single cost) in various transactions such as consolidating funds or investment companies, making such transactions harder to achieve, to the potential detriment of unit and shareholders, as well as broader market competitiveness.

Like any tax, Stamp and SDRT will have an effect on investor behaviours. It is ultimately a cost to consider. It both directly and indirectly drives-up transaction costs and lowers UK listed asset prices. This in turn has a corresponding negative impact on trading volumes and discourages high-frequency trading of asset types caught within its net.

While these effects are well understood - Stamp Duty has after all existed in the UK in some form or other since 1694 - the degree to which they will influence a company’s decision of where to list is far harder to quantify. It is after all but one of a number of competing variables. The IA would welcome a robust debate on the role Stamp Duty and SDRT play within the listings debate and would encourage further thought on how these effects can be evidenced and what solutions can be offered to mitigate their repercussions.

[3] Master Trust and GPP Defaults Report April 2023, Corporate Adviser

Other factors cited by our membership as being potential drivers of whether companies choose to list in the UK include:

- Long-term political certainty and support for listings environment
- A perceived lack of investment research coverage, particularly in the small-cap space (this issue is being explored by the ongoing Investment Research review being led by Rachel Kent)
- Negative media narrative and attention
- Companies seeing benefits to being privately owned rather than publicly listed, including:
    - Greater availability of capital for privately-owned companies than was previously the case;
    - Perceived greater sector expertise in the private investment space;
    - Fewer disclosure requirements.

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

The IA would like to reiterate that it would be strongly opposed to removing shareholder approvals for certain significant transactions and RPTs. The IA's membership would view the removal of voting rights on these transactions as limiting their ability to engage on potentially damaging shareholder transactions, which could in turn impact UK equity attractiveness for investors.