



CALL FOR EVIDENCE - UK LISTINGS REVIEW

Issued 5 January 2021

ICAEW welcomes the opportunity to comment on the Call for Evidence - UK Listings Review published by HM Treasury on 19 November 2020, a copy of which is available from this [link](#).

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KEY POINTS

1. With this Call for Evidence there is another opportunity to ensure that policy objectives of government and regulators do not create disincentives for companies and investors to use the UK's equity markets. Specifically, the Call for Evidence should focus on identifying what will draw companies to the markets.
2. Other independent reviews have explored inter alia how stewardship and governance standards help create markets that are attractive to investors. As a result of those reviews and of public perception, there are current efforts to strengthen standards and quality (eg Corporate Governance Code 2018; audit reform). Conversely, the changes explored in the Call for Evidence risk diluting the reputation and quality of a Premium listing.

ANSWERS TO SPECIFIC QUESTIONS

1) FREE FLOAT

Question 1.1 - Is the UK's 25% free float requirement calibrated at the right level, and should it be changed? If so, how?

Question 1.2 – Is there evidence that you can provide to assess potential risks to liquidity from alternative levels?

Question 1.3 – Are there other changes or alternative measures to the free float requirements that the review should consider

3. We do not consider that there is a need to change the 25% free float requirement, for reasons set out below. Proposals to change this should be supported by evidence that the new level would improve liquidity in the market for proper price formation.
4. The present requirement may be waived by the FCA due to its discretion to accept a lower threshold.
5. Companies have a choice of options for accessing the UK public markets. One alternative to listing on the Standard or the Premium segments of the Main Market is the High Growth Segment which has a lower free float requirement of 10%. This segment's admission requirements were calibrated to enable growth businesses to transition from privately-owned to the public markets. Another option is admission to the LSE's AIM, a growth market for entrepreneurial businesses, with no minimum free float requirement.
6. The free float of UK listed companies that have EEA holders is automatically set to increase from 1 January 2021. From the end of the Brexit transition period, the UK Listing Rules will no longer limit the calculation of the free float to EEA holders. This will change the free float of listed companies with such holders.

2) DUAL CLASS SHARE STRUCTURES OR OTHER OWNER-CONTROL MECHANISMS

Question 2.1 - Should dual class share structures be permitted in the Premium listing Segment of the London Stock Exchange? If so, what limitations should apply?

Question 2.2 - What demand is there for DCSS among issuers and what are the benefits and risks for investors? Do you have any evidence to support this?

Question 2.3 – Are there other ways of ensuring London's high standards of corporate governance are maintained while allowing DCSS in the Premium segment?

7. We are not aware of demand among issuers for dual class share structures nor that there is other evidence to suggest they should be permitted in the Premium listing segment.
8. Consultation about this area is driven by a policy intention to accommodate more listings of businesses from fast-growth technology, e-commerce and science. If the standards of the

premium listing segment potentially form barriers to listing of such businesses, this does not mean that they fail to serve well all businesses nor that they should be diluted. Indeed we note that market reactions were, overall, not supportive when the FCA proposed variations to standards for a new category within Premium listing – for companies with a controlling shareholder that is a sovereign state¹.

9. If there are different standards to those for Premium listing that are more appropriate for certain businesses, and are acceptable to investors, it should be possible to explore market innovations that do not rely on varying standards that enjoy a high reputation and attract investors.

3) TRACK RECORD REQUIREMENTS

Question 3.1 - Do track record requirements prove a barrier to certain types of company? If so, should the UK consider allowing further flexibility in track record requirements?

Question 3.2 - What kind of extra flexibility could be offered regarding track record requirements?

10. Track record requirements currently exist for Premium segment listings, including for the High Growth Segment. The requirements may prove a barrier to certain types of company but they are intentionally stringent and contribute to the perceived quality of Premium listing. There are other options for accessing UK public markets that do not have track record requirements.
11. The review might consider exploring the implication of giving discretion to the FCA to provide flexibility regarding track record requirements, but there would need to be clear parameters for exercising this discretion (for example, companies of a certain size, growth trajectory and institutional interest).

4) PROSPECTUSES

Question 4.1 - Are the prospectus requirements and situations in which prospectuses are required appropriate? Are the thresholds for a prospectus to be produced calibrated appropriately to the size and depth of UK markets, or for types of issuer already held to high disclosure standards?

Question 4.2 – How might current prospectus requirements be changed to better reflect the UK markets and the types of issuers listed on them?

Question 4.3 - Should the loss of disclosure or liability attached to a prospectus document be replaced by any alternative measures if the general exemptions to a prospectus are widened?

12. There have been recent changes to the prospectus regime that provide flexibility for issuers while providing information for investors. The Prospectus Regulation Rules sourcebook implements the EU Prospectus Regulation which came into effect in July 2019; this both retains existing and introduces new exemptions from the requirement to publish a prospectus. There are streamlined requirements for the prospectus summary and for disclosure of risk factors that are specific to the company.
13. A simplified prospectus regime also became effective for secondary issuances by issuers that have been admitted to trading on a regulated market or SME Growth Market for at least 18 months.
14. We do not judge there to be a pressing need for further changes but, as is usual practice, a review will be necessary in due course.

¹ See [FCA Policy Statement 18/11 Sovereign Controlled Companies](#)

5) DUAL AND SECONDARY LISTINGS

Question 5.1 - Are the UK requirements around dual and secondary listing a barrier to dual listing in the UK? If so, what could be changed to further encourage dual and secondary listings here?

15. This is an area that could be potentially be explored in the context of the Main Market as it may mitigate the loss of passporting of prospectuses by other EEA states.
16. Experience can be shared from the Designated Market Route for admission to AIM, which currently provides for a streamlined admission process.

6) OTHER ISSUES

Question 6.1 - Are there any other immediate issues the review should consider?

Question 6.2 – Are there any non-regulatory, non-legislative actions that could the UK take to promote the use of public equity markets?

17. We appreciate that this Call for Evidence is only part of a consultative process that is seeking to strengthen the UK's capital markets and the City's role in developing them. An early part of this process should be to establish factors that companies may find unattractive about listing on UK markets.