

12 October 2017

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Primary Markets Policy Team
Financial Conduct Authority
25 The North Colonnade,
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Dear Sir/Madam

**PENSIONS AND LIFETIME SAVINGS ASSOCIATION RESPONSE TO CONSULTATION PAPER 17/21 – PROPOSAL TO
CREATE A NEW PREMIUM LISTING CATEGORY FOR SOVEREIGN CONTROLLED COMPANIES**

I am writing on behalf of the Pensions and Lifetime Savings Association, in response to the FCA's consultation paper on the proposed new premium listing category for sovereign-controlled companies.

The PLSA represents over 1,300 pension schemes with nearly £1 trillion worth of assets under management on behalf of 20 million pension savers.

Our members depend on transparency and accountability from their investee companies in order to fulfil their stewardship responsibilities, and deliver secure incomes in retirement for their beneficiaries.

We are concerned that these proposals set an unwelcome precedent for diluting the governance standards of UK-listed companies, potentially damaging the reputation of the UK market. They are contrary to the spirit of recent regulatory initiatives designed to promote investor engagement in investee companies. And they may ultimately result in investors in UK companies having reduced influence, oversight and protection over managerial decisions and potential excesses with regard to their investee companies.

The value of existing shareholder protections

The existing shareholder protections that the FCA proposes to remove for the new category are not trivial. Transparency over all related party transactions is vital to investor confidence that their investee companies are being managed with prudence and probity. There is a strong likelihood of political pressure on sovereign-owned companies to deal with other arms of the state on preferential terms. If the state is not considered a related party and investors do not receive assurances and information regarding relevant transactions, there is a risk they will be exploited.



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Pensions and Lifetime Savings Association is the trading name of the National Association of Pension Funds Ltd, a company registered in England and Wales with company number 1130269.
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Similarly, measures providing minority shareholders with safeguards over the election of independent directors also gives them confidence of an un-conflicted voice at board level, acting with regard for their interests. Again, these proposals increase the possibility of investor exploitation.

We do not believe that the need for the removal of these protections has been made clear. Sovereign-controlled companies can already list in the UK (the FCA note in the consultation paper that some existing companies with a premium listing would be eligible for the new category, but currently comply with the existing governance regime). There are also the 'standard listing' categories with less thorough requirements.

Regulatory inconsistency

Capital markets should serve the interests of investors looking to invest their money in a secure, transparent fashion; and companies seeking access to investment to enable growth. Regulations should be formulated with these constituencies in mind. However the benefits of these changes for investors and companies are less apparent than for the intermediaries who will profit from advising and administering listings by major sovereign-owned companies.

Weakening minority investor protections in this way will harm the reputation of UK-listed companies for high governance standards, and may deter listings in the UK over the long-term.

The relevant protections only came into force in 2014, so limiting their application would send an inconsistent message that is likely to be concerning to potential investors in the UK market. Encouraging a category of listing in which minority investors have limited influence over the governance of investee companies and are effectively merely 'along for the ride' is also inconsistent with a number of policy initiatives. The Kay Review into long-termism, the introduction of the Stewardship Code; and the various iterations of the Corporate Governance Code all encourage investors to exercise engaged stewardship of the companies they invest in.

If the principles of these important reforms are disregarded for one category of company, there is a risk that a perception that wider governance and stewardship standards are of diminished importance and non-compliance with these standards will become increasingly commonplace.

The risk to pension funds

While some commentators have argued that if investors are aware when they invest that certain protections normally associated with premium listings do not apply, then fears of exploitation are overstated. We believe this is too simplistic. Many pension funds need to invest in indices covering entire markets, such as premium-listed companies in the UK. It has been reported that companies that list under the new category would not be included in the FTSE All-Share index for premium listed companies, without applying the full suite of existing investor protections. However, the index providers could come under commercial pressure to include these companies in future.

This would mean pension funds investing in companies over which they have no influence and where they lack the protections non-controlling shareholders might expect.

UK pension funds benefit from a healthy UK economy, so we support any initiative that attracts high quality and well-governed companies to the UK market. However, the reputation of a premium-listing classification, deriving from the high standards of investor protections that it entails, is one of the most appealing aspects of a potential UK-listing. Therefore, we would urge

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the FCA to maintain existing governance expectations, or create a new category for sovereign-controlled companies without the premium listing if truly considered necessary.

The PLSA and our member organisations would welcome the opportunity to discuss the proposals and alternative options in more detail, if this would be of interest.

Yours faithfully



Luke Hildyard
Policy Lead, Stewardship and Corporate Governance

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