

28 June 2023

Primary Markets Policy Team
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**CP23/10: UPDATING AND IMPROVING THE UK REGIME FOR ASSET MANAGEMENT PRIMARY MARKETS
EFFECTIVENESS REVIEW: FEEDBACK TO DP22/2 AND PROPOSED EQUITY LISTING RULE REFORMS**

Dear FCA Primary Markets Policy Team,

We appreciate the opportunity to respond to the above consultation.

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

We have engaged directly with our members to gather these views and we are available to provide further engagement if needed.

We believe that the proposed changes, as currently drafted, would weaken shareholder rights by removing some important checks and balances, in particular for asset owners and retail investors leading to a lack of diverse input and challenge from asset managers to companies.

Decline in UK markets

In the consultation document, one of the main arguments for the introduction of a single listing category is the “widely discussed concerns around the long-term decline in number of UK listed companies, which the UK Listing Review found had fallen by 40% since 2008, and to capture the opportunities of a shift towards ‘new economy’ technology companies as drivers of growth”.

We agree there has been a decline in Initial Public Offerings (IPOs) in the UK – not just across the premium segment, but across other segments too. However, it is not proven that governance standards and investor protections required by a premium listing are, specifically, the root cause of the decline in IPOs across both the main market and the Alternative Investment Market (AIM).

As the consultation paper states, U.S. and Europe have experienced a similar decline. In the UK case, the decrease in listings is a consequence of multiple causes, including the macroeconomic environment, the exporting of manufacturing and the economic state of the countries where companies are based.

As capital markets are complex, we would be supportive of an evidence-based, cross-governmental investigation into the root causes of this decline, which could then provide the appropriate basis for solutions which genuinely make a difference.

UK market is fit for purpose

International investors have told our members the UK market is considered attractive and is able to hold its own against other financial markets due to high corporate governance standards and robust investor protections. Companies have also said that gaining a UK listing is considered a powerful signal that a company is well-run and well-placed to thrive over the long-term.

As they are set, the current proposals may not result in more companies listing, but will reduce the standards expected of existing companies (diluting quality universally). The new rules run the risk of having a contrary effect to what is hoped for, by potentially reducing the pool of institutional and retail investors willing to invest in UK-listed companies.

This is because rolling back these fundamental investor protections means that asset owners would find it more challenging to act as effective stewards of their assets, which in turn would make them less certain that investing in a UK-listed company could lead to the sustainable financial returns scheme members and other savers need.

Also, it is worth noting that Government is currently pushing the pensions and investment industry to undertake more effective stewardship and to demonstrate adherence through strong standards such as the Stewardship Code, the Task Force on Climate-related Financial Disclosures (TCFD) and ESG Statement of Investment Principles (SIP) Implementation reporting.

The FCA itself is leading the work on the Vote Reporting Group to increase standards in this area. There is a clear tension between the drive to encourage investors to engage more with investee companies as responsible investors, and the potential removal of mechanisms by which companies can be held accountable, with the belief that this may help to create greater investment into the UK.

There is an opportunity for the UK to continue to model best practice in corporate governance and remain a place where listing is a badge of good governance in itself.

Answers to the consultation questions

We have provided answers to the questions where our members have expressed greatest concern, and we are in a strong position to give an informed response.

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 majority of our members are cautious on the proposed approach to dual class share structures. These allow the directors of the company to have unequal voting rights to the amount of equity they hold in the company, limiting the rights of minority shareholders and making it difficult to hold management accountable on important issues. The proposed change looks like a step in the wrong direction in regard to maintaining strong standards of corporate governance and encourage less responsible companies to list in the UK market with fewer checks and balances.

Many of our members believe that the proposals are unnecessary, replacing rules only introduced in December 2021, and will make it harder for scheme and their agents to act as effective stewards of their assets, ultimately having a detrimental impact on the long-term returns needed to achieve good outcomes for scheme members.

Our members favour maintaining the current the sunset clause (five years) and maintain the 20:1 maximum voting ratio.

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.

Our members believe the vote on significant party transactions is an important investor protection. Simply requiring disclosures, without any accompanying mechanisms for investors to act pre-emptively on a transaction they are unhappy with, fails to provide an appropriate level of protection.

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.

The requirement for a compulsory shareholder vote on related party transactions is considered a vital protection for investors, allowing them the opportunity to make their views known and felt on important and relevant transactions.

It is also worth noting that the additional due diligence required if these proposals are introduced will impose greater costs on pension funds and other investors, since asset managers will have to do more due diligence on behalf of asset owners, increasing costs and reducing net returns. At the

end of the chain, these increased costs could negatively impact the net returns achieved by scheme members, and possible counter current Value for Money initiatives.

Also, if litigation becomes a route for redress, it adds significant bureaucracy and cost.

Due to this, the cost benefit analysis announced in the consultation and due by Autumn 2023 will be an important clarification that the introduction of the new rules is justified.

In conclusion, our members are concerned regarding the proposals on new dual class share structures, the removal of shareholder approval for significant transactions and related party transactions. The proposed changes, as currently drafted, would weaken shareholder rights by removing some important checks and balances, in particular for asset owners and retail investors leading to a lack of diverse input and challenge from asset managers to companies.

If you have any queries or require further information regarding this response, please do not hesitate to contact me.

Best regards,

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