NAPF
Securing the future of pensions

Victoria Richardson
Markets Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS
cp14-21@fca.org.uk

18 December 2014

Dear Victoria,

NAPF response to CP14/21 – Sponsor conflicts

The NAPF is the voice of workplace pensions in the UK. We speak for over 1,300 pension schemes that provide pensions for over 17 million people and have more than £900 billion of assets. We also have 400 members from businesses supporting the pensions sector.

We aim to help everyone get more out of their retirement savings. To do this we spread best practice among our members, challenge regulation where it adds more cost than benefit and promote policies that add value for savers.

The NAPF welcomes the FCA consulting on the issue of sponsor conflicts. Sponsors play a very important role in maintaining the integrity and high standards of governance associated with the UK market, indeed confidence in the integrity and effectiveness of the Premium Listing regime underpins the UK's attractiveness for raising capital. We believe it important that sponsors engender and maintain the trust and confidence of the ultimate consumers of their activities – the investors in the associated issuing companies. In order that this trust and confidence is maintained the issue of sponsor independence is vital and this encompasses both real and perceived conflicts which impinge upon this independence.

We have in our response restricted our comments to the question posed on sponsor conflicts and indeed the underlying question of the appropriateness of the ongoing corporate broker relationship which exists between banks and issuers in the UK. We hope these points may be taken into consideration and reflected within further work to be undertaken by the FCA.

Sponsor conflicts of interest

We welcome the FCA's recognition of investor concerns with respect to the sponsor conflict regime. In very general terms we are sceptical as to whether it is currently operating in the interests of the ultimate consumers of the services, the investors.

As identified within the consultation paper the listing rules (LR8) ask sponsors to take into account circumstances that could both 'create a perception' that they may not be able to perform their functions properly as well as those that could 'compromise' their ability to fulfil their obligations. We believe that at present the former condition is certainly pretty difficult for many adequately to meet and the reasons for this may similarly have an impact on their ability to meet the latter.

Of particular concern is the view that the sponsor service is generally offered as loss-leading business commonly undertaken with a view to the considerable fees and commissions which may likely be garnered from subsequent transactional services.

The model, whereby corporates in the UK commonly have a long-standing relationship with a specific corporate broker from IPO forwards can, or at least risk having an, impact upon the bank's ability to act independently; more pertinently it impedes competition for providing these services.

As you will be aware, outside the UK it is very rare for a company to retain the services of a corporate broker, instead companies prefer to turn to the market and choose advisers as and when they need them and generally rely upon their own in-house investor relations teams to manage relations with their shareholders. We would proffer that there are two reasons why this different model exists.

Firstly, and perhaps most tellingly, the role of the broker in most other markets has proved to be less lucrative than here in the UK where mandates commonly act as precursor to future business. We would suggest it is not change that the house broker rarely fails to feature within a capital raising activity.

Secondly, pre-emption rights have long been positively enshrined within the UK and as such capital-raising requires a positive relationship between a company and its existing shareholder-base, a responsibility often shouldered by the house broker. It is commonly accepted however, that it is easier for UK companies to identify who precisely is the owner of their shares than it is for companies in some European markets. For this reason, the need for a long-standing trusted adviser to build and maintain relationships is we would suggest not a role that is only able to be performed by a corporate broker but could be performed equally by a well-functioning internal investor relations team. Indeed adopting the latter approach could actually result in a less intermediated discussion between management and shareholders to the benefit of both parties.

For the reasons cited above, we are increasingly sceptical as to the need for the ongoing relationship. Indeed, given the implications of this relationship for competition and independence we question whether time has come for testing more strongly some of the existing assumptions.

As we have argued previously, we believe that given the important role of the sponsor, their independence, real and perceived, should be considered paramount and thus other commercial arrangements between the sponsor firm and issuer client should be closely monitored and disclosed. Issuances of equity capital for example, whether at IPO or subsequently, and the basis upon which these are made, have significant implications for the delivery of long-term shareholder value. Value can easily be lost if the issuance is not undertaken on an efficient basis or in a robustly independent manner.

In order to maintain and encourage high standards of competence amongst sponsors there should be a competitive market for their services as there should be for broader advisory services; this requires more transparent pricing than occurs at present. Issues such as whether the sponsor service should be offered as a 'loss-leader' need to be actively considered in this context.

In light of the above we support the proposal to require sponsors/integrated banks to disclose their transaction fees and to disclose their relationships with the relevant issuer, including how they are managing any real or perceived conflicts of interest.

As always we would be very happy to discuss further with you any of the points we have raised in this response.

Yours sincerely

Will Pomroy
Policy Lead: Corporate Governance and Stewardship
NAPF