

21st March 2024

Nikhil Rathi, CEO

Sarah Pritchard, Executive Director of Markets & International

The Primary Markets Policy Team

Financial Conduct Authority

12 Endeavour Square

London E20 1JN

Submitted by e-mail to: cp23-31@fca.org.uk

Dear Mr Rathi and Ms Pritchard,

CFA UK letter in response to the FCA's Consultation Paper: "Primary Markets Effectiveness Review- Feedback to CP23/31 and detailed proposals for listing rules reforms"

The CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the FCA's proposals for updating the Listing Rules Sourcebook. As we had responded in detail to CP 23/10, we are limiting our response to emphasising some key points made previously.

We support the FCA's desire to reform and modernise the Sourcebook to attract more companies to list on the LSE, broaden opportunities for investors and provide impetus to the UK economy.

However, we would like to make two key points in this context:

MAINTAINING KEY INVESTOR PROTECTION PROVISIONS

We believe that the proposed reductions in investor protections go too far, to the extent that they may even work against the attractiveness of an LSE listing and lead to lower valuations. We previously shared a publication from CFA Institute¹ that concluded that integrity and investor protections in public markets should not be compromised in competing for listings.

In our opinion the counter measures of disclosure and sponsorship are not sufficient mitigators. Disclosures cannot really defend minority shareholders against a future adverse action by a controlling shareholder. As to sponsors, while we see the value they provide to issuers (typically smaller or overseas), we do not consider them to be strong custodians of investor interest, being neither appointed nor paid for by investors.

In particular, we have concerns about the proposals on:

1. **Related party transactions (RPTs):** RPTs are potentially destructive to shareholder value, and large RPTs (we suggest a 20-25% threshold) should retain a shareholder vote. We believe that retaining the voting requirement at this level is unlikely to dissuade companies from a London listing. RPTs of lower value can be covered by

¹ "Capital Formation: The Evolving Role of Public and Private markets (October 2018)":
<https://www.cfainstitute.org/advocacy/policy-positions/capital-formation>

your proposals, as well as existing governance frameworks e.g. scrutiny and challenge by Independent Directors.

2. **Significant transactions:** In the absence of voting, full and proper disclosure of a significant transaction at the time that it is agreed is a must. We expect companies to disclose all relevant information up-front rather than have material facts emerge subsequently. We do not support a new % threshold for this requirement, and again note that a failure to publish all material information at the time a significant transaction is announced would be in conflict with MAR.
3. **Multiple share class sunset clause:** We believe a sunset provision (of between 7 and 10 years) is required to deliver sound investor protection; evidence shows any value from multiple share classes erodes by that time.

REVIVING THE UK AS AN INVESTMENT DESTINATION

London's current listing rules are unlikely to be the driving factor behind the decline in companies listing on the LSE. The fact that the UK's relative position has declined can be traced to a number of factors such as reduction in the % share of UK in global equity indices, DB pensions reducing allocations to equities (and UK equities), the rise of tech company dominance in the US, growing UK access to private capital etc.

Any material change in this trend therefore requires looking wider, for example at tax incentives for investing in UK companies via ISA's (as proposed in the recent budget) and Pensions. While reforming listing rules will hopefully contribute to reversing the trend, focussing overly on this aspect and in cases diluting the relative strengths of a UK listing, may not be positive in the long run.

We would add that robust private finance markets also have a positive impact on the UK economy and investment flows, and we question why the LSE needs to compete with UK private markets; rather it should focus on companies that are outgrowing private capital.

In this context, CFA UK is considering working with our members to develop initiatives that support the UK's position as a centre of investment expertise and best practice.

We would be happy to meet and discuss or clarify our feedback, or to discuss our proposed work on key measures to revive investment in the UK so that it is helpful to the FCA.

Yours sincerely,



Will Goodhart
Chief Executive
CFA Society of the UK

Amit Bisaria

Amit Bisaria, CFA
Professionalism & Ethics Adviser
CFA Society of the UK

With thanks for contributions from: Paul Lee, Suzanne Hsu, and the oversight of the CFA UK's Ethics & Professionalism Steering Committee.

APPENDIX I: About CFA UK and CFA Institute

CFA UK serves nearly twelve thousand leading members of the UK investment profession. Many of our members work either managing investment portfolios, advising on investments, or in roles responsible for investment operations or oversight.

The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute and provides continuing education, advocacy, information and career support on behalf of its members.

Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/.

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials.

The organisation is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Its aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org.