WORLD FEDERATION OF EXCHANGES

Response: UK Financial Conduct Authority (FCA) Discussion Paper DP 22/2 - Primary markets effectiveness review

28 July 2022

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Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around $100 trillion a year and are home to some 60,000 companies, with an aggregate market capitalisation of around $120 trillion. The 50 distinct central clearing (CCP) services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of investors and companies wishing to invest, raise capital or manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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General comments

The WFE broadly welcomes the reforms outlined in the UK Financial Conduct Authority (FCA) Discussion Paper DP 22/2 aimed at making public markets more open and accessible and we offer some suggestions below. We support the move to a single segment for equity shares in commercial companies, with a single set of eligibility criteria, a set of mandatory obligations and a menu of supplementary obligations from which to choose. This would remove unnecessary burdens for some companies, whilst allowing others to choose approaches which would be appropriate to them.

It is essential, however, to find the right balance between the requirements that issuers should meet on this single segment, to ensure listing routes remain competitive and efficient, and provide the right protections for investors. We question whether the requirements currently proposed as mandatory for all issuers are proportionate where they go beyond requirements currently applicable to the Standard segment. A single segment whose requirements are closer to the Standard segment, with the ability to opt into supplementary requirements that investors find suitable, may be preferable. This would allow investors to have more say on what they need from the supplementary requirements without creating barriers for the companies. In this spirit, some of the mandatory requirements (e.g., constitutional arrangements) might sit better under the supplementary requirements rather than being mandatory.

Specifically, we have the following observations to make about the proposal:

Financial Eligibility Criteria

We welcome the suggestion to remove the financial eligibility requirements (revenue track record, historical financial information and having a “clean” working capital statement) and to introduce a regime based on disclosure instead. Our members believe that some flexibility might be beneficial.

Dual Class Share Structures (DCSS)

We find that dual class share structures should be allowed in the single segment, subject to the suggested conditions that need to be met and introduced in Policy Statement PS 21/22. We are, however, not certain that they should be applied to all issuers rather than just those that would have chosen to list under what is the current premium category. Maintaining flexibility for issuers to comply with the PS 21/22 requirements, or to disclose to investors if they do not, would support the FCA’s objective of retaining broad accessibility of public markets, as well as ensuring that investors have access to the information they need to inform their investment decisions.

Under the new regime, issuers would keep the ability to have dual class shares as they have under the current regime, but if they chose to comply with the investor protection measures under PS 21/22 (applicable to issuers seeking to list on today’s Premium segment), they would disclose this to investors. This would allow investors to make informed decisions about the importance of these provisions for them and would promote a dialogue with issuers on any other investor protection measures they would value. The information that would be disclosed, for example in the prospectus, could also be used by index providers to determine the criteria for index eligibility.

In our response to the FCA Primary Markets Effectiveness Review, we stated that with regards to the weighted voting rights attached to any given dual-class structure, it is right that they are determined at an individual jurisdiction level by listings authorities and regulators and should be accompanied by sufficient investor safeguards. We also agreed with the FCA’s approach to imposing limits on the circumstances in which the voting rights could be used, such as deterring a takeover or preventing the removal of a director.

We would expect the FCA to closely monitor the corporate governance disclosures of DCSS issuers and to report on these periodically.

Premium Listing Principles

We welcome the proposed extension of the Premium Listing Principles to all issuers of equity shares in commercial companies, but would like more information as to whether each one should be an eligibility requirement or whether it could be met through disclosure.

Minimum Market Capitalisation

We find the suggested Minimum Market Capitalisation suitable, as it reflects our previously shared concern that £50 million was too high.

UK Listing Branding

Whilst we are not opposed to the suggested name branding, we find that it might not resonate as a global one. We would therefore suggest a more neutral name, such as ‘the Main market listing’.