Response: CP23/10 Primary Effectiveness Review: Feedback to DP22/2 and proposed UK equity listing rule reforms.

26th June 2023

Background

The World Federation of Exchanges (WFE)[1] 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 (25%), EMEA (58%) and the Americas (17%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around $100 trillion (equivalent) in securities a year and are home to over 55,000 companies, with an aggregate market capitalisation of around $140 trillion. In addition, the 90 distinct central counterparty (CCP) clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1.3 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 companies and market participants wishing to raise capital, invest, trade, and manage financial risk.

Established 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 in 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:

Simrita Lota, Regulatory Affairs Manager: slota@world-exchanges.org

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

or

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org.

[1] EU Transparency Register number 973382524675-69

Response

General Comments

The WFE welcomes the opportunity to comment on the FCA's proposed changes to UK equity listing rules.

In general, we are happy with the direction that the FCA is proposing, insofar as it leads to increased use of public markets, which contribute to the public good. However, assuming the proposed changes go ahead, it will be important for the FCA to monitor their effect, in terms of investor protection and the costs associated with mandating sponsors.

Specific Comments

We would like to make the following comments regarding proposed changes.

Accessibility to public markets

The WFE is in favour of removing the financial eligibility requirements and increasing the reliance on a disclosure-based regime as an attempt to increase issuer use of public markets.

The WFE is also in favour of the amended independence and control-of-business rules, in order to accommodate issuers of companies with diverse operational and business structures.

Monitoring potential adverse impacts

The WFE believes that the right balance between competitive markets and investor protection must be struck.

Removing financial-eligibility requirements comes at a cost of increased risk for investors. Hence, it should be ensured that the information gap created by this on the business's financial health and its ability to generate revenue is sufficiently covered, either qualitatively or quantitatively, in the disclosures provided.

Investors should also have sufficient information on the company's independence and persons with control of the business, to ensure the increase in flexibility around these aspects does not have an adverse impact. The comply-or-explain disclosure-based approach to shareholder agreements can help provide investors with information on a company's corporate governance.

Generally, the WFE is in favour of the rules proposed for related-party transactions, significant transactions and reverse takeovers.

Retaining the ability of issuers to issue dual-class shares, subject to exceptions, is encouraging; however, the FCA should monitor this regime too and its effects on the corporate governance of such issuers.

The WFE is in favour of ensuring that all listed companies are provided with high quality guidance; however, the FCA should check whether mandating sponsors leads to increased cost burdens, particularly on smaller businesses seeking to list.