



Primary Markets Policy Team
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Date: June 27, 2023

Dear Sir/Madam

Re: Pension Protection Fund response to the FCA Consultation Paper 23/10 – Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms

The Pension Protection Fund (PPF) welcomes the opportunity to provide comments on the Primary Markets Effectiveness review.

The PPF is a statutory public corporation led by our Board and accountable to Parliament through the Secretary of State for the Department for Work and Pensions. It's our duty to protect people with an eligible defined benefit pension when an employer becomes insolvent. We protect millions of people who belong to defined benefit pension schemes in the UK and pay pension benefits to over 269,000 people. We are responsible for managing over 39bn of assets on behalf of our members.

The PPF believes that in order to fulfil this commitment and to protect and enhance the value of the investments in the Fund, it must act as a responsible and vigilant asset owner and market participant. Responsible investment (RI) is an important part of our overall strategic plan and our core investment principles and strategy. The goal of our RI strategy is to enhance the long-term value of our investments by managing environmental, social and governance (ESG) risks and exploiting opportunities. As an active owner, we exercise our voting rights and engage with the companies or issuers we invest in to make sure they are accountable and fulfil their obligations to shareholders and other stakeholders. In addition, we continuously monitor the ESG practices and stewardship activities of our fund managers.

Overview

As investors in UK capital markets, the PPF is supportive of the FCA's objectives to ensure that the UK remains an attractive environment to list, invest and do business.

The Primary Market Effectiveness consultation is well timed for those with an interest in the UK market. We are aware of the wider debate taking place across a range of stakeholders, discussing potential methods of developing the competitiveness of the UK market for investors, companies and the wider financial market. We note that Listing Rules reform is only one part of a significantly

Protecting People's Futures

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a body corporate, under the Pensions Act 2004

wider debate about the issues impacting UK listings and the competitiveness of the UK's capital markets.

Public markets should exist to provide an environment that companies, steered by the market's governance and shareholder rights requirements, can access capital. This capital should allow growth in the long-term resulting in sustainable value creation. Investors rely on these governance and shareholder rights requirements when committing capital and as a result, it is our view that listing rule standards should not be weakened on the basis of attracting additional companies to the market.

Doing this promotes a 'race to the bottom' philosophy that could potentially reduce the value attached to maintaining a UK listing.

The PPF appreciates the important role Listing Rules play in the determination of where a company may choose to list. However, without additional evidence to the contrary being provided, we consider wider structural factors to be significantly influencing companies' ultimate decision on where to list.

Additional evidence on the role played by the current shareholder rights regime is needed in determining the way forward. We note the decline in new listings on the AIM market over a similar period, which maintains a significantly softer regulatory requirements as one topic that requires explanation in order to understand the wider picture.

The issue of lower valuations being achieved on listing in comparison to other markets, primarily the United States, is one of the structural factors that the PPF considers to be a significant factor. Lower liquidity and concerns around the depth of the capital market in the UK are variables in this discussion. In relation to defined benefit pensions we think the incentives on employers and trustees drive schemes to adopt low risk investment strategies (and ultimately towards an insurance buy out). These fundamentals won't be affected by adjustments to listing rules.

Increasing the ability of UK pension funds and retail investors to invest in UK equities thus utilising this pool of capital in relation to UK listed securities requires a new approach to both regulatory and cultural factors. These considerations could be better addressed by government. We would welcome a review of the wider considerations noted above before any potential changes to listing rules noted in the consultation are taken forward.

Our expectations of external investment managers to implement greater stewardship responsibility over our investments has developed in the past decade. We expect our managers to hold companies to account when actions are taken that are not in the PPF's long-term interests. The consultation appears to place more reliance on 'comply or explain' mechanisms. This philosophy, without adequate shareholder rights to hold companies to account, will eventually increase the risk to investors and the market's reputation.

Ultimately, the PPF does not view the proposals, with the exception of the expansion of the UK Corporate Governance Code requirements to those firms which currently have a standard listing to be favourable to maintaining a healthy capital market.

In relation to the UK Corporate Governance Code being applied to on the single ESCC category, we view this as a favourable proposal by the FCA. Applying the Code to a wider range of companies would ensure an increased level of transparency and accountability to investors. Whilst a transitional period may be required for companies, we consider this to be a positive potential development in the UK market.

We note particular concerns regarding three areas, all of which, taken together, significantly reduce the means available to investors to protect their clients and hold companies to account:



Related-Party Transactions and Shareholder Voting Rights

The issues that investors can face when lacking controls over RPTs has been seen around the world, particularly in some Asian markets. We oppose this proposal and consider it as a key risk to the market. Without the ability to vote on a proposal, the damage will already have been done by the time investors get to vote at a subsequent shareholder meeting.

An inability for investors to intervene in cases that are not deemed in the company's best interest will be detrimental to effective stewardship. We are aware of concerns regarding the time/resources it takes to hold a general meeting but disagree that this is an excessive burden for a listed company in this circumstance. The infrequency of proposals of this nature suggests that this is a burden listed companies should be willing to accommodate.

Shareholder Voting Rights on Significant Transactions

A vote on significant transactions is an important part of investor protection. Removing the ability to vote on a transaction will adversely affect investors' ability to act as effective stewards. Investors' ability to scrutinise a transaction also provides a higher level of comfort to boards that the direction of travel is agreed and understood by investors.

The Softening of Dual Class Share Structure (DCSS) Restrictions

The PPF believes that a 'one-share, one-vote' is the optimal structure with regard to investor alignment and a core feature of good corporate governance. We are also mindful of the recent amendment to the Listing Rules on DCSS and do not believe that sufficient time has been given to allow assessment of the impact of these changes.

Stakeholders and long-term value creation should be central to any board's decision-making process. Whilst we recognise that there are situations where a founder is integral to the short-term success or transition of a company, we believe that any additional rights created in these circumstances should be part of a transition plan to one-share, one-vote with clear sunset clauses built into the governance structure. Our view is that the current five-year sunset provision is sufficient to accommodate this transition. Should the FCA look to extend this period, the decision to extend should be put to a shareholder vote (on a one-share, one vote basis) to extend the provision. The PPF would also consider it appropriate to maintain the existing 20:1 voting rights cap in place along with restricting the transfer of voting rights to particular circumstances, such as death of the owner.

As a significant UK asset owner, we are wholly aligned in ensuring the UK market offers a strong and attractive environment for companies to raise capital. However, we consider the current standard of corporate governance in the UK market to be positive drivers of shareholder protection and value creation. As noted above, we would welcome additional evidence on the proposals and wider studies to be carried out in relation to the attractiveness of the UK as a market to list.

Thank you for your consideration.

Respectfully,

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Pension Protection Fund