

How effective are the UK's primary markets?

The FCA asks for feedback on suggestions for market reform

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On 14 February 2017, the Financial Conduct Authority (FCA) published:

- a [discussion paper: 'Review of the Effectiveness of Primary Markets: The UK Primary Markets Landscape'](#) (DP 17/2) which prompts a discussion on the effectiveness of its primary capital markets for issuers and investors (the Discussion Paper); and
- a [consultation paper: 'Review of the Effectiveness of Primary Markets: Enhancements to the Listing Regime'](#) (CP 17/4) which contains proposals to enhance certain aspects of the Listing Rules and related technical guidance (the Consultation Paper).

The publications form a key part of the FCA's wider work on improving the efficiency and effectiveness of the UK primary markets for issuers and investors - an objective which was set out in its [2016/17 Business Plan](#).

What are the key discussion points?

The FCA is reviewing the structure of the UK's primary markets to ensure that they continue to meet the needs of investors and issuers. As part of its review, the FCA has conducted an extensive data analysis of the key trends of activity on the UK's primary equity markets in recent years. The results are set out in Appendices 1 and 2 of the Discussion Paper (the Data Analysis). Additionally, the FCA has met with various stakeholders to ascertain the main themes for discussion.

In response to some of the feedback, the FCA has proposed certain technical enhancements to the Listing Rules which are set out in the Consultation Paper. To read our summary of the key proposals set out in the Consultation Paper, [click here](#).

Read on for our summary of the key points raised in the Discussion Paper.

Is this the end of the standard listing?

Issuers looking to list on the FCA's Official List are able to choose whether to seek a premium or standard listing of their securities. In its review, the FCA found that stakeholders understand the benefits of obtaining a premium listing, which, amongst other things, include the greater protections for investors, the access to a wide international investor base and the issuer's eligibility for index inclusion.

However, the market is not so clear about the purpose or benefits of a standard listing, which is largely considered to be an unattractive option for listing. Additionally, the Data Analysis shows a decline in the number of Main Market IPOs and highlights that the number of cancellations of secondary listings from the standard segment is significant.

Drawing the boundary lines between a premium and standard listing

The Discussion Paper outlines the rationale for the boundary between the premium and standard listing



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segments. It is understood that many of the important characteristics of the premium listing regime were based on UK key principles of shareholder protections, such as pre-emption rights and the rules preventing dual share structures. The FCA notes that such principles, however, had not been regarded as important in other international markets and, therefore, there was concern that issuers may decide to list elsewhere in order to avoid these restrictions.

Consequently, the standard listing regime was created to provide a level playing field for both UK and non-UK companies to apply for a UK listing. The premium and standard listing regimes provide issuers with the choice of whether to comply with a more onerous set of requirements – and this would depend on their shareholding structure and their appetite for increased regulation. In its Discussion Paper, the FCA asks, amongst other things, whether the rationale of having the premium and standard listing segments remains valid and whether both segments promote the equality of treatment between UK and non-UK companies?

What's in a name?

Some stakeholders say that the name 'standard listing' suggests that the segment is not an attractive option, as it implies that it is second best to the more prestigious sounding 'premium listing'. The FCA is asking how to address this perception, including suggestions for a new name for the segment, if there is indeed a demand for it to be retained.

A new international segment for overseas companies

The FCA is exploring whether an alternative listing segment should be introduced for large international companies which wish to list their shares in London and to observe high standards of conduct but may not wish to or be able to comply with the premium listing requirements. The Data Analysis shows a decline in international issuers seeking a standard listing of their shares – which suggests that international issuers appear to favour GDR listings, if a premium listing is not appropriate. The FCA is inviting views on the development of a distinct international segment and if so, what investor protections should apply to the regime.

Too much regulation for exchange traded funds

Stakeholders have commented that open ended investment companies (OEIC) should not be subject to 'super-equivalent' premium listed obligations given that they are already subject to a set of additional (and more relevant) regulations outside the listing regime. Consequently, it is thought that the premium listed obligations do not add any real value or protections for those who invest in an OEIC. The FCA is seeking views on whether OEICs should be removed from the premium listing regime so that they are instead repositioned as a standard listing category.

Support for the tech companies in the 'scale up' phase

The FCA has queried whether the UK's capital markets provide sufficient support to science and technology companies. In particular, it explores whether the markets provide sufficient capital for the stage at which a science or technology company transitions from being an early start-up to a large and established business, otherwise known as the 'scale-up' phase. Whilst there are numerous barriers which may prevent the growth of these companies, the FCA is keen to explore whether any enhancements to the primary market regulatory regime could help address such issues.

A lack of patient capital

Many stakeholders have expressed the view that the UK's capital markets may not be effective in providing 'patient capital', that is, investment based upon long-term considerations. The FCA is seeking feedback on whether the current market structure and regulation reinforce a short term focus in issuers and investors. The 'long termist approach' has been strongly encouraged, particularly by the Financial Reporting Council through its Stewardship Code and its revisions to the UK Corporate Governance Code. The FCA is also keen to build upon this by exploring whether regulation can help to address any 'short termist' issues in the markets.

The listing of debt securities and debt MTFs

Chapters 5 and 6 of the Discussion Paper explore the measures that might be taken to improve the effectiveness of the UK listed primary debt capital markets. In particular, the FCA has asked whether there should be a new wholesale bond-focused multilateral trading facility and what measures could be taken to encourage greater retail participation in the debt markets.

London is open for international business

The discussions concerning the possible restructuring of the UK's primary capital markets are driven to ensure that the needs of issuers and investors are met and that London maintains its competitive position as a top global listing destination. Promoting the growth and long term future of science and technology companies through specific market regulation may boost the London market's position as a viable rival to the US market, which has long thrived as a listing destination for tech start-ups. Additionally, the launch of an international segment for overseas issuers is a clear signal to global issuers and investors that London is open for international business, despite the uncertainty around the future of the UK's regulatory framework following the UK's referendum vote to leave the EU last year.

It will be interesting to see, however, whether there is a demand for a new international segment for overseas issuers. Will this segment be an addition to the standard listing or rather, a rebranding and re-launch of the current segment? Will it be difficult to formulate a set of investor protections that will encourage investors to invest in companies without the protections afforded by a premium listing? International issuers may welcome a distinct platform which is subject to less regulation than the premium segment – but there is no point if there is little appetite amongst investors, who are already able to invest in a range of international securities, either in London or in other international markets.

It will also be interesting to see whether the London Stock Exchange (the LSE) will keep its watchful eye on the developments in this area and consider whether to revisit its own structure. Given the steady decline in AIM admissions in recent years, it may be that the LSE also has a role to play, together with the FCA, in the overall re-shaping of the landscape of the UK's primary capital markets.

Responses to the Discussion Paper must be submitted to the FCA by 14 May 2017. If you have any queries relating to the Discussion Paper or the Consultation Paper, please speak to your usual contact or one of the listed contacts.