

Primary Market Regulation
UK Regulation
London Stock Exchange
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18 March 2013

Dear Sirs,

London Stock Exchange – High Growth Segment – Draft Rule Book

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Finance and Legal Expert Groups have examined your proposals and advised on this response. A list of members of the expert groups is at Appendix A.

Response

We welcome the introduction of the High Growth Segment. We believe that it could be key part of generating economic growth for the UK and across Europe, but only if it is backed up with fiscal changes such as remodelling Entrepreneurs Relief; by abolishing stamp duty for trading in smaller quoted companies; and by removing the blocks to investing by private investors.

We have some general comments on the introduction of the new segment and its rulebook:

Clearer explanation of which companies the segment is being targeted at

Following discussions with our members of our expert groups, we do not believe that it is entirely clear in the Rule Book or from announcements from the Exchange which type of companies the new segment is targeted at. It is vital that the Exchange clarifies this so that advisory firms are able to advise companies seeking a listing on it and so that market participants can understand how this new segment fits into the overall market structure of the Exchange.

The implied minimum valuation from the free float and money raising requirements would be £300m. However a (small) company could seemingly have a much larger free float so long as it was worth at least £30m. As such, we would query how much flexibility can be had with these requirements. For example,

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would the Exchange dissuade a company with more than 25% in public hands from joining the High Growth Segment?

The requirement is to raise (from public hands) a “majority” of the £30m on flotation, by new issue or sale of existing securities – which could either mean “most of” or “more than half”. We would note that the Rule Book should also clarify this.

We have heard that this segment is targeted at companies with a £300-£500m market capitalisation. If this is the intention, it would be helpful to set this out in the Introduction to the Rule Book.

Educating the market about the different listing options available

With the addition of the High Growth Segment, there are a variety of listing options now available to companies seeking a UK quotation. As noted above, we believe that the Exchange should ensure that it educates companies seeking a listing, those that already have a listing, existing market participants and advisors on how this new segment fits into the Exchange’s overall market structure and how it differs from a Premium Listing, a Standard Listing and a quotation on AIM.

For example, it would be very helpful if the Exchange could update the useful summary on their website (<http://www.londonstockexchange.com/companies-and-advisors/main-market/companies/primary-and-secondary-listing/premiumstandardandaimcomparison.pdf>) to include all their markets.

Evaluating the effectiveness of the segment

We believe that the Exchange should set out how it plans to evaluate the success of the new High Growth Segment. It is not clear from the Rule Book how many companies it believes will join the segment or the level of perceived demand for this new segment. As such, it would be useful to set out the criteria the Exchange will use to evaluate the High Growth Segment’s success.

The role of Key Adviser

We note the addition of a new advisory role, alongside the Sponsor and the NOMAD. We believe that this could create confusion for companies as to the different roles played by each of these advisors. Therefore, it is important the Exchange highlight how the Key Adviser’s role is different from the other two.

Appealing decisions

We note that there is no provision for an appeal from a decision of the Exchange. In addition, certain statements throughout the rule book give the Exchange unfettered discretion, for example:

“...the Exchange may refuse admission or may impose any conditions to admission if it considers that admission would or may be detrimental to investors’ interests, the reputation of the High Growth Segment or the Exchange”.

A reasonableness qualification should be added to such statements (as it is for Rule 12.3).

If you would like to discuss any this further, we would be happy to attend a meeting.

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Yours Faithfully,

A handwritten signature in blue ink, appearing to read 'TW', with a stylized flourish extending to the right.

Tim Ward
Chief Executive

Quoted Companies Alliance Corporate Finance Advisors Expert Group

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Richard Evans (Deputy Chairman)	Strand Hanson Limited
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Richard Crawley	Espirito Santo Investment Bank
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David Foreman/Rick Thompson/ Mark Percy	Cantor Fitzgerald Europe
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James Green	K & L Gates LLP
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Chris Hardie	Arden Partners PLC
Daniel Harris	Peel Hunt plc
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Quoted Companies Alliance Legal Expert Group

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