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Dear Capital Markets Policy team,

Primary Markets Effectiveness Review

We welcome the opportunity to respond to your consultation on the Primary Markets Effectiveness Review.

The Quoted Companies Alliance has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies.

Overall, we welcome and share the objectives of the FCA in conducting this review and have responded in light of these objectives.

In order for this review to achieve the goal of improving the effectiveness of the UK's primary markets, the purpose of the public markets needs to be considered first. In its simplest form, the purpose of a public market is to provide a venue for companies and investors to come together in order to create wealth and opportunity. They allow investors to participate in the success of a company as they raise funds and elevate their profile to scale up and grow.

However, public equity markets are so much more than this; they are a social good. They foster entrepreneurialism, create intellectual property, encourage product disruption and innovation, generate jobs, distribute wealth across society, and ultimately, produce economic growth. All of this occurs within a more open accessible, and transparent environment than any other alternatives can offer. Private equity, for instance, is excluded on cost and accessibility grounds for many.

The responsibility of maintaining the economic and social value of the public markets falls on all of us, but it is the Government and regulator that must take concerted action to ensure a culture and environment that is conducive to extolling the virtues of our public equity markets. Fostering a greater long-term culture in public markets and redressing the regulatory imbalance between public and private equity will have the greatest influence on enacting behavioural change and encouraging deeper and more liquid public markets. This can be fulfilled, in part, through the provision of choice by inspiring companies at an earlier stage of their growth to list, allowing investors to gain access to the higher levels of growth that can occur.

We look forward to working with the FCA and HM Treasury on this very important subject. If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

Tim Ward
Chief Executive

Executive Summary
Creating inspirational markets fit for the future

Structural inefficiency is shrinking our public markets

The structural makeup of the UK's markets has resulted in the total number of quoted companies decreasing for a significant period of time. Listing shares on the UK's public equity markets has become less attractive for many companies due to a sizeable gap in the UK's public equity market offering. The lack of choice provided by our public equity markets on the one hand, and the increase in choice of alternatives (such as markets in other jurisdictions or private equity) on the other hand has caused this decline. We must reverse this embedded trend.

The direction of travel is promising

Lord Hill's Listing Review was a welcome first step, and the subsequent consultations published by HM Treasury and the FCA have the potential to greatly increase the attractiveness of our public equity markets. The recognition that positive change is necessary to ensure the UK has a continuum of attractive equity markets has been needed for some time. This review provides us with the opportunity to construct our markets for the future to solidify our position as a global financial powerhouse.

Now is the time to be bold

It is imperative that the FCA seizes this opportunity. The relaxation of, or making small adjustments to, certain requirements and rules may produce some benefits over the short-term. However, this fails to see the bigger, longer-term picture. Only recognition of this and considered action will ensure the success of our public equity markets for the future. This will not be achieved overnight, but actions to ensure the success of the UK's capital markets for generations to come needs to take place now.

The solution is the revamping of the Standard Listing segment

The re-branding and re-marketing of the Standard Listing format will effectively address the structural issues and fill the gap in the UK's current public equity market offering. Proposed changes to free float requirements, dual class share structures and track record requirements should be directed towards this segment. This will have the effect of encouraging companies, and in particular those at an intermediate stage of their growth, to come to the markets earlier in their lifecycle.

The positioning of the market will fill an important gap

The reframing of the Standard Listing format is particularly beneficial in that it provides a flexible regime that will increase the attractiveness of our markets. We should retain the "gold-plated" nature of the Premium Listing segment, which is seen by many market participants as crucial, while providing a more flexible market format for other companies, where investors can understand the nature and relative risk profile of the companies on each market following the two regulatory formats.

Choice is the key concept

A market with choice for both companies and investors is an essential dynamic in emboldening their long-term health and success. A single market format (even split into separate chapters) would fail to provide adequate choice for companies and investors.

If a single format that embodies the Premium Listing segment is taken forward, there is no middle-tier market for companies to choose. They may find the requirements too onerous, and there will not be a range of companies with different risk profiles for investors to invest in. If a single format that embodies the Standard Listing segment is taken forward, London will lose its status as a prestigious listing venue with its reputation for high standards in governance. Finally, if a hybrid of the two listing regimes is taken forward and combined into one format, this blurs the lines and becomes confusing and less attractive for market participants.

A choice of market formats eradicates these issues.

Inspiring companies and creating competition

In order to effectively attract companies to recognise the virtues of public equity, companies have to be inspired by the market they choose as their listing destination. There are concerns that, due to the current relationship between the Premium and Standard Listing segments, having two segments results in one being perceived as a "second-tier" venue. However, with considered and appropriate marketing by those market operators that choose to adopt the format, there is no reason why, over time, the new market format cannot build a well-grounded reputation and solidify its position in the UK's equity market offering, similar to that witnessed in the US between Nasdaq and the NYSE.

The creation of a new and reinvigorated middle-tier format will act as a competitive alternative to the Premium Listing segment and will supress the stigma that currently surrounds the extant Standard regime[1]. This will produce the benefits of driving up the level of innovation and quality of each market.

Our proposal is designed to enable existing market operators to customise their offerings to meet the needs of today's and tomorrow's companies. It leaves the door open for new entrants to set up attractive markets to boost UK economic activity.

The FCA's oversight role

The governance and parameters of each market needs to be carefully considered in order to ensure each market and segment best serves their constituent companies. The FCA should define the high-level parameters and set the minimum requirements of each market format with the "bigger picture" in mind.

[1] It should be noted that, whilst we believe that the Standard Listing segment is ineffective, this refers to the segment itself and not some of the exceptional companies that are listed on the segment.

Introduction

Creating inspirational markets fit for the future

Shrinking public markets

In our response, we concentrate primarily on the proposals set out in the consultation. However, we believe that it is important to consider the current state of the UK's equity markets in order to better understand the context in which the proposed reforms will be implemented.

It is generally accepted that listing shares on the UK's public equity markets has become less attractive. For the past twenty years, the total number of listed companies in the UK has fallen consistently. Increasingly overburdensome regulation (particularly compared to private companies), the significant costs of compliance and the growth of private equity (in part, due to significant tax advantages; effectively a government subsidy) have contributed to the decline in listings.

Since 2007, the number of companies quoted on the Main Market has declined by 25% and the number of companies quoted on AIM has declined by 49%[2]. Studies, such as the *QCA/Peel Hunt Mid and Small-Cap Survey*, indicate the reasons for this decline, with 60% of respondents attributing this to overly burdensome requirements and excessive scrutiny[3]. Public companies are arguably the cornerstone of the UK's position as a global financial centre. Appendices 2 to 5 reveal the extent of decline in the number of companies on the Main Market and AIM and the decline in number of companies coming to these markets.

Many commentators have highlighted that 2021 has been witness to a positive upturn in the number of companies seeking a listing in the UK. This year, we have witnessed more IPOs than in recent years and there is also a positive pipeline of companies seeking to come to market. It is important to state that there are many things that do work about the London market, and these must not be destroyed.

However, what we have witnessed this year can be attributed to a short-term market cycle. The UK and its companies are playing catch up following years of decision hiatus due to the significant levels of uncertainty created by the Brexit Referendum in 2016 and the outbreak of the Covid-19 pandemic at the beginning of 2020. The structural drivers are pushing away from our markets and not towards them.

The fact that the number of total quoted companies has been falling for so long is evidence that significant reform is necessary in order to reverse an embedded trend. It is clear that we cannot simply look at the number of companies conducting an IPO as it is being outpaced by a trend of companies leaving the markets.

The FCA should seek to encourage growth of these markets and prevent the erosion of their competitiveness.

The need for positive reform

In light of the above, the QCA has been encouraged by the focus, timing and findings of Lord Hill's UK Listing Review, and welcomes the timely and constructive steps being taken by the FCA to take forward the recommendations. The Primary Markets Effectiveness Review recognises the need for reform of our markets in light of the recent decline, acknowledging that positive change is necessary to ensure the UK has a continuum of attractive equity markets whilst allowing competition between market operators. This will help

[2] Report by Hardman & Co and the QCA of May 2020: *Are the public markets closing to smaller companies – The evidence from the past 20 years in London*

[3] QCA/Peel Hunt Mid and Small Cap Survey, conducted by YouGov: *To be or not to be…. a public company – the growing de-equitisation crisis.*

to increase the attractiveness of our markets and ensure that companies of all sizes are able to raise finance, create intellectual property, generate jobs, increase tax take, and distribute wealth across the UK.

The Covid-19 pandemic and the UK's withdrawal from the European Union (EU) necessitates the importance of alleviating unnecessary requirements and providing opportunities and growth for UK PLC. For the UK to cement its place as a global financial centre, particularly in the post-Brexit era, it is imperative that it is seen as having an environment that is welcoming to inspirational, innovative, disruptive and generative companies that are seeking to raise capital by giving them greater choice and flexibility.

Timing and execution of the reforms

While we welcome the timeliness of the FCA's response to Lord Hill's recommendations, as well as the recognition that change needs to occur in the near-future to ensure the UK's standing as a leading financial centre, we urge the regulator not to opt for "quick wins" by making small adjustments to certain rules and requirements.

We believe that the current structure of the UK's public equity markets is outdated. This is not only due to the period of time in which they have been in operation, but due to the significant pace of change of political, social and economic factors. The lack of change to the markets to adapt to these developments has meant that there is limited appeal for potential new companies, and particularly those in new industries, to come to the public markets. The apparent market inflexibility does not allow new growth companies to emerge and prevents them from overtaking and challenging the existing top companies on the UK's exchanges.

As such, we believe that it is in the interests of both companies and investors that a new market format is created in place of the Standard Listing segment. This will fill the void between the Premium Listing format and the SME Growth Market format.

A re-branded and re-marketed Standard Listing segment

It is commonly accepted that the Standard Listing format is not a particularly desirable option for companies to list on, or investors to invest in[4]. The QCA proposes that a full-scale overhaul of the Standard Listing format takes place in order to boost the attractiveness of the UK's markets and facilitate the provision of greater choice in the UK's offering. This could be achieved through a mixture of proportionate regulation and assertive marketing by market operators.

We envisage that this market format will have significant appeal to certain types of companies, but we do not wish to close off the option of the new market to all companies by restricting the use of the market to certain sectors and industries. The market will provide listing opportunities for a range of companies in all sectors of the economy and across geographical regions.

It is in this new market format where changes to free float requirements, dual class share structures and track record requirements should be made. This will also preserve the strictly regulated nature of the Premium Listing segment, which is valued highly, both domestically and internationally, by many stakeholders. We do not seek to complicate the existing regime but believe that replacing the Standard Listing segment with a new market format will be a vast improvement to the structural makeup of the UK's

[4] It should be noted that, whilst we believe that the Standard Listing segment is ineffective, this refers to the segment itself and not some of the exceptional companies that are listed on the segment.

capital markets. We believe that this is the context in which any changes would be most appropriate, allowing companies to choose a market which serves their needs best and would enable stakeholders to develop an understanding of the relative risk of the UK's different markets and segments. The new format will also allow market operators to differentiate their offerings through marketing and further product development. It may also encourage new entrants.

The positioning of the new market format will fill an important gap

A new market format to replace the Standard Listing segment would become the middle-tier option of the stock market, sitting between SME Growth Market-quoted companies and Premium Listed companies. The table below is not designed to be definitive; it is more an illustration as to how the formats could be differentiated. As the market formats develop, so we would envisage companies migrating towards the format best suited to their size, resources and stage of development.

Market format	**Premium Listing**		**New Market Format /Ex-Standard Listing**		**SME Growth Market Listing**	
	Current regime	**QCA proposals**	**Current regime**	**QCA proposals**	**Current regime**	**QCA proposals**
	Entry Requirements					
Minimum free float	25%	25%	25%	10%	No minimum at the discretion of AIM/AQUIS	No minimum at the discretion of AIM/AQUIS
Dual class share structures	No	No	Yes	Yes – specified weighted voting rights shares	At the discretion of AIM/AQUIS	At the discretion of AIM/AQUIS
Track record	75% of business supported by revenue earning record of 3 years	75% of business supported by revenue earning record of 3 years	N/a	No fixed period with greater flexibility regarding what can be provided as evidence of a track record	No formally fixed period	No fixed period with greater flexibility regarding what can be provided as evidence of a track record
Min Market Capitalisation	£700,000	None	£700,000	None	None	None
Adviser	Listing Sponsor at admission and for transactions	Listing Sponsor at admission and for transactions	N/a	Listing Sponsor-lite regime	Adviser as determined by market operator	Adviser as determined by market operator
	Listing					
Regulation	Regulated Market and part of the FCA's Official List	Regulated Market and part of the FCA's Official List	Regulated Market and part of the FCA's Official List	Regulated Market and part of the FCA's Official List	Multilateral Trading Facility	Multilateral Trading Facility
Admission	Prospectus and Eligibility letter to FCA under Listing Rules	Prospectus and Eligibility letter to FCA under Listing Rules	Prospectus to FCA	Prospectus to FCA	Admission Document (or prospectus where required)	Admission Document (or prospectus where required)
	Trading					
Indices	FTSE UK series, where eligible	FTSE UK series, where eligible	N/a	Potential for FTSE index series (commercial decision)	Commercial decision e.g. FTSE AIM Series	Commercial decision
Significant transactions	Class tests as per Listing Rules	Class tests as per Listing Rules	N/a	Class tests for reverse takeovers	Class tests as per market operator rules	Class tests as per market operator rules
	Ongoing obligations					

Corporate governance	UK Corporate Governance Code	UK Corporate Governance Code	Corporate Governance Statement	Application of appropriate governance measures	Expected market practice and guidance from market regulated adviser	Expected market practice and guidance from market regulated adviser
Ongoing obligations	Disclosure and Transparency Rules	Disclosure and Transparency Rules	Disclosure and Transparency Rules	Disclosure and Transparency Rules	Market operator Rules	Market operator Rules
Cancellation	75% shareholder approval	75% shareholder approval	No shareholder approval required	75% shareholder approval, unless transferring to Premium	75% shareholder approval	75% shareholder approval

The graphic above demonstrates how the three markets would be differentiated in terms of entry requirements, listing, trading and ongoing obligations.

We provide a detailed explanation of our reasoning for the proposals in our answers to the questions posed in the review below.

This mid-tier market format market would be attractive for companies considering a flotation at an intermediate stage of growth while not affecting the rationale of the Premium market and would avoid investors feeling that important protections are being lost. The key features of companies on the new market would also be growth potential and agility. Their investors might therefore have a different general risk appetite and value stocks that are less strictly regulated. Some companies would see themselves as 'graduating' and maturing through the different markets while others will IPO directly onto a market and remain there as it best suits their vision.

Insofar as "unlisted" SME Growth Markets, such as AIM and AQUIS, can often prove to be a suitable alternative to the listed markets for some companies, for others, they do not. Similarly, just as the standards of the Premium Listing segment are suitable for some companies, they are not for others.

This is where the FCA has the opportunity to fill the void.

It is the view of the QCA and many market participants that wholesale changes to the existing SME Growth Market regime and existing Premium Listing regime would be highly undesirable.

AIM, for example, is unique in its approach and composition and, as a result, is the most successful growth market in the world. It is imperative that this success continues, and small and mid-sized quoted companies continue to have a market appropriate for their growth and development. As such, it is important that AIM does not grow in such a way that means it is no longer appropriate for the companies which it was originally designed for. A significant growth in the combined market capitalisation of AIM companies would likely result in the erosion of reliefs and the flexibility of the market, which are two of the crucial elements of AIM's success. The SME Growth Market regime also provides an opportunity for other market operators to provide a different offering under the same regulatory regime as overseen by the FCA.

The Premium Listing segment is known throughout the world for its high standards, stringent eligibility criteria and the continuing obligations that companies have to follow. This sets it apart from many other markets across the world. Its nature is valued by companies and investors from a reputational and quality point of view. Any proposals to make the Premium Listing regime more flexible or remove certain requirements could seriously threaten the nature, quality and reputation of the segment. This has the potential to work against the objectives of this consultation paper.

The provision of choice is key

The benefits that accrue from giving market participants choice are substantial. Choice maximises the number of companies on the UK's markets, which, in turn, maximises investment, producing a significant economic benefit.

The provision of choice helps to engender healthy and attractive markets for both companies and investors alike. It allows these stakeholders to choose a market format and market operator that is best aligned with what they are setting out to achieve. Having a healthy ecosystem, with multiple markets and segments, increases the probability that companies and investors will be able to choose a market that is compatible with their priorities. Companies need a market that is reflective of their nature, stage of development and growth aspirations, and investors need a market that is reflective of their investment objectives and strategies.

When choice is provided, our markets will attract foreign companies and retain UK-founded companies. This will give rise to the diversification of the range of investment possibilities available on our market.

We believe that companies are capable of making choices when it comes to public markets. They already do so when deciding on the many different forms of finance. The argument that companies will be confused does not withstand much scrutiny.

Inspiring companies and creating competition

In order to effectively attract companies to extol the virtues of public equity, companies have to be inspired by the market they choose as their listing destination. How companies relate to the rulebooks is not what inspires them, but inspirational and transformational markets do.

There are concerns that having two segments means one is inevitably perceived as a "second-tier" venue. This stigma has evolved as a result of the relationship between the two existing segments and the perceptions that surround the Standard List[5]. However, with considered and appropriate marketing, there is no reason why, over time, the new market format can build a well-grounded reputation and solidify its position in the UK's equity market offering, similar to that witnessed in the US between Nasdaq and the NYSE.

The creation of a new and reinvigorated market format in place of the Standard Listing segment will act as a competitive alternative to the Premium Listing segment and will remove the stigma that currently surrounds the extant Standard regime. This will produce the benefits of driving up the level of innovation and quality of each market, proving market operators with real opportunities and market intermediaries with the ability to provide their clients with tailored solutions.

Our proposal is designed to enable existing market operators to customise their offerings to meet the needs of todays and tomorrow's companies. It leaves the door open for new entrants to set up attractive markets to boost UK economic activity.

[5] It should be noted that, whilst we believe that the Standard Listing segment is ineffective, this refers to the segment itself and not some of the exceptional companies that are listed on the segment.

The FCA's oversight role

The FCA's role should be one of oversight whereby it is charged with ensuring that there is appropriate, proportionate, and defined parameters for each market format. The FCA should set the minimum requirements for each market format. These requirements should then be complemented by the trading venues conducting a consultative process with all stakeholders to set any additional requirements.

We also strongly believe that no decisions on the shape of markets should be based on the current level of FCA resource, or any technical difficulty in dealing with the demands and circumstances of tomorrow's companies.

How companies identify themselves

Please note that we have tried to use the word company rather than issuer throughout this response. It is important that we do not forget that we are all trying to create inspirational markets for real businesses creating social wealth rather than to record a list of shares that have been issued by those companies.

Response to the Consultation Questions

Q1 Would a single segment for equity shares in commercial companies meet the needs of both issuers and investors?

No – we do not believe that a single segment for equity shares in commercial companies will meet the needs of both companies and investors, and nor do we believe it is desirable. There is significant merit in having two listing formats, with this structure producing benefits for both companies and investors.

A crucial component of healthy, attractive and effective capital markets is choice. Choice grants companies and investors options, enabling them to make decisions that are suitable, fit for purpose, and ultimately, beneficial for their own specific needs and circumstances. Just as companies vary in their structure, management and strategies, investors vary in their priorities, investment approach and engagement. Having a single market format for equity shares significantly reduces the choice afforded to companies and investors. It would result in a single market (differentiated within a rulebook) that is not accessible nor flexible for the different types of companies at different stages of growth that should be seeking to access our markets. This would not diversify the range of investment opportunities available on UK markets, both for domestic and international investors.

The QCA wholeheartedly believes that a "gold-plated" listing segment and a lighter-touch, more flexible listing format provides a sufficient level of choice within the listing regime. We believe that, rather than eradicating choice through the removal of one of the listing segments, the Premium Listing segment, in broad terms, should be maintained, and reform of the Standard Listing segment, including its re-branding and re-marketing should take place.

From the company standpoint, a single segment eradicates the ability of a company to choose a market that serves their needs best. Some companies will be better suited to a stricter regime, whilst others will benefit from a more flexible regime. The provision of choice allows them to decide which segment is more suitable for their individual circumstances. For instance, certain larger, more established companies with aspirations to be included in the FTSE UK Index Series, will better suit the higher and globally respected standards of regulation and corporate governance associated with the Premium Listing segment on the one hand. While, on the other hand, certain growth companies are likely to be too high risk to be included in this segment, but may also not be suited to an "unlisted" market, such as AIM (due to having too high a valuation for SME Growth Markets due to the nature of the business or sector which they operate). These companies, therefore, would likely benefit from a more flexible and agile listing market format. In keeping with our proposed market framework of two tiers of listing market format, this would allow companies to choose their market, with an awareness of the difference in risk profile, rules and requirements, and profile of investors.

From the investor viewpoint, a single segment reduces investors' choice in terms of having a diverse pool of companies to invest in. A single segment market structure has the potential to prevent worthwhile investment propositions from undertaking an IPO in London. The provision of choice is key; investors want to see more companies to give them more choice when making investment decisions. If more companies are listing in the UK, it would create further investment opportunities for investors and promote growth in the economy as companies can access deeper pools of capital via the public markets. Having two listing market formats allows investors to develop an understanding of the relative risk of both markets. Following our proposal for the maintenance of the Premium Listing segment and re-vamping of the Standard Listing segment would improve choice for investors. Having a market format that embodies the standards of the current Premium Listing segment ensures the continued satisfaction of investors who value strictly regulated stocks. This allows these investors to have influence over governance standards and to contain risk to what they deem to be an appropriate level. However, some investors want exposure to a variety of risk profiles and sectors that would not necessarily be afforded to them in this segment, but would be through the creation of an alternative, explicitly stated market format.

While there is scope to introduce specific chapters to cater for certain businesses within a single market format, we consider that this is unsatisfactory from a company's point of view. Decisions on listing would be based on a rule book and not about an overarching market format translated into inspirational markets by stock exchanges. It would create unnecessary complexity in terms of explaining what the expectations on any one company were. The complexity would be counterproductive in terms of market positioning and risk. It does not make commercial sense from a UK economic standpoint for markets to be defined by chapters in a rulebook.

Q2 Which elements of the existing listing regime would you consider it most difficult or least desirable for issuers and/or investors to operate without? Are there any particular elements you would reinstate? ie the controlling shareholder regime, or the free float requirements.

We do not consider that any elements of the existing listing regime should be removed insofar as the Premium Listing segment is concerned. It is the view of our membership that upholding the "gold-plated" nature of the Premium Listing segment is crucial. This view is formed on the basis that it is recognised domestically and globally by companies and investors alike as a world-leading market for the trading of equity shares. Confidence in the market is paramount and the current regime offers high levels of investor protections. The removal of elements of the existing Premium Listing regime would threaten this and potentially be detrimental to the UK's reputation.

Q3 Would the role of the sponsor be a significant loss? Is their role under any specific element of existing requirements considered significantly beneficial to issuers or investors currently?

Yes – we believe that the sponsor regime is beneficial in the part it plays in ensuring the quality and integrity of the market, and the loss of the role of the sponsor would be significant. Sponsors play an important supportive and advisory role for companies, particularly in relation to assisting the company prepare for a listing (including the production of the prospectus) and guiding companies with regard to eligibility, as well as helping the company liaise with the FCA. However, their role is not limited to the listing of a company's shares, with the sponsor playing an important role at key points throughout the life of a Premium Listed company in helping the company maintain good practice and good governance during the transactions it undertakes.

The sponsor regime is particularly beneficial for the small and mid-cap companies within our ecosystem. Small and mid-cap companies listing on the Premium Listing segment often do not have the same level of resources or capabilities that allows them to understand and comply with the many intricacies of conducting a listing or completing other transactions. The sponsor regime is also particularly relevant for overseas companies that are unfamiliar with UK rules, regulation and compliance. The sponsor, therefore, plays an important role in advising companies on regulatory matters and ensuring that they adhere to all the requirements.

In addition to the benefits for companies, the sponsor is also beneficial for investors. The sponsor provides additional protections for investors and helps to increase their confidence in the market by reducing the risk of any potential harm that could be caused as a result of market misconduct. While investors often perform their own due diligence and research into a company, the knowledge that the sponsor has also performed this function provides an additional safeguard.

Furthermore, and through its role in maintaining high standards, the sponsor, in turn, contributes to market integrity and the highly-regarded status and reputation of the UK's markets. This is to the benefit of companies and investors and ensures the attractiveness of our markets. One of the key reasons behind a company's decision to list in the UK is the boost to its validity and reputation that a UK quotation will give them. The sponsor regime helps to ensure that this is continued.

It would consequently be our view that a similar advisory role, a light-touch sponsor regime, should be incorporated in the revised mid-tier market format to provide greater investor confidence.

Q4 What would be the benefit of being admitted to the Official List rather than just admission to a trading venue?

The main benefit of being admitted to the Official List is recognition and the associated status that comes with it. Being admitted to the Official List gives a company increased credibility and status and allows stakeholders to understand the listed company better. In contrast, being admitted to trading has limited value and should be removed.

At present, there is a lack of understanding regarding the distinction between being admitted to the Official List and being admitted to a trading venue. What we need is a transparent process that provides clarity and allows people to understand the makeup of the markets. The duplication that currently exists adds nothing other than to cause confusion.

Q5 Should we have a role in approving the admission criteria set by trading venues and/or indices? Could adequate investor protection be maintained if different trading venues compete on admission requirements?

We consider that the FCA should have a role in the process of approving the admission criteria set by trading venues, but we do not consider that it should perform a role in approving the criteria for indices.

The FCA's role in approving the admission criteria set by trading venues should be one of oversight, where it provides a balance between investor protection and the attractiveness of our markets. Accordingly, the FCA should set certain parameters and the minimum admission criteria requirements. In doing so, the FCA should take an approach that is proportionate to the size of companies on each market. The trading venues should then be able to set any additional admissions criteria it deems necessary to provide an attractive market for companies and investors.

The process in which the admission criteria is set should be a consultative one with all market participants, including investors, companies and other stakeholders, feeding into the process. This process should not be constrained by the regulator unless it can demonstrate significant concerns over shareholder protections. We therefore believe that the FCA should have a limited role, and that it should not impede what is deemed by market participants to be suitable and appropriate for the creation of attractive markets.

Having a consultative process for establishing admission criteria allows all market participants, including investors, to feed into the process. This will allow investors to raise any concerns they have and thus enable the trading venue to address these concerns to provide adequate investor protection. The FCA should, however, have the ability to step in and enhance certain requirements if it believes it has discovered notable investor protection concerns not addressed by the investors or other market participants during the consultation process.

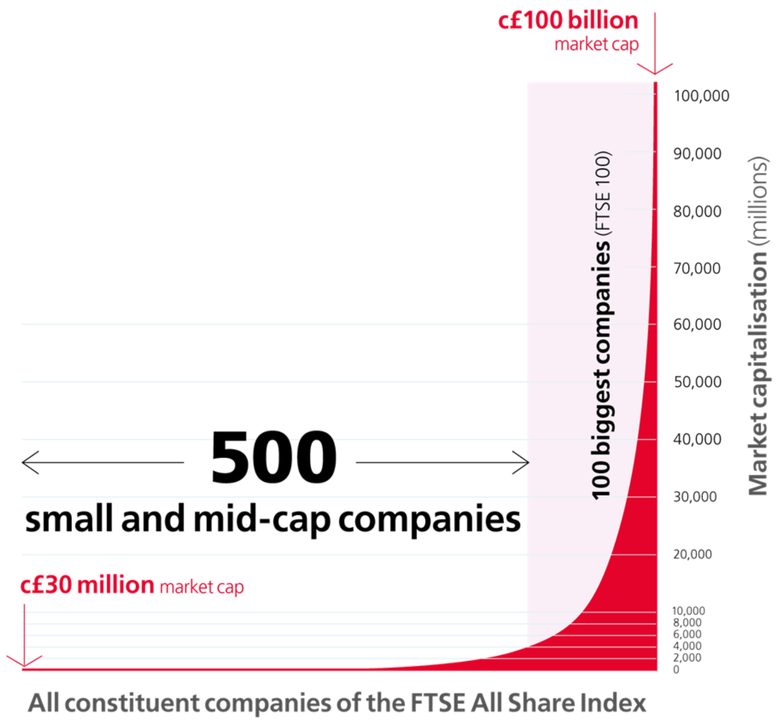
As stated above, the FCA's role should be one of oversight over the different market segments and exchanges. That is, the way the markets are managed and regulated should be considered very carefully by the FCA to ensure that the distinction between them is enhanced and retained and that there is appropriate competition whereby shareholder protections are not put at risk.

To take this forward, we believe that the FCA should develop a set of high-level principles for each market format. This should include setting out the objective and purpose of each market format and what they are trying to achieve. Doing so will ensure that companies and investors alike can develop an accurate understanding of each market that they wish to list on or invest in, respectively.

Q6 What types of issuers would find it hard to comply with the standards within the existing premium listing segment and why?

Broadly, there are two types of companies who would find it difficult to comply with the standards within the existing Premium Listing segment. Namely, small and mid-sized companies and new, very high-growth/innovative companies.

Firstly, small and mid-sized companies will likely struggle with the added burdens and more stringent requirements of the existing Premium Listing regime. As a result of their smaller size, more limited availability of resources and reduced capacity, the Premium Listing regime will likely be too onerous for these companies.



The graph below shows the companies in the FTSE All Share Index by market capitalisation. While not strictly limited to a particular figure, it is highly likely that the 500 small and mid-cap companies on the market struggle to comply with the requirements of the Premium Listing segment due to their smaller size.

Secondly, innovative growth companies may also find it difficult to comply with the standards within the existing Premium Listing regime. Due to the significant pace of change of political, social, economic and technological factors, certain companies are growing exponentially quicker than has been the case historically. It is now widely accepted and recognised that companies can reach a certain size, or their business model reach a degree of maturity, in a much shorter timeframe than has previously been possible. Due to their high levels of growth over a short period of time, these companies do not necessarily build the capacity to be able to comply with the requirements of the Premium Listing segment because their focus is on growth and business development. For instance, some start-ups will not be able to adhere to the 3-year track record requirements. As a result of this, by the time many potential innovative/high growth public companies meet the requirements of the Premium Listing segment, the decisions regarding permanent capital structures will have already been taken. It is likely, therefore, that these companies would consider other options for raising capital, thus suffocating the potential emergence of successors to the existing UK global champions.

If the objective of this consultation is to facilitate innovative growth companies listing on the UK's public markets at an earlier stage in their development, it is important that companies have choice. As we stress in our answer to Q1, the Premium Listing segment – and its associated "gold-plated" nature – is an indispensable feature of the UK's public equity offering both for companies and investors. This is, however, not to say it is a suitable, appropriate, or possible option for all companies; many will simply be unable to meet the requirements. A single listing format that embodies the provisions of the Premium Listing segment has serious potential to reduce the number of companies listing on our markets.

If there is a choice of market formats for certain innovative growth companies, ones that find it difficult to comply with the standards of the Premium Listing segment, this will expand their opportunities and the likelihood of listing in the UK. It also would expand the opportunities available to investors to participate in companies with different risk profiles as these companies grow.

Q7 Do unlisted markets provide a suitable alternative to listed markets? Would a gap emerge for any particular type of issuer? Do you consider there would be any particular benefits or drawbacks to this approach?

Yes – in many respects, "unlisted" markets, such as AIM and the Aquis Stock Exchange (AQSE), provide a suitable alternative to listed markets and complement the market ecosystem. Many small and mid-sized growth companies, and even some larger, more established companies, are better suited to a quotation on these markets due to their more flexible and agile nature.

However, following the proposal outlined in Model 2, "unlisted" markets will not necessarily provide a suitable alternative to all types of companies, and this will create an evident gap in the UK's public equity market offering. Having a single listing format which embodies the standards of the existing Premium Listing regime will mean that there will be companies who will be unable to meet these requirements, but too big or ill-suited to the nature of AIM or the AQUIS.

The AQSE currently provides an alternative trading facility for growth companies, with the majority of market constituents currently being micro and small-caps that are typically smaller than those on AIM.

AIM market's constituents predominantly consist of small and mid-caps. AIM is unique in its approach and composition and, as a result, is the most successful growth market in the world. It is imperative that this success continues, and small and mid-sized quoted companies continue to have a market appropriate for their growth and development. As such, it is important that AIM does not become a market for companies of a size that it was not originally designed for.

Having a single segment that embodies the standards of the Premium Listing regime, as proposed in Model 2, with the only alternative being the "unlisted" markets creates a gulf in the UK's offering that has the potential to create two negative outcomes. Firstly, due to a lack of options, companies decide not to seek a listing/quotation, and instead, seek a listing/quotation on overseas markets or consider alternative forms of capital raising. Secondly, companies, unable to meet the requirements within the Premium Listing segment, may seek a quotation on AIM without necessarily being appropriate for the market. This could result in AIM growing to such an extent that it no longer personifies what it originally set out to achieve. A significant growth in the combined market capitalisation of AIM companies would likely result in the erosion of reliefs and the flexibility of the market, which are two of the crucial elements of its success.

Therefore, for the reasons outlined above, the "unlisted" markets do not provide a suitable alternative to a single segment that embodies the standards of the current Premium Listing regime. The gulf between the single listed segment and "unlisted" markets would be too great.

Q8 What types of companies or strategies should the 'alternative' segment be aimed at?

Following our proposal for a new market format to replace the Standard Listing regime, we believe that this segment should be aimed at companies that are not attracted by the Premium Listing regime or the UK's "unlisted" markets.

We do not believe that this segment should be targeted at any particular company or sector, as it is about providing companies with choice, with that choice not being confined on the basis of their nature, size or sector. We envisage that the segment will provide listing opportunities for a range of companies in all sectors of the economy and across geographical regions. A new re-branded and re-marketed market format to replace the Standard Listing segment will encourage growth companies to remain in the UK and create jobs[6] and wealth.

That being said, we believe that this market will be well-suited, and have a high degree of appeal, to certain high-growth technology, e-commerce, science and healthcare companies. In recent years, we have seen these companies, especially those in tech and e-commerce, have the potential for exponential growth, typically greater than other sectors. This has meant that their growth and development has happened over a short period of time, and they may find it difficult to meet certain standards within the Premium Listing segment, such as track record requirements. These are precisely the types of companies that the UK, and this market, should be aiming to attract and foster.

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[6] QCA/Hardman & Co., August 2021, *Good jobs come to those who IPO: The importance of going public*, available at: https://www.theqca.com/article_assets/articledir_663/331811/2108-hardman-insight-good-jobs-come-to-those-who-ipo_asset_610d0f5d15f6f.pdf

We also envisage that this segment will have particular appeal to overseas companies, and especially those who want a secondary listing. This segment will be attractive to overseas companies who have a primary listing elsewhere, but want to have a presence in London. This will be beneficial for UK investors who can gain access to more investment opportunities in a regulatory regime that is well understood.

There will also need to be a defined market format for debt instruments as these make up the vast majority of listings on the current Standard Listing segment.

Q9 Do the existing provisions in the standard segment need to be changed to suit these companies, either through relaxation or to provide additional shareholder protections?

On the whole, the QCA believes that the provisions in the Standard Listing segment are a good starting point for the development of a new market format. However, as highlighted elsewhere in our response, we believe that the majority of reforms outlined in this consultation, including to minimum free float requirements, dual class share structures and track record requirements, should largely be directed at the new market format.

In addition, we would also suggest that some form of light-touch sponsor regime is considered for the new market format. As highlighted in our response to Q3, there are many benefits to the sponsor regime. We believe that a light-touch sponsor regime would embolden the new market format, in particular, during its first few years as companies and investors begin to develop a deeper understanding and gain trust.

Finally, the level of Transparency and Disclosure requirements could be considered in relation to pre-IPO funding timing. This could include a review of amounts and valuations to prevent multiple valuation uplifts within short time frames. The regulator could consider implementing a limit on valuation uplifts within short time periods to prevent companies being formed within quick succession of having been founded and/or having pre-IPO funding rounds at huge discounts within just days or weeks preceding a premium priced IPO. This currently causes settlement dislocation which in turn threatens shareholders' protection.

Q10 How important is our role in setting additional admission standards to listing in the 'alternative' segment? Are there any benefits to this role being performed by us rather than a trading venue, or market discipline?

As highlighted in our response to Q5 above, we believe that the FCA's role in setting admission requirements should be one of oversight. The FCA should be responsible for setting certain parameters for each market format and that a consultative process, conducted by the market operators, takes place following this to determine additional requirements. The FCA's role should remain limited in setting any additional requirements, and it should only step in where it has serious concerns over investor protections.

It has often been debated how much regulatory autonomy and discretion the FCA should have, and it is important that, with adequate accountability, the regulator is able to act in a timely and decisive manner. However, its ability to make decisions and react to changing market dynamics is linked to another debate around the FCA's overall remit and objectives, and more specifically, whether it should incorporate into its objectives a competitive and/or growth principle.

In his report on the UK's Listing Review, Lord Hill included a recommendation for HM Treasury to consider charging the FCA in its operating objectives with a duty to take into account the UK's attractiveness as a place to do business[7]. It is not clear, however, how this is being taken forward at present. While this is the case, it is difficult for the FCA to make decisions that are balanced between investor protection on the one hand and the attractiveness of our markets on the other.

Again, as articulated in our response to Q5, we believe that the FCA's limited role in setting/approving admission criteria should be counterbalanced by a new role for the FCA in having oversight over the different market formats and exchanges to define a set of high-level principles for each of them. This would be used to set out their individual objectives and purposes and would allow companies and investors to develop a clear understanding of the nature of each market format.

Q11 Do you consider the alignment between admission to the index and admission to the 'senior' segment to be important? Should the indices consider setting more objective admission criteria?

No – we do not consider that alignment between admission to the index and admission to the "senior" segment to be important and do not believe that the FCA should have any role in this.

As mentioned elsewhere in our response, the FCA should be charged with ensuring that there are appropriate, proportionate and defined parameters for each market format. This should then be complemented by the market operators setting additional requirements following consultation with the stakeholder groups of the different markets in order to ensure that the principles are fit for purpose for the specificity of each market.

In turn, the principles applied to each market will have an effect on mainstream indices. Index providers will decide for themselves whether to include companies outside the "senior" segment in their mainstream indices. It should be noted that their decisions are often made by independent committees populated by investors; the bias of investors to favour lower-risk options may affect their willingness to include companies on markets outside of the "senior" segment in the short-term. New indices will have to be commissioned and sold to investor groups and into enterprising investment funds, meaning the positioning and purpose of the different markets will have to be clearly communicated.

Q12 How can the process for listing debt and debt-like securities be improved for issuers without jeopardising investor protection?

We have no comments.

Q13 Should there be a separate listing segment for debt and debt-like securities?

We have no comments.

Q14 Which particular elements of the listing regime could be tailored to improve their effectiveness for other types of securities? In what way?

We have no comments.

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[7] Lord Hill, March 2021, UK Listing Review, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966133/UK_Listing_Review_3_March.pdf

Q15 Do issuers consider the process of admitting further issues to both the FCA and the trading venue to be burdensome?

Yes – as a membership organisation that represents the interests of small and mid-sized companies, we understand that the process of admitting further issues to both the FCA and the trading venue adds an unnecessary burden. It is unclear what the value of admitting further issues to both entities in a parallel process is. Any proposal to remove duplicative processes, and thus also removing the associated burden, is welcome.

However, if the process around admission were to be updated, the FCA should satisfy itself that every trading venue had a sufficient set of minimum standards in place to ensure only high-quality companies are brought to market in order to preserve investor confidence in the markets. The following suggested measures, amongst others, could help to preserve this confidence:

- Ensuring appropriate supervision;
- Adhering to accepted accounting standards;
- Requiring shareholder approval to delist;
- Requiring the adoption of appropriate governance measures;
- Minimum 10% free float;
- Impose a maximum uplift limit of pre-IPO to IPO valuation for SPAC/investment vehicles; and
- Implement a provision to allow market makers/liquidity provides access to all IPOs.

Q16 Would the existing procedures conducted by trading venues to ensure issuers comply with their disclosure obligations (production of a prospectus) need to be enhanced if we were to cease admitting further issues to the Official List? What costs would be associated with these, if any?

The FCA's rules already require trading venues to ensure compliance with the relevant disclosure obligations, such as whether a company needs to produce a prospectus, or is exempt from the requirement. Therefore, it is for the trading venues themselves to consider whether or not their processes are adequate in performing their role of ensuring companies comply with the necessary disclosure obligations. That being said, the FCA should have an overarching responsibility, and be satisfied that the processes are appropriate and proportionate.

Tangentially, we note that HM Treasury is currently consulting on its UK Prospectus Regime Review[8]. As part of this, the Government is proposing granting the FCA discretion to determine whether or not a prospectus is required by giving it the flexibility to establish rules of exemptions. This could include consideration of whether a prospectus is required for further issues.

Q17 Are there any legal, regulatory or tax requirements that are connected with further issues being admitted to the Official List, that could not be maintained by further issues being admitted to a trading venue?

We have no comments.

[8] HM Treasury, July 2021, UK Prospectus Regime Review: A consultation, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/999771/Consultation_on_the_UK_prospectus_regime.pdf

QUOTED COMPANIES ALLIANCE

Q18 Do you agree with our rationale for introducing DCSS to the premium listing segment? Is there any additional evidence that we should consider?

No – we do not agree with the FCA's rationale for introducing dual class share structures in the Premium Listing segment. We believe that a more appropriate destination for this form of dual class share structure would be a revamped market format to replace the Standard Listing segment. A company that has not developed to a stage where a founder is ready to give up control is unlike to fit the appropriate risk profile to be included in the Premium Listing segment.

Having more than one class of share structures on the Premium Listing segment increases the governance risks associated with investing in such companies. Investors of Premium Listed companies value the influence that is afforded to them over governance standards so that they are able to contain risk to an appropriate level. We believe that maintaining the integrity of the Premium Listing segment is essential.

Implementing a form of dual class share structures into this segment poses a direct threat to its "gold-plated" nature. During our own internal consultation amongst our members in the investment and company community, it became apparent that the value of the "one share, one vote" principle is viewed as central to the regime and should not be dispensed with. This principle serves to ensure that the segment maintains its high standards of corporate governance. The implementation of dual class share structures in the Premium Listing segment thus risks undermining the ability of shareholders to have influence over shareholder management.

We do, however, recognise the importance of, and need for, dual class share structures in the UK's markets, particularly as many jurisdictions across the world offer them. In order to encourage entrepreneurship in the UK's markets, and in particular amongst companies in new industries, permitting dual class share structures is essential to attracting companies to public equity markets earlier in their maturity. Dual class share structures allow founders, who are particularly sensitive to the threat of takeover or removal as a director, to retain control and play out their visions and deliver the next phase of their business strategies. This has the potential to produce the benefit of facilitating the long-term health of the company because it limits the pressures exercised by the market and investors, who do, in many instances, favour short-termism. Investors can influence the ability of companies to pursue the types of projects that lead to long-term corporate sustainability and economic growth in favour of short-term profits.

However, we believe that dual class share structures should only be available for companies in a redesigned market format to replace the current Standard Listing segment.

We accept the notion that, as highlighted in the consultation document, companies are attracted to the Premium Listing segment due to the added reputational benefits that a listing here provides their company. It is considered that this will result in greater levels of investment, with the possibility of securing a better price than compared with the Standard Listing segment. This, however, is an issue of the branding and marketing of the Standard Listing segment.

It is a commonly held view that the Standard Listing segment is a tarnished product that is seldom used. In distinguishing the markets by assigning them the labels "Standard" (which is referred to as the EU minimum), and "Premium" (which is referred to as "gold-plated"), creates an immediate indisposition towards the Standard Listing segment. As a result, many companies and investors view this as an unattractive option from a reputational point of view.

However, if our proposal, and Lord Hill's subsequent recommendation, for a new market format to replace the Standard Listing segment is taken forward, and the marketing and branding of the segment is optimised, the attractiveness of the new market format and the resulting improvements to its reputation that will follow thereafter will encourage companies to seek a listing on venues using this new market format. Once the Standard Listing segment has been replaced by a bespoke new market format, dual class share structures would be much better suited to this marketplace than the Premium Listing segment.

If, however, the FCA does not take forward our recommendations, we consider that a targeted and time-limited form of dual class share structures within the Premium Listing segment is appropriate, but our preference remains for dual class share structures to be available only in a new Standard Listing segment.

Q19 Do you foresee any limitations to our proposal if the weighted voting shares are unlisted?

There are, of course, potential drawbacks to weighted voting shares that are unlisted. One potential downside of no longer precluding holders of unlisted shares exercising voting rights is that it could lead to abuse by these shareholders. For instance, this could lead to the entrenchment of owner-managers who seek to extract excessive benefits to the detriment of other shareholders.

However, we envisage that this will occur in a very small proportion of cases. It is also possible to mitigate such risks and the level of uncertainty through the implementation of mandatory safeguards.

Furthermore, it could be argued that certain types of investors would not be interested in investing in companies whose existing management/directors hold weighted voting shares that are unlisted due to the potential for certain issues. However, it is evident that investors are often willing to ignore the potential issues that are associated with these share structures. Recent examples of companies listing both here in the UK and in other jurisdictions are testament to that. For instance, The Hut Group, which at the time of listing, was the UK's largest IPO since 2015 following its listing on the London Stock Exchange's Standard Listing segment in 2020. Similarly, in the United States, the initial investors of Snap Inc in 2017 were not passive, uninformed investors despite the tri-partite structure of its voting shares with some shares including no voting rights and minimal sunset provisions. The investors in Snap Inc were mainly sophisticated investors and large institutional investors.

Q20 Do you consider that a five year sunset period for DCSS in the premium listing segment is the correct length to protect companies from unwanted takeovers? Please provide evidence for your answer.

Whilst we agree that a five-year sunset period for dual class share structures will be appropriate for many companies in allowing them to implement their vision, it will not be appropriate for others. Rather than implementing a regulatory requirement for the sunset period, we propose that companies should engage with their investors on the appropriate timeframe for moving away from such a share structure and that this period should be stated at the time of adoption of the dual class share structure.

Implementing the sunset period for five years is arbitrary. Setting an arbitrary timeframe voids the ability of some companies, following consultation with their investors, to opt for longer sunset clause in order to be able to properly implement their vision. We note that the Swedish market that has allowed dual class share structures for many years has no sunset clause requirement.

Q21 Do you consider that the mechanism proposed will be effective in providing a deterrent to unwanted takeovers? Please give reasons for your answer and any possible alternatives.

Yes – on the whole, we believe that the mechanism proposed will be effective in providing a deterrent to unwanted takeovers and the potential of a takeover occurring will be low. The mechanism will make a company operating a dual class share structure less attractive as a potential takeover option, allowing the existing directors/management to deliver the next stage of their business strategy.

Q22 Do you agree with the proposed controls around DCSS in the premium listing segment? Are there any additional controls that would make the regime more effective?

On the whole, we agree with the proposed controls around dual class share structures. However, as articulated in our answer to Q18, we propose that this form of dual class share structure is implemented in a revamped, well-marketed and highly regarded market format to replace the Standard Listing segment.

Following this structure, a more freeform type of dual class share structure will be available on SME Growth Markets, a targeted form of dual class share structure (such as that currently proposed in the consultation document for the Premium Listing segment) will be available in the new market format replacing the Standard Listing segment, and dual class share structures will not be permitted on the Premium Listing segment. This tiered structure provides companies with adequate choice in terms of their ability to choose a market and share structure most appropriate to their needs while maintaining the high standards of the Premium Listing segment, helping to ensure that investors also have ample choice and a clear understanding of the risk profile of each market.

We do not consider that there are additional controls that the FCA should look to implement to make the regime more effective.

Q23 Do you agree with our proposal to raise the minimum market capitalisation for companies seeking to list under standard and premium listing to £50m? If not, please state your reasons and indicate what alternative threshold may be more appropriate along with any supporting evidence. We also welcome views on whether we should consider setting out conditions under which we might modify the proposed rule on the new threshold, and if so what criteria stakeholders think we could usefully consider.

No – we do not agree with the proposal to raise the minimum market capitalisation for companies seeking to list under the Standard and Premium Listing segments from £700,000 to £50 million. We believe that this unnecessarily inhibits the choice afforded to companies and that there should be no increase on the current minimum valuation of £700,000. Encouraging companies to list is paramount to this consultation and we discourage any proposals that would limit a company's listing options.

Further, we believe strongly that the availability of FCA resource should not dictate why companies can join a market. By the FCA's own cost benefit analysis in the consultation paper, the number of companies under £50 million joining the market averages at 13 companies a year. We believe this is not sufficient evidence to establish such a hurdle.

Since the release of this review, we have already witnessed concerns raised in our community, both from companies and from intermediaries, on the negative impact that a this proposed minimum market capitalisation is already having. It has resulted in certain transactions, including IPOs, being re-routed or stopped entirely. We should be encouraging companies to enter our markets sooner rather than later.

In addition, using an arbitrary market capitalisation figure does not make sense. The ability of a company to list and operate successfully on either the Premium Listing or Standard Listing segment is much more to do with their stage of life and level of maturity than their market capitalisation.

The only instance in which we consider the introduction of a minimum market capitalisation criteria could be fair for the Premium Listing segment is if there is an alternative market format, such as the one we have proposed that does not have any such criteria.

Q24 Do you consider that the current level of market capitalisation for listed debt remains appropriate? Please give reasons for your answer.

We have no comments.

Q25 Do you agree with our proposal to reduce free float to 10% and to remove current guidance on modifications? Please give your reasons.

No – we do not agree with the proposal to reduce free float to 10% and to remove current guidance on modifications. We do, however, believe this would be welcome in a new market format designed to replace the Standard Listing segment, so that companies would benefit from having choice. The purpose of the 25% free float requirement is to maintain liquidity and to help to provide investors with meaningful stakes in shares, allowing them to influence governance. A relaxation of this requirement on the Premium Listing segment could potentially run counter to the desired outcome of the policy. These components are synonymous with the robust and fixed nature of the Premium Listing segment. Therefore, a change in the free float requirement for the Premium Listing segment would not necessarily be seen as desirable by many stakeholders. However, we would welcome this relaxation in the new mid-tier market format. While the 10% figure is, much like the extant 25% figure, an arbitrary number, it provides much greater flexibility for companies.

In general, a smaller company will need a larger free float compared to its larger counterparts in order to create an appropriate level of liquidity. The choice provided to companies, therefore, is welcome and will, we believe, encourage more companies to seek a listing in the UK.

For this reason, and whilst some QCA members do not consider the 25% free float requirement to be particularly high, we believe there is benefit in having more flexibility, so that companies would benefit from having choice and to discuss and agree a suitable percentage with investors themselves rather than through the FCA. Having a prescribed free float requirement is unnecessary and reduces the relative attractiveness of the UK's markets. As the objective of this review is to create deeper, attractive and more welcoming markets, we believe that free float requirements should be eased.

Q26 Would you find information about issuers' free float level useful to inform investment decision-making?

The requirement to make periodic disclosures about an company's free float level may be useful to investors to some extent in influencing how they adjust their position. This should, in our view, be seen as part of a wider engagement by companies in providing easily accessible information about the company on a website, as is mandated on the AIM Market and AQSE, which should include the summary ownership information available to the company as the wider aspects of ownership are also important.

However, as noted in Q25 above, free float does not equate to liquidity and these disclosures do not address this. We do not believe that the FCA should look to set a requirement for companies to make disclosures of this nature. This should be for the trading venue to determine whether they want to publish this information about the companies that operate on their markets.

Q27 Do you agree with our proposal to leave track record requirements as they are now, based on our assessment that this would only affect a small number of stakeholders? If you disagree, please provide further evidence or examples of the wider impact this has on prospective listing applicants and proposed amendments.

Yes – we agree with the proposal to leave track record requirements as they are now insofar as the Premium Listing is concerned. Track record requirements can help to ensure a business demonstrates a certain level of maturity and helps mitigate the risk of investing in a company without a proven business model, which is a key feature of the Premium Listing segment. For companies without a proven business model that are unable to meet these requirements, it is likely that they would be more suitable for another market, such as the new market format proposed. This would ensure that the lower-risk profile of Premium List companies can continue, while allowing promising companies to enter a highly-regarded, regulated market with less emphasis on meeting fixed requirements.

However, track record requirements can provide a barrier to entry to the UK's markets for certain types of companies. It can be difficult for companies to work out when their track records meet the requirements of the rules. They represent an unnecessary burden on companies and could potentially deter companies from seeking a listing in the UK, or they may opt for other forms of capital raising.

If there is only a single market format, track record requirements would impair the UK's ability as a listing venue to attract companies, with follow-on consequences for UK capital formation and job creation. The pace of change of the economy that we are currently witnessing and the widely acknowledged recognition that business models can reach a degree of maturity far quicker than has historically been the case. By the time many potential public companies meet the requirements, the decisions regarding permanent capital structures will have already been made. This issue runs the risk of permanently relegating UK equity markets as a whole to a second-tier equity venue and suffocates the potential emergence of successors to the existing UK multinational powerhouses.

As such, we believe that flexibility regarding track record requirements should be maintained in a new market format to replace the Standard Listing segment. In many respects, we consider that having reduced track record requirements on the new mid-tier market format will be attractive to investors who want exposure to a variety of risk profiles and sectors.

Q28 What types of companies struggle to meet the existing requirement in the premium segment for a 3 year revenue track record covering 75% of the business? What alternatives could be considered for these companies?

The types of companies that struggle to meet the existing track record requirements, other than those that are currently able to gain dispensations, are certain technology and e-commerce companies, or other start-ups, with especially high growth over a short period of time. These are precisely the types of companies that the UK should seek to attract and foster their development, but are likely to experience difficulties in adhering to track record requirements.

Q29 Do you foresee any unintended consequences of these changes intended to modernise the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules?

No – we do not foresee any unintended consequences of these changes intended to modernise the Listing Rules and Disclosure Guidance and Transparency Rules. We also do not foresee unintended consequences with the proposed changes to the Prospectus Regulation rules in this consultation, but changes to these rules must be aligned with the developments in HM Treasury's current consultation on the UK Prospectus Regime Review.

Appendix 1

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-sized quoted companies.

The value of our members to the UK economy is vast – as is their potential. There are around 1,250 small and mid-sized quoted companies in the UK, representing 93% of all quoted companies. They employ approximately 3 million people, representing 11% of private sector employment in the UK, and contribute over £26bn in annual taxes[9].

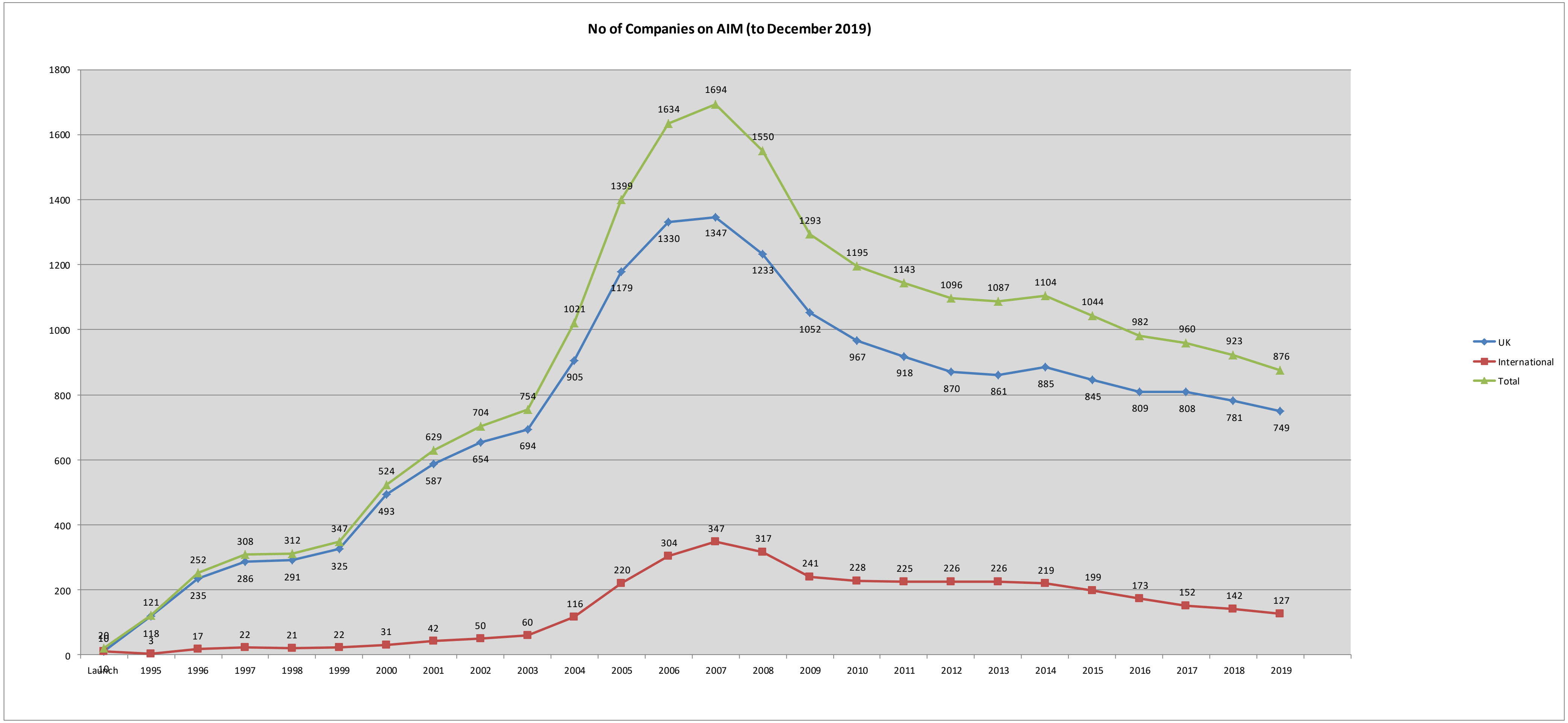
Our goal is to create an environment where that potential is fulfilled.

We identify the issues that matter to our members. We keep them informed. And we interact to build the understanding and connections that help our members stay ahead.

The influence we have, the influence we use, and the influence we grow, ensures that our members always benefit from the impact of our initiatives.

[9] Hardman & CO. and the QCA, May 2019, How small and mid-cap quoted companies make a substantial contribution to markets, employment and tax revenues, available at: https://www.hardmanandco.com/wp-content/uploads/2019/05/How-small-and-mid-cap-quoted-companies-make-a-substantial-contribution-to-markets-employment-and-tax-revenues.pdf

Appendix 2


No of Companies on AIM (to December 2019)
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1400
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200
0
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2002
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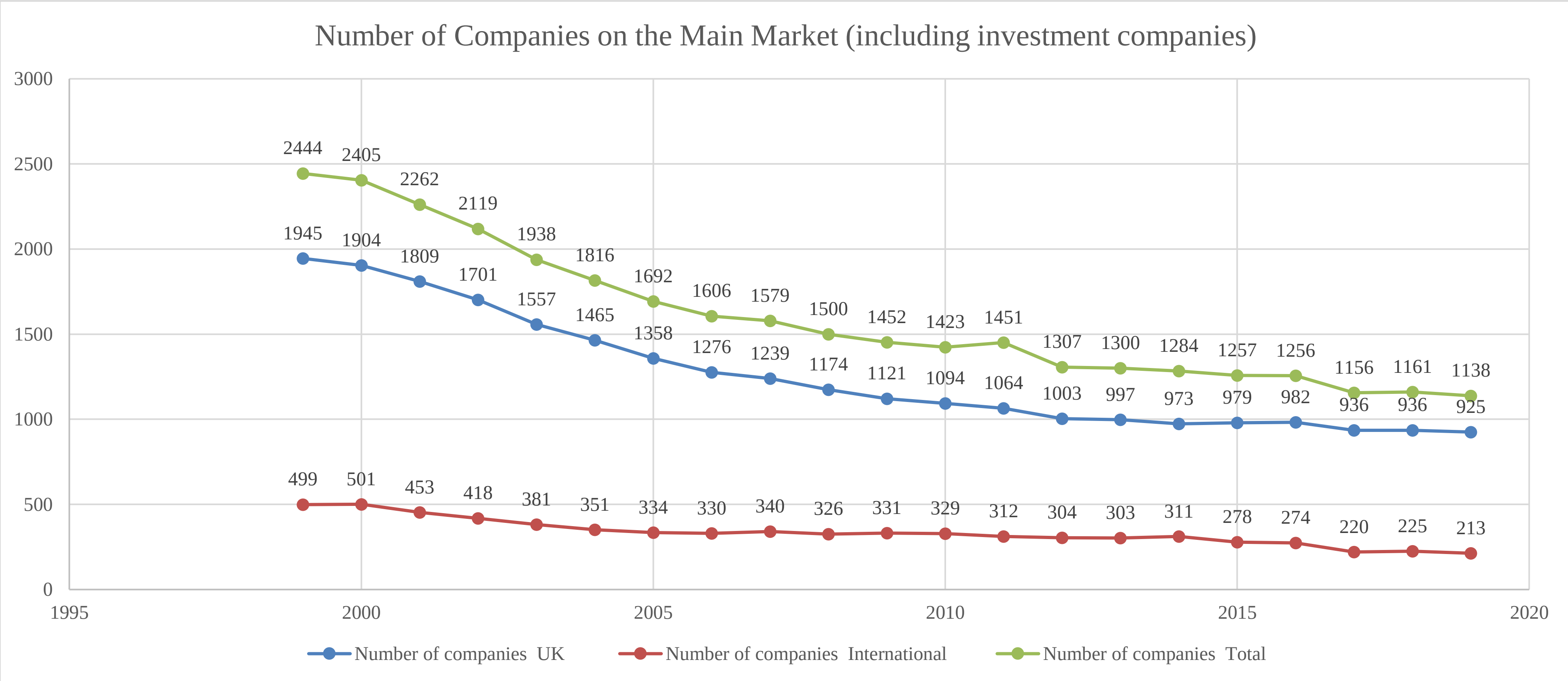
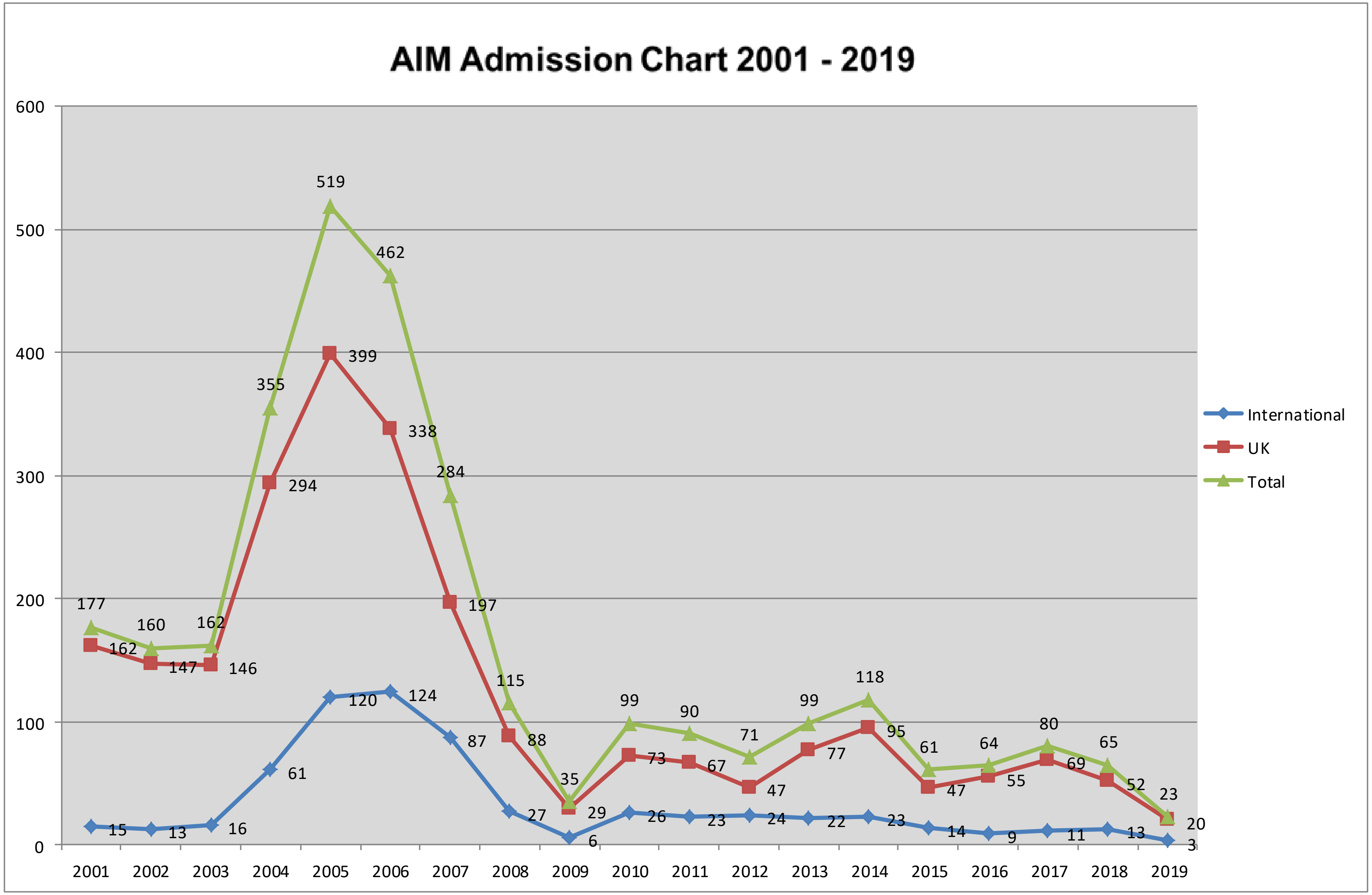
Appendix 3[10]

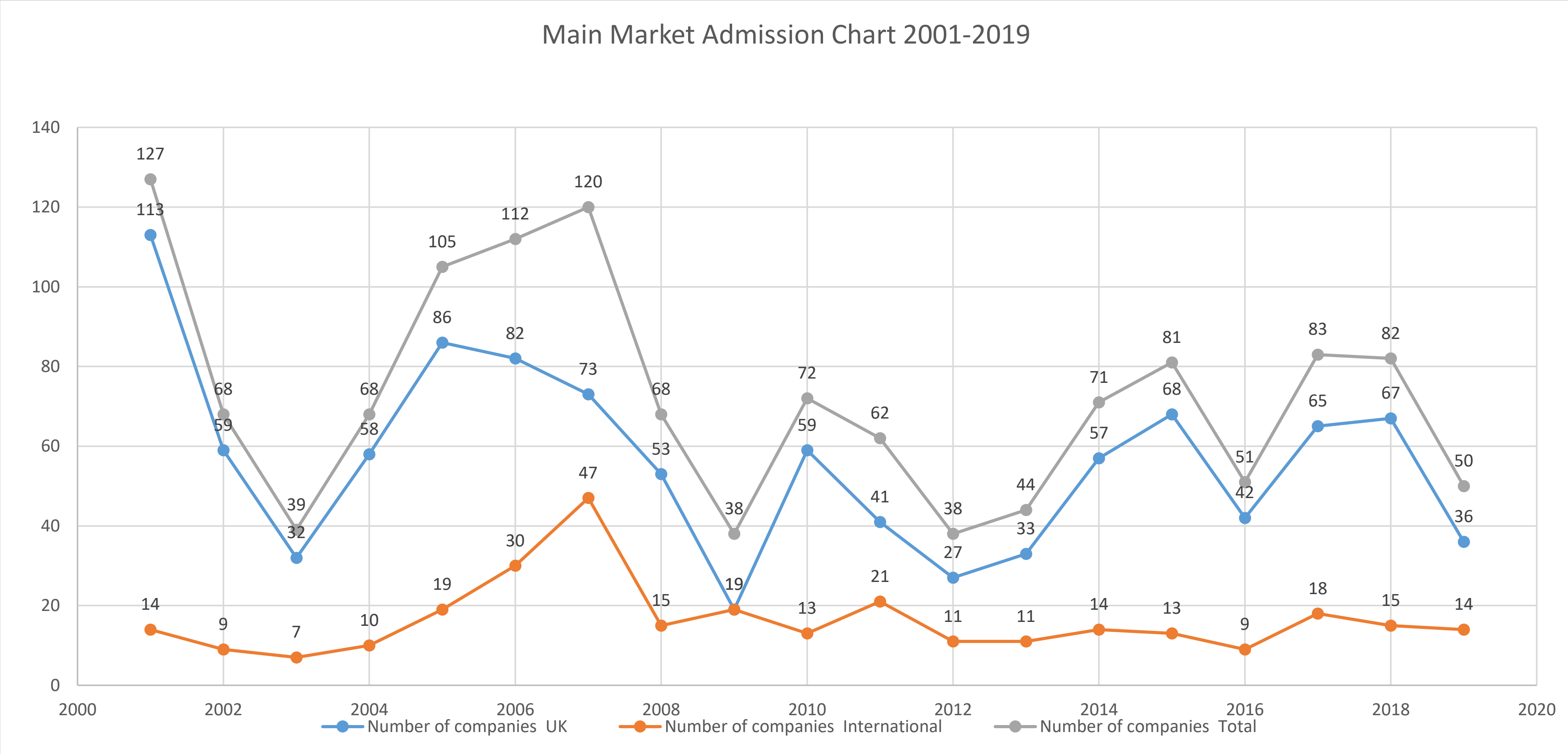


[10] Please note that these figures are gross and should be reduced by the number of investment companies that currently populate the market. Excluding these investment companies, the number of companies quoted on the Main Market has fallen by 60% since 1999. This compares with a 52% decline when financials are included. Furthermore, when looking below the largest 350 companies, the number of non-financial companies on the Main Market has fallen by 72% since 1999. By December 2019, the number had fallen to just 252. Further information can be found in a report by Hardman & Co. and the QCA here: https://www.theqca.com/article_assets/articledir_404/202121/Hardman-Insight-Are-public-market-closing-to-smaller-companies-May-2020.pdf

Appendix 4


AIM Admission Chart 2001 - 2019
600
500
400
300
200
100
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
International
UK
Total
177
160
162
355
519
462
284
115
35
99
90
71
99
118
61
64
80
65
23
162
147
146
294
399
338
197
88
29
73
67
47
77
95
47
55
69
52
20
15
13
16
61
120
124
87
27
6
26
23
24
22
23
14
9
11
13
3

Appendix 5



QUOTED COMPANIES ALLIANCE