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Tuesday 16 November 2021

Dear Mark,

UK Secondary Capital Raising Review

We welcome the opportunity to respond to the UK Secondary Capital Raising Review (the Review).

The Quoted Companies Alliance *Legal Expert Group* and *Primary Markets Expert Group* and *Secondary Markets Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, we believe that there are a number of structural reforms that should be considered to increase the effectiveness of the fund-raising process. This is especially the case for small and mid-sized quoted companies for whom the time and expense of making a rights issue is a significant disincentive to doing so.

We have summarised our key recommendations at the outset of this response document. We begin with a general list of recommendations for the Review to consider and then suggest a number of further recommendations with a specific focus on the Australian model.

Summary of General Recommendations

We would like to put forward the following to be considered by the review:

1. Offers to existing shareholders should be exempt from the prospectus requirement. This is consistent with the approach suggested by HM Treasury in its recent UK Prospectus Regime Review[1] and, if adopted, it will significantly reduce the time and cost associated with conducting a rights issue or other pro-rata offer[2].

[1] 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

[2] Whilst we have generally made reference to "rights issues" in this response, much of our commentary is equally relevant to pro-rata offers in general

2. The requirement for main market listed companies to produce a prospectus for any issue amounting to 20 per cent. or more of its issued share capital should be abolished and replaced with a rule which is more directly aligned with the concept of a material change of investment proposition.

3. The Review should include a recommendation for HM Treasury and/or the FCA to consult on increasing the Pre-Emption Group's 10 per cent. limit for non-pre-emptive offers to 20 per cent. on a permanent basis[3].

4. The required minimum offer period for rights issues should be reduced from the current 10 business days[4] to 5 business days.

5. Consideration should be given to reducing the 14 clear day notice period for general meetings to 7 clear days to reflect the greater ease of communication between companies and their shareholders which technology now permits.

6. Access to research by retail investors needs to be improved.

Recommendations with a specific focus on the Australian model

We strongly agree with the suggestion that we should look to other jurisdictions and, in particular, Australia (whose markets generally have a greater element of retail participation), for ideas as to how our domestic model may be improved for the benefit of the market as a whole.

We would highlight the following as specific areas for consideration:

1. Improving direct access to the beneficial holders of shares. The Australian "CHESS" system enables ready identification of the underlying beneficial owner through the use of so-called Holder Identification Numbers (HINs). This facilitates placements that include a pre-emption element and also facilitates the making of pro-rata allocations to existing shareholders as part of the placing process where there is no formal pre-emptive offer process (unofficial pre-emption). Our existing antiquated CREST system needs replacing or significant overhaul if we are to keep pace.

2. We mentioned the desirability of an increase in the limit for non-pre-emptive issues earlier. In this regard it should be noted that listed companies in Australia with a market capitalisation of less than A$300 million can issue up to 25 per cent. of their issued share capital in placements without regard to pre-emption rights. For larger companies, the limit is 15 per cent. We believe that the concept of a greater relaxation to accommodate smaller companies is sound provided that the market also adopts the use of one of more of the innovative ways to accommodate existing shareholders discussed in this paper. It is also consistent with the principle of "proportionality of regulation" which we espouse for our members, many of whom are in the small to mid-size range.

3. One of the most frequent complaints made during the "placing boom" of 2020 was that retail investors were losing out on the opportunity to invest in shares which were offered to institutions at

[3] The increase from 10 to 20 per cent. was adopted on a temporary basis as part of the COVID alleviation measures for capital markets.
[4] Listing Rule 9.5.6 (main market companies)

attractive discounts. The Australian concept of "Share Purchase Plans" (SPPs), which provide some protection to the pre-emption rights of small retail investors in what would otherwise non-pre-emptive placings, is one that we believe should be explored over here, as well as the use of one or more of the alternative pre-emptive offering structures which are discussed in our response to Question 3.

4. The use of trading halts (voluntary suspensions in trading in shares) is a feature of many public offers in Australia. Suspensions are used to address concerns over asymmetric information flow and enable investors who have not been wall-crossed in advance to participate in placings (including retail, sophisticated and international investors). The trading halt also serves to flag that a placing is occurring and can be a prompt to action by existing shareholders.

5. The Australian Stock Exchange (ASX) demands that company presentations are released to the ASX, and that results conference call recordings are readily available, which helps to aid transparency. An aligned point concerns the availability of research especially corporate sponsored research to investors, access is generally limited in the UK whereas in other jurisdictions sponsored research for small companies (often either paid for by the exchange or a consortium of brokers) is more readily available.

6. We would also highlight the tendency for Australian institutions (including private wealth managers) to keep a piece of funding available for small company placings, although this appears to be more of a cultural than a legally mandated matter.

7. We also suggest that the model of a staggered timetable for settlement of placings is one which should be considered for potential import into the UK. Staggered settlement sees subscriptions from institutions and sophisticated investors being funnelled into a first close with a subsequent second close being put through as a corporate action for retail investors.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

Tim Ward
Chief Executive

Q1 Can and should the overall duration and cost of the existing UK rights issue process be reduced? In what ways?

Yes – we believe that it is both possible and desirable for the overall duration and cost of the existing UK rights issue process to be reduced. Facilitating a quicker and more efficient process of raising further capital is highly important, and we welcomed Lord Hill's recommendation in his UK Listings Review to consider how best to improve this[5]. An efficient and effective rights issue process should reduce the cost and time required to raise capital whilst preserving the integrity of the market for the benefit of companies and their shareholders. In this context, we would also note the use of rights issues to provide a route for cash-strapped companies to raise additional capital – often at a considerable discount[6] when they really need it. For these companies, time is of the essence.

Reducing the Rights Issue Timetable

For all the reasons given above, we believe that reducing the timetable for conducting a rights issue is a goal worth pursuing.

The timetable is dictated by two elements. Firstly, the period required for the obtaining of any required shareholder approvals (currently a minimum of 14 clear days) and secondly, the minimum prescribed period for the take-up of the issue (for ease, we will refer to this as the offer period), which is currently 10 business days.

As regards the first element, given the improvements which technology has brought to the speed and overall ease of communications between a company and its shareholders, we believe that the 14-day notice period for general meetings could be shortened to 7 days without prejudicing the interests of shareholders. This will be all the more the case if our suggestions are taken forward in relation to shareholder identification so that the need for a chain of communications (with the inherent risks and inefficiencies which it brings) can be dispensed with. Given the UK's withdrawal from the European Union, there is no longer any impediment to the UK diverging from the constraints of the Shareholder Rights Directive II (SRD II), so the UK is at liberty to shorten the minimum notice period for general meetings.

As regards the second element, whilst reducing the minimum offer period below 10 business days will require a streamlining of the processes for the dissemination of information to shareholders, we believe that the industry is more than capable of adapting to this. We therefore recommend that consideration be given to a reduction of the minimum required offer period from 10 business days to 5 business days. Such a reduction would be consistent with a comment made by the Rights Issue Review Group (RIRG) in 2008, when it recommended that the minimum offer period be reduced from 21 to 14 calendar days. The RIRG commented that one week was the ideal period for a rights issue[7] but added that it did not consider that this would provide sufficient time for the market (at that time).

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[5] 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

[6] Listing Rule 9.5.10 restricts discounts for open offers, placings and other offers for subscriptions to 10 per cent. The restriction does not apply to rights issues given the compensatory mechanism for the benefit of shareholders which is incorporated in the structure.

[7] Rights Issue Review Group, November 2008, *A Report to the Chancellor of the Exchequer*, available at: https://webarchive.nationalarchives.gov.uk/ukgwa/+/http:/www.hm-treasury.gov.uk/d/pbr08_rightsissue_3050.pdf

It is now almost thirteen years since that report was produced and, given the significant technological and other developments that have taken place, we believe that the market now has the ability to conduct a rights issue accurately and efficiently in 5 business days.

In order to take this forward, we would suggest that a working group is convened comprising of industry stakeholders to consider the practical changes needed to ensure an orderly transition to the shorter period at the earliest practicable time. We anticipate that one of these changes may have to be an overhaul of the CREST system and we discuss this further under the heading "*Reducing the cost of the Rights Issue Process: Intermediated Securities"* and in our answer to Question 2 below.

Reducing the cost of the Rights Issue Process: Dispensing with the Prospectus Requirement

The requirement to produce a prospectus is a significant impediment to the use of rights issues in the market. The time and cost of drafting a prospectus, which needs to then be vetted and approved by the regulator, is the single most significant (and, in many cases, insurmountable) obstacle to small and mid-sized quoted companies when seeking to raise capital. We believe that this is one of the reasons why rights issues are comparatively rarely used and undocumented placings with institutional investors (and potentially a small number of retails investors) now account for the vast majority of new issues.

We therefore welcome the proposition that offers to existing shareholders should be outside the public offer regime which was put forward by HM Treasury in the UK Prospectus Regime Review. We believe that this exemption should apply both to companies on regulated markets and on multi-lateral trading facilities (MTFs). In such cases, no prospectus should be required, particularly as companies already admitted to UK securities markets will have been subject to the rigorous market disclosure requirements of the UK Market Abuse Regulation and the rules imposed by the market operators since the date when they were admitted to the market.

We request that full consideration should be given to whether rights issues could be conducted on the basis of an RNS announcement or simple circular which would include reference (and/or a link) to relevant RNS announcements on the company's website, as well as information relating to matters such as the terms of the issue, the rights application process and use of the proceeds.

Reducing the cost of the Rights Issue Process: Dispensing with the 20 per cent. Rule (main market companies)

We strongly support the abolition of the requirement for a prospectus to be prepared for new issues of 20 per cent. or more of a main market listed company's issued share capital. The existing disclosure regime is more than sufficient to inform existing shareholders of the extent of the issue, the capital raised and the purposes to which that capital is intended to be put. To overlay this with a 20 per cent. prospectus threshold makes little sense. The percentage figure is arbitrary and is to a large extent irrelevant in any assessment of whether a material change has occurred in the investment proposition presented by a company.

As a model for what might be considered to be appropriate, we would refer to the approach taken on AIM – namely that the requirement to issue a further admission document arises only when there is an issue of shares which amounts to a reverse takeover such that the investment proposition presented by the company is a radically different one to that which previously applied. This is both balanced and fair. Specifically, it recognises that in those circumstances the ongoing regulatory disclosure obligations are themselves insufficient to inform the market and it is therefore right and proper for the "base level" of market information to be revisited and refreshed.

Reducing the cost of the Rights Issue Process: Intermediated Securities

We believe that the long-established CREST system puts distance between shareholders and the companies in which they invest and presents unwarranted hurdles to an investor who simply wishes to have a voice at meetings and/or to vote his or her securities. Of more significance in the context of the current exercise, it can also impede participation by the ultimate owner of securities in fundraisings.

The current system of holding investments through a chain of financial institutions ("intermediated securities") is therefore in need of substantial overhaul. The complexity of the system creates a lack of transparency and engagement between the company and ultimate investor and encourages differential treatment of institutional and retail investors.

The core issue is that it is difficult to track ultimate shareholders within CREST and this prejudices their ability to participate in fundraisings in a cost-effective manner. In contrast, the Australian "CHESS" system enables ready identification of the underlying beneficial owner through the use of Holder Identification Numbers thereby removing a layer of complication and associated cost and contributing to the ease with which pre-emptive offers may be made on the local markets. We discuss this further in our response to Question 2, below.

Not only will improving the system of intermediated securities be beneficial for the secondary offering market in general but it will also greatly facilitate the implementation of proposals for the shortening of the rights issue timetable (discussed above). Aside from that, we believe that improvements here have the potential to increase shareholder engagement with the companies in which they are invested.

Pending any meaningful improvement to the current embedded intermediated securities regime, there are some shorter term "fixes" which may assist to remedy some of the current inefficiencies. One potential solution would be to ensure that intermediaries take responsibility for disseminating information to shareholders. To achieve this, brokers, online investment platforms and banks, amongst others would become subject to an obligation to arrange for ultimate holders of shares to receive all information that the company sends to its members. A similar proposal was put forward by the Law Commission in its Scoping Paper on intermediated securities[8]. We consider this to be a more practical and cost-effective solution than the imposition of such an obligation on the Company which would be a particularly unwelcome development given the effort, time and costs which could be incurred on the part of the Company.

Q2 Should new technology be used in the process to ensure that shareholders receive relevant information in a timely fashion and are able to exercise their rights and, if so, how?

The answer is, most definitely, yes. The use of technology could benefit the rights issue process in terms of speed, efficiency, and accessibility to shareholders. These are all recurring themes. However, the core principle remains that the lengthier and more complex the process, the greater is the potential for breakdown. Technology has the potential to eliminate inefficiencies and free up the interface between a company and its shareholder to the mutual benefit of both.

[8] Law Commission, November 2020, *Intermediated securities: who owns your shares?*, available at: https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jsxou24uy7q/uploads/2020/11/Law-Commission-Intermediated-Securities-Scoping-Paper-1.pdf

We have the following two suggestions to put forward to improve the utilisation of technology in order to ensure that shareholders can exercise their rights and receive information.

Beneficial shareholder identification

There is no comprehensive share register for quoted companies in the UK. Underlying beneficial shareholders in CREST nominee accounts are difficult for companies to identify. We maintain that CREST has outlived much of its usefulness as the market has evolved. Other countries – including Australia, which provides a role-model for a number of the points discussed in this response – have adopted different systems, supported by different technologies, which deliver better outcomes. We have already discussed the Australian model (CHESS), with its use of Holder Identification Numbers which can be used across multiple broker and nominee accounts and always provide a link to the underlying shareholders. Once an investor holds a share and is in the CHESS system, there is no paper certificate, and all information is contained in an electronic register.

We believe that modernisation of our securities holding and identification systems is essential if we are to make real improvements in our processes for making rights issues and other pro-rata offers and that time spent exploring the systems used elsewhere would be time well invested.

Distributed ledger technology

Distributed ledger technology, such as blockchain, should also be considered at it has the potential to facilitate the exercise of shareholders' rights and assist companies in communicating with their shareholders by reducing the complexity of the intermediated system and enhancing transparency and trust.

Through distributed ledger technology, companies can gain access to immutable and verifiable information on their shareholders, enabling them to gain access to their shareholders more easily and distribute information in a more timely manner. The adoption of distributed ledger technology also helps to ameliorate inequalities between different types of ultimate investor by harmonising systems of engagement through the offering of common digital engagement platforms.

Distributed ledger technology is a method of recording and sharing data across a network in a decentralised and transparent manner. A distributed ledger system comprises a digital database (the ledger) which is shared instantaneously among a network of computers (the nodes). When information is added to the database, each node holds an identical copy. The use of distributed ledger technology and how it can make improvements to the system of intermediated securities was discussed in more detail in the Law Commission's Scoping Paper on intermediated securities[9].

Q3 Are there fund-raising models in other jurisdictions that should be considered for use in the UK? For example, the use of cleansing notices in lieu of prospectuses on secondary capital raisings in Australia and also the Australian ANREO, AREO (or RAPIDS), SAREO and PAITREO structures?

We have limited our response to a consideration of the models used in Australia and we consider that there are aspects of those models which merit full consideration and discussion as part of the review process.

[9] Law Commission, November 2020, *Intermediated securities: who owns your shares?*, available at: https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jsxou24uy7q/uploads/2020/11/Law-Commission-Intermediated-Securities-Scoping-Paper-1.pdf

To assist in informing further discussion, we would highlight the following key features of the Australian secondary markets, some of which are structural and some of which are cultural:

- the use of trading halts (trading suspensions) when offers are announced is a key point in widening access to investors and enabling securities offers to be extended to retail shareholders;
- the existence of a greater proportion of private client investors active in the market, which, in turn, helps to drive liquidity;
- the absence of a prospectus requirement for issues being marketed to professional investors and/or sophisticated private clients;
- the inclusion of a retail brokerage element to most placings;
- the additional ability to use Share Purchase Plans (SPPs)[10];
- the ability of larger institutional funds to keep a proportion of funds available for smaller deals; and
- an effective system for identifying and communicating with ultimate shareholders.

In addition to the above, we would also discuss below some further aspects of the Australian model that work well.

Accelerated renounceable entitlement offers

Accelerated renounceable entitlement offers, such as AREOs, SAREOs, RAPIDs and PAITREOs have become a commonplace means of raising capital for companies listed on the Australian Securities Exchange (ASX). They are used for small, mid-sized and larger capital raising exercises and, to some extent, they have superseded traditional rights offers on that market.

Of the various models used on the ASX we would single out the so-called "renounceable accelerated pro-rata issue with dual-book-build" (RAPID) structure as one which is worthy of consideration in the Review.

RAPIDs operate with a first (institutional) and second (retail) close. The four stages are as follows:

1. Institutional entitlement offer – institutional shareholders can subscribe for all, part or none of their entitlement to shares at the offer price within two days.
2. Institutional book build – shares not taken by the institutional shareholders under the entitlement are offered to institutional investors. Any excess of the book build price over the offer price is paid to the institutional shareholders that did not take up their entitlement.
3. Retail entitlement offer – following the institutional offer, retail shareholders can subscribe for all, part or none of their entitlement at the same offer price as institutional shareholders.
4. Retail book build – shares not taken by retail shareholders under the entitlement are offered to institutional investors. Any excess of the book build price over the offer price is paid to the retail shareholders that did not take up their entitlement.

[10] An SPP is an offer to existing shareholders to purchase up to A$30,000 worth of stock at a pre-determined offer price. They are often paired with a placement to provide an equity solution to existing retail shareholders.

RAPIDs have a number of attractive features. In particular the company receives the majority of its funds in a much shorter timeframe than is the case with a conventional renounceable rights issue and retail investors are also catered for with a compensatory mechanism for entitlements not taken up (to address the discount element) within a longer time-frame.

We believe that this model could readily be adopted in the UK as a quick and efficient means of gaining access to capital without excluding retail investors.

Rights issue cleansing notice

A rights issue cleansing notice affords companies access to a simpler regime to make offers to existing shareholders under a rights issue without the need to lodge a prospectus. This will help to facilitate simpler offer documents and, potentially, shorter timeframes for the preparation of offer documents.

Trading halts (suspensions)

A trading halt works by temporarily suspending a company's trading activity at the request of the company. The securities are then placed into a "trading halt session state" which buys time for information to be disseminated.

We understand that trading halts are commonplace on the ASX, and are also used in Canada. They are an effective way of allowing time for the dissemination of information to retail, institutional and international investors and have contributed to broadening the take-up of fund raisings amongst all three investor constituencies.

In Australia, a trading halt may be granted to a company by making a formal request to the exchange and providing it with the following information:

- The reasons for requesting the trading halt.
- How long it wants the trading halt to last.
- The event it expects to happen that will end the trading halt.
- Confirmation that it is not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt or otherwise requested by the exchange.

We believe that HM Treasury should explore and consult on the potential of introducing the concept of one or two-day trading halts in the UK.

Q4 Has the greater transparency around short selling that was introduced after the financial crisis benefited the rights issue process and is there more that can and should be done in this area?

Yes – from a policy rationale standpoint. We believe that the greater transparency around short selling, specifically the public notification regime (now contained within the UK Short Selling Regulation (SSR)), will have benefited the rights issue process.

While short selling conducted in compliance with MAR and the SSR is legitimate behaviour which assists liquidity, the rights issue process is inherently vulnerable to illegitimate short selling. Non-disclosure of significant short positions can give the market a false and misleading impression of supply and demand in the securities being offered. It follows that improving the transparency of significant short selling positions in such shares will have greatly reduced the potential for abuse.

Having said this, given the relative rarity of rights issues on our domestic markets it is difficult to make an informed assessment of whether further measures are required, and we therefore do not propose to comment further.

Q5 Are there any refinements that should be made to the undocumented secondary capital raising process in light of recent experiences during the Covid-19 pandemic?

During 2020, many companies faced significant and unexpected funding needs due to the unprecedented Covid-19 pandemic. A number of alleviations were granted to listed companies and, contrary to initial market expectations, there was a boom in placings with over £42 billion raised through secondary issuances alone between March 2020 and December 2020[11]. This had an enormous positive impact in terms of protecting businesses and jobs.

The use of undocumented placings as the primary mechanism for raising funds was not without its critics. Some publicity was given to the plight of retail investors who were generally excluded from participating in these issues – and felt short-changed through not being able to share in the opportunity to acquire shares at what was often a considerable discount to trading price. The facility offered by PrimaryBid was used by those issuers who wanted to allow some level of participation. However, participation on that platform was, of necessity, limited to the €8 million threshold.

Other impediments and inefficiencies associated with the speed and amount in which companies could raise capital also became evident.

The 20 per cent. rule

Amidst the extreme market buoyancy, it often went unnoticed that many companies were limiting their offers to less than 20 per cent. of their existing share capital to avoid being saddled with the time and cost of producing a prospectus. The 20 per cent. rule deprived companies and investors of market opportunities and limited the amount of new capital being injected into the economy.

As we have mentioned earlier in this paper, we believe that the current review provides the perfect opportunity to abolish the 20 per cent. rule or at least replace it with a rule which is more directly aligned with the concept of a material change of investment proposition. If this issue is not addressed, we stand to lose a significant part of the benefit of the other reforms being proposed.

The Pre-emption Group limits

In 2020, during the Covid-19 pandemic, the Pre-Emption Group changed its guidance to temporarily recommend that investors consider supporting placings by companies of up to 20 per cent. of their issued share capital over a 12-month period. This was viewed favourably by many market participants, with many suggesting that the 20 per cent. figure should remain.

[11] Dealogic, February 2021

However, on 30 November 2020, the Pre-Emption Group reverted back to its pre-pandemic level, limiting non-pre-emptive offers to a maximum of 10 per cent. of issued share capital (5 per cent. for general corporate purposes and an additional 5 per cent. for specified acquisitions or investments).

The Pre-Emption Group did, however, express their desire to engage with HM Treasury and the FCA to improve the process of issuing share capital. We believe that this engagement is to be encouraged and that this Review should include a recommendation for HM Treasury and/or the FCA to consult on increasing the 10 per cent. limit.

Access to research

The market consensus is that, since its introduction in 2018, MiFID II has had a detrimental impact on small and mid-sized quoted companies. Most significantly, MiFID II has:

- Heightened the lack of availability of research on small and medium size quoted companies (SMQCs), both in terms of reducing the quantity and quality of research produced;
- Limited SMQC visibility, which has inhibited price discovery and reduced trading in their shares;
- Potentially contributed to greater share price volatility and higher-bid offer spreads;
- Led many to believe that it is the reason for the reduced number of brokers participating in the small-cap segment of the market;
- Impeded engagement between brokers and investors;
- Increased costs associated with raising finance coupled with a lack of institutional and retail investor appetite for the financial instruments of SMQCs; and
- Arguably had an adverse impact on liquidity within SMQC securities.

The QCA/Peel Hunt *Mid and Small Cap Survey12* demonstrates this. The percentage of investors that believe that MiFID II has had a negative impact on liquidity for small and mid-cap stocks has grown from 54% in 2018, to 63% in 2019, to 79% in 2020.

The survey, which took soundings from 110 small and mid-sized quoted companies and 155 UK-based fund managers, also found that:

- 54% of small and mid-cap companies experienced a decrease in the amount of research produced on their company under MiFID II;
- 82% of UK fund managers saw less research being produced on mid and small-caps as a result of MiFID II;
- 70% believed that MiFID II had had a negative impact on small and mid-cap liquidity;

[12] QCA/Peel Hunt, February 2020, Mid and Small-Cap Survey, available at: https://www.theqca.com/article_assets/articledir_395/197511/To_Be_or_Not_To_Be_QCA_PeelHunt_Survey_Booklet_2020.pdf

- 89% of investors and 90% of companies believe that there will be fewer brokers in the next three years; and
- 99% of companies believe that MiFID II will be part of the cause of fewer brokers.

The statistics speak for themselves. We believe that UK legislation should be amended to exempt SMQCs from certain aspects of the regulation in line with our overriding principle of proportionality of regulation.

The ongoing impact of COVID-19 and the UK's withdrawal from the EU make it even more important to alleviate unnecessary burdens, increase visibility and provide liquidity opportunities for UK PLC and the retail investment community is of paramount importance in creating liquidity and providing market buoyancy.

We therefore encourage the Review to consider ways in which the existing barriers to the distribution of broker research is restricted to retail investors can be removed whilst maintaining proportionate safeguards. At present the issue is compounded by the fact that, where a broker is charging institutions for its research, it is difficult to justify that charge if the research is also being distributed free of charge to retail investors. Any solution will need to accommodate this, and other commercial issues presented by the current rules.

A solution which we believe should be included for consideration in the Review is the use of centrally funded research for small and mid-caps. This approach appears to have had success elsewhere, such as in Japan, where the exchange pools funds to ensure small and mid-caps have independent research conducted on them. The focus would be on ensuring ready availability of research that is easily digestible for the retail market whilst also being impartial.

Q6 Are there any other recommendations or points made by the Rights Issue Review Group in 2008 that should be investigated further?

Whilst we have drawn out the principal issues in this paper we would encourage a general review of all the recommendations made by the Rights Issue Review Group in 2008 which have not yet been implemented.

Q7 In what other ways should the secondary capital raising process in the UK be reformed?

We believe that the secondary capital raising process should be reformed in the following ways:

Making the placement process more efficient

Once again, we return to the Australian model. Companies listed on the ASX with a market capitalisation of less than A$300 million are able to issue up to 25 per cent. of their issued capital in placements without shareholder approval[13]. Additionally, "unofficial pre-emption rights" can be offered by a company's brokers in a placing as it is easier to see who is on the share register. This process, along with easier shareholder identification, means that shareholders have a degree of indirect protection from dilution as it is easier for brokers to facilitate shareholder participation in placings.

The model is supported by a more retail investor-friendly market sentiment; issuers risk being heavily censored by retail investors if they do not take reasonable steps to honour the pre-emption rights of their shareholders.

[13] All companies are able to place up to 15 per cent. of their issued stock without shareholder approval, but companies with a market capitalisation below A$300 million may place an additional 10 per cent

In addition, in Australia, there is not a requirement to produce a prospectus when marketing a placing to institutions or sophisticated investors. We also believe that this approach should be adopted in the UK in addition to the general exemption from the prospectus requirements for offers to existing shareholders which we strongly support (and which is discussed earlier in this paper).

Availability of Company Presentations

The Australian Stock Exchange requires company presentations to be released to it and made available to the market. Recordings of conference calls are also required to be made available. We recommend that a similar approach is considered over here to provide increased transparency and encourage greater shareholder engagement.

Regulatory Information Services (RIS) announcements

RIS announcements are currently required to be issued in a Word document. This is not necessary and can potentially create additional costs for companies (as images are subject to additional charging). Other formats should be encouraged. For example, the Portable Document Format (PDF) allows for the incorporation of a broader range of information than plain text and is, we believe, preferable as a medium for the clear and concise presentation of relevant information.

Appendix A

The Quoted Companies Alliance *Legal Expert Group*

Mark Taylor (Chair)	Dorsey and Whitney
Maegen Morrison (Deputy Chair)	Hogan Lovells International LLP
Stephen Hamilton (Deputy Chair)	Mills & Reeve LLP
Danette Antao	Hogan Lovells International LLP
Paul Arathoon	Charles Russell Speechlys LLP
Naomi Bellingham	Practical Law Company Limited
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Paul Cliff	Gateley
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Jaspal Sekhon	Hill Dickinson LLP
Donald Stewart	Kepstorn
Gary Thorpe	QCA Director
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Samantha Harrison (Chair)	Grant Thornton UK LLP
Azhic Basirov (Deputy Chair)	Global Alliance Partners Financial Limited

Colin Aaronson	Grant Thornton UK LLP
Stuart Andrews	finnCapp PLC
Andrew Buchanan	Peel Hunt LLP
Richard Crawley	Liberum Capital Ltd
David Foreman	Zeus Capital
Chris Hardie	W.H. Ireland Group PLC
Stephen Keys	Cenkos Securities PLC
Katy Mitchell	W.H. Ireland PLC
Nick Naylor	Allenby Capital
Jeremy Osler	Cenkos Securities PLC
Niall Pearson	Hybridan LLP
Mark Percy/Dru Danford	Shore Capital Group Ltd
George Sellar	Peel Hunt LLP
Paul Shackleton	Arden Partners PLC
James Spinney	Strand Hanson
Stewart Wallace	Stifel
Christopher Wilkinson	Numis Securities Ltd
David Worlidge	Allenby Capital

The Quoted Companies Alliance *Secondary Markets Expert Group*

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Fraser Elms	Herald Investment Management Ltd
William Garner	Charles Russell Speechlys
Jon Gerty	Peel Hunt LLP
Mitchell Gibb	Stifel
Keith Hiscock	Hardman & Co.
James Lynch	Downing LLP
Jeremy Phillips	CMS
Katie Potts	Herald Investment Management
Simon Rafferty	Winterflood Securities Ltd
James Stapleton	Winterflood Securities Ltd

Stephen Streater	Blackbird PLC
Peter Swabey	ICSA