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Dear FCA colleagues,

Primary Markets Effectiveness Review CP23/31: Sponsor-related questions

We welcome the opportunity to respond to your Primary Markets Effectiveness Review CP23/31.

The Quoted Companies Alliance *Primary Markets*, *Secondary Markets* and *Legal Expert Groups* have 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 welcome the FCA's proposals for widening the sponsor competency requirements in the new listing regime. However, we believe that the proposals would benefit from being more extensive so that the new regime ensures that there is a sufficiently large pool of potential sponsors on the new ESCC segment given the increased number of issuers that will be required to seek such expertise. It is our view that the FCA should specify the competence criteria for relevant transactions to include prospectus work and admissions to trading conducted on AIM, Aquis and the Standard list, as well as takeover work, at the market capitalisation set out in LR2.2.7R where such work has necessitated an understanding of the relevant rules, guidance and ESMA publications. This will ensure that companies on the new segment will have access to a broader range of sponsors and their expertise to reflect the diverse nature of the businesses that will be listed under the proposed rules. Our view is that a non-exhaustive list of relevant transactions for sponsor competence should be provided to give clarity to market participants, as is currently the case on AIM for Nominated Advisers, for example.

In addition, the removal of the sponsor's role from class 1 transactions and upcoming changes to the prospectus requirements for secondary issuances under POATR will result in fewer sponsor declarations being submitted and therefore fewer opportunities for demonstrating sponsor competence unless the factors listed above are considered as relevant experience.

Furthermore, clarity is needed on whether a sponsor declaration submitted prior to December 2021 at a market capitalisation below the current £30million threshold would be accepted under the sponsor competence requirements proposed in this consultation.

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

Yours sincerely,

A handwritten signature in blue ink that reads "James Ashton".

James Ashton
Chief Executive

Q11 Do you agree with our proposed approach to when companies should be required to appoint a sponsor on significant transactions (ie, limited to where issuers apply to the FCA to seek individual guidance, waivers or modifications)?

Given the expanded range of companies that sponsors are likely to have to cover under the new regime, we welcome the FCA's stated aim of reducing the number of occasions when a sponsor is appointed post-IPO. However, there is a concern that the trigger for a company to seek advice from a sponsor firm, albeit in a non-sponsor role, is not sufficiently clear. There is scope for divergent patterns of behaviour to emerge and concerns as to whether 'encouragement' from the FCA to seek advice from sponsor firms is persuasive enough.

From the perspective of sponsor competence, we would argue that not just the non-sponsor guidance but also the sponsor role on providing individual guidance should be formally acknowledged as relevant experience.

This is important to QCA members as we believe that, if the proposals as set out in 18.7 – 18.8 of this consultation are kept as they are, the pool of sponsors will not be large enough to support the broadened and diverse range of companies on the new ESCC segment.

Please see our response to Q55 for a more detailed discussion on how the sponsor competence requirements should be expanded.

Q16 Do you agree with how we have framed the sponsor role for related party transactions in the commercial companies category?

Please see our response to Q11.

Additionally, the provision of an opinion by a sponsor on a related party transaction should be formally acknowledged as relevant experience for sponsor competence.

Q20 Do you agree that an issuer in the commercial companies category should be required to appoint a sponsor in connection with its further share issuance prospectus and related application for listing?

Broadly, we are in favour of the sponsor role being retained where a prospectus is required for a further issuance. We would note that the review of the POATR is still to be concluded and we anticipate there being reduced requirements for such prospectuses.

Please also see our response to Q55.

Q51 Do you agree with our proposed approach and clarification around sponsors' role at the listings gateway for the relevant categories?

Broadly, we are in favour of the changes proposed here provided that our recommendations set out in Q55 are taken up and a broader range of sponsor competence requirements are established by the FCA.

Q52 Do you agree with our approach to the retained sponsor confirmations to the FCA on post-IPO transactions? If not, please explain your preferred alternative approach and the reasons for it.

Broadly, we are in favour of the changes proposed here provided that our recommendations set out in Q55 are taken up and a broader range of sponsor competence requirements are established by the FCA.

Q53 Do you agree with our proposals to clarify the role of sponsors under the UKLR?

Broadly, we consider the FCA's proposals to be proportionate in terms of the FCA's expectations of sponsors and the explicit acknowledgement that sponsors are experts of the listing regime, and not experts on all areas impacting a listed company.

In light of our concerns about having a wide range of sponsors under the new regime who are focused on servicing the needs of small and mid-cap companies on the Official List (in the ESCC and in other categories), we emphasise the need for proportionality when the FCA is looking at sponsor competence. We would welcome clear guidance on how sponsors can comply with record-keeping requirements and systems and controls to encourage firms to consider sponsor status.

Q54 Do you agree with our proposed modifications to the principles for sponsors? If not, please explain why.

We are in favour of this modification.

Q55 Do you agree with our proposed changes to sponsor competence requirements?

We believe that it is crucial that the ESCC segment attracts a wide range and diverse pool of small and mid-cap companies. For this to occur, it must be matched with a regime that enables a diverse group of sponsors who are commercially interested in representing these companies. This is essential to getting these companies to list (and remain listed) on the new segment. Consequently, the QCA is supportive of broadening the competence requirements for sponsors.

However, while we agree with the FCA's stated objective to expand the sponsor competence requirements, for example, by extending the sponsor declaration requirement from 3-years to 5-years, we do not feel that the changes go far enough in enabling new firms to attain sponsor status.

The FCA's proposals require greater clarity on what will be considered as relevant experience for sponsor competence. Our interpretation of the FCA's proposal that 'certain corporate finance advisory services' relating to securities admitted on the UK RIE would not bring within scope work as a nominated adviser (AIM) or corporate adviser (Aquis Growth Market).

As a minimum, we believe that sponsor competence should be clearly stated to include all work conducted on AIM (including retained nominated adviser roles, as these would involve similar services as provided on related party transactions and guidance on class test application and knowledge of associated ESMA publications), as well as takeover work at the relevant market capitalisation stated in paragraph 18.8 of this consultation. In addition, in other circumstances where a prospectus has been produced for a new or further issuance (for example in respect of a Standard List, AIM or Aquis company) then this work should also be included where this has been undertaken at the relevant market capitalisation and where appropriate corporate finance advice is provided.

A non-exhaustive list of specific examples of relevant transactions should be given to provide clarity to market participants around the qualifying criteria. For example, AIM sets out what is regarded as a qualifying transaction for Nominated Advisers.

Furthermore, we believe the FCA should provide clarity on whether sponsor declarations submitted prior to December 2021, as well as those submitted during the transition period up until June 2023, will be considered

for the sponsor competence requirements if they were submitted at a market capitalisation under £30 million. Given that, prior to the implementation of Listing Rule changes in 2021, sponsor declarations would have been provided for new issues of shares at a market capitalisation of at least £700,000, their inclusion (provided they were submitted within the 5-year period) under the sponsor competence requirement would result in a broader pool of potential sponsors being accepted which we believe would be a positive step in ensuring sufficient provision on the new market segment, helping to encourage a vibrant pool of small and mid-cap companies.

It is the view of some of our members that the market capitalisation threshold should be lowered to sub £30 million for prospectus work on the Standard List and other admissions to UK RIEs under the sponsor competence requirements. While extending the sponsor regime to a wider scope of companies under the single segment is welcome, it is likely, as stated above, that there will not be the necessary number of sponsors who find this work commercially viable and thus unable to maintain or obtain a sponsor license. As such, there is a risk that there will not be enough sponsors for the new ESCC segment's small and micro-cap companies which could result in forcing them off the new ESCC category.

Appendix A

The Quoted Companies Alliance *Primary Markets Expert Group*

Samantha Harrison (Chair)	Grant Thornton UK LLP
Colin Aaronson	Grant Thornton UK LLP
Stuart Andrews	Zeus Capital
Mark Brady	Spark Advisory Partners Limited
Andrew Buchanan	Peel Hunt LLP
David Coffman	Novum Securities Limited
Richard Crawley	Liberum Capital Ltd
Dru Danford	Liberum Capital Ltd
David Foreman	Zeus Capital
Chris Hardie	W.H. Ireland Group PLC
Stephen Keys	Cavendish
Nick McCarthy	Shoosmiths LLP
Katy Mitchell	W.H. Ireland PLC
Hayley Mullens	Radnor Capital Partners Limited
Nick Naylor	Allenby Capital
Claire Noyce	Hybridan LLP
Jeremy Osler	Cavendish
Niall Pearson	Hybridan LLP
Mark Percy	Shore Capital Group Ltd
Oliver Pilkington	Shoosmiths LLP
George Sellar	Peel Hunt LLP
James Spinney	Strand Hanson

The Quoted Companies Alliance *Secondary Markets Expert Group*

Amber Wood (Chair)	Liberum Capital Ltd
Jasper Berry	Cavendish
Andrew Collins	Charles Russell Speechlys LLP
Sunil Dhall	Peel Hunt LLP
Nick Dilworth	Winterflood Securities Ltd
Fraser Elms	Herald Investment Management Ltd
Richard Fenner	Euroclear UK & International
William Garner	Charles Russell Speechlys LLP
Jon Gerty	Peel Hunt LLP
Alex Giacomazzi	Winterflood Securities Ltd
Mitchell Gibb	Stifel
Keith Hiscock	Hardman & Co

Niall Pearson	Hybridan LLP
Jeremy Phillips	CMS Cameron McKenna Nabarro Olswang LLP
Katie Potts	Herald Investment Management Ltd
Chris Robinson	Peel Hunt LLP
Stephen Streater	Blackbird Plc
Peter Swabey	C/o The Chartered Governance Institute

The Quoted Companies Alliance *Legal Expert Group*

Mark Taylor (Chair)	Dorsey & Whitney (Europe) LLP
Stephen Hamilton (Deputy Chair)	Mills & Reeve LLP
Paul Airley	Fladgate LLP
Danette Antao	Hogan Lovells International LLP
Paul Arathoon	Charles Russell Speechlys LLP
Kate Badr	CMS
Naomi Bellingham	Practical Law Company Limited
Ross Bryson	Mishcon De Reya
Caroline Chambers	Simmons & Simmons LLP
Philippa Chatterton	CMS
Paul Cliff	Gateley
Matt Cohen	Stifel
Jonathan Deverill	DAC Beachcroft LLP
Sarah Dick	Stifel
Tunji Emanuel	Lexis Nexis
Kate Francis	Dorsey & Whitney (Europe) LLP
Claudia Gizejewski	LexisNexis
Sarah Hassan	Practical Law Company
David Hicks	Simmons & Simmons LLP
Kate Higgins	Mishcon De Reya
Nicholas Jennings	Locke Lord LLP
Martin Kay	Blake Morgan
Jonathan King	Osborne Clarke
Jennifer Lovesey	KPMG
Nicholas McVeigh	Mishcon De Reya
Catherine Moss	Shakespeare Martineau LLP
Hilary Owens Gray	Practical Law Company Limited
Kieran Rayani	Stifel
Jaspal Sekhon	Hill Dickinson LLP
Patrick Sarch	Hogan Lovells LLP
Robert Wieder	Faegre Drinker LLP
Sarah Wild	Practical Law Company Limited
John Young	Kingsley Napley LLP