Financial Conduct Authority

Discussion Paper DP17/2

Review of the Effectiveness of Primary Markets: The UK Primary Markets Landscape

February 2017

Contents

We are asking for comments on this Discussion Paper by 14 May 2017

You can send them to us using the form on our website at:
www.fca.org.uk/dp17-02-response-form.

Or in writing to:

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Abbreviations used in this paper

COLL	Collective Investment Schemes sourcebook
CP	Consultation Paper
DP	Discussion paper
EEA	European Economic Area
ETF	exchange traded fund
EU	European Union
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSAP	Financial Services Action Plan
FSMA	Financial Services and Markets Act 2000
GAAP	generally accepted accounting principles
GEM	Global Exchange Market
GDR	global depositary receipt
HMRC	HM Revenue and Customs
IFRS	International Financial Reporting Standards
IPO	initial public offering
LSE	London Stock Exchange Group plc

MAR	Market Abuse Regulation (Regulation (EU) No 596/2014)
MTF	multilateral trading facility
REIT	Real Estate Investment Trust
PD	Prospectus Directive (2003/71/EC)
PSM	Professional Securities Market
RSE	recognised stock exchange
SGX	Singapore Exchange Ltd
SPAC	special purchase acquisition company
SRBC	scientific research based company
TD	Transparency Directive (2004/109/EC)
UCITS	undertakings for collective investment in transferable securities
UKLA	UK Listing Authority

1. Overview

Introduction

1.1 The Financial Conduct Authority (FCA) has the overarching strategic objective of ensuring that markets function well. An important part of that is ensuring the UK's primary markets remain effective. Primary markets support the wider economy by bringing together investors seeking investment opportunities and issuers that want to access deep and liquid pools of capital to finance their businesses. We have an important role in ensuring the UK's primary markets remain effective in meeting these needs.

1.2 In our 2016/17 Business Plan, we committed to review the structure of the UK's primary markets to ensure they continue to serve the needs of issuers and investors. The overall outcome we want to achieve is an increase in the efficiency and effectiveness of primary markets to ensure they meet those needs[1]. We are now publishing this Discussion Paper (DP) and a Consultation Paper (CP) to progress this aim.

1.3 In this DP we are looking to prompt a broad discussion about the effectiveness of the UK primary markets landscape. We assess effectiveness by reference to the principal purpose of primary markets: providing access to capital for issuers and investment opportunities for investors, recognising that both groups have distinct needs. We have sought to structure this discussion based on the initial feedback we received from stakeholders as part of our review of the effectiveness of primary markets. In doing so we look firstly at the structure of the listing regime. We then consider areas that may not be properly accommodated by the current primary market framework.

1.4 Our initial discussions with stakeholders also identified a number of areas where immediate technical enhancements could be made to the listing regime to increase its effectiveness. We are therefore publishing a CP alongside this DP to address these issues. The CP is entitled 'Review of the Effectiveness of Primary Markets: Enhancements to the Listing Regime' and has been published on our website here[2].

Background

1.5 As various factors contribute to the effectiveness of primary markets, a comprehensive study of this issue would need to discuss, among other things, the impact of prudential regulation, tax policy, asset allocation decisions and fundamental demographic and social trends. In this paper, we have focused on those areas we can directly influence or shape, and as a consequence much of our discussion is about the listing regime. However, where we have identified potential

1 www.fca.org.uk/publication/corporate/business-plan-2016-17.pdf (page 28)
2 www.fca.org.uk/publication/consultation/cp17-04.pdf

gaps in the UK's primary markets, we also talk about regulatory or market structures that sit outside the listing regime as it is currently structured.

1.6 In addition to the CP and DP, we are currently working on, or have completed, a number of other workstreams which are relevant to our policy aims in the primary markets. Some of these have helped shape the proposals in this paper. These are:

- our investment and corporate banking market study, which culminated in October 2016 with publication of a Final Report (MS15/1.3)
- our work contributing to negotiation of the new Prospectus Regulation (PD3)
- working with market participants to examine options for improving the availability of information in the UK initial public offering (IPO) process, a topic which we will consult on shortly
- working to improve the effectiveness of the UK's primary debt markets to better meet the needs of issuers and investors, including through the UK Debt Market Forum, as detailed in our report "Practical measures to improve the effectiveness of UK primary listed debt markets"[3]

Current and future policy context

1.7 We began this work, and held the majority of our discussions with stakeholders, before the referendum of 23 June 2016 on the UK's membership of the European Union (EU). We have developed the policy and discussion material in this paper in the context of the existing UK and EU regulatory framework. We will keep these proposals and discussions under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework, including as a result of negotiations following the UK's vote to leave the EU. As part of this, we will maintain an open dialogue with market participants on all of the issues set out in this paper as a means of helping to ensure that we continue to meet our strategic objective of making markets work well.

Stakeholder engagement and views

1.8 To get our review underway, we met with a range of stakeholders, including issuers, investors, sell-side firms and advisers, to seek initial views on potential enhancements to the UK primary markets framework. These discussions were wide ranging, driven in a large part by the stakeholders, and included:

- the main drivers for issuers wanting to access UK primary markets
- barriers to listing
- the role of standard listing, and the accommodation of overseas issuers
- whether the concessionary routes to premium listing for certain sectors remain appropriate
- whether there should be additional concessions for other sectors

3 In November 2015, the FCA began a series of meetings with a specially convened group of stakeholders in UK primary debt capital markets, the UK Debt Market Forum. See our report on the UK Debt Market Forum at: www.fca.org.uk/publication/newsletters/practical-measures-improve-effectiveness-uk-primary-listed-debt-markets.pdf.

- whether the current market structure provides effective support for provision of scale-up capital and long-term investment, particularly for science and technology companies, and
- whether there is a role within the current structure for a UK debt MTF to facilitate primary issuance

1.9 In Chapter 2 we describe in more detail the main themes that were highlighted by these discussions. They have informed the issues on which we have focused in this DP and have contributed to some of the proposed changes to our rules and guidance set out in the accompanying CP.

Summary of this discussion

The primary market context

1.10 In order to provide the context for the discussion in this DP, we provide an overview of the UK's primary markets, the place within this of the listing regime, and of our own regulatory role. We have also taken this opportunity to set out some key trends in the UK's primary equity markets, to ensure the discussion is based on a robust and clear foundation. Our key findings are set out in Chapter 2, with a more detailed analysis in Appendix 1.

The current split between standard and premium listing

1.11 The key components for inclusion in the premium listing segment are broad equivalence between economic ownership and voting rights (typically expressed through single-class share structures), pre-emption rights and the need to demonstrate an independent business. Our discussions with stakeholders have provided strong endorsement for the existing regime. It is widely regarded as having evolved in line with market feedback to serve the interests of investors and issuers. It is also seen as an example of high corporate standards leading to high levels of investor confidence and, in turn, a vibrant market.

1.12 However, we have identified some important questions about whether the boundary of the premium listing regime is appropriately drawn, and whether re-drawing that boundary might improve effectiveness for issuers and investors. We summarise the issues below and discuss them in more detail in Chapter 4.

Overseas issuers

1.13 The listing regime currently offers overseas issuers a choice of three routes to access UK markets. Overseas issuers prepared to ensure their governance arrangements meet UK requirements can apply for a premium listing; if that route is inappropriate, issuers can apply for a standard listing of global depositary receipts (GDRs). The alternative that sits between these options is a standard listing of equity shares.

1.14 Our discussions with stakeholders, and our experience of IPOs since the segmentation of listing was introduced, suggest that the listing regime could be usefully reconsidered for overseas issuers. We have observed very few issuers seeking a standard listing of equity shares because issuers for which premium listing is an inappropriate option overwhelmingly favour a standard listing of GDRs.

1.15 However, GDRs are securities generally targeted at sophisticated investors and may therefore be inaccessible to a large body of investors who might wish to invest in mature overseas companies. A number of stakeholders have also questioned whether there should be a route to listing for overseas companies that wish to observe higher standards of conduct, though UK corporate structures required for premium listing may be inappropriate.

Exchange traded funds (ETFs)

1.16 When the premium and standard listing segments were created, we decided that premium listing should be the exclusive route to market under the listing regime for investment trusts and investment companies. Taking into consideration the broader regulatory framework which those issuers operated within, we considered this to be necessary to ensure appropriate levels of investor protection.

1.17 We remain of the view this decision was correct, and note that there are no significant calls for it to be revisited. However, we would like to discuss further whether requiring premium listing is unnecessarily demanding for ETF issuers when compared with the limited benefits provided by the requirements in Chapter 16 of the Listing Rules.

Standard listing

1.18 A broader question that stakeholders raised, and which we discuss in this paper, is whether standard listing is sufficiently understood or valued by issuers and investors to be effective. Closely linked to this question is whether the current split of listing into standard and premium segments is too binary and could be revisited to produce more effective outcomes.

Potential gaps in the UK's primary market framework

1.19 When we take a broader view, we see potentially more fundamental gaps that may not be properly accommodated by the current market structure.

Supporting the growth of science and technology companies

1.20 A number of stakeholders raised concerns about the effectiveness of the UK's primary equity markets in providing growth capital, particularly for early-stage science and technology companies. In its Green Paper published in January, 'Building our Industrial Strategy'[4], HM Government also explored this issue, noting the argument put forward by supporters of dual class share structures that the enhanced voting rights they give to companies' founders allow those individuals to focus more on long-term performance, and less on short-term market pressures.

1.21 However, the Green Paper also noted that institutional investors and shareholder representative groups in the UK have opposed dual class shares structures due to the risk they perceive to high-quality corporate governance and the interests of minority shareholders. At present under the Listing Rules we permit such structures only for companies with a standard listing of shares.

1.22 We are keen to explore further the effectiveness of the UK's primary equity markets in providing patient capital, and particularly to discuss the extent to which different primary market structures might provide a solution, and the role primary market regulation might play in helping to shape those structures. We discuss this issue further in Chapter 4.

The listing of debt securities and debt MTFs

1.23 In our report of the UK Debt Market Forum, we committed to give further consideration to whether there is a role for a UK primary debt MTF market, similar to those in Luxembourg and Ireland, and, if so, how it should be structured. We take this discussion forward in this paper, and set out some options for further consideration. This issue is discussed in more detail in Chapter 5.

4 www.gov.uk/government/uploads/system/uploads/attachment_data/file/586626/building-our-industrial-strategy-green-paper.pdf

Retail access to debt markets

1.24 A number of market participants have called for measures to support greater retail participation in debt markets, particularly in relation to routine issuance by established issuers. Some stakeholders have suggested our current approach to requiring that prospectuses relating to retail issuance be easily analysable and comprehensible has the unintended outcome of discouraging issuers from issuing such securities to retail investors. We explore this further in Chapter 6.

Other potential areas for reform

1.25 We have sought to structure this paper based on the initial feedback we received from stakeholders. This has resulted in a focus on specific areas within a wide-ranging subject. We remain keen to receive feedback on other areas relating to the UK's primary markets not mentioned in this paper where stakeholders consider that enhancements could be made.

> **Q1.1: Are there any issues or aspects of the listing regime not covered in this paper that you think we should be discussing? If so, please provide more detail.**

Who does this document affect?

1.26 This paper will be of interest to:

- UK and overseas companies with UK-quoted securities, or considering a UK listing of their securities
- firms advising issuers on the issuance of UK-quoted securities
- firms and other persons advising investors in UK-quoted securities
- firms or persons investing or dealing in UK-quoted securities

Is this of interest to consumers?

1.27 This paper raises issues regarding the effectiveness of the UK primary markets in meeting the needs of issuers and investors. It will be of interest to consumers who deal and invest in UK-quoted securities either directly or through institutions. It will also be of interest to issuers in their capacity as consumers of sponsor services.

Next steps

1.28 We welcome responses to the questions posed in the Annex of this DP by 14 May 2017. Please send your views to dp17-02@fca.org.uk. We would also welcome responses to the questions set out in CP17/4, which should be submitted to cp17-04@fca.org.uk.

1.29 Once the discussion period has closed we will consider all responses and provide feedback. Should we choose to advance any specific policy proposals as a result of the feedback to this DP, we will issue a further consultation paper.

2.
The primary market context

Introduction

2.1 In this chapter we set out the broad context for the issues covered in this paper. We start with an overview of the UK's primary markets landscape, the listing regime, and our regulatory role. We then summarise the key themes that emerged from our discussions with stakeholders and the data analysis we have undertaken.

The UK's primary markets and the role of the FCA's Listing Regime

2.2 The UK's primary markets are extremely diverse, catering for the needs of a wide range of issuers and investors, and ranging from online crowdfunding platforms through to premium listed IPOs by mature issuers.

2.3 This landscape has evolved over time into a complex structure of overlapping options for both issuers and investors. While this variety offers significant flexibility and choice, it is not always easy to understand. For example, in our experience terms such as 'listed' and 'quoted' are often used interchangeably, and sometimes inaccurately, even by market participants. It is important to be as clear as possible on the meaning of such terms, particularly when seeking to understand key market dynamics and trends such as the perceived long-term decline in the number of UK-listed companies. We have therefore provided an explanation of some of the key primary market terms in this chapter.

Regulated and exchange-regulated markets

2.4 Regulated markets are those which meet the requirements set out in European legislation[5] and to which the Prospectus Directive[6] (PD), Transparency Directive[7] (TD) and the Market Abuse Regulation[8] (MAR) apply. These include the London Stock Exchange Group plc (LSE) Main Market, High Growth Segment and Specialist Fund Market, Euronext London, and the NEX Exchange Main Board[9]. Regulated markets may be for listed or unlisted securities, and we explain further below the additional requirements for securities which are listed.

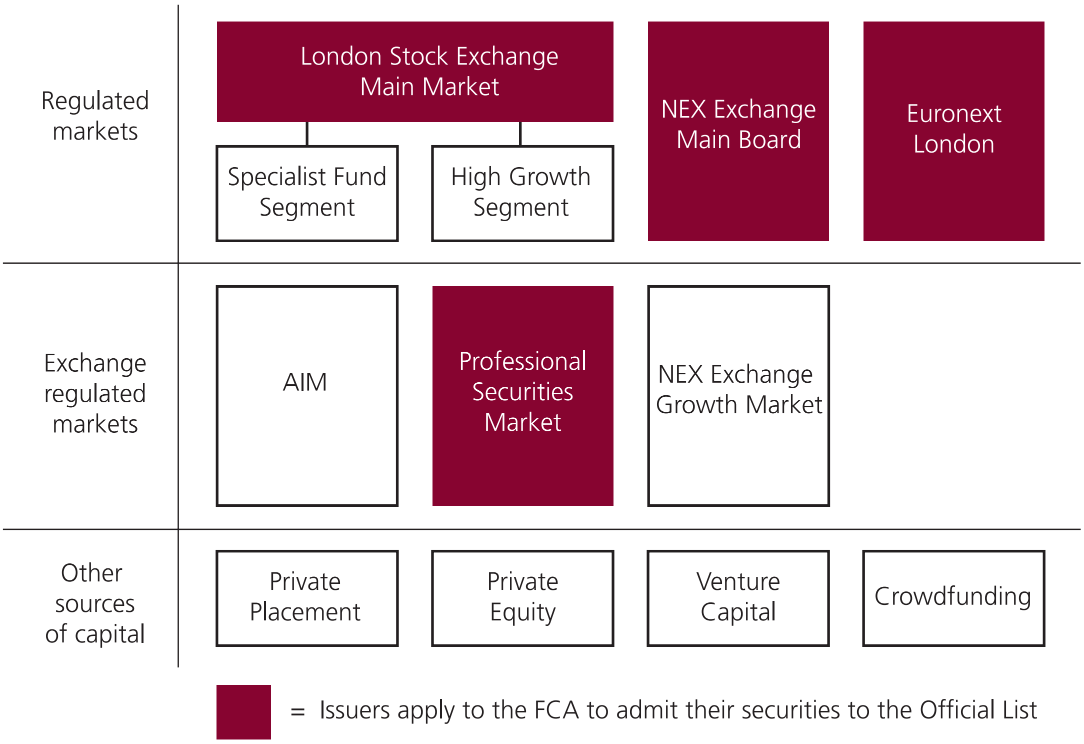
2.5 While EU regulation also applies to issuers of securities on exchange regulated markets, notably MAR and the Markets in Financial Instruments Directive (MiFID), these markets have their own rulebooks set, monitored and enforced by the exchanges. That is so the exchanges can fulfil their recognition requirements under the Financial Services and Markets Act 2000 (FSMA). These markets include the LSE's Professional Securities Market (PSM) and AIM, and the NEX

5 Markets in Financial Instruments Directive (Directive 2004/39/EC), Article 4(1)(14)
6 Directive 2003/71/EC
7 Directive 2004/109/EC
8 Regulation (EU) No 596/2014
9 Formerly the ICAP Securities and Derivatives Exchange (ISDX) Main Board

Exchange Growth Market. Securities traded on these markets can either be listed or unlisted, depending on the particular market concerned.

2.6 Beyond this formal structure there are a range of options to raise capital which are neither regulated nor exchange regulated markets, but to which our Prospectus Rules, as well as other parts of the FCA Handbook, may apply. This framework is illustrated below.

Figure 2.1: Overview of UK capital markets



A note on the terms 'listed' and 'quoted'

2.7 In this paper, we have used the term 'listed' in its legal sense to denote securities admitted to either the Official List (maintained by the FCA) or, where we discuss other stock exchanges in the EU, an official list operated by another EU listing authority. Listing is granted only by a listing authority and is distinct from being 'admitted to trading on a regulated market' (a key phrase in various EU securities directives), which is a decision taken by exchange operators. In the UK the listing authority is the FCA but, in some other EU countries, exchanges have this role.

2.8 We use the term 'quoted' to describe the full population of publicly traded securities. In the UK this would include listed securities and unlisted securities admitted to primary MTFs, such as AIM and the NEX Exchange Growth Market.

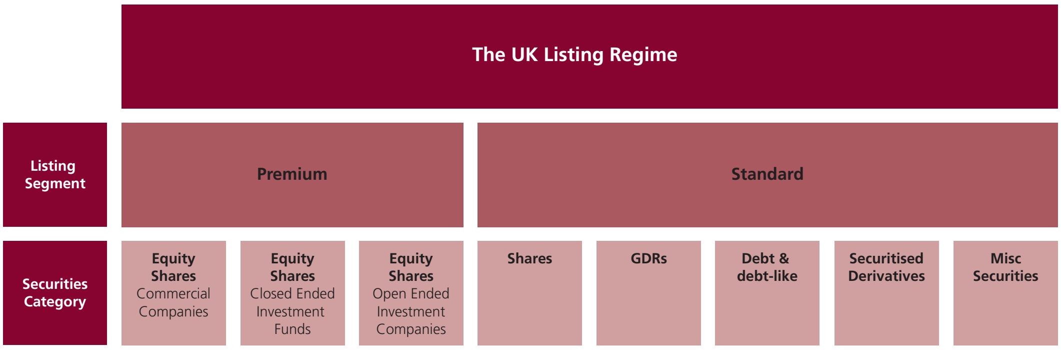
The structure of the listing regime

2.9 Listing is a system which imposes obligations on issuers – defined in this paper as companies that issue securities which trade in capital markets – to protect investors in those securities. This protection fosters market confidence which benefits investors and issuers alike.

2.10 The obligations vary depending on the type of security and category of listing. Each entry on the Official List shows (among other things) the security, the entity that has issued it and the category of listing, which indicate the obligations that apply to the issuer.

2.11 The structure of the UK listing regime is set out in the diagram below, illustrating each of these distinct groups of obligations.

Figure 2.2: Overview of the UK Listing Regime



2.12 A key feature of the regime, as can be seen from the diagram, is the split between the standard and premium listing categories. The requirements for standard listing stem broadly from the applicable framework of EU directives and are consistent with regulatory frameworks for listed securities across the EU. Premium listing builds on those requirements by adding certain 'super-equivalent' rules which oblige issuers to satisfy additional conditions and, in the case of admission criteria, a greater degree of business maturity. These requirements include the ability to demonstrate that it carries on an independent business, a three-year revenue earning track record, sufficient working capital, and unqualified financial statements. We examine and propose enhancements to some of these requirements in CP17/4.

2.13 Once issuers have been listed, the regime sets out the continuing conduct and governance obligations which seek to ensure that investors have the information they need to make properly informed and active investment and voting decisions. It also provides them with the tools they need to hold the boards of issuers to account. In certain instances, a premium listed company is required to seek the advice of a sponsor – an advisory firm specially approved by us to advise on the listing regime and make declarations to us in certain instances. These declarations and our oversight of sponsor firms ensure appropriate due diligence is performed.

2.14 In setting the Listing Rules, our overall role is to appropriately balance the interests of issuers and investors in order to enhance investor confidence and market effectiveness for issuers. This ultimately promotes greater access to capital, facilitates growth for the economy as a whole, and enables us to meet our strategic objective of ensuring that markets work well.

2.15 It is important to note that the wider primary market landscape is complex and that other entities also have significant roles in shaping it. For example, although there is a connection between listing and indexation (having a premium listing is a prerequisite for admission to FTSE indices), it is entirely for the index providers to decide whether to establish an index for a specific sector or group of issuers, and to set the relevant entry requirements.

2.16 Similarly, while requirements for reporting on 'comply or explain' provisions of corporate governance for listed issuers are addressed in the Listing Rules and Disclosure Guidance and Transparency Rules, the Financial Reporting Council (the standard setter through the UK Corporate Governance Code) is responsible for the specification of relevant Code provisions.

Key themes from stakeholder discussions

2.17 As detailed in paragraph 1.14, we met with a wide range of stakeholders, including issuers, investors, sell-side firms and advisers, to seek their views on whether the current offering is effective at delivering the outcomes described in paragraph 1.1.

2.18 The discussions gave us many valuable perspectives on the current UK offering, and have significantly influenced both this DP and CP17/4. As previously, stakeholders were overall strongly supportive of the UK market and regulatory structure, in particular of the premium listing regime, and expressed confidence that it effectively meets the needs of issuers and investors. No issues were identified which indicated fundamental weaknesses in the current market and regulatory structure, but areas of potential improvement were identified.

2.19 While different stakeholders raised specific points, some common and consistent themes emerged. We set out the most significant below.

a) Attractiveness of London as a listing venue

2.20 Participants agreed that London is a highly attractive market with a well-functioning market structure. They noted that other jurisdictions look to London as an example, and that this is partly due to development of the 'brand' which is facilitated by Listing Rule requirements. Stakeholders stressed the importance of protecting the brand, which investors trust. Views on the relative attractiveness of the UK for IPOs included comments on the UK's robust legal framework, the strength of corporate governance requirements, the depth of capital available and the impact of index inclusion on likely analyst coverage. Stakeholders stressed the diversity of the UK investor base, although some noted that this was focused on premium listed shares or, outside regulated markets, on AIM.

2.21 Specific issues which came to light were:

- Differing views on the rationale underlying a particular choice of market for an IPO. For many, this included a focus on peers, valuation and level of knowledge of the investor base. This highlighted relative weaknesses, as well as strengths, in the UK markets. Notably, in relation to technology (and bio-technology in particular), several stakeholders pointed to the highly active US market, and emphasised the greater depth of capital in this sector in the US, and generally higher valuations.

- Views on the natural resources sector contrasted with those on technology, where many stakeholders recognised the particular expertise of UK investors in IPOs for companies in the extractive industries.

- With regard to non-domestic IPOs in the UK, several stakeholders noted that IPOs can be harder to market where there is no clear connection to the UK, such as in relation to senior management, the issuer's business or its existing shareholders.

- One stakeholder pointed to the influence of an issuer's board members as a key factor – experience of a prior IPO may lead to a desire to float in a familiar environment.

b) UK IPO trends: frequency and volume

2.22 We received consistent anecdotal feedback throughout our stakeholder engagement that stakeholders felt more companies were staying private for longer than in the past. Some mentioned a wish to avoid the level of public scrutiny that accompanies admission to a public market, but many stakeholders believe that the more important consideration was that there was sufficient alternative finance available for private companies, and that debt finance is both plentiful and inexpensive.

2.23 Several stakeholders suggested that an IPO later in a company's life was desirable, and as a result new entrants should, upon their eventual IPO, be more mature and robust. Several stakeholders noted that a greater volume of funding rounds prior to flotation can have an effect on the free float position because it can give rise to a proliferation of substantial holders[10], potentially counting against eligibility for listing.

c) The UK's securities market offerings

2.24 Most of our stakeholders noted that the combination of MTFs and regulated markets in the UK provide an appropriate and well understood framework for potential IPO candidates. MTFs were seen as being suited for more junior offerings and stakeholders felt that it was generally clear which route to market was more suitable for particular issuers. Most stakeholders commented that the relative ease with which fundraisings take place indicates there is sufficient breadth of choice for issuers, and that determining the appropriate market is generally straightforward.

2.25 Stakeholders agreed overall the greater regulatory requirements of a premium listing remained appropriate and important. Participants from the sponsor and investor communities said regulatory hurdles to gaining entry to the premium segment were there for good reason, and that not all companies should be eligible for a premium listing. Investors said they valued the additional corporate governance requirements of premium listing, and that these were central to the UK market's reputation for high standards. Some also expressed their appreciation for the protections offered by the premium listing regime, such as pre-emption rights, voting rights, and the ability to vote on large transactions. An important part of the premium segment's attractiveness, especially to overseas issuers, was index inclusion.

2.26 In relation to standard listing, stakeholders expressed a wide range of views. Most sponsor firms stated they did not often have companies wanting to list equity shares with a standard listing as their first choice as they would rather delay their IPO until they could meet the premium listing requirements. Stakeholders also highlighted the lack of indexation made standard listing unattractive for larger companies. However, there was some acknowledgement of the role that standard listing could play as a temporary 'step down' from premium listing, or as a venue for companies which wished to maintain voting structures incompatible with premium listing. Standard listing was also seen as a useful option for overseas issuers wishing to establish a dual listing.

2.27 Other stakeholders expressed doubt about the benefits of standard listing compared with AIM. Some perceived standard listing as subject to lower levels of regulation than AIM, while others suggested that many market participants do not know that the standard listing segment exists. A number of venture capital firms we spoke to expressed the view they would not choose to list a company on the standard segment because of the perceived investor preference for premium listed securities. They were also unclear on the differences between the segments.

2.28 A number of investors said that they did not generally consider investing in standard listed companies, unless those companies had a genuine aim to move to the premium segment, because of the lack of inclusion of standard listed shares in FTSE indices.

d) UK debt markets

10 Holders of over 5% of a listed class of shares are excluded from the calculation of the free float percentage (applicants must demonstrate that a sufficient number of shares are distributed to the public in the EEA to satisfy the free float requirements).

2.29 As part of the Debt Market Forum, we sought views on the effectiveness of UK debt markets and the regulatory environment in which they operate. One question that remained unresolved was whether the UK lacks an effective debt MTF, similar to European equivalents such as Ireland's Global Exchange Market (GEM). We sought to explore this question further as part of our stakeholder engagement.

2.30 A significant proportion of market participants said the UK market offering is incomplete, and UK companies which cannot meet certain disclosure requirements are effectively forced to admit securities in another jurisdiction to raise debt. Those market participants highlighted that investors, particularly wholesale investors, do not particularly value or require disclosures that issuers struggle to provide, and will readily invest in those securities when they are listed overseas.

2.31 Some participants stated that issuers may not consider UK markets if they are uncertain whether they could meet the associated disclosure requirements. As a result, UK markets may be less attractive to international issuers when choosing a listing venue for debt securities.

2.32 However, some market participants stressed the need for investors to make informed decisions based on the issuer's disclosures. They therefore warned against facilitating access to a listed wholesale market which indiscriminately reduces these disclosures. Others suggested that a UK MTF is not required because issuers can easily access international markets and MTF alternatives are readily available in other jurisdictions. In practice, no issuer is thus prevented from raising debt financing.

2.33 Separately, some market participants raised the issue of a low level of retail participation in UK debt markets, and questioned whether steps could be taken to facilitate retail access to straightforward debt instruments issued by established corporates. They argued this would have dual benefits: it would provide issuers with access to a wider pool of capital and would provide retail investors with broader, high-quality investment opportunities.

e) Concessionary routes to premium listing

2.34 There was some appetite among stakeholders for expansion of the various concessionary listing routes[11], and several requests for clarification of the existing rules and guidance in this area. We address these issues in CP17/4, published alongside this DP.

- While stakeholders agreed the concession for scientific research based companies (SRBCs) should remain, most felt that it was not a significant consideration when companies decided when and where to list. This reflects the perception that the dominant market for biotech/pharmaceutical IPOs is the US, where there is perceived to be a greater depth and diversity of investors, specialist analysts, and particular expertise in valuing pre-revenue companies. Nevertheless, some suggestions for interpreting the SRBC concession were made.

- Stakeholders generally indicated that the existing concession for mineral companies is difficult to interpret, creating uncertainty which acts as a regulatory barrier when a new applicant is choosing its listing jurisdiction. Some stakeholders argued a premium listing is appropriate only for mature mineral companies, as there are other market options available, such as AIM, for smaller or younger mineral companies. In other words, the existing concession does not clearly match current market practice.

- We raised with stakeholders whether there are sectors which are currently ineligible for

11 Certain types of issuers are given a concession from the requirement to present a representative three-year track record of the business to be listed –mineral companies and scientific based research companies.

premium listing that should be reconsidered. There was some consensus that we should consider a concession for property companies without a representative revenue-earning track record. While some stakeholders also raised the need for a concession for infrastructure companies, we encountered limited demand for one and stakeholders overall warned against having too many concessions.

f) Ownership of IPO candidates

2.35 Many stakeholders were of the view that an increasing number of IPOs are driven by the desire of private equity entities to either exit immediately upon IPO or to facilitate an exit at some point post-IPO. Several stakeholders also noted they believed that post-admission liquidity was a primary driver for private equity in choosing an IPO venue as there is likely to be a desire to reduce a position following admission.

g) Supportive market structures for long-term investment

2.36 As noted above, a consistent theme from our stakeholder discussions is that companies are staying private for longer. A reason given was that the perceived short-termism of markets led many companies to stay outside public scrutiny while in their development phase. Our discussions with stakeholders also highlighted the view that an important contributor to this problem is the set of incentives created by the interaction between market structures and market regulation. In particular, increased fragmentation and electronification of secondary markets have caused regulation to focus more heavily on prompt disclosure of information to the market. Some perceive that this focus has supported rapid trading and portfolio turnover at the expense of investors undertaking long-term engagement with issuers.

Key trends in UK primary equity markets: a data analysis

2.37 As well as meeting stakeholders, we used data from a range of sources to analyse key assertions they made to us. Our aim was to develop an independent view of the operation of UK primary equity markets as a complement to the analysis above and to add to the discussion in this DP. The full analysis is set out in Appendix 1 and includes data relevant to the themes above on IPO trends and IPO candidates.

Key findings from the data

2.38 The data indicate the total number of companies quoted on UK markets has declined since 1999. A rise in growth market companies has failed to offset declines in Main Market companies. Our review of recent cancellations suggests the main reasons for these changes are takeovers, moves between market segments, and international companies cancelling secondary listings on the standard segment.

2.39 More broadly, the data indicate the UK remains a global financial centre attracting domestic and international companies. Companies from a wide range of sectors successfully undertake IPOs in the UK. IPOs are used to enable existing investors to sell some of their investment and to raise funds for companies. The vast majority of issuers undertaking an IPO are raising some proceeds for the company itself.

2.40 IPO volumes appear to be driven primarily by macroeconomic and/or market-wide factors (e.g. the dotcom bubble). Nevertheless, we are conscious from our work on the operation of the UK's IPO process that our regulatory framework is important to the efficient functioning of the IPO market. We explored this issue in a DP published in April 2016[12] and will publish a CP with specific policy proposals shortly.

2.41 Private equity-backed companies are now a significant source of UK IPOs, but remain the minority. While private equity investors generally seek a partial exit at IPO, significant holdings in the company are retained post-flotation. Private equity backed companies floating on UK markets do typically raise capital at the same time.

2.42 The UK's primary markets enable quoted companies to raise follow-on capital. From 1999 to June 2016, UK quoted companies generally raised between $20 billion and $60 billion most years, with the amounts raised during the financial crisis years of 2008 and 2009 proving to be exceptionally high.

2.43 Our data analysis shows an overlap between the proceeds raised at IPO by growth market issuers and listed issuers. In our view, this suggests that the current UK primary market framework serves the needs of companies of all sizes. However, we recognise stakeholder concerns, expressed anecdotally, about the usefulness of standard listing, as discussed above.

2.44 While listed companies are most likely to issue follow-on equity in order to finance an acquisition, growth market companies are most likely to raise funding for internal investment.

Implications for this DP

2.45 To date stakeholders have provided extensive input, touching on virtually every aspect of the UK's primary markets and how they operate. We have found the discussions extremely insightful: in some respects the views expressed have reflected our own experiences, but we have also heard new perspectives and conflicting opinions. We are keen through this DP to examine the issues further and gain wider stakeholder input. With that in mind, the remainder of this DP is organised as follows:

- in Chapter 3, we set out a fuller discussion of potential enhancements to standard listing
- in Chapter 4, we discuss how the UK's markets could better support the growth of science and technology companies
- in Chapter 5, we discuss the listing of debt securities and debt MTFs (thereby addressing our commitment from the Debt Market Forum, as discussed in paragraph 1.9), and
- in Chapter 6, we address the issue of retail investors' access to debt markets

2.46 Separately, we examine in CP17/4 the concessionary routes to premium listing.

2.47 From our data analysis, we have drawn a small number of key findings which have influenced the remainder of this DP. Most importantly, it is our view that the data do not point to obvious, wide-ranging changes which should be made to the regulatory regime in the primary equity markets. Coupled with the anecdotal evidence that the premium listing regime operates well, we see no reason to open a wideranging discussion on whether premium listing should change. Hence the amendments to premium listing that we propose to take forward at this juncture are limited to the technical enhancements set out in CP17/4.

12 www.fca.org.uk/publication/discussion/dp16-3.pdf

2.48 As for standard listing, the key issue we have identified from our data analysis that we would like to explore further is whether there would be value in an international segment for large overseas companies. We address this in Chapter 3.

2.49 With respect to growing companies, we have noted the data on gross proceeds raised at IPO indicate no gap between growth and listed markets. This suggests the support stakeholders have said is needed for early-stage science and technology companies does not apply generally to growth companies. Therefore we have kept the discussion in Chapter 4 to science and technology companies only.

3. The current split between standard and premium listing

Introduction

3.1 As outlined in Chapter 2, a key feature of the UK listing regime in its current form is its division into two segments – premium and standard listing. In this chapter we discuss and ask for views on standard listing, and consider what role it has in making the listing regime as a whole more effective.

3.2 We also look at two instances where structural changes might benefit certain types of issuer and their investors. The first relates to certain types of large international issuer which currently sit within the standard listing segment, but which might benefit from the investor confidence that higher regulatory standards and suitable naming bring. The other, exchange traded funds (ETFs), is a group which is currently in the premium listing segment, and which might be more suitable for standard listing.

3.3 The chapter discusses only equity structures. Debt listings are discussed in Chapters 5 and 6.

The existing structure of the listing regime

Framing the problem – what is standard listing for?

3.4 The listing regime's existing structure has been created because it caters for a wide range of issuer and security types, leading to numerous obligations applying in differing circumstances. The Financial Services Authority (FSA) introduced the idea of organising different types of obligations into categories, and applying clear labels to those categories to enable issuers to understand the regime better.

3.5 Our discussions to date have demonstrated that stakeholders have a good understanding of premium listing: the standards it requires, the protections it brings investors, and the benefits it gives companies. The standards set governance rules enabling equity shareholders to exercise their rights and collectively steward a company, however dispersed the company's ownership base is.

3.6 Similarly, AIM and the NEX Exchange Growth Market have rules to protect investors in smaller, growing companies.

3.7 However, stakeholders generally regard a standard listing as an unattractive option for a listing because it lacks clarity. Its purpose and obligations are unclear, while the name implies second best, according to our stakeholder feedback. Advisors often tell companies not to pursue this option.

The 'standard listing' concept re-explained

3.8 The current structure emerged in the middle of the 2000s in response to the EU's Financial Services Action Plan (FSAP), the initiative that constructed the European single market in its current form, harmonising key elements of European capital market regulation. In primary markets, its principal components were the PD, TD, and the Market Abuse Directive (2003/6/EC) (MAD), replaced in 2016 by MAR.

3.9 These directives were significant, for example establishing a common definition of 'inside information', a harmonised financial reporting cycle according to international accounting standards, and a maximum harmonising prospectus disclosure regime. However, they focused primarily on disclosure and transparency, and not on issues such as how shareholders should participate in companies. In the UK this led to debate about retaining the listing regime, which had higher (so-called 'super-equivalent') regulatory requirements than those established by the new directives. Most stakeholders favoured retention of principles within the UK listing regime beyond the transparency provisions now harmonised by the directives. Some, however, feared business would gradually move to areas in the single market which adopted 'directive-minimum' provisions.

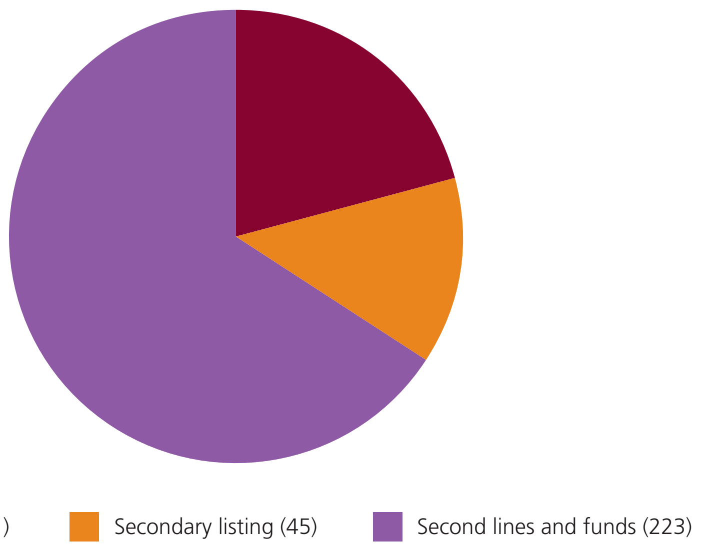
3.10 Many of the obligations in the pre-2005 UK listing regime, but not the transparency requirements harmonised by the FSAP directives, were retained and were organised into the premium listing regime. Many of that regime's important characteristics – for example pre-emption rights and the rules preventing dual-share structures – have UK heritage and are not necessarily standards investors demand in markets in other countries. This raised concerns whether the UK would become unattractive to prospective overseas issuers compared to other jurisdictions. However, to exempt overseas companies from compliance with the premium listing regime would mean treating UK and non-UK companies differently, which appeared unreasonable and unsustainable in a multi-jurisdictional single market.

3.11 The result is the existing system, which is intended to provide as close to a level playing field between UK and non-UK companies as possible while retaining an important element of choice for issuers with standard and premium listing.

The use of the standard listing segment in practice

3.12 To consider the purpose of standard listing, it is useful to analyse the use issuers make of the segment in practice. In Figure 3.1 we assess 339 securities within the 'standard listing – shares' category and divide them in to three categories for discussion. The data was taken from the Official List as at 12 October 2016.

Figure 3.1: Standard listing shares by category



3.13 The types of usage we have identified in the chart above are:

- **Primary listing** – securities where the UK listing appears to be the company's only or main listing. In most cases these companies are unable to comply with one particular provision of the premium listing regime, making them ineligible for premium listing (for example, the issuer may have a dual-share structure or does not have a three year revenue earning track record).

- **Secondary listing** – these are typically shares of large overseas companies also listed on their home exchange. Now an old concept in primary market regulation, secondary listing is where companies listed in one jurisdiction raise capital in another and seek a listing in that second jurisdiction. They are helped by rules which significantly reduce their regulatory burden in the secondary listing jurisdiction, given that they are subject to stringent regulations on their primary listing venue. Our data in Appendix 1 show that secondary listings remain a feature of the market, and overseas companies cancelling their UK listings is the second largest source of company delistings.

- **Second lines and funds** – second lines are securities issued by listed issuers with securities admitted to another listing category, usually premium listing. These securities are most frequently preference shares and securities issued by closed-ended funds. Funds are mainly ETFs linked to issuers admitted to standard listing before standard listing was closed to closed- and open-ended funds in 2007. These issuers benefit from the perpetual transitional provision granted when the rules changed.

The future of standard listing

3.14 As a key purpose of this DP is to consider the overall effectiveness of the listing regime, we wish to explore with stakeholders whether the rationale for the standard/premium structure remains valid.

3.15 Initial conversations with stakeholders suggested that some believe there should be a degree of accommodation for companies which cannot or do not wish to comply with the 'super-equivalent' requirements of premium listing.

3.16 This raises the issue of whether the listing regime should balance the need to preserve UK-style public company governance with a desire to accommodate companies from all over the world. We are keen to understand whether the view we have heard in the past from stakeholders, namely that we should avoid differences in our treatment of UK and non-UK companies, continues to hold. We are open-minded at this stage about what proposals might evolve from this discussion, subject to the overarching objective of ensuring we have a robust and clearly structured listing regime. We discuss one possibility – the creation of an international segment - below.

> **Q3.1: Do you have any comments on the underlying rationale for standard listing? Are the key assumptions on which the regime was built, including equality of treatment between UK and non-UK companies, still valid?**

The problem of the name

3.17 Stakeholders have frequently questioned the name 'standard listing'. Many suggest it implies 'second best' and lacks a clear sense of purpose. It is reported by stakeholders that overseas companies are reluctant to adopt the designation. If the concept or a similar concept is to be retained, we would welcome feedback on how to address this, including possible ideas for a new name.

> **Q3.2: Do you think the name 'standard listing' is unattractive to prospective applicants? What alternative suggestions do you have?**

An international segment

3.18 One idea that emerged from our discussions with stakeholders, and which we are keen to explore further, is an international segment for large overseas companies.

3.19 Our data analysis shows that the number of traditional 'secondary listings' by large, established overseas companies with a primary listing in their home jurisdiction is declining. Stakeholders tell us this is part of a long-term international trend as it becomes increasingly easy for investors in most large financial centres to hold and trade shares in overseas companies. We see very few new international issuers seeking a standard listing of equity shares because issuers overwhelmingly favour a GDR listing if a premium listing is not an appropriate option. GDRs, however, are generally targeted at sophisticated investors and so are inaccessible to many retail investors who might wish to invest in mature and successful overseas companies.

3.20 A number of stakeholders have therefore questioned whether there should be a new route to UK listing for overseas companies wishing to observe higher standards of conduct without having to comply with the full suite of premium listing requirements. The data presented in Appendix 1 show the impact of these IPOs in other jurisdictions, and many UK stakeholders argue that a highly international market like the UK's should be at the centre of listing activity supporting dynamic and emerging economies.

3.21 We are therefore seeking stakeholders' views on the idea of modernising the regime to better accommodate international companies through an alternative segment. The rationale for having a distinct international segment is to create a new, credible listing option for large international companies which may wish to access UK markets but may feel that current UK listing requirements are not fully appropriate. For example, this may be attractive to companies where there is a founding family or government that wishes to retain control rights that are incompatible with a conventional premium listing. The segment would need to be clearly labelled, with a name reflecting that it is an international listing standard aimed at attracting mature and successful companies.

3.22 We envisage the key to the segment's success would be the development of a package of investor protections, appropriate to the segment's aims and capable of fostering investor confidence. We welcome stakeholders' views on what that package might contain. Several features have been suggested in our initial discussions with stakeholders:

- The requirement to appointment a sponsor when listing to support appropriate standards of due diligence;
- Substantive eligibility conditions, such as a unqualified working capital statement, minimum market capitalisation, and financial information which has been audited without qualification and supports a three-year revenue earning track record;
- Application of the related-party rules, with other features of the premium listing regime applying on a 'comply or explain' basis.

Q3.3: What are your views on the development of a distinct international segment? If you think it would be beneficial, what investor protections should apply? What, if any, alternative proposals would you put forward to assist non-UK issuers wishing to raise equity capital in the UK?

Exchange traded funds (ETFs)

3.23 Conversely, our discussions with stakeholders have also identified areas where the listing regime applies investor protections which may be unnecessary and which investors may not value.

3.24 Open-ended investment companies can be admitted to premium listing if they are authorised or recognised. The current listing regime for investment funds reflects changes implemented after a review by the FSA in 2007, one consequence being that both closed-ended investment funds and open-ended investment companies are currently unable to apply for a standard listing. At the time we received strong feedback from stakeholders that it was essential investors in these types of vehicles should benefit from the full protections of the premium listing regime. There are currently around 250 premium listed securities and 80 standard listed instruments that were transferred across when the 2007 regime was created. In practice, these companies are all ETFs.

3.25 More recently, stakeholders have said that application of the premium listing regime to ETFs could be usefully revisited. This is because ETFs are seen as very different vehicles from most other companies subject to the listing regime.

3.26 Stakeholders point out that open-ended investment companies are subject to regulations outside the Listing Rules. These include the undertakings for collective investment in transferable securities (UCITS) framework, and COLL, the FCA's specialist sourcebook for certain types of collective investment. Stakeholders generally view this framework as providing the main source of investor confidence in open-ended investment companies, with the listing regime's additional regulation constituting a potentially unnecessary overlay to these requirements.

3.27 In particular, stakeholders are concerned the requirement to appoint a sponsor to support the company's application to the FCA for a premium listing of their shares adds little value in this case. Various continuing obligations also apply after admission – the rules on related party transactions, various notification obligations, governance arrangements for transactions and dealings, and rules on shareholder meetings – which are perceived as adding no value to an ETF.

3.28 We would like to gather stakeholders' views on whether including detailed continuing obligations in the Listing Rules for this type of issuer is still appropriate, or whether we should remove the 'super-equivalent' premium listing obligations for open-ended investment companies (except for the requirement to be authorised or recognised). Following the existing design principles of the listing regime, if we were to remove the 'super-equivalent' provisions from the segment we would reposition open-ended investment funds as a standard listing securities category. This would more closely align these securities' listing regime protections with other product types (such as debt securities) which are not a direct equity investment in an issuer. It would preserve the premium segment for commercial companies and closed-ended investment funds.

Q3.4: Do you think that the premium listing obligations for open-ended investment companies should be removed, and the securities category repositioned in the standard listing segment? In arriving at your view, what factors have you taken into account?

Q3.5: Are there any individual elements of the premium listing regime that should be retained for open-ended investment companies? If so, what are they and why should they be retained?

4. Supporting the growth of science and technology companies

Introduction

4.1 In this chapter we seek to explore the effectiveness of the UK's primary equity markets in supporting the growth of science and technology companies.

4.2 The premium listing rules contain a concessionary route to listing for scientific research based companies (set out in Chapter 6 of the Listing Rules). The outcome of discussions with pre-IPO companies seeking a listing, and stakeholders in general, suggests technical changes should be made in response to recent developments. These proposals are discussed in more detail in CP17/4, published alongside this DP.

4.3 The discussions also raised the question of whether a more fundamental reassessment might be valuable, focusing particularly on ways in which different forms of primary market structure and regulation might better support scale-up and patient capital, which are particularly crucial for early-stage science and technology companies.

Background

4.4 An effective primary equity market should provide a wide range of issuers with access to capital to fund their growth and development, to benefit the economy and society as a whole.

4.5 The UK's current primary market landscape is notable for its diversity, with a number of distinct platforms targeting the differing needs of a variety of issuers and investors. As detailed in Chapter 2, primary equity markets in the UK include the Main Market (containing the High Growth Segment and the Specialist Fund Market, among others), Euronext London, AIM, the NEX Exchange Main Board and the NEX Exchange Growth Market. Each offers a route to market for issuers from different sectors or at different points in their lifecycle.

4.6 However, we have increasingly heard concerns our primary equity markets are proving less effective at performing what many think should be their central role. For instance, there is a considerable body of market commentary suggesting that IPOs are now largely a vehicle for existing shareholders to exit their investments, rather than a means for companies to raise capital for further growth and development. A related concern is that companies which would have once accessed the primary capital markets at an earlier stage in their development are now staying private for longer. Life sciences companies were specifically mentioned in this context, given there is often a relatively long period between start-up and the business producing commercially viable products. These concerns were stated by a number of stakeholders.

4.7 We have included data in Appendix 1 which we hope will be a useful contribution to discussions about the effectiveness of the UK's primary markets in providing capital for business and the economy. That analysis (summarised in Chapter 2) presents a complex picture, especially on the claim that IPOs are primarily a mechanism for existing investors to exit. There may be some validity in that assertion, but the analysis also highlights the successful use of IPOs to raise funds. We recognise some of the changes in public equity markets' role over time may be consistent with them continuing to contribute to provision of capital for businesses rather than indicating possible signs of market failure. An example is enabling private equity or venture capital to be recycled from mature to younger businesses.

4.8 We think this is an area where further reflection would be valuable. In this chapter we discuss the challenges faced by early-stage science and technology companies from two perspectives: the provision of capital through the 'scale-up' phase, and the requirement for a significant period of pre-revenue investment where a patient approach to capital is particularly important. Given our role in UK primary equity markets, we are particularly interested in exploring whether any features of the current regulatory framework contribute to problems faced by these companies and could be reconsidered to provide solutions.

Scale-up capital

4.9 Much recent commentary has focused on challenges faced by companies as they seek to transform from small start-ups to large, established businesses. These 'scale-up' companies are commonly defined as having an average growth in employees or turnover of more than 20% per annum over three years, with a minimum of 20 employees at the start. Early-stage science and technology companies are frequently found within this group.

4.10 Although the UK is perceived by many market commentators to provide a supportive environment for companies in the very early start-up stage, that environment is not always seen as effective in supporting company growth through a subsequent scale-up phase.

4.11 We are keen to examine the extent to which the difficulties experienced by such scale-up companies are due to a lack of investors willing to provide capital to businesses at this stage of their lifecycle, and particularly whether the public equity markets are failing in this regard.

4.12 A number of stakeholders emphasised the diversity of the UK's equity capital markets, with the High Growth Segment, AIM and the NEX Exchange Growth Market focusing on growth companies' needs. But there is also third-party evidence of the practical difficulties scale-up companies face when seeking to access capital. We are aware that the average size of later stage venture capital deals in the US is significantly larger than those in the UK, suggesting a potential gap in late-stage venture capital funding. Separately, it appears UK technology companies are disproportionately the subject of merger and acquisition (M&A) activity compared with their international peers.

4.13 If there is perceived to be a shortage of capital for scale-up companies, we would be keen to explore if enhancements to the primary market regulatory regime could help address the problem. The ability for scale-up companies to access capital in public markets needs to be assessed alongside the resulting risks for investors. Some stakeholders were vocal that very early-stage companies represent a binary investment outcome: either a high return or a total loss of investment. Therefore, they are inappropriate for public markets and should remain private until they have left that stage of development.

4.14 This topic raises fundamental questions – such as whether there should be a clear dividing line between companies suitable for public markets, and those which should remain private – that go to the heart of defining the role of public securities markets and the authorities responsible for regulating them.

4.15 This calls into question if the current split between private and public markets is too rigid and whether alternative hybrid structures are better for some companies. We discuss this theme in more detail below.

Q4.1: How effective are the UK's primary equity markets in providing capital for science and technology companies in the scale-up phase?

Q4.2: What are the factors that adversely impact the effectiveness of the UK's public equity markets in providing scale-up capital?

Q4.3: What potential enhancements to the primary market regulatory framework could contribute to improving the provision of scale-up capital?

Q4.4: Should science and technology companies have reached a certain stage of business maturity before accessing public equity markets? If so, how should that stage of maturity be defined?

Patient Capital

4.16 A number of stakeholders expressed the view that the UK's primary equity markets may be ineffective in providing so-called patient capital, investment based upon long-term considerations. We think it would be useful to explore further the extent to which current market structures and regulation reinforce a short-term focus in issuers and investors.

4.17 The past ten years have seen significant changes in the UK's secondary capital markets, with a marked shift towards algorithmic trading strategies and the separation of primary from secondary markets. A market structure dominated by a single venue, on which substantially all primary and secondary market activity takes place, has been transformed by fragmentation of secondary (and to a lesser degree primary) markets across a number of competing venues.

4.18 Some commentators maintain those structural changes have resulted in secondary market activity being increasingly characterised by short-term trading rather than long-term investment considerations. Some suggest the change has contributed to a perspective amongst regulators that has produced market regulation which gives priority to the immediate and general dissemination of information, versus long-term engagement, and so reinforces a short-term focus. Two examples are increasing calls for listed companies to stop voluntary quarterly reporting because of the behaviour such reporting produces and concerns voiced by investors about the impact of market abuse rules on their ability to have candid discussions with the companies they own. It is also argued that it can be challenging for companies to voice their long-term strategy and for investors to invest on this basis.

4.19 Those trends in market structure and market regulation are seen by some to be mutually reinforcing, creating an environment which is particularly unsuited to companies most in need of patient capital. Early failures or disappointments are seen to be unduly punished by a market focused on short-term targets and metrics, reducing the prospects of follow-on issuance, and discouraging many companies from accessing public markets at all.

4.20 At least one investor who invests in both private and public companies told us that effective stewardship is far easier to achieve in private companies than in public markets. Investors in private companies can use ongoing, constructive dialogue with their investee companies to acquire a deeper understanding of the companies' fundamentals and prospects, and to create the strong relationships of trust, support and challenge that sit at the heart of effective stewardship.

4.21 We recognise that this view is not universally held, and some stakeholders point to the Financial Reporting Council's Stewardship Code and the establishment of the Investor Forum as recent improvements to the effectiveness of primary markets in supporting a more patient approach. Nonetheless, we are keen in this DP to explore some of the themes that have emerged in this area.

Q4.5: What are the characteristics of capital market structures that drive short-term behaviour?

Q4.6: What are the drivers of these characteristics, and how important is regulation in this context? What changes could be made to help address these drivers?

Exploring alternative market structures

4.22 Turning to the contention that the effectiveness of the UK's primary markets has been eroded by developments in secondary markets, we are also keen to explore whether alternative market structures might better support a more patient, long-term approach. Some stakeholders suggest that current market structures impose a very sharp transition from a fully private to a fully public market and issuers in a development phase find this transition difficult to make. They suggest that a transitional stage, if supported by effective market structures and appropriate market regulation, could provide an environment more supportive of patient capital and the issuers, such as science and technology companies, which depend upon it.

4.23 A proper consideration of market structures that are supportive of patient capital requires a clear understanding of the regulatory and structural characteristics a primary market should have to provide value to issuers (which would otherwise remain private) and investors with a long-term focus (who would not usually invest in private markets). Our early discussions suggest that this may include a fundamental consideration of whether a primary market requires a continuous secondary market, and if so, what form that secondary market should take. For example, we note that many crowdfunding platforms have, to date, been operating without a secondary market. Similarly, some wholesale bond markets are successful with limited secondary market activity. When considering this question, we would like respondents to focus on companies which require long-term financing before meaningful revenues can be realised due to the need for significant investment in the development and exploitation of intellectual property or other factors.

Q4.7: The current public equity capital market model provides different things. How important are each to the long-term investor? How important are each to early-stage issuers? Are there additional important features of public equity markets not mentioned below?

a. Corporate transparency (through listing documentation, periodic financial information, and ad hoc announcements)

b. Due diligence by experts and third parties (such as lawyers, accountants, sponsors and sector specialists)

c. Investor stewardship

d. Regulatory oversight (such as the assessment of issuers against eligibility criteria, and the scrutiny of listing documentation)

e. Corporate governance requirements or other investor protections (such as pre-emption rights)

f. 'Listed' status (e.g. for investment mandate or tax purposes)

g. Coverage by research analysts

h. A platform for further fundraising from existing or new investors

i. Indexation

j. The ability to trade investments

k. Price discovery and value discovery

Q4.8: What features would a long-term capital market need to have, and need to avoid, to be effective?

5.
The listing of debt securities and debt MTFs

Introduction

5.1 In April 2016 we published a report on the recommendations of a specially convened group of bond market practitioners and other experts: the UK Debt Market Forum. It was aimed at identifying practical measures to improve the effectiveness of UK-listed primary debt capital markets.

5.2 A key observation was that the UK has no market equivalent to the Irish GEM market or Luxembourg's EuroMTF market – specialist MTFs, focused on institutional investors and which have achieved considerable success. In the report we committed to explore this question in more detail, and we do so in this chapter.

Background – the existing regulatory structure explained

5.3 Bond markets are international in character and generally for institutional investors. They differ from equity markets in many ways, and the primary market regulation which applies to them typically focuses on disclosure, with investor protection being provided by the bonds' terms and conditions and provision of a trustee to act for bondholders should those terms and conditions not be honoured.

5.4 Currently, most bonds listed in the UK are admitted to trading on a regulated market and to the Official List in the 'standard listing – debt and debt-like securities' subcategory. Like standard listed equity securities, very few obligations above requirements in EU securities directives apply. However, because they are admitted to trading on a Regulated Market, the Prospectus Directive (PD) will ensure investors are provided with a prospectus, the Transparency Directive (TD) ensures they receive financial statements, and MAR ensures issuers announce inside information on a timely basis.

5.5 European regulation provides for an exchange facility to which the PD does not apply (unless there is a public offer) – the MTF – and other EU jurisdictions have made increasing use of this format. In the UK, the PSM is a listed MTF for debt securities (rather than a Regulated Market).

5.6 However, our experience is that listings on the PSM are increasingly infrequent and we have observed that its original purpose – the provision of a listing facility to companies which do not report under International Financial Reporting Standards (IFRS) and which may therefore be unable to supply the IFRS financial information required by the PD – appears less important as many more jurisdictions have adopted IFRS. Our research indicates that most PSM issuers are in fact companies reporting under IFRS.

5.7 Nonetheless, debates about burdens placed by the PD on debt issuers marketing securities to international investors continue, with the UK Debt Market Forum debates and recommendations an example of this. The rest of this chapter explores the opportunity to make greater use of an

MTF in the UK and, if it has merit, how it should be taken forward. We refer to this opportunity as 'the potential MTF gap'.

The opportunity for wholesale debt MTFs

5.8 As our work with the UK Debt Market Forum revealed, the advent over the past decade of specialist MTFs focused on 'wholesale bonds' – bonds marketed only to institutional investors – has been a significant development in European primary debt capital markets.

5.9 In Figure 5.1 we provide an analysis of debt securities listed in the UK, set against those listed in Ireland and Luxembourg. The data has been sourced from the UK Official List, the Bourse de Luxembourg Official List (to 30 September 2016) and the Irish Stock Exchange (to 21 October 2016).

Figure 5.1: Debt securities listed in the UK, Ireland and Luxembourg on Regulated Markets and MTFs

Source: UK Official List, Bourse de Luxembourg Official List, Irish Stock Exchange

5.10 There were 10,474 debt securities listed on Luxembourg's EuroMTF market and 10,093 to the Irish GEM Market. In each case, that represented around 28% of all debt securities listed in Ireland and Luxembourg.

5.11 Our work with the UK Debt Market Forum and our engagement since continues to indicate that market participants value the availability of an MTF option. Our soundings, on which we would welcome further feedback, suggest this might be attractive as a 'global debt' option for large, emerging market issuers without an equity listing in the EU. The past year has seen, for example, great interest in Rupee-dominated bonds issued to international investors in markets outside India. Similarly, Chinese state-owned banks have accessed EU debt capital markets. Furthermore, UK primary debt capital markets have a relatively limited share of international high-yield bond markets and perhaps more could be done here. UK companies have made use of the Irish and Luxembourg MTFs, indicating that they may welcome the opportunity to issue debt on an MTF platform.

5.12 Informal feedback so far suggests market participants are indifferent to the complexities of the different regulatory formats and statuses explained earlier, while clearly valuing a financial centre characterised by high regulatory standards. While there are examples of regulatory statuses becoming brands (e.g. UCITS), few stakeholders report any understanding of (or attachment to) Regulated Market status for debt primary markets. The value attached to the MTF option is of perceived equivalence to regulated markets, but with additional flexibility, if this point is considered at all.

5.13 These observations show there is an appetite among stakeholders for changes to the structure of the listing regime, or other regulations, to address the potential MTF gap. We would be grateful to stakeholders for their views on where the opportunity lies.

Q5.1: Do you think there is an opportunity in the UK for a new wholesale bond MTF? If so, where is the opportunity and why? Please specify products, sectors and geographies.

Q5.2: To what extent do you think investors understand the differences between MTFs and Regulated Markets, and the differing levels of investor protection which apply to them? Does your answer differ when considering different types of investor (e.g. retail versus wholesale)?

Filling the gap – the roles of the FCA and exchanges

5.14 In considering how the EU MTF format might be exploited to create one or more specialist wholesale bond markets in the way Luxembourg and Ireland have, the first question which arises is the respective role of the FCA and the exchanges.

5.15 The GEM and EuroMTF markets are exchange-regulated markets. In practice, that means the design of the market's rule book and day-to-day regulation of the market (principally scrutiny of transaction documentation and decisions over admissions to the market) rest with the exchange operator. The securities authority licences the exchange operator and oversees it through its supervisory functions as it would other financial services providers. This is similar to how the UK's AIM market works in equities, where the London Stock Exchange's (LSE) staff provides the majority of day-to-day regulation, with the LSE subject to FCA supervision. It is different from the PSM, a listed market, where the FCA has oversight via its Listing Rules.

5.16 We would welcome views from stakeholders on this key structural question of unlisted versus listed. Based on discussions before publication of this document, we anticipate stakeholders would consider the role of tax to be important and we discuss this below. We would also expect stakeholders to have views on the wider remit of the FCA and its oversight over financial services companies, and to consider how this should be applied in regulation of primary markets. The regulatory infrastructure supports and anticipates competition between stock exchanges, domestically and internationally. The FCA's remit includes recognising exchange operators and providing oversight of them through its supervisory functions. So while exchange-regulated markets are few in the UK, they are not unprecedented and no adjustment to the regulatory architecture needs to be made to provide for the FCA's oversight of them.

5.17 Some stakeholders argue a new UK MTF is unlikely to be successful unless it benefits from recognised stock exchange (RSE) status or a bespoke alternative. RSE is a tax status designated by HM Revenue and Customs (HMRC) for stock exchanges. A range of reliefs and other tax treatments relevant to holding and trading securities can be applied if they are traded on an RSE, as defined in UK tax law[13]. These include the quoted Eurobond exemption, which many tax experts regard as important if exchange trading of securities is to be commercially viable. A criteria an exchange must satisfy to be designated an RSE by HMRC is that securities traded on the exchange must be officially listed[14].

5.18 In the UK, the FCA is the listing authority; in Ireland and Luxembourg the major exchange operator is the listing authority. As a result, the Irish and Luxembourg exchange-regulated MTFs, being listed markets, meet the criteria for RSE status. The FCA would be the listing authority for any new UK exchange-regulated MTF. Therefore, without the FCA's involvement a new MTF could not meet the criteria for RSE status, unless changes were made to the definition and determination of RSE status.

5.19 Some stakeholders have suggested to us that tax is by far the most important factor we must consider. Though we cannot say for certain (and we would welcome views on this), we imagine most stakeholders consider it falls to the private sector to choose whether to develop a primary debt market MTF. But stakeholders might also argue that this is not necessarily viable given the tax status of a venue that could not offer an 'official' listing.

5.20 This could mean there is a case for the FCA making provisions for an MTF, like GEM or EuroMTF, through amendments to the listing regime. Though the PSM serves as a precedent for the authority taking a lead in formulating solutions, this was done by the predecessor FSA rather than the FCA, and under a different set of statutory objectives. We will continue to reflect on this through this process and we welcome stakeholders' views.

Q5.3: Do you believe a specialist wholesale bond MTF could be a commercially viable proposition without RSE status?

Q5.4: Do you believe the creation of a new wholesale bond-focused MTF would be in the wider interests of investors?

What might a listed wholesale bond MTF look like?

5.21 In the previous section we discussed whether the 'potential MTF gap' should be filled by an exchange-regulated solution or if the FCA should act. Though it remains uncertain that we will pursue the idea of an MTF, we have spoken with stakeholders about the key elements of such a market if the FCA were to act in this area.

5.22 In this final part of the chapter we discuss and set out for comment some early thoughts on six elements which arose in our preliminary talks.

Investor documentation

5.23 Probably the most important point for consideration in the design of any listed MTF is the investor documentation which would need to be filed to support the admission of securities to

13 Further information on Recognised Stock Exchanges is set out here: www.gov.uk/guidance/recognised-stock-exchanges

14 See s1005(3) Income Taxes Act 2007 (as amended)

listing. We are aware that in some overseas markets, requirements for documentation can be relatively light. While this is attractive to issuers, who rarely welcome the burden of preparing documentation, it must be balanced with the needs of investors to create confidence in the market. Without market confidence, a market has little prospect of success.

5.24 Investor documentation serves a dual purpose: to inform investors and to aid legal liability in the event of material misstatements or omissions. While litigation is rare, the risk of it has the effect of ensuring due diligence occurs. A listed MTF would offer the advantage of the authority having the option to make rules establishing the new market's admission document as constituting listing particulars under section 79 of the FSMA. This means that the statutory liability set out in section 90 of FSMA[15] would apply, and this is the basis on which the current PSM operates. Our early discussions with a small number of practitioners confirmed this is a promising basis for this aspect of the market's design.

5.25 Practitioners also suggested the market should feature pre-vetting and authority approval of documentation before publication. This is an important design point. It would probably place any new market on a broadly level playing field with the GEM and EuroMTF markets, and make it more heavily regulated than the Singapore Exchange (SGX), which does not feature pre-vetting. SGX is a major venue for Rupee-dominated bonds issued to international investors in markets outside India. While pre-vetting is common in many large markets globally, it is by no means universal and we would be happy to examine other models.

5.26 Finally, it was suggested the starting point for document content would be the PD, but with greater flexibility for the authority on some 'pain-points' in the PD (discussed in more detail in the sections that follow). Because the document would constitute listing particulars, the statutory 'necessary information' test would apply in addition to content explicitly required by any rules on content we established[16].

Information on guarantors

5.27 A common problem under the PD is its requirement for financial information on guarantors in group structures. A problem practitioners frequently report is a lack of a sufficiently flexible mechanism to assess the materiality of a guarantor and, if deemed immaterial, permitting omission of information on guarantors. Corporate structures often have numerous guarantors, and in many cases they are 'upstream' or 'downstream' guarantees to ensure liabilities of one group member rank equally with another, rather than providing an enhancement to the credit of the issuer vehicle. Practitioners tell us existing EU MTFs provide greater flexibility on these matters than the Regulated Markets in the same jurisdiction operated by the country's securities regulator in accordance with the PD.

Financial information

5.28 A listed debt MTF could offer a range of sensible accommodations for international issuers whose financial information is non-compliant with the PD. The cost of restating financial

15 Section 90(1), FSMA 2000 states: 'Any person responsible for listing particulars is liable to pay compensation to a person who has —
(a) acquired securities to which the particulars apply; and
(b) suffered loss in respect of them as a result of —
(i) any untrue or misleading statement in the particulars; or
(ii) the omission from the particulars of any matter required to be included by section 80 or 81.'

16 Section 80(1), FSMA 2000: 'Listing particulars submitted to the [FCA] under section 79 must contain all such information as investors and their professional advisers would reasonably require, and reasonably expect to find there, for the purpose of making an informed assessment of —
(a) the assets and liabilities, financial position, profits and losses, and prospects of the issuer of the securities; and
(b) the rights attaching to the securities.'

information is usually expensive and often seen as a cost that outweighs the benefit of listing any one bond.

5.29 The original purpose of the PSM was to provide flexibility to accommodate national generally accepted accounting principles (GAAPs). Under PD requirements, an issuer must present its financial information either in IFRS or in other recognised GAAPs. Although many international jurisdictions have converged with IFRS, our understanding is there may still be some value for issuers in having this facility.

5.30 Additionally, the PD's rules on consistency of financial information across financial periods can prove difficult for some issuances. Under the PD, the last year of financial information needs to be in the same accounting standards as will be used in the next set of accounts. This rule applies to both issuer and guarantor financial information. International issuers are sometimes unable to comply without having accounts restated, either because there are changes to accounting standards or individual issuers have changed accounting policies. Again, a listed debt MTF could offer greater flexibility here.

5.31 Finally, issuers often wish to include voluntary pro-forma financial information to illustrate activities or the impact of events to investors, but may be reluctant to incur the costs of having an accountant report on a pro-forma in line with PD requirements. This is another area where a listed MTF could offer greater flexibility.

Approach to programmes

5.32 Some practitioners argue the PD is not flexible enough in the ability it offers issuers to amend issuance programmes after they are finalised. Market participants have suggested it should be possible to add new lines of securities by publishing supplementary documentation (supplementary listing particulars, in the case of a market designed along the lines suggested above) rather than having to produce a new prospectus, as is required under the PD.

Incorporation by reference

5.33 A listed debt MTF could permit a wider range of documents to be incorporated by reference into the main investor documents. For example, documents filed in jurisdictions outside those permitted by the PD could be permitted, provided they are filed with a regulatory body or mandated to be publicly available. Some market participants have suggested future documents should be automatically incorporated by reference, for example where it is known that future financial information will be published.

Labelling

5.34 We would welcome views on whether stakeholders think we should retain the Professional Securities Market name and apply it to any new listed MTF segment, or if any new segment should be presented as entirely new. We have suggested that take up of the PSM has been low. However, in our view, awareness of the PSM is relatively strong, which would suggest the Professional Securities Market name is a good start. Suggestions of other names are welcome.

Q5.5: Do you have any comments on the key elements of a possible listed wholesale bond MTF we outline above?

6.
Retail access to debt markets

Introduction

6.1 In the last chapter, we discussed opportunities to expand the overall UK market offering so it caters better for debt securities of a type suited to wholesale investors. In this chapter, we discuss how the prospectus regime addresses retail participation in debt markets. This is a debate we consider important.

6.2 A number of market participants have called for greater retail participation in debt markets, and especially for reforms to enable retail investors to more readily access straightforward debt instruments issued by established corporates. It is argued this would meet the twin objectives of increasing capital available to issuers and broadening high-quality investment opportunities for retail investors. The case for reform is seen to be particularly strong where it would have the effect of enabling retail investors to invest alongside wholesale investors on the same financial terms.

6.3 We recognise the question of whether and how to incentivise retail participation in debt markets is a complex one with several factors to be considered, including the extent retail investors should be encouraged to participate and how this can be achieved. In this context, some stakeholders have highlighted unintended consequences of our current approach to the scrutiny of debt prospectuses in relation to issuances intended for retail investors. These stakeholders suggest that our existing approach constitutes a form of over-regulation which has the effect of excluding retail investors from participation in the highest quality debt issuance, leaving fewer options for those retail investors wishing to allocate capital to high-quality corporate debt. We would like to explore this question further in this chapter.

The current issuance process

6.4 Primary debt capital markets are polarised between securities targeted exclusively at wholesale investors and, thanks to efforts to develop specialist retail debt markets in recent years, securities targeted exclusively at retail investors. The former is well established and significantly larger than the latter. Most routine debt issuances by large corporates are issued from prospectuses structured as general bond issuance programme documents, which are filed in advance in anticipation of future issuances and renewed annually. The bonds are placed exclusively with institutional investors, often in a very short timeframe, with a term sheet (or "Final Terms" document, as it is called in the PD) being filed with us. It is generally considered a low-cost and efficient process.

6.5 The PD requires a prospectus to be 'easily analysable and comprehensible'. This is to ensure that the description the prospectus contains of the security's key features is capable of being understood by the investor group at which it is targeted. We apply the requirement considering the nature of the security being offered, the issuer and – importantly – the investors likely to participate. As a result, we are comfortable that the type of programme documentation developed over many years in mainstream wholesale bond markets generally meets the 'easily analysable and comprehensible' requirement in the PD.

6.6 With the emergence of specialist retail bond markets earlier in the decade, we reconsidered the 'easily analysable and comprehensible' requirement. We supported development of those markets with guidance to practitioners making it clear that particular attention to disclosure was needed for offers to the public and for issuances on specialist retail debt markets[17]. This guidance highlights key areas of concern in retail bond prospectuses, for example the need for disclosure on structural subordination, and emphasises the prospectus has to be 'easily analysable and comprehensible' to retail investors.

The potential unintended consequence

6.7 Subsequently, some stakeholders have argued that the scope of this guidance provides a disincentive for large, established corporate issuers that usually target institutional investors to issue straightforward bonds to retail investors as they will need to reformat their documentation for a retail audience. As a result, the bonds available in specialist retail debt markets are less diverse than might otherwise be the case. They frequently comprise issuances by private companies from standalone prospectuses, and often exhibit structural or credit features that support a higher headline interest rate. The feedback clearly suggests market polarisation is in part a consequence of our guidance. To address this, some stakeholders have suggested we revisit our assessment of the correct application of the 'easily analysable and comprehensible' requirement within the PD. They argue that the inclusion of retail investors in an issuance of debt securities does not alter the nature of those securities and, therefore, it should be possible for some debt securities to be issued to retail investors from a programme that has otherwise been prepared to support issuance into the mainstream (i.e. wholesale) debt capital market.

6.8 These stakeholders have argued that, where the nature of the issuer's business model and the risks underlying it are widely understood, and where the security being issued is not complex, the 'easily analysable and comprehensible' requirement is likely to be met by normal bond programme documentation, even when retail investors are included in the marketing. In such instances, the additional focus on clarity need not be applied by the regulator during the document review and approval process. Stakeholders further argue that, as a consequence, it is more likely retail investors will be able to invest alongside wholesale investors and on the same terms in lower risk and higher quality securities. They suggest this would eliminate an incentive to issue 'retail' and 'wholesale' tranches of debt, which leads to the investor groups getting different terms. These stakeholders argue that retail investors are best protected by ensuring they get the same terms as wholesale investors.

6.9 This is a complex area, but one we are keen to explore. While any proposed approach to address this issue would be subject to the constraints of the PD, we are keen to receive stakeholders' views.

17 See UKLA/TN/632.1: www.fca.org.uk/publication/ukla/tn-632-1-final.pdf

Q6.1: Do you agree that there are forms of issuance which could be issued to retail investors from programme documentation without the need for the more intensive scrutiny from us that is set out in our existing guidance on retail bonds?

6.10 If this is correct, the question then arises as to how the right population of issuers and securities should be identified. The factors we might consider are:

- Whether the issuer has an established debt issuance programme, and has a track record of issuing and repaying securities.
- The nature and complexity of the security being offered, and whether it is being offered on substantially the same terms to retail and wholesale investors.
- Whether the issuer or guarantor has an existing premium listing of equity securities.
- The credit rating of the issuer, or its inclusion in certain indices, or its financial track record.
- The degree of structural subordination the security is subject to, and where the issuer sits within a larger corporate group.

Q6.2: What criteria should be considered in seeking to identify relevant issuance?

Q6.3: Should such issuance be clearly labelled or identified, and, if so, in what way?

Annex 1
List of questions

Q1.1: **Are there any issues or aspects of the listing regime not covered in this paper that you think we should be discussing? If so, please provide more detail.**

Q3.1: **Do you have any comments on the underlying rationale for standard listing? Are the key assumptions on which the regime was built, including equality of treatment between UK and non-UK companies, still valid?**

Q3.2: **Do you think the name 'standard listing' is unattractive to prospective applicants? What alternative suggestions do you have?**

Q3.3: **What are your views on development of a distinct international segment? If you think it would be beneficial, what investor protections should apply? What, if any, alternative proposals would you put forward to assist non-UK issuers wishing to raise equity capital in the UK?**

Q3.4: **Do you think that the premium listing obligations for open-ended investment companies should be removed, and the securities category repositioned in the standard listing segment? In arriving at your view, what factors have you taken into account?**

Q3.5: **Are there any individual elements of the premium listing regime that should be retained for open-ended investment companies? If so, what are they and why should they be retained?**

Q4.1: **How effective are the UK's primary equity markets in providing capital for science and technology companies in the scale-up phase?**

Q4.2: **What are the factors that adversely impact the effectiveness of the UK's public equity markets in providing scale-up capital?**

Q4.3: **What potential enhancements to the primary market regulatory framework could contribute to improving the**

provision of scale-up capital?

Q4.4: Should science and technology companies have reached a certain stage of business maturity before accessing public equity markets? If so, how should that stage of maturity be defined?

Q4.5: What are the characteristics of the capital market structures that drive short-term behaviours?

Q4.6: What are the drivers of these characteristics, and how important is regulation in this context? What changes could be made to help address these drivers?

Q4.7: The current public equity capital market model provides different things. How important are each to the long-term investor? How important are each to early-stage issuers? Are there additional important features of public equity markets not mentioned below?

l. Corporate transparency (through listing documentation, periodic financial information, and ad hoc announcements)

m. Due diligence by experts and third parties (such as lawyers, accountants, sponsors and sector specialists)

n. Investor stewardship

o. Regulatory oversight (such as the assessment of issuers against eligibility criteria, and the scrutiny of listing documentation)

p. Corporate governance requirements or other investor protections (such as pre-emption rights)

q. 'Listed' status (e.g. for investment mandate or tax purposes)

r. Coverage by research analysts

s. A platform for further fund-raising from existing or new investors

t. Indexation

u. The ability to trade investments

v. Price discovery and value discovery

Q4.8: What features would a long-term capital market need to have, and need to avoid, to be effective?

Q5.1: Do you think there is an opportunity in the UK for a new wholesale bond MTF? If so, where is the opportunity and

why? Please specify products, sectors and geographies.

Q5.2: To what extent do you think investors understand the differences between MTFs and Regulated Markets and the differing levels of investor protection which apply to them? Does your answer differ when considering different types of investor (e.g. retail versus wholesale)?

Q5.3: Do you believe a specialist wholesale bond MTF could be a commercial viable proposition without RSE status?

Q5.4: Do you believe the creation of a new wholesale bond-focused MTF would be in the wider interests of investors?

Q5.5: Do you have any comments on the key elements of a possible listed wholesale bond MTF we outline above?

Q6.1: Do you agree that there are forms of issuance which could be issued to retail investors from programme documentation without the need for the more intensive scrutiny from us that is set out in our existing guidance on retail bonds?

Q6.2: What criteria should be considered in seeking to identify relevant issuance?

Q6.3: Should such issuance be clearly labelled or identified, and, if so, in what way?

Appendix 1
Key trends in UK primary equity markets

Introduction

1. In Chapter 2, we laid out the structure of the current listing regime and our conclusions from an extensive analysis of data related to the UK's primary equity markets. In this appendix, we present that data analysis in full and discuss key long-term trends, setting out the main ways issuers have used UK primary equity markets in recent years.[16]

2. We group the data into four broad themes:

- The total number of quoted companies and how this has changed over time.
- The IPO market, and in particular whether IPOs raise funds for the company or simply facilitate an exit for existing investors.
- Further issues of shares post-IPO, and what the proceeds are applied to.
- The international context, comparing the UK's primary markets with other major securities markets.

3. We explain the basis of preparation for our charts and how the data are sourced in Appendix 2. The data concentrate on equity issuances. Given that a key focus of this work is availability of capital for trading companies[18] we include equity issuers' global depository receipt (GDR) securities but have endeavoured to remove investment funds, including investment trusts and ETFs, from the data.

The long-term trend in numbers of quoted companies

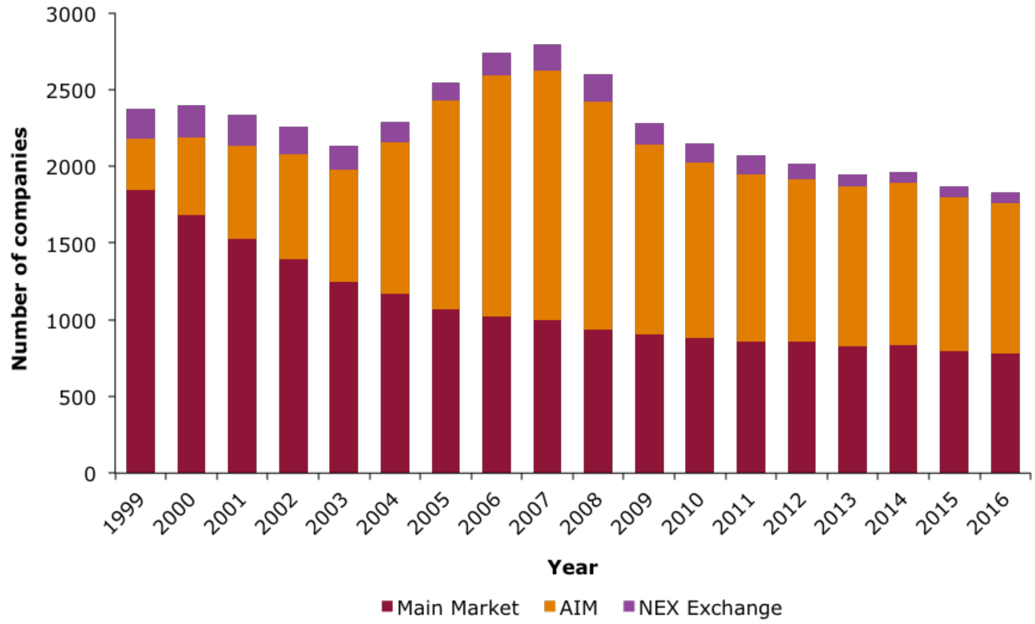
Changes since 1999 in the total number of quoted companies

4. We examine below the total number of quoted companies on the UK's markets in the 17 years since 1999, to capture changes since the end of the dotcom boom. During that period, the total number of quoted companies has declined; the numbers of Growth Market[19] companies have risen considerably, by 220%, but this has not offset the 57% decline in numbers of companies on the Main Market during the same period.

18 By trading companies we mean companies other than closed- or open-ended funds

19 Companies admitted to trading on AIM and the NEX Exchange Growth Market

Figure 1: Number of quoted companies, 1999-2016[20]



Source: London Stock Exchange, NEX Exchange[21]

5. Figure 1 shows the overall number of quoted companies using UK markets since 1999, split between the LSE's Main Market and the AIM and NEX Exchange growth markets, which we refer to in this Appendix as Growth Markets.

6. The chart shows a decline in the total number of quoted companies over the full period (2,178 in 1999 down to 1,831 by mid-2016). Within those headline figures, numbers of growth market companies have increased significantly, from 535 in 1999 to 1,050 in 2016. However, that increase is offset by a larger decline in the number of Main Market companies. Main Market company numbers are down from 1,843 in 1999 to 781 in 2016.

7. As can be seen from Figure 1, the most significant changes are between 2003 and 2007, with a rapid increase in Growth Market companies more than offsetting the gradual decline of Main Market companies.

Exploring the decline in total numbers of quoted companies

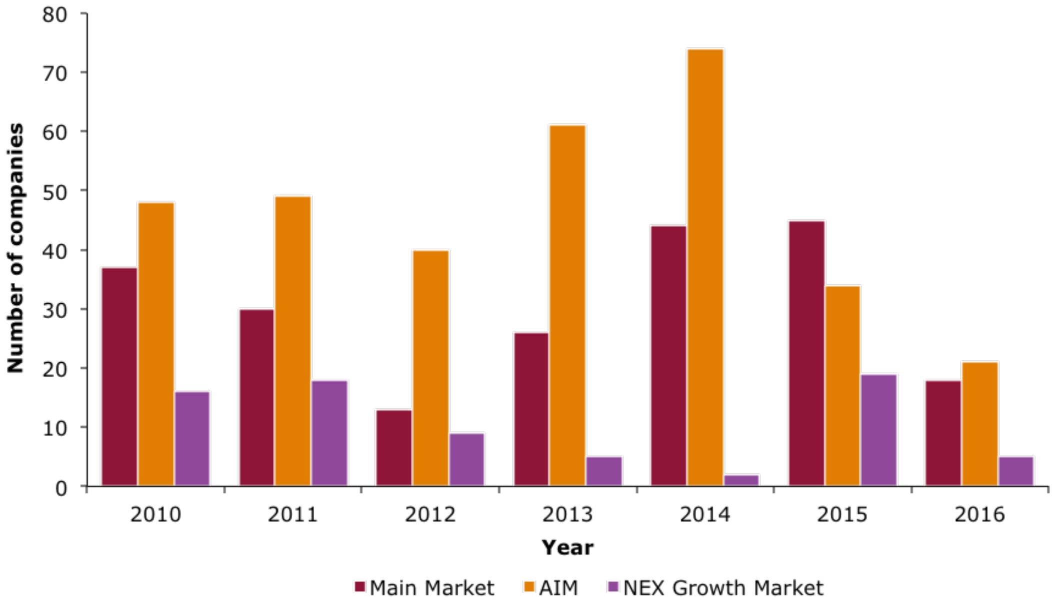
8. In light of these changes in the total number and mix of quoted companies, we analysed reasons issuers gave for cancellation between January 2010 and June 2016, and split our analysis between markets. We also assessed new entrants to quoted markets during the same period.

20 Year-end figures for 1999-2015; end-June figure for 2016.

21 Historical data presented represents issuers admitted to trading on NEX Exchange's predecessor markets (ISDX, Plus Markets and Ofex).

New entrants

Figure 2: UK IPOs by securities market, January 2010 to June 2016



Source: Dealogic, FCA

9. The figures above have been calculated as part of our review of IPO documentation for all UK IPOs from January 2010 to June 2016. The numbers differ slightly from those presented elsewhere in this appendix as they include more 'technical' IPOs, such as new holding companies for companies already listed (see Appendix 2 for further details).

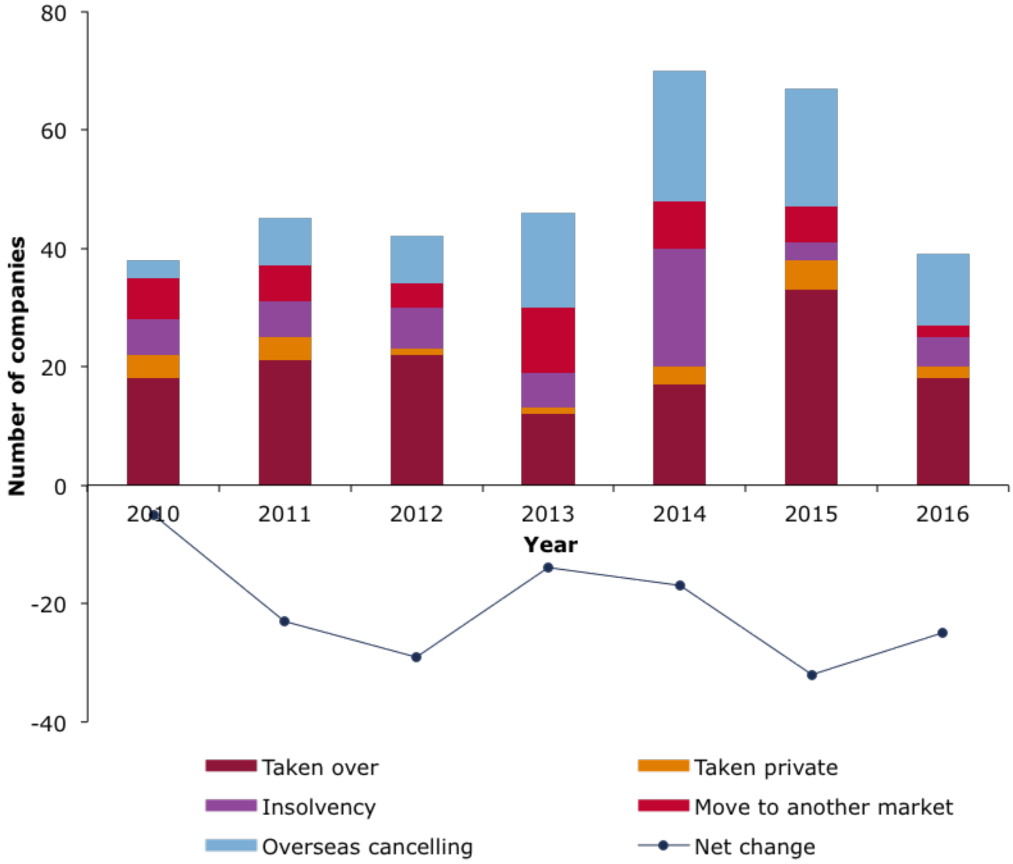
10. The data show the majority of IPOs were on AIM, with the exception of 2015 which showed a peak for Main Market IPOs (45) and a reduced number of AIM IPOs.

11. The 2012 low point particularly affected the generally larger listed company IPOs, as Growth Market IPOs are proportionately larger, leading us to question whether smaller IPOs may be more resilient to macroeconomic headwinds. At the time of writing, it remains to be seen whether the volumes of 2015 have been reproduced in 2016 given current market conditions.

Main Market delistings

12. Our review of the stated reasons for delisting from the Official List identifies five reasons (see Figure 3). The most common cause is the result of a takeover, with moving to another capital market segment also important. It is also notable that international companies' cancellation of secondary listings from the standard segment is significant.

Figure 3: Listed company cancellations by stated reason for cancellation, January 2010 to June 2016



Source: London Stock Exchange, FCA

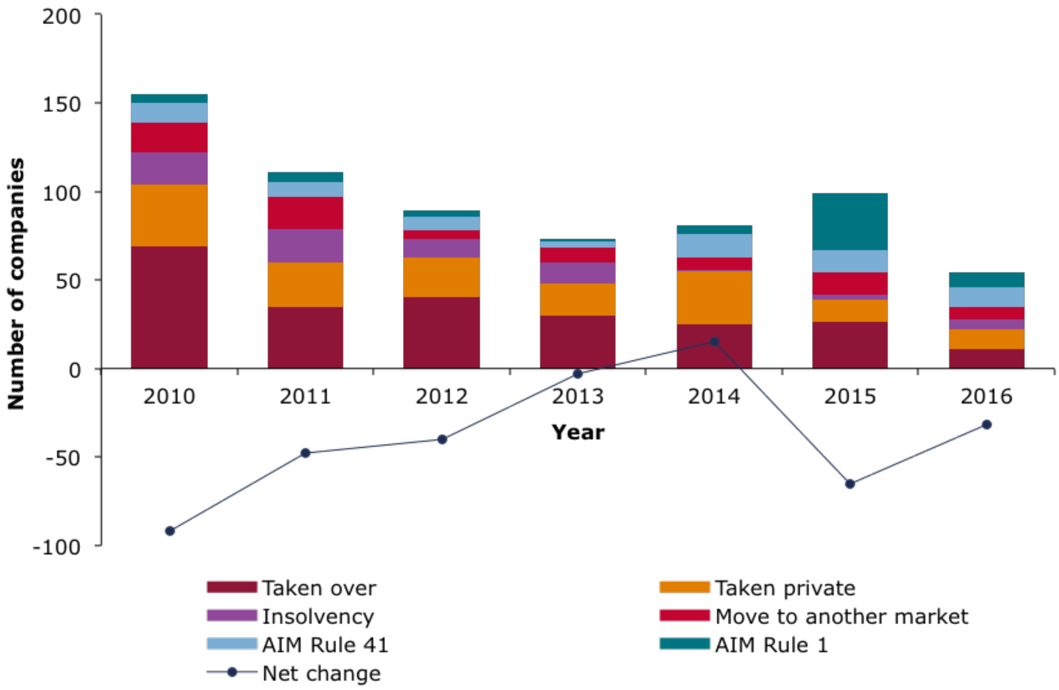
- **Taken over:** 141 issuers were acquired by another listed company, a private entity or an issuer admitted to another market.
- **Taken private:** 20 issuers decided that they no longer wished to list their equity securities on a public market. This mainly occurred where issuers were in financial difficulties and wanted to either undertake a transaction which would be simpler and less expensive out of the public markets, or where the benefit of listing no longer exceeded the costs involved. These were usually smaller issuers citing the illiquidity of their shares.
- **Insolvency:** 53 issuers delisted following insolvency.
- **Move to another market:** 44 issuers moved to other capital market segments, sometimes as part of a reverse takeover (a non-listed company merging with a listed company). In most cases the new market was AIM.
- **Overseas cancelling:** 89 issuers cancelled secondary listings of their shares on the standard segment or their GDR facility, while retaining their primary listing overseas during the period.

13. Our analysis shows that around a quarter of the cancellations on the Main Market were because an overseas issuer felt the benefit of a secondary listing in the UK was no longer worth the costs attached. Feedback from stakeholders, together with analysis of announcements and holdings of FCA data, suggest changes in securities regimes in many jurisdictions have reduced the incentive to have different listings for securities. For example, new rules permit increased cross-border trading on domestic exchanges.

14. The year-on-year data show that 2014 was an exceptional year for insolvency-related cancellations; 20 such cancellations were recorded in 2014 compared with six to eight cancellations in other years. This was due to the FCA cancelling the listing of 16 securities which had been suspended for a long period following events leading to insolvency in prior years. The remainder (four) is the number of insolvencies occurring that year.

AIM cancellations

Figure 4: AIM cancellations by stated reason for cancellation, January 2010 to June 2016



Source: London Stock Exchange, FCA

15. Figure 4 illustrates the following stated reasons for cancellation from AIM:

- **Taken over:** 236 issuers were acquired by another quoted company, a private entity or an issuer admitted to another market.
- **Taken private:** 155 issuers decided they no longer wished to retain a trading facility for their securities on a public market. This chiefly occurred where issuers were in financial difficulties and wanted to either undertake a transaction which would be simpler and less expensive out of the public markets, or where the benefit of listing no longer exceeded the costs involved. These were usually smaller issuers citing the illiquidity of their shares.
- **Insolvency:** 69 issuers cancelled following insolvency.

- **Move to another market:** 74 issuers moved to other capital market segments. A significant number occurred as part of a reverse takeover or other transaction.

- **AIM Rule 41:** an issuer suspended for more than six months is cancelled pursuant to AIM Rule 41. A total of 68 issuers were cancelled under AIM Rule 41.

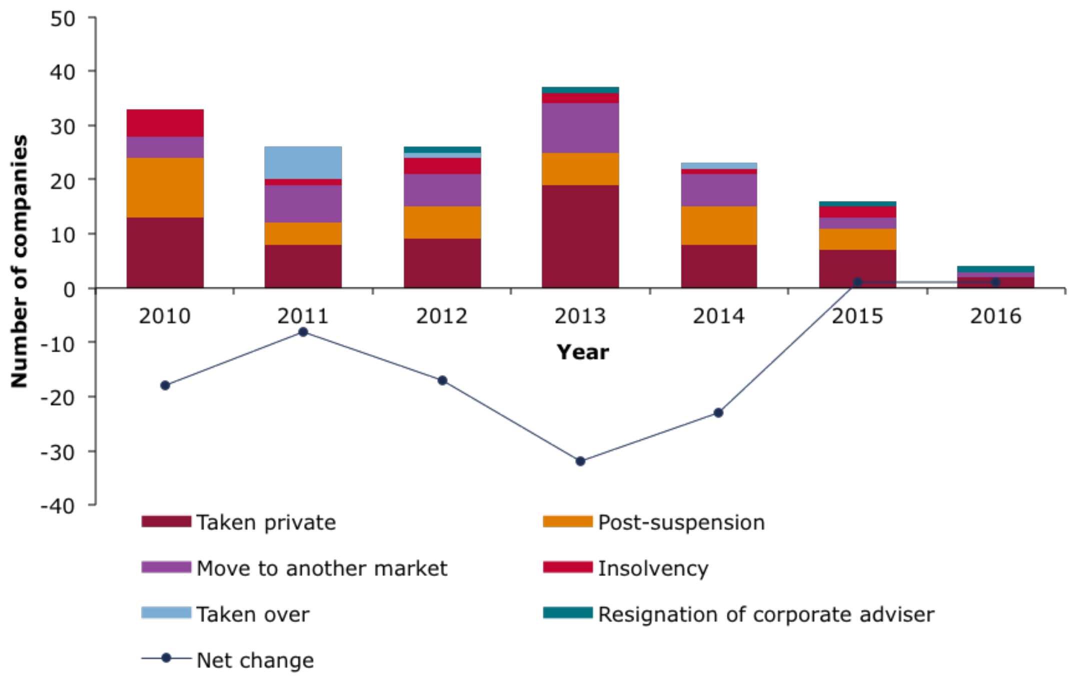
- **AIM Rule 1:** an issuer without a nominated adviser[22] for one month is cancelled under AIM Rule 1. In total, 60 AIM issuers were cancelled due to AIM Rule 1. There was a peak of such activity in 2015 due primarily to cancellation of Chinese issuers unable to replace nominated advisers that had resigned.

16. The most significant categories are issuers which had been acquired followed by those taken private and those moving to another market.

17. Insolvencies and issuers taken private (often those in financial difficulty) appear to have fallen throughout the period under review, but this figure might be lower than it would be otherwise due because AIM Rules 1 and 41 cancellations may also occur as a result of financial difficulties.

NEX Exchange Growth Market cancellations

Figure 5: NEX Exchange Growth Market cancellations by stated reason for cancellation, January 2010 to June 2016



Source: NEX Exchange, FCA

18. Figure 5 identifies the following stated reasons why NEX Exchange Growth Market companies cancelled their quotation:

- **Taken private:** 64 NEX Exchange issuers decided they no longer wished to retain a trading

22 AIM companies are required to have a nominated adviser (or Nomad) in place at all times. Therefore, in the event that an issuer ceases to have a Nomad, it must appoint a new one within one month or face cancellation.

facility for their securities on a public market. As with Main Market and AIM issuers, this mainly occurred where issuers were in financial difficulties and wanted either to undertake a transaction which would be simpler and less expensive out of the public markets, or where the benefit to the issuer no longer exceeded the costs involved. These were usually smaller issuers citing the illiquidity of their shares.

- **Post-suspension:** 38 NEX Exchange issuers were cancelled following a prolonged suspension of trading.
- **Move to another market:** 34 NEX Exchange issuers moved to a different market segment.
- **Insolvency:** 14 NEX Exchange issuers became insolvent.
- **Taken over:** 8 NEX Exchange issuers were acquired by another quoted company, a private entity or an issuer admitted to another market.
- **Resignation of Corporate Adviser:** this is similar to AIM Rule 1 above. 3 NEX Exchange issuers were cancelled for this reason.

19. The data suggests that NEX Exchange Growth Market issuers are more likely to seek cancellation to become a private company than both AIM issuers and listed companies. Our review suggests NEX Exchange Growth Market issuers are typically smaller than AIM issuers, and maybe the decision to be in the public or private arena is more finely balanced for this section of the market.

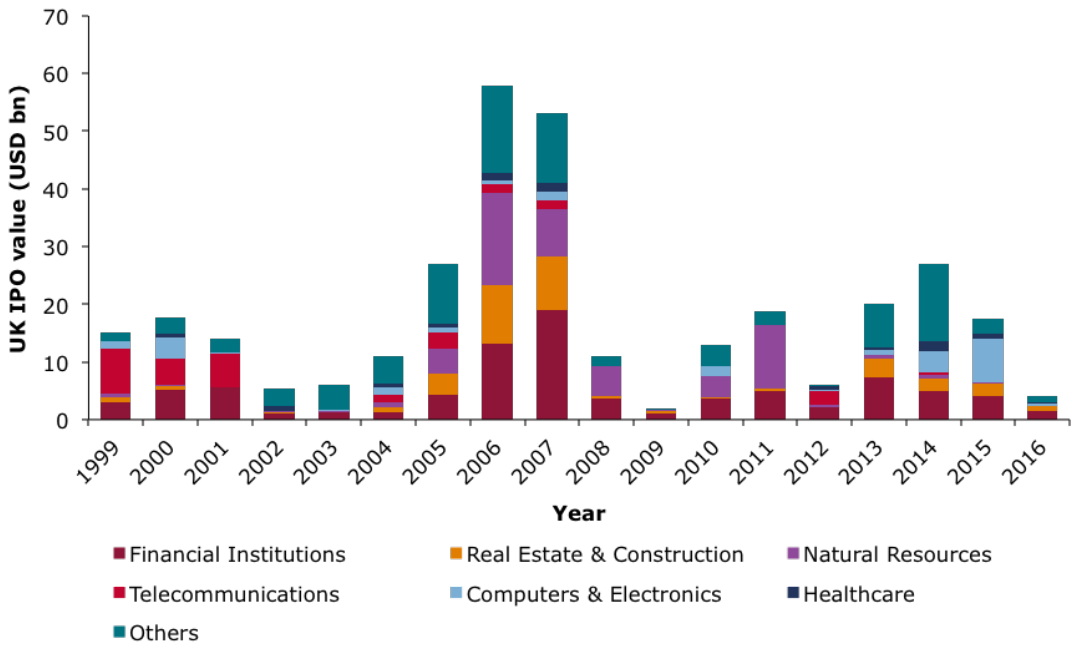
20. In common with listed securities above, we noted a considerable proportion of issuers seeking to cancel what was effectively a secondary listing; these cancellations are included in the figures for moves to another market. Many issuers in the latter category were admitted to both the NEX Exchange Growth Market and AIM, and once again this may point to a reducing incentive for issuers to maintain multiple quotations.

The UK IPO market

21. Examination of IPOs is essential for any consideration of the effectiveness of primary markets, as an IPO is a decision to make use of the listing regime, or in the case of a Growth Market company, that particular regime. In this section we examine what sorts of companies access the UK's IPO markets, focusing on sector and ownership. We also examine the IPO as a fundraising exercise, looking at whether proceeds accrue to issuers or owners, the use of proceeds, and the average amount raised.

Sector trends

Figure 6: UK IPO value by sector (US$ billions), January 1999 to June 2016



Source: Dealogic, FCA

22. Figure 6 shows UK IPOs split by seven broad sectors, showing the US dollar value of IPOs in each year since 1999 for the LSE's Main Market and AIM combined. We have been unable to identify NEX Exchange IPOs, so these have been excluded, although the volume and typical value of such IPOs would imply their effect would be immaterial to the data analysis.

23. As the chart shows, it is difficult to identify clear trends. It is noticeable that in many of the years covered the biggest sector is 'Others', highlighting the diverse set of sectors from which issuers join capital markets. One can nonetheless make some observations on the chart and the underlying data:

- The financial services sector is significant throughout and notably in the lead up to the financial crisis.
- The telecommunications sector is particularly significant as part of the dotcom bubble in 1999-2001, along with the bursting of that bubble and consequent impact on IPO volumes in the years that followed. A review of the underlying data for 1999 shows IPOs by Scottish Telecom (Thus), Korea Telecom, Eircom, Qatar Telecom and others formed a significant portion of IPOs by value that year. For similar reasons the computers and electronics sector is notable for the number of IPOs on the Main Market in 1999 and AIM in 2000.
- Following the end of the commodities' supercycle[23] and the impact of oil's falling price in 2014, there is a much reduced impact from the natural resources sector.

23 The rise (and subsequent fall) of commodity prices between 2000-2014 attributed to rising demand in the BRICs countries (Brazil, Russia, India and China), primarily China.

- The climax of the Eurozone crisis in 2012[24] coincides with the lowest annual value of UK IPOs in recent years.
- Large values for natural resources IPOs in 2006 and 2007 arise primarily from issuers in the former Soviet Union.
- There was a great difference between the value of and the underlying number of deals in 2011, primarily in natural resources. This reflects the impact of a small number of large deals, particularly that of Glencore.
- Conversely, the underlying data for the number of deals in 2015 showed a higher number of smaller IPOs on the Main Market, particularly by special purchase acquisition companies (SPACs).
- The underlying data for AIM revealed that a particularly large number of natural resources IPOs occurred between 2004 and 2007.

Trends in ownership – private equity backed companies in IPO markets

24. For many years, we have noted commentary regarding the source of IPO candidates and their reason for seeking admission of their shares to public markets. An opinion frequently expressed in our stakeholder consultation work is that many IPOs arise from exits by private equity shareholders. Consequently proceeds generally flow to selling shareholders rather than to the companies themselves.

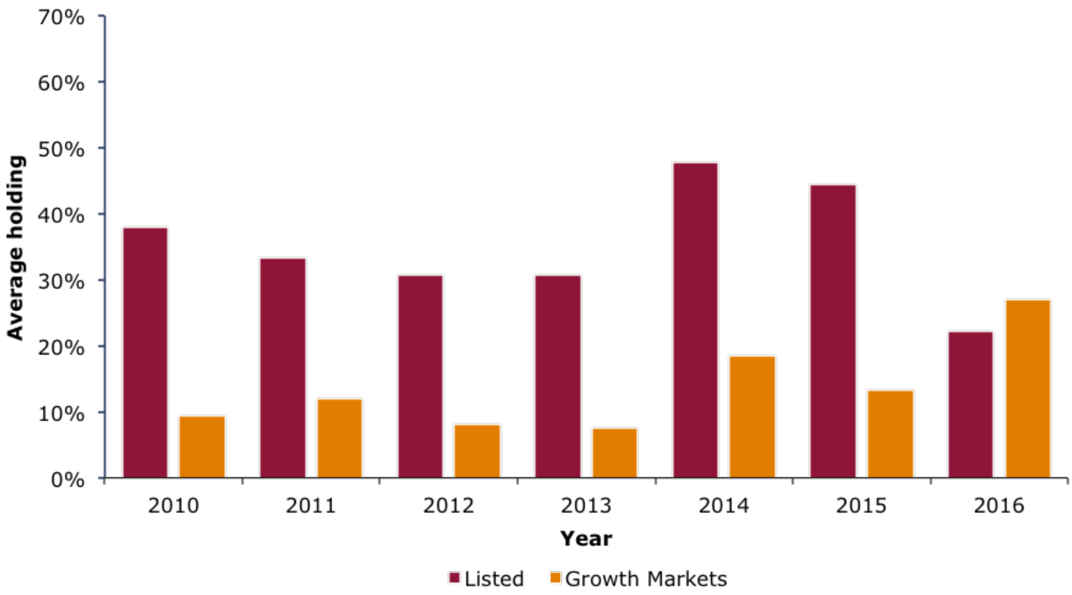
25. We have therefore reviewed all IPO prospectuses and admission documents from January 2010 to June 2016 to consider:

- The holdings of private equity and venture capital companies pre-IPO and whether they are selling shares as part of the IPO.
- What use, if any, the proceeds of the IPO are put to.

26. Figure 7 examines the frequency private equity backed companies floated on UK public markets in that period. It shows private equity backed companies are a significant presence in IPOs, but they have yet to exceed half of all floats.

24 The yield on Greek ten-year bonds peaked at 44.21% in March 2012.

Figure 7: Percentage of IPOs with private equity holders pre-IPO, January 2010 to June 2016



Source: Dealogic, FCA

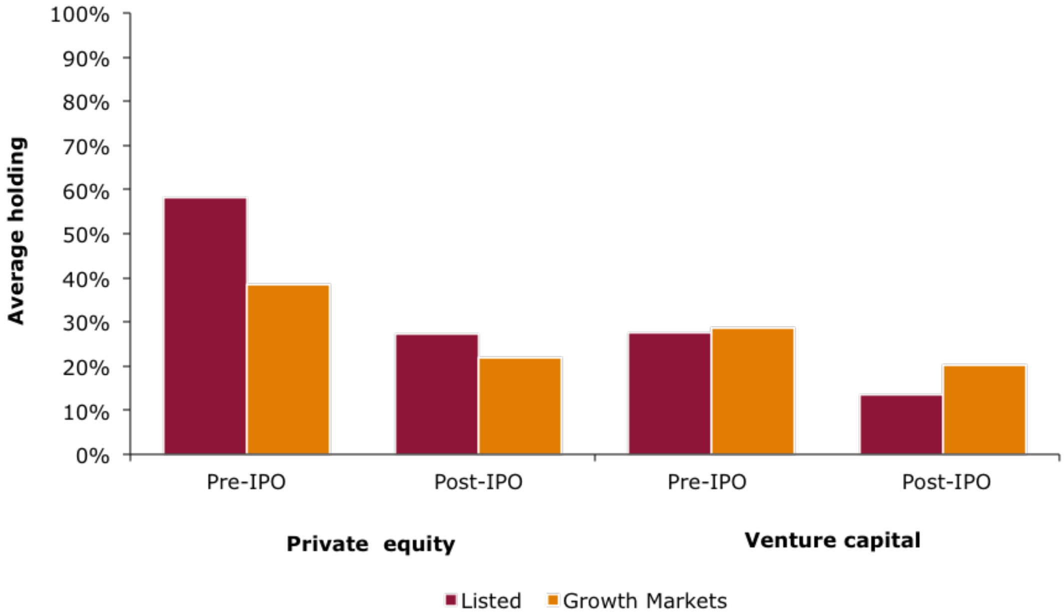
27. There were more private equity backed IPOs in 2014 and 2015, suggesting IPOs involving private equity holders cluster in certain periods. However, even in these 'peak' years, the figure was under 50% of all IPOs.

28. We reviewed data for IPOs via introduction (where no proceeds are raised by the issuer or its pre-IPO holders in the primary market) over the same period, and more than 40% of introductions to the listed market had a private equity holder pre-IPO. Given the nature of such IPOs, no exit was being made by the private equity holders in the primary market.

29. We also reviewed underlying data for IPOs where proceeds are raised in the primary market. We noted that in all but one of the years private equity holders in listed company IPOs sold shares on every occasion; in the exception, 2015, this happened in more than 90% of cases. For Growth Market IPOs the results were similar, with more than two-thirds of private equity holders selling shares in the primary market.

30. We consider the pre- and post-IPO holdings of private equity (and venture capital) holders below, given the fact that when these holders sell down they are not necessarily exiting completely. Figure 8 looks at the average holdings of private equity and venture capital entities pre-IPO and the change in the average figure post-IPO. We would note that as many IPOs include an element of dilutive primary issuance, the reduction in average percentage will not equate to the level of disposal by such entities.

Figure 8: Average percentage holdings of private equity and venture capital holders pre- and immediately post-IPO, January 2010 to June 2016



Source: Dealogic, FCA

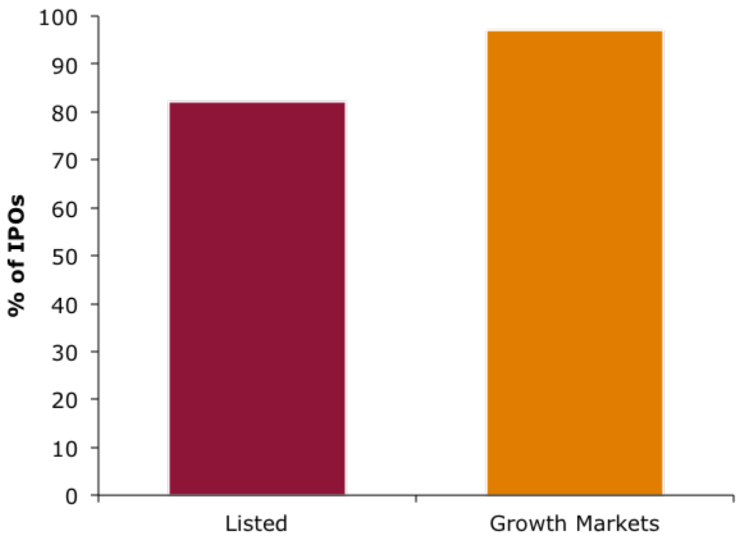
31. Our conclusion is that private equity and venture capital investors generally retain holdings in companies they float. In reviewing the underlying data, we found negligible numbers (around 1%) of private equity holders exiting completely. Given the large reduction in average private equity holdings (albeit a reduction from a large initial holding), the data support the view that IPOs are generally only partial exit routes for private equity and, to some extent, venture capital holders.

IPOs as fundraising exercises

32. IPOs are often regarded as capital raising exercises. In this section we examine the extent to which IPOs raise capital for the underlying company, as opposed to selling shareholders.

33. Firstly we test the straightforward proposition that IPOs raise funds for the company. During our research we noted a number of IPOs where no proceeds flowed to the issuer, as the accompanying share sale was entirely a divestment by existing holders. There was also a number of introductions, but as these IPOs had generally accessed the public markets already we have excluded them from our data. Figure 9 shows the percentage of IPOs where proceeds flow to the company.

Figure 9: Percentage of UK IPOs (that raise proceeds) where proceeds flow to the issuer, January 2010 to June 2016

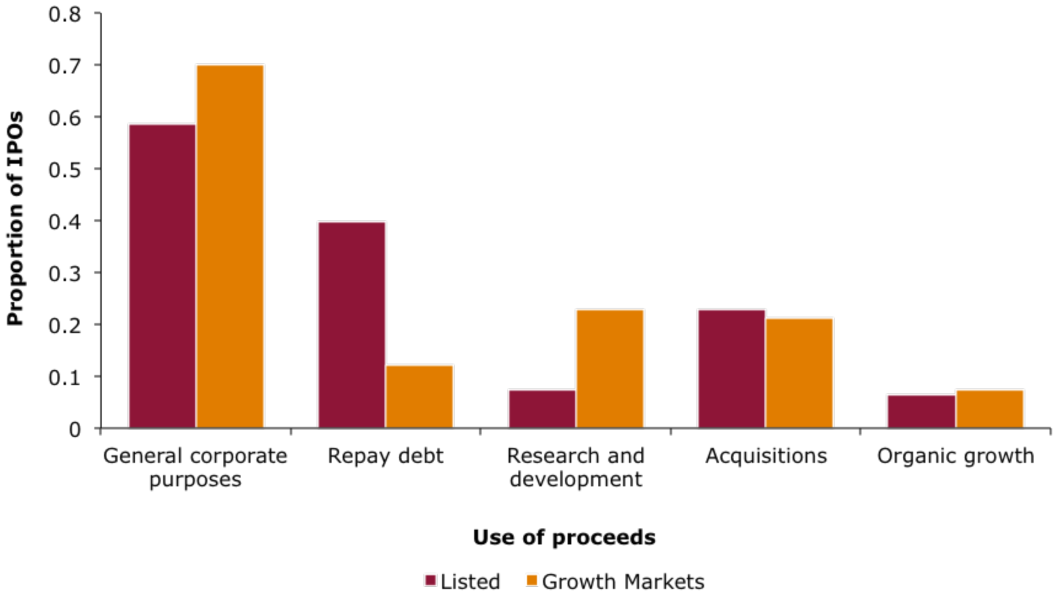


Source: Dealogic, FCA

34. Fewer than 20% of IPOs for listed companies involved proceeds flowing only to the pre-IPO shareholders. This challenges the assertion that the primary destination of listed IPO proceeds is to pre-IPO shareholders.

35. Secondly, we looked at the use to which companies put IPO proceeds. Figure 10 presents results of our analysis into the use of proceeds in IPO documentation between January 2010 and June 2016 (for those IPOs where proceeds flowed to the issuer). Many documents do not disclose the amount raised for each category and thus our data reflect merely the relative frequency with which such a proposed use is cited in IPO documentation.

Figure 10: Use of UK IPO proceeds: percentage of UK IPOs citing use of proceeds by category, January 2010 to June 2016



Source: Dealogic, FCA

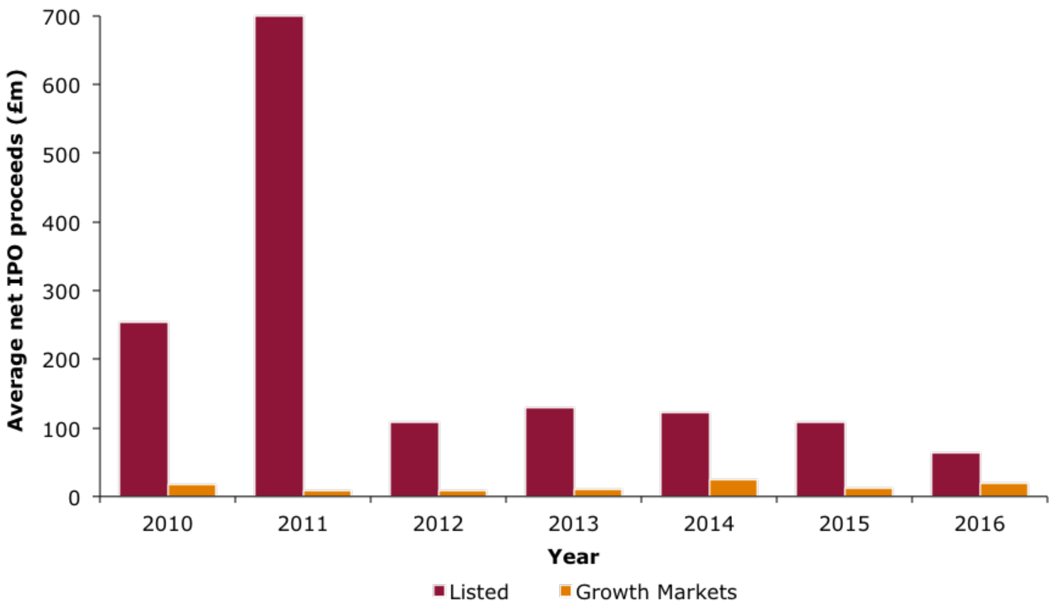
36. As it is very common for different uses to be cited for the proceeds of an IPO, it is to be expected that the combined totals exceed 100%. It is perhaps unsurprising 'general corporate purposes' is the most common reason because it is commonly cited in many 'use of proceeds' prospectus sections as a final point, after the main uses have been disclosed. In documents where the amount raised was disclosed, it was generally a minority of the proceeds.

37. Given the lack of values linked to each use, one must be careful in attaching too much importance to these data. However, it is interesting to note it is far more common for listed company IPOs to use proceeds to repay debt, while proceeds from Growth Market IPOs are much more likely to be used for research and development.

38. It is worth noting that debt repayment can equate to proceeds flowing to pre-IPO holders, depending on the nature of the debt that is repaid. That suggests our earlier figures for proceeds flowing to pre-IPO holders are probably understated.

39. Finally, we looked into the mean net proceeds received from IPOs between January 2010 and June 2016.

Figure 11: Average net IPO proceeds to issuer (where proceeds are received), January 2010 to June 2016

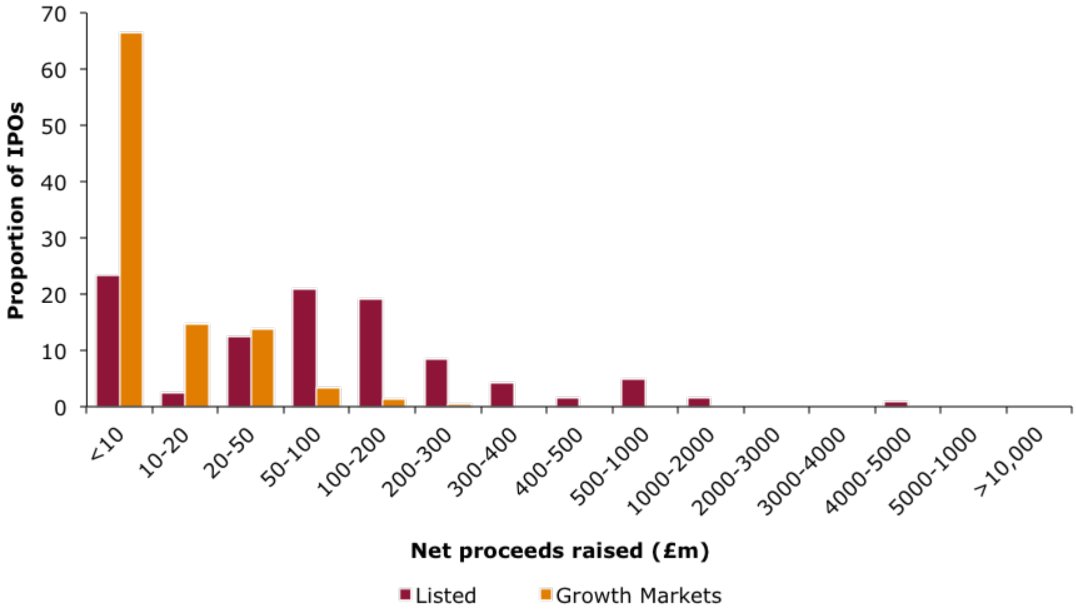


Source: Dealogic, FCA

40. Figure 11 shows average net IPO proceeds to issuers (i.e. excluding proceeds to selling shareholders) in IPOs between 2010 and 2016. The large peak in 2011 (£699m) is explained by Glencore's IPO, which raised net proceeds of just under $7.5 billion for the issuer. Excluding the Glencore IPO, the figure for 2011 is £309m. By contrast, 2015 and 2016 are the lowest averages for net proceeds from listed company IPOs and these reflect the proportionately larger number of smaller companies (including SPACs) listing on the standard segment.

41. Given the effect of a small number of larger IPOs on the average figures, we have also examined the range of amounts raised. We have presented the data that we obtained in Figure 12 below.

Figure 12: Percentage of UK IPOs raising net proceeds of £x million, January 2010 to June 2016

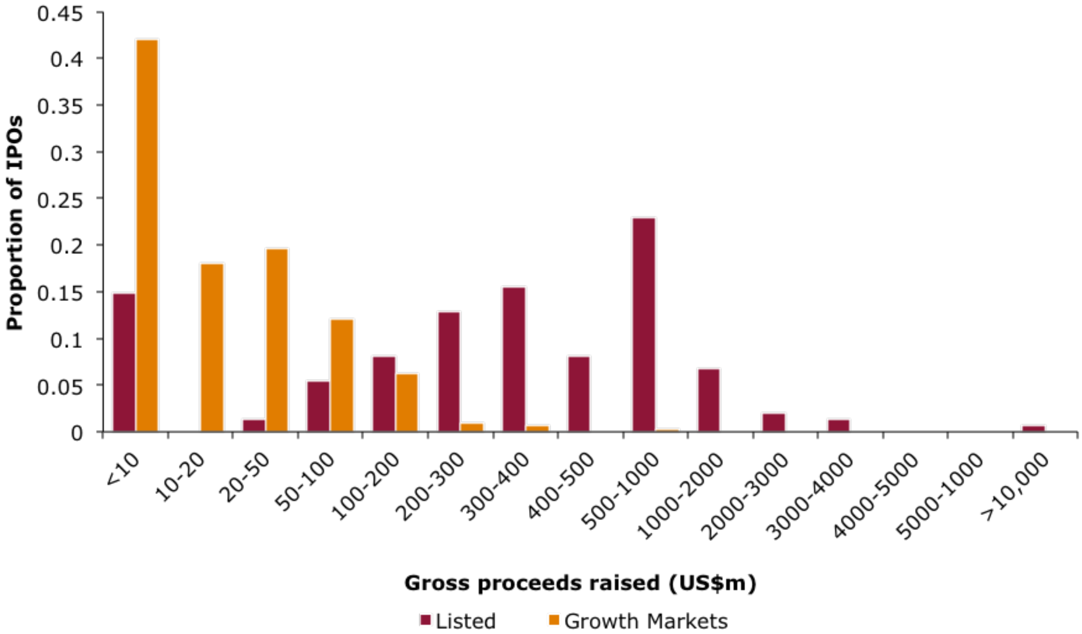


Source: Dealogic, FCA

42. As the chart illustrates, the data do not suggest that a gap exists between the available markets, within which a body of issuers is poorly served, but it indicates a significant proportion of listed company IPOs raised net proceeds of less than £20m for the issuer.

43. In the chart that follows, we have shown a similar graph for total proceeds, showing the total amount raised by IPOs in US dollars and includes the amounts raised by selling shareholders in the IPO.

Figure 13: Percentage of UK IPOs raising gross proceeds of US$x million, January 2010 to June 2016



Source: Dealogic, FCA

44. Once again, while a significant proportion of Growth Market IPOs raise less than US$10m, there is a clear overlap between the Growth Market and listed market figures.

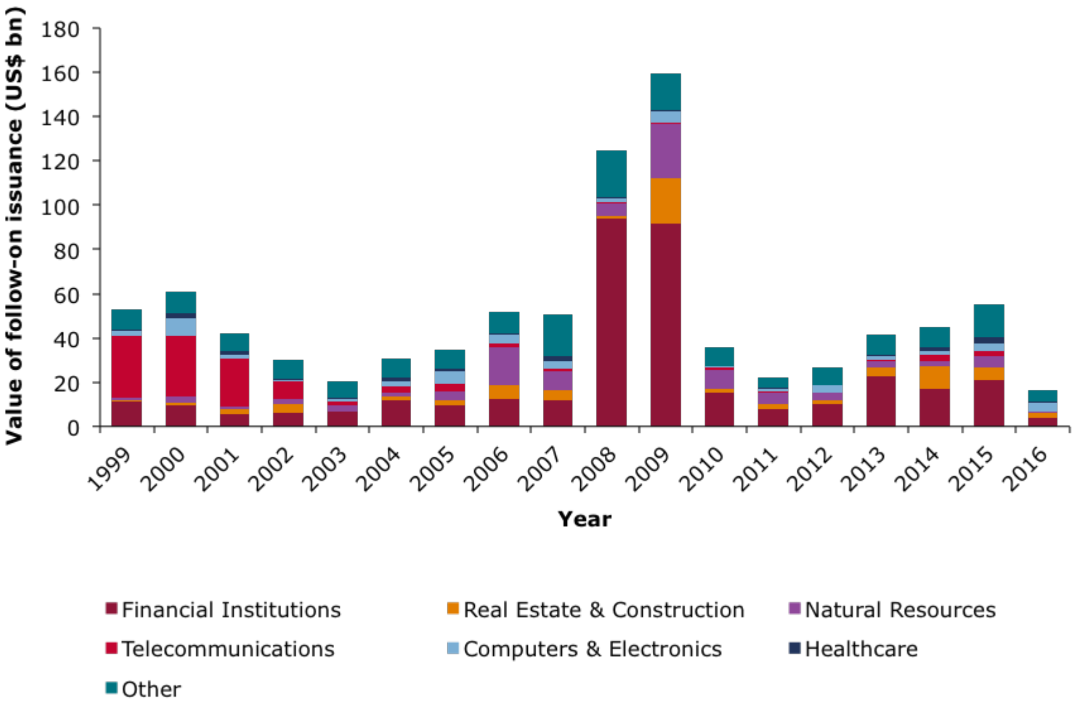
Follow-on issuances – issues of shares post-IPO

45. Another important use of capital markets is to enable companies to raise further financing after their IPO. Where this is achieved efficiently, this might be seen as an indicator that primary markets are effective. In this section we present and comment on data intended to yield insights on the health of the follow-on issuance market for UK-quoted issuers.

Are secondary offerings occurring in the UK?

46. Figure 14 shows secondary offerings in US dollars, analysed by sector, between January 1999 and June 2016 for the Main Market and AIM.

Figure 14: Total value of UK follow-on issuance in US$ billions, January 1999 to June 2016



Source: Dealogic

47. The values fluctuate in a similar manner to the IPO figures presented earlier, except for the years preceding and following the financial crisis. We do not see similar peaks for 2006 and 2007, but instead observe major activity in 2008 and 2009.

48. Once again the significance of the financial services and natural resources sectors are notable – with the former particularly significant in the period during and immediately after the financial crisis, as many financial institutions sought to bolster their capital position. Several sourced funds from HM Government rather than, or in addition to, retail and institutional investors.

49. The year 2009 also illustrates the large amounts of capital raised in the property sector in the aftermath of the financial crisis, as many property companies dealt with the impact of lower property prices on their lending covenants.

50. The significance of the natural resources sector is striking within the underlying data for AIM, suggesting early-stage companies in the extractive industries are highly active in the UK's equity capital markets.

Average proceeds

51. Figure 15 shows the mean proceeds of follow-on issuance in the UK.

Figure 15: Average proceeds of UK follow-on issuance in US$ million, January 2010 to June 2016

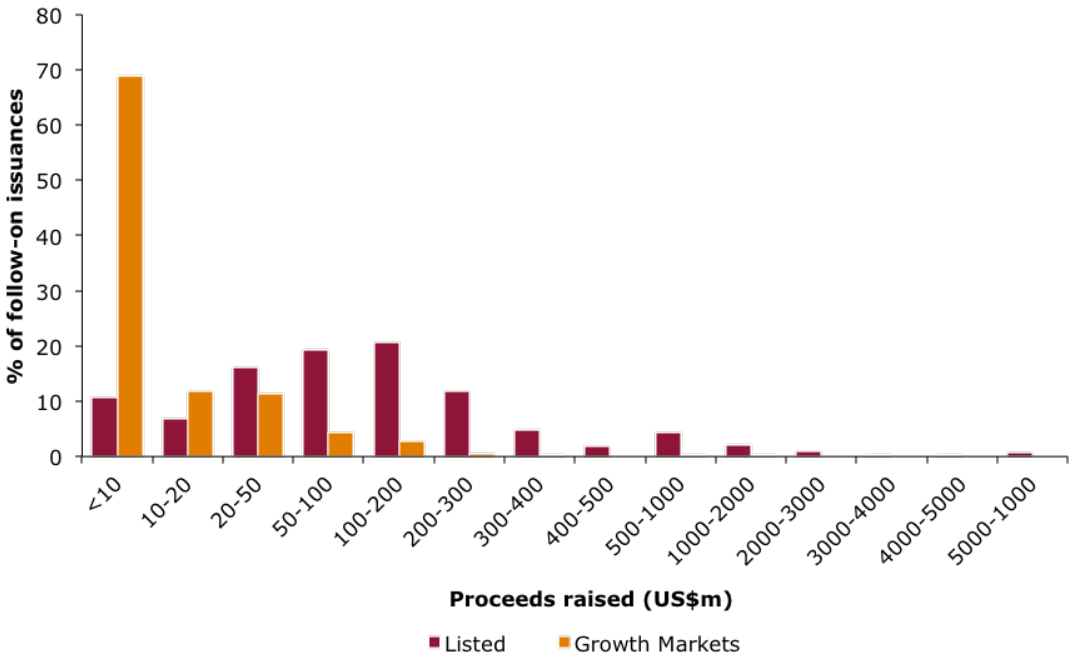
Source: Dealogic

52. The chart illustrates the size difference between the average follow-on equity fundraising by listed and Growth Market issuers and, together with the underlying data showing a significant number of deals, does not imply small equity fundraisings face barriers.

Proceeds of follow-on issuance and amount of shares sold

53. Given the potential for small numbers of larger fundraisings in IPOs to influence average figures, we examined the size of follow-on fundraisings in more detail. The following diagram presents the findings.

Figure 16: Percentage of UK follow-on issuance raising proceeds of US$x million, January 2010 to June 2016



Source: Dealogic

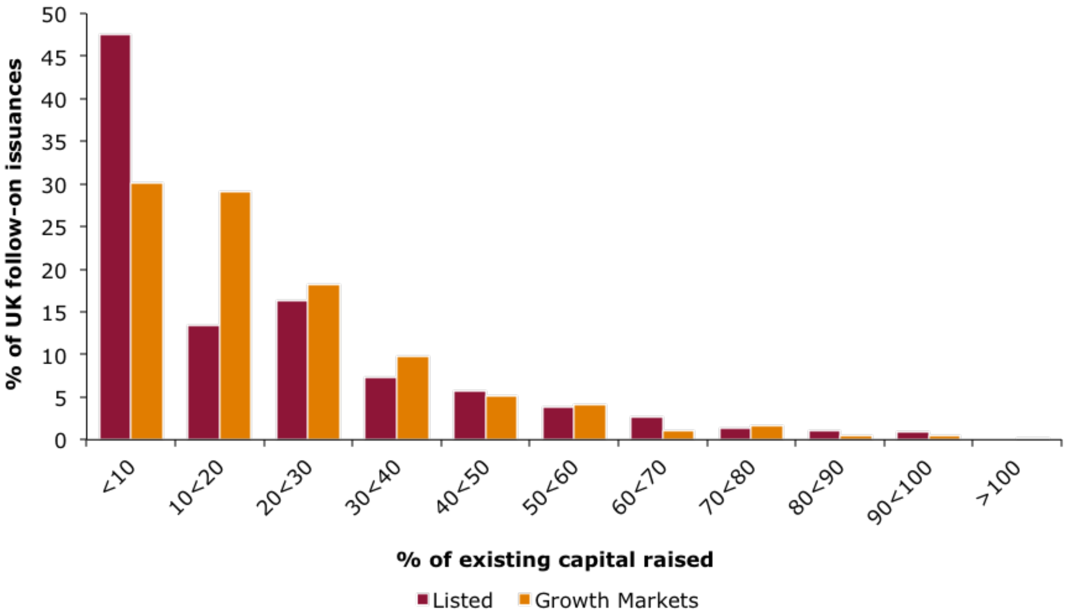
54. As would be expected, there is a clear difference between listed and Growth Market issuers, with the vast majority of Growth Market issuers raising less than £10m and the greatest proportion of listed companies raising £100-200m.

55. The underlying data also suggest that fundraisings of around £50m are occurring at broadly similar proportions on both markets.

56. Our conclusion from this and the earlier, equivalent chart for IPOs is that no gap in the market would appear to exist. The data suggest there does not appear to be a collection of mid-size entities not served by the UK's primary markets.

57. We also examined the percentage of the issuer's existing share capital that the follow-on issuance represents:

Figure 17: Percentage of UK follow-on issuance raising x% of existing share capital



Source: Dealogic

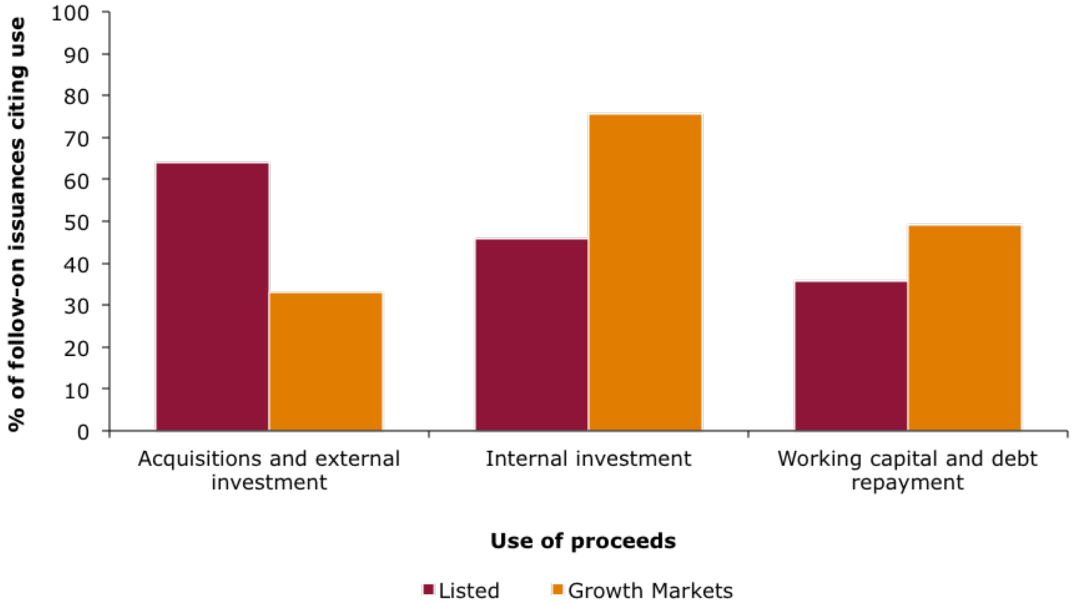
58. Figure 17 reflects our calculations of the number of issuances divided by the proportion of existing share capital that the further shares represent. Further information on the compilation of this data is included as Appendix 2

59. While the Growth Market issuer figures are closer to the normal distribution that one might expect, absent any other factors, figures for listed companies show that almost half of their follow-on issuance represents less than 10% of existing share capital. This probably indicates that the prospectus exemption for admission to trading of shares representing less than 10% of shares listed on a regulated market, and other factors such as the Pre-Emption Group guidelines for non-pre-emptive issuance, is influencing the number of shares that are issued.

Uses of proceeds

60. We then examined the use to which the proceeds were put. In Figure 18 we used data to show the proposed use of proceeds in three broad categories.

Figure 18: Percentage of UK follow-on issuance citing use of proceeds by category, January 2010 to June 2016



Source: Dealogic

61. Once again, the underlying data lacked the amount for each particular use and given this limitation care must be taken when drawing conclusions. However the chart illustrates that a greater proportion of Growth Market issuers use proceeds from follow-on issuance for organic growth, while more listed company issuers use proceeds in part to grow and develop via acquisitions. Whether this indicates that listed companies are less likely to grow organically is unclear, as it may be such issuers are sourcing funds for growth from elsewhere, such as debt finance or by generating the finance internally.

UK capital markets in an international context

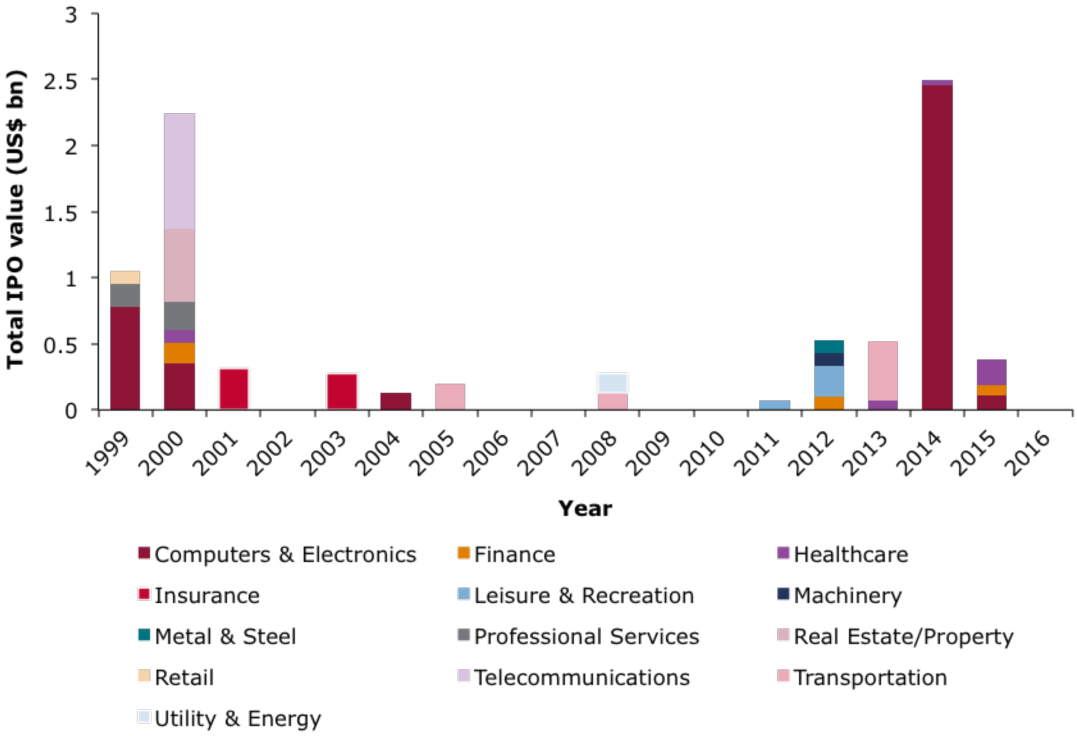
62. London is unarguably an international securities market for companies owned, operating and/or domiciled in many different countries around the world. In this section we consider whether there are any insights which can be gained from data obtained for other markets around the world when compared to the UK.

Are UK companies undertaking IPOs in jurisdictions other than the UK?

63. In considering the efficacy of the UK's public markets, a potential bellwether is the extent to which UK companies are choosing to float in overseas markets instead of domestically. While there may be many reasons for this, we felt that sourcing such data may be informative. Figure 19 presents the amount raised by UK companies[25] in non-UK IPOs between 1999 and 2015, analysed by sector.

25 As recognised by Dealogic.

Figure 19: UK companies undertaking an IPO outside the UK by sector, January 1999 to June 2016 (US$ billions)

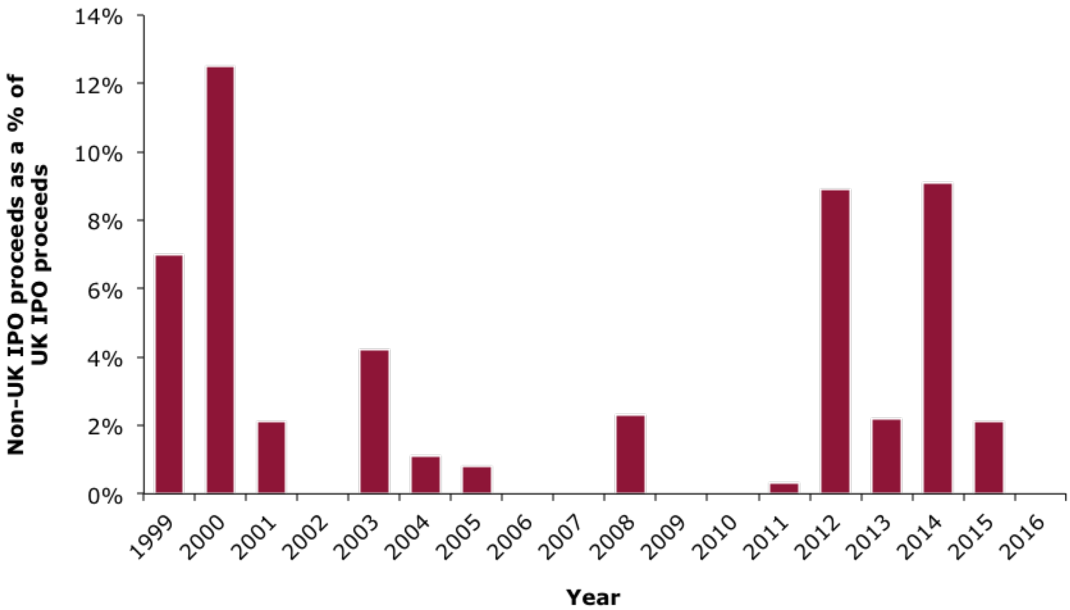


Source: Dealogic

64. The chart shows significant peaks at the end of the last millennium, and in 2014 when overseas IPOs by King Digital, Markit and Travelport Worldwide occurred. The presence of those issuers also explains the large contribution of the computers and electronics sector that year. These three IPOs took place in the US, and contemporaneous reports made reference to significant US ownership, operations or peers, and valuation as common drivers.

65. To place the amounts in Figure 19 in context, we compared them with the total amounts being raised by UK companies in UK markets. Figure 20 shows the amounts UK companies raised abroad via IPOs as a proportion of the total domestic capital raised by UK companies between January 1999 and June 2016.

Figure 20: Proceeds of UK nationality issuers undertaking non-UK IPOs on major financial markets as a percentage of proceeds of UK issuers undertaking UK IPOs, January 1999 to June 2016



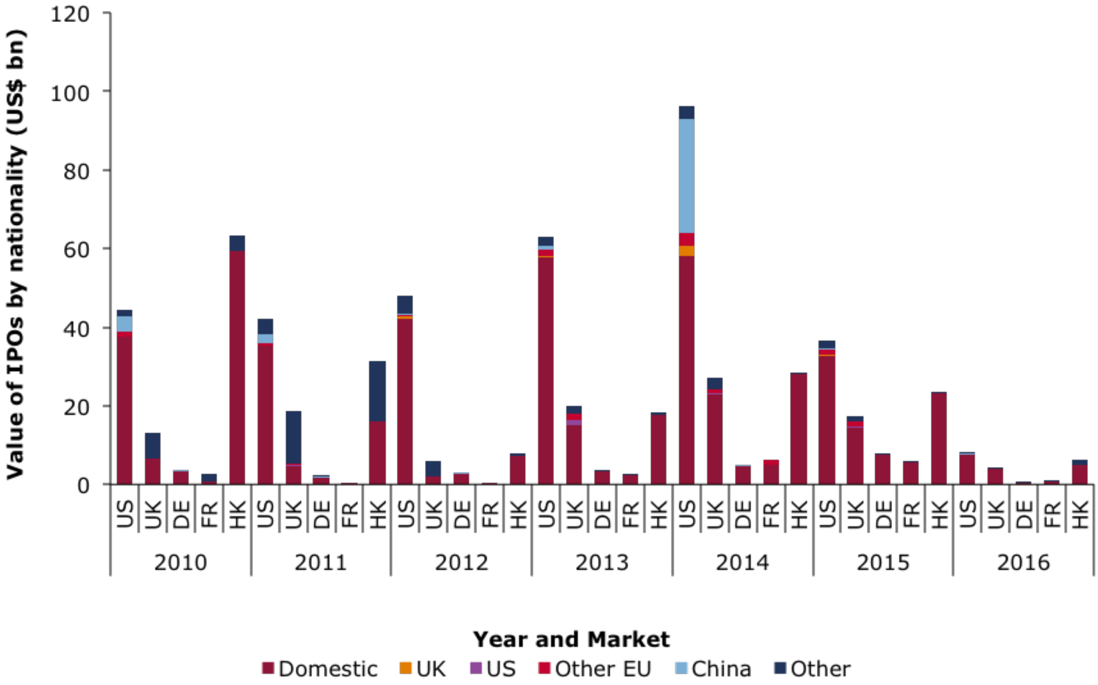
Source: Dealogic

66. This comparative data reveals a peak in 2012 created by a small number of overseas IPOs (Manchester United and Edwards Group) being compared with a much lower domestic IPO total.

The UK compared with other international centres

67. The effectiveness of UK primary markets might also be gauged through comparison with other international markets. Figure 21 shows the US dollar value of funds raised in five major international markets, split by nationality of issuer, between 2010 and 2016.

Figure 21: Value of IPOs in US$ billions by nationality of new issuer in the US, UK, Germany, France and Hong Kong, January 2010 to June 2016



Source: Dealogic

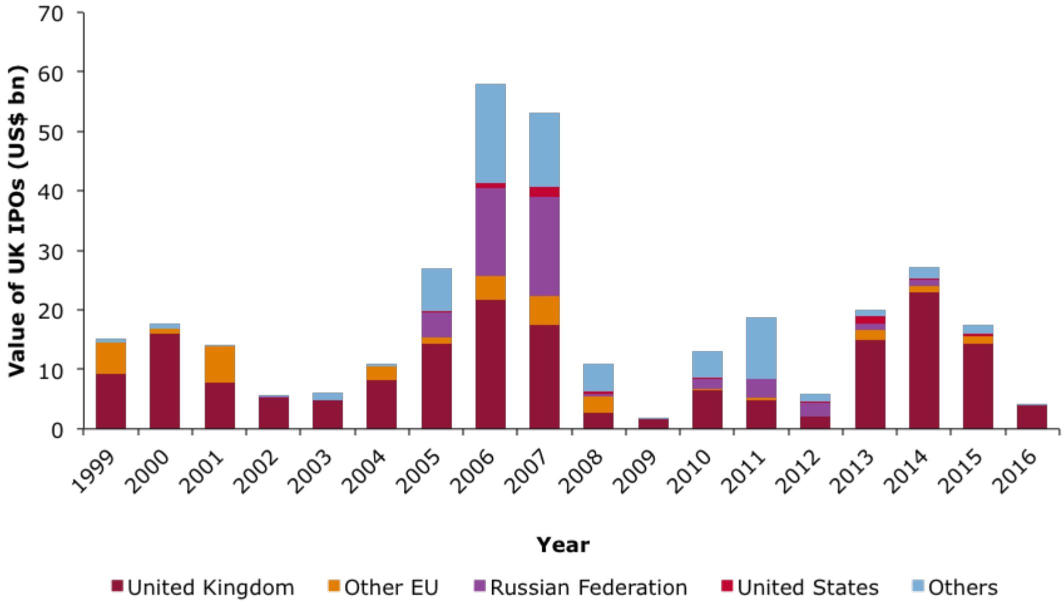
68. The data are consistent with our analysis following Figure 19, showing that IPOs in overseas markets, including those of UK companies, generally occur in the US.

69. But this data also suggest that UK markets are more international than comparable markets, except for Hong Kong in 2011 and the US in 2014. The Hong Kong data include the IPO of Glencore in 2011 (as does the UK) dwarfing other IPOs in the two markets that year. Similarly, it is worth noting the US$25 billion IPO of Alibaba in the US in 2014 and the effect that had on the proportion of non-domestic IPO capital that year.

The international character of UK IPOs

70. Finally, we considered the international character of UK IPOs, seeking to establish the nationality of companies accessing UK markets in IPOs. The data in Figure 22 below reflect the nationality of the quoted companies making IPOs 1999 to 2016:

Figure 22: UK IPOs by deal nationality in US$ billions, January 1999 to June 2016



Source: Dealogic

71. There are large peaks in the lead up to the financial crisis and there is a material contribution by Russian and other non-EU issuers to those peaks. In 2006 there were IPO volumes from South Korea and India, with a similar contribution in 2007 from China; Kazakhstan contributed significantly in both years. The presence of Kazakhstan, and possibly the relative volume of Russian IPO funds being raised, illustrates the contribution of natural resources companies to the UK's IPO statistics at the time.

72. Between 2005 and 2012, a large proportion of the IPOs were non-domestic with a significant volume of Russian IPOs, while 2010 and 2011 are notable for the impact of large overseas IPOs by Essar Energy (India) and Glencore (Switzerland). However, since 2012, it is notable that the UK IPO market has been dominated by domestic issuance.

Appendix 2
Key trends in UK primary equity markets: data sources

Figure 1: Number of quoted companies 1999 to 2016

1. Data sourced from published LSE, AIM and NEX Exchange yearly statistics. Where we make reference to NEX Exchange in this Appendix, we include reference to its predecessor entities, including ICAP, Plus Markets and Ofex. Data exclude funds and debt securities, as classified by trading venues, based on exclusion of certain sectors and subsectors (equity and non-equity investment instruments, company bonds, convertibles, debentures and loans, miscellaneous warrants and preference sectors, plus the specialty REITs subsector). The data exclude issuers admitted to other listed markets, but these were viewed as minimal. We do not split out companies which held a dual-listing on AIM and a predecessor of NEX Exchange, but we do not expect a material impact from these issuers.

Figure 2: UK IPOs by securities market, January 2010 to June 2016

2. Dealogic data as described in Figure 6.

3. Given that the Dealogic data excluded IPOs on the NEX Exchange Growth Market, we have assembled a list of NEX Exchange IPOs from statistics published by ICAP (augmented by information supplied to us by ICAP); and because Dealogic excludes some listings according to its ECM transaction criteria, we have obtained details of introductions from statistics published by LSE (augmented by information supplied to us by LSE).

4. Note that these figures are intended to reflect only genuine new entrants to public markets and so have been edited by the FCA. Examples of admissions which are excluded are those resulting from reverse takeovers where no equity issuance occurs, and new holding companies for companies which were already listed or admitted to trading. We have also excluded funds from this data, if not previously removed. We have reviewed the underlying documentation for each of these IPOs based on information we hold, publicly available information, information sourced from records kindly supplied by LSE and ICAP, and collated from various items of further information.

Figure 3: Listed company cancellations by stated reason for cancellation, January 2010 to June 2016

5. The number of cancellations was obtained from our own records of the number of securities which were cancelled each year along with public records such as regulatory announcements, security holder documentation, and a review of the records that we hold regarding the rationale for cancellation. Note that in calculating the number of cancellations we looked for cancellation of the final line of either shares or GDRs and excluded cancellations of other types of securities (such as warrants or preference shares issued by listed companies retaining a listing of their equity shares). We also excluded 'technical' cancellations such as reverse takeovers where the

resulting enlarged group is listed, and new holding companies for existing listed issuers. The figures for net reduction in the number of listed companies each year were obtained by deriving the number of admitted companies from published LSE Main Market statistics (excluding funds and fixed-income securities as classified by the LSE). We then subtracted the figures for admissions from the number of cancellations of shares and GDRs of trading companies to produce a 'net change' figure for each year.

Figure 4: AIM cancellations by stated reason for cancellation, January 2010 to June 2016

6. Data sourced from our review of publicly available records, including statistics published by the LSE, supplemented by further records kindly supplied by the LSE. In common with data for listed companies, we excluded funds and 'technical' cancellations such as reverse takeovers where the resulting enlarged group was admitted to AIM, and new holding companies for existing AIM issuers. Where companies were cancelled under AIM Rules 1 and 41, we endeavoured to ascertain where the root cause of the cancellation was some other reason, such as insolvency, and presented the data accordingly.

Figure 5: NEX Exchange Growth Market cancellations by stated reason for cancellation, January 2010 to June 2016

7. Data sourced from our own review of the publicly available records, including statistics published by ICAP, supplemented by records kindly supplied by ICAP. The data have been prepared in the same manner to the cancellation data for listed and AIM cancellations above.

Figure 6: UK IPO value by sector (US$ billions), January 1999 to June 2016

8. Data sourced from Dealogic. Data exclude investment funds, as classified by General Industry in Dealogic. Transactions are grouped over time according to the deal pricing date. Industry grouping is based on the Issuer General Industry classification in Dealogic, with certain Industry categories aggregated for ease of presentation. Deal value, where shown, refers to the money raised by the transactions in a given time period, including any overallotment option exercised, regardless of Dealogic rank eligibility. Deals in currencies other than USD have been converted to USD by Dealogic at the exchange rate at the time of the pricing date.

Figure 7: Percentage of IPOs with private equity holders pre-IPO, January 2010 to June 2016

9. FCA and Dealogic data as described in Figures 2 and 6.

10. As part of our work we calculated the pre- and post-IPO percentage shareholdings of various types of entity. This chart presents the percentage of IPOs where proceeds are raised by the issuer, by selling shareholders, or by a combination of the two, and which have private equity shareholders pre-IPO, compared with all IPOs where proceeds are raised.

Figure 8: Average percentage holdings of private equity and venture capital holders pre- and immediately post-IPO, January 2010 to June 2016

11. FCA and Dealogic data as described in Figures 2 and 6.

12. We calculated the pre- and post-IPO percentage shareholdings of various types of entity and in this chart we presented the percentage of issued share capital held by private equity and venture capital holders both pre- and post-IPO. In denoting shareholders either as private equity

or venture capital entities, we used publicly available information added to the lists as we found further holders during our fieldwork. In allocating holders to either category we generally relied on how these entities described themselves in publicly available information, such as company websites.

13. Note that the reduction between the pre- and post-IPO percentage shareholdings will not necessarily result from sales of shares given that many IPOs will include at least an element of dilutive primary issuance.

14. We present the data in the chart as an arithmetic average across our dataset. Year-on-year data is presented below:

			2010	2011	2012	2013	2014	2015	2016
Pre-	Listed	Private equity	18.5%	23.1%	5.0%	49.5%	61.5%	55.4%	59.7%
	Growth market	Private equity	33.8%	23.5%	13.0%	15.3%	51.0%	51.7%	45.9%
Post-	Listed	Venture capital	39.4%	3.0%	0.0%	37.8%	25.4%	16.3%	9.6%
	Growth market	Venture capital	24.0%	13.6%	62.7%	25.3%	28.5%	19.3%	37.3%

Figure 9: Percentage of UK IPOs (that raise proceeds) where proceeds flow to the issuer, January 2010 to June 2016

15. FCA and Dealogic data as described in Figures 2 and 6.

16. We calculated net proceeds the issuer received in GBP and noted gross proceeds from Dealogic data. In this chart we presented the results of our comparison of the number of IPOs raising proceeds for the issuer and the total number of IPOs which raised any proceeds at all, calculated as a percentage. We showed the differences between listed and Growth Markets.

17. Given that the chart presents data amalgamated over several years, we presented year-on-year data below:

	Growth Market (%)	Listed (%)
2010	100.0	94.4
2011	100.0	91.7
2012	94.7	75.0
2013	96.4	76.2
2014	94.4	79.5
2015	100.0	81.1
2016	95.2	80.0

Figure 10: Use of UK IPO proceeds: percentage of UK IPOs citing use of proceeds by category, January 2010 to June 2016

18. FCA and Dealogic data as described in Figures 2 and 6.

19. We noted the stated intended uses of proceeds by each issuer and allocated them across a number of categories. In this chart we presented the percentage of IPOs citing each type of use. As IPO documentation does not always present a proceeds figure for each of the intended uses, our data is limited to noting whether or not a particular category of use of proceeds was cited. Once again the data has been split between listed and Growth Markets.

20. The data is presented in a chart aggregated across all categories, so we present year-on-year data below:

	General Corporate Purposes	Repay Debt	Research and development	Acquisitions	Organic Growth
% - All	66.7	20.4	18.2	21.6	7.2
% - AIM	68.6	13.3	24.0	20.7	7.4
% - Listed	58.5	39.8	7.3	22.8	6.5
% - NEX Exchange	87.0	-	8.7	26.1	8.7
2010					
% - All	79.2	20.8	24.5	17.0	11.3
% - AIM	80.6	11.1	33.3	16.7	8.3
% - Listed	76.5	41.2	5.9	17.6	17.6
% - NEX Exchange	100.0	-	33.3	33.3	-
2011					
% - All	79.2	18.9	24.5	18.9	17.0
% - AIM	73.5	5.9	29.4	14.7	11.8
% - Listed	81.8	18.2	27.3	45.5	9.1
% - NEX Exchange	100.0	75.0	-	-	50.0
2012					
% - All	69.0	9.5	28.6	21.4	7.1
% - AIM	63.6	6.1	33.3	24.2	9.1
% - Listed	83.3	33.3	16.7	16.7	-
% - NEX Exchange	100.0	-	-	-	-
2013					
% - All	68.1	20.3	15.9	17.4	-
% - AIM	79.2	11.3	20.8	11.3	-
% - Listed	31.3	50.0	-	37.5	-
% - NEX Exchange	-	-	-	-	-
2014					
% - All	53.1	26.5	14.3	30.6	11.2
% - AIM	54.5	18.2	18.2	34.8	10.6
% - Listed	48.4	45.2	6.5	22.6	9.7
% - NEX Exchange	100.0	-	-	-	100.0
2015					
% - All	67.2	25.0	15.5	6.3	3.1
% - AIM	69.0	13.8	24.1	3.4	3.4
% - Listed	63.3	40.0	3.3	10.0	-
% - NEX Exchange	80.0	-	-	-	20.0
2016					

% - All	59.4	31.3	9.4	31.3	9.4
% - AIM	65.0	30.0	10.0	35.0	10.0
% - Listed	50.0	33.3	8.3	25.0	8.3
% - NEX Exchange	-	-	-	-	-

Figure 11: Average net IPO proceeds to issuer (where proceeds are received) in GBP million, January 2010 to June 2016

21. FCA and Dealogic data as described in Figures 2 and 6.

22. We calculated net proceeds the issuer received in GBP. For non-GBP IPOs we used the exchange rate prevailing at the IPO date. This data exclude proceeds of IPOs that pass to selling shareholders rather than the issuer.

23. This chart presents the mean value for average net proceeds split between listed and Growth Markets.

Figure 12: Percentage of UK IPOs raising net proceeds of £x million, January 2010 to June 2016

24. FCA and Dealogic data as described in Figures 2 and 6.

25. We calculated net proceeds the issuer received in GBP and in this chart we presented the percentage of IPOs raising certain amounts of net proceeds, split between and Growth Markets.

26. Given that the chart presents data amalgamated over several years, we present year-on-year data below (nil rows omitted):

	2010		**2011**		**2012**		**2013**		**2014**		**2015**		**2016**	
net proceeds £m	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed
<10	54.8	11.8	69.0	9.1	80.6	16.7	77.4	6.7	55.4	16.7	67.6	33.3	65.0	72.7
10-20	7.1	0.0	21.4	0.0	11.1	16.7	15.1	0.0	20.0	3.3	8.8	3.3	15.0	0.0
20-50	33.3	11.8	7.1	0.0	5.6	0.0	5.7	33.3	13.8	23.3	20.6	3.3	10.0	0.0
50-100	4.8	5.9	2.4	27.3	0.0	16.7	0.0	20.0	6.2	23.3	2.9	33.3	10.0	0.0
100-200	0.0	29.4	0.0	18.2	2.8	33.3	1.9	26.7	3.1	13.3	0.0	13.3	0.0	18.2
200-300	0.0	17.6	0.0	18.2	0.0	0.0	0.0	6.7	1.5	6.7	0.0	6.7	0.0	0.0
300-400	0.0	5.9	0.0	0.0	0.0	16.7	0.0	0.0	0.0	6.7	0.0	0.0	0.0	9.1
400-500	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	3.3	0.0	0.0
500-1,000	0.0	11.8	0.0	9.1	0.0	0.0	0.0	6.7	0.0	3.3	0.0	3.3	0.0	0.0
1,000-2,000	0.0	5.9	0.0	9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4,000-5,000	0.0	0.0	0.0	9.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Figure 13: Percentage of UK IPOs raising gross proceeds of US$x million, January 2010 to June 2016

27. FCA and Dealogic data as described in Figures 2 and 6.

28. Gross proceeds data were obtained from Dealogic and excludes NEX Exchange data.

29. We presented the percentage of IPOs raising certain amounts of gross proceeds, split between listed and Growth Markets. The gross proceeds figures include both proceeds the issuer received and those received by selling shareholders.

30. Given that the chart presents data amalgamated over several years, we present year-on-year data below (nil rows omitted):

	2010		**2011**		**2012**		**2013**		**2014**		**2015**		**2016**	
net proceeds £m	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed
<10	45.2	0.0	54.8	8.3	52.6	12.5	50.9	5.0	30.1	7.7	38.2	24.3	14.3	50.0
10-20	7.1	0.0	14.3	0.0	26.3	0.0	14.5	0.0	16.4	0.0	23.5	0.0	38.1	0.0
20-50	16.7	5.6	21.4	0.0	15.8	12.5	21.8	0.0	20.5	0.0	23.5	0.0	14.3	0.0
50-100	28.6	0.0	7.1	0.0	2.6	0.0	9.1	0.0	13.7	12.8	8.8	8.1	14.3	0.0
100-200	2.4	11.1	2.4	0.0	2.6	0.0	1.8	0.0	12.3	2.6	5.9	18.9	19.0	14.3
200-300	0.0	16.7	0.0	8.3	0.0	37.5	1.8	5.0	2.7	17.9	0.0	10.8	0.0	0.0
300-400	0.0	11.1	0.0	25.0	0.0	0.0	0.0	40.0	2.7	10.3	0.0	13.5	0.0	7.1
400-500	0.0	16.7	0.0	0.0	0.0	0.0	0.0	5.0	0.0	7.7	0.0	10.8	0.0	7.1
500-1,000	0.0	22.2	0.0	33.3	0.0	12.5	0.0	25.0	1.4	35.9	0.0	8.1	0.0	21.4
1,000-2,000	0.0	16.7	0.0	8.3	0.0	25.0	0.0	15.0	0.0	2.6	0.0	0.0	0.0	0.0
2,000-3,000	0.0	0.0	0.0	8.3	0.0	0.0	0.0	0.0	0.0	2.6	0.0	2.7	0.0	0.0
3,000-4,000	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	0.0	0.0	0.0	2.7	0.0	0.0
>10,000	0.0	0.0	0.0	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Figure 14: Total value of UK follow-on issuance in US$ billions, January 1999 to June 2016

31. Data sourced from Dealogic, and excludes investment funds as classified by General Industry in Dealogic. Transactions are grouped over time according to the deal pricing date. Industry grouping is based on the Issuer General Industry classification in Dealogic, with some categories aggregated for ease of presentation. Deal value, where shown, refers to the money raised by the transactions, including any overallotment option exercised, regardless of Dealogic rank eligibility. Deals in currencies other than USD have been converted to USD by Dealogic at the exchange rate at the time of the pricing date.

32. Our review of the data showed that as well as excluding a number of smaller deals undertaken by AIM companies, it does not include figures for follow-on issuance by issuers admitted to the NEX Exchange Growth Market. As a result, we reviewed 619 follow-on issuance transactions for this market and all were under £10m, with a large majority having proceeds of less than £1m.

Figure 15: Average proceeds of UK follow-on issuance in US$ million, January 2010 to June 2016

33. Dealogic data as described in Figure 14

34. We have presented the arithmetic average gross proceeds year-by-year split between listed and Growth Markets.

Figure 16: Percentage of UK follow-on issuance raising proceeds of US$x million, January 2010 to June 2016

35. Dealogic data as described in Figure 14

36. We calculated the percentage of follow-on issuance raising different tranches of proceeds split between listed and Growth Markets.

37. Given that the chart showed data amalgamated over several years, we present year-on-year data below:

	2010		2011		2012		2013		2014		2015		2016	
net proceeds £m	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed
<10	69.7	19.0	72.0	22.4	75.0	9.3	62.7	7.3	62.9	5.9	65.9	4.3	70.6	11.1
10-20	10.7	4.8	10.5	7.5	11.3	9.3	15.0	5.5	15.5	10.9	9.3	3.2	14.0	5.6
20-50	10.7	22.2	9.1	20.9	8.8	11.6	14.2	10.9	12.2	16.8	13.7	16.1	12.6	8.3
50-100	3.2	19.0	5.6	13.4	3.2	23.3	6.0	21.8	3.7	16.8	5.6	22.6	2.1	19.4
100-200	4.2	15.9	1.9	22.4	1.4	11.6	1.7	20.0	4.9	24.8	3.0	21.5	0.7	22.2
200-300	0.5	6.3	0.5	7.5	0.4	16.3	-	14.5	0.8	11.9	1.1	10.8	-	22.2
300-400	0.7	3.2	0.3	3.0	-	4.7	0.4	5.5	-	4.0	0.7	8.6	-	2.8
400-500	-	-	-	-	-	2.3	-	3.6	-	2.0	-	3.2	-	-
500-1,000	0.2	1.6	-	1.5	-	9.3	-	9.1	-	3.0	0.4	4.3	-	5.6
1,000-2,000	-	1.6	-	-	-	2.3	-	-	-	3.0	0.4	3.2	-	2.8
2,000-3,000	-	1.6	-	1.5	-	-	-	-	-	1.0	-	1.1	-	-
3,000-4,000	-	1.6	-	-	-	-	-	-	-	-	-	-	-	-
4,000-5,000	-	1.6	-	-	-	-	-	-	-	-	-	-	-	-
5,000-10,000	-	1.6	-	-	-	-	-	1.8	-	-	-	1.1	-	-
>10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Figure 17: Percentage of UK follow-on issuance raising x% of existing share capital

38. Dealogic data as described in Figure 14

39. We used Dealogic figures for the percentage of issued share capital that is offered to calculate the percentage of follow-on issuance selling different sized tranches of shares, split between listed and Growth Markets.

40. Given that the chart showed data amalgamated over several years, we present year-on-year data below:

	2010		2011		2012		2013		2014		2015		2016	
net proceeds £m	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed	Growth Market	Listed
<10	29.5	43.5	32.0	50.8	38.3	51.2	30.9	52.7	26.9	49.5	26.0	40.7	22.4	47.2
10-20	27.0	17.7	28.5	4.6	27.7	11.6	27.0	10.9	33.5	8.9	28.6	22.0	35.7	19.4
20-30	19.4	14.5	16.9	21.5	16.0	16.3	21.0	20.0	17.1	11.9	19.3	16.5	17.5	16.7
30-40	9.7	8.1	9.7	6.2	10.3	4.7	9.9	5.5	11.4	7.9	9.3	8.8	7.7	8.3
40-50	5.5	3.2	5.6	9.2	2.5	4.7	4.7	1.8	4.9	10.9	7.4	4.4	4.2	-
50-60	4.2	1.6	3.5	4.6	2.8	2.3	4.7	1.8	3.7	5.0	4.1	5.5	7.0	2.8
60-70	1.5	4.8	0.8	-	1.1	4.7	0.4	1.8	-	4.0	1.9	-	1.4	5.6
70-80	2.5	-	1.6	3.1	1.1	4.7	0.9	3.6	1.2	-	1.5	-	2.8	-
80-90	0.5	4.8	0.8	-	-	-	-	1.8	0.8	1.0	0.7	-	0.7	-
90-100	0.2	1.6	0.5	-	0.4	-	0.4	-	0.4	1.0	1.1	2.2	-	-
>100	-	-	-	-	-	-	-	-	-	-	-	-	0.7	-

Figure 18: Percentage of UK follow-on issuance citing use of proceeds by category, January 2010 to June 2016

41. Dealogic data as described in Figure 14

42. We used Dealogic data for the use of proceeds to calculate the percentage of IPOs citing the type of proposed use. We amalgamated certain uses as follows:

- **Acquisitions and investments:** acquisitions; future acquisitions; investments
- **Internal investment:** capital expenditures; project financing; general corporate purposes; research and development; sales and marketing; expansion
- **Working capital and debt repayment:** working capital; repay debt; restructuring

43. Given that the chart showed data amalgamated over several years, we present year-on-year data below:

		Acquisitions and investments	Internal investment	Working capital and debt repayment
2010	Growth Market	39.2	57.6	46.9
	Listed	42.9	60.3	34.9
2011	Growth Market	31.5	64.8	54.6
	Listed	55.2	58.2	41.8
2012	Growth Market	26.1	87.3	48.9
	Listed	62.8	58.1	39.5
2013	Growth Market	33	88	63.9
	Listed	72.7	25.5	45.5
2014	Growth Market	33.9	78	52.7
	Listed	61.4	45.5	36.6
2015	Growth Market	31.1	83.3	43.1
	Listed	76.3	35.5	27.7
2016	Growth Market	35.4	91.7	38.2
	Listed	80.6	41.7	33.3

Figure 19: UK companies undertaking an IPO outside the UK by sector, January 1999 – June 2016 (US$ billions)

44. Data sourced from Dealogic, excluding investment funds as classified by General Industry in Dealogic. The chart shows IPOs on a UK venue (both Main Market and AIM), where the deal nationality as determined by Dealogic is not UK. Transactions are grouped over time according to the deal pricing date. Industry grouping is based on the Issuer General Industry classification in Dealogic, where some industry categories have been aggregated for ease of presentation. Deal value, where shown, refers to the money raised by the transactions, including any overallotment option exercised, regardless of Dealogic rank eligibility. Deals in currencies other than USD have been converted to USD by Dealogic at the exchange rate at the time of the pricing date. Data excludes NEX Exchange.

Figure 20: Proceeds of UK nationality issuers undertaking non-UK IPOs as a percentage of proceeds of UK issuers undertaking UK IPOs, January 1999 to June 2016

45. Dealogic data as described in Figure 19

46. The chart shows, for a given year the total value of IPOs where Dealogic determines the deal nationality is UK which were done on a venue in major financial markets outside the UK (US, France, Germany, Hong Kong) as a percentage of the total value of IPOs done on a venue in the UK.

Figure 21: Value of IPOs in US$ billions by nationality of new issuer in the US, UK, Germany, France and Hong Kong, January 2010 to June 2016

47. Dealogic data as described in Figure 19

48. The chart shows, for a given year, the total value of IPOs by deal nationality as determined by Dealogic done on a venue in the UK and other major financial markets (US, France, Germany, and Hong Kong). The domestic label for each respective market in the chart refers to the value of deals where the deal nationality matches the home market. We have amalgamated the Hong Kong and China figures for Hong Kong domestic issuance.

Figure 22: UK IPOs by deal nationality in US$ billions, January 1999 to June 2016

49. Dealogic data as described in Figure 19

50. The chart shows, for a given year, the value of IPOs on a UK venue (both Main Market and AIM), split by deal nationality as determined by Dealogic.

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