

FCA Listing Authority Advisory Panel Annual Report 1 April 2021 – 31 March 2022

Chair's Foreword

I am pleased to introduce the Listing Authority Advisory Panel's Annual Report for 2021-22, my second as Chair.

2021-22 proved to be another busy and productive year for the Panel with three broad topics of discussion having occupied much of the Panel's time in the past year: firstly, the FCA's Primary Markets Effectiveness Review, secondly, the future UK regulatory framework and thirdly, climate change and sustainable finance. Each of them is covered in this report; all of them have continued and arguably increased relevance for the Panel as the UK has a once in a generation opportunity to consider vital market reforms and ensure that it remains and advances as a thriving and competitive international listing and capital-raising destination.

The Panel formally responded to FCA, HM Treasury and BEIS led strategic reviews of the UK's capital markets and the UK's approach to corporate governance and audit. The Panel welcomed the Future Regulatory Framework (FRF) Review's measures aimed at cementing the Panel's existing role as a 'critical friend', providing technical industry expertise to the FCA's policy development process, with constructive yet when relevant robust two-way engagement in its discussions with the regulator.

The Panel continued to welcome the frank and open exchange of ideas, the value of which has remained evident as the regulatory landscape continues to evolve. It was with this perspective that the Panel also emphasised the need for collaboration and coordination between regulatory and governmental authorities to ensure that the breadth of policy initiatives do not conflict with or offset the benefits of one another.

The Panel welcomes its open and transparent relationship with members of the FCA's Board, Executive Committee and its Market Oversight and Markets Policy divisions. This constructive dialogue is underpinned by the commendable vigour and global outlook with which the FCA has approached the modernisation of the listing regime. The strategic importance of the reform agenda continues to reinforce the Panel's view that it is mutually beneficial for the FCA to engage closely and collaboratively with the market whilst retaining its independence and we look forward to this continuing in 2022-23.

The Panel strongly supports the FCA in its work to improve diversity across financial services and help ensure that firms better reflect the society in which they operate. This perspective extends to understanding the need for diversity in all its forms being represented across the Panel itself.

I would also like to thank the Panel members for their time in the past year and their insightful and constructive contributions to all our discussions, which have enhanced the effectiveness of the Panel and we hope our value to the FCA on the issues that we have been discussing.

Mark Austin

Chair, Listing Authority Advisory Panel

1. Introduction

The Listing Authority Advisory Panel (LAAP) is a non-statutory independent panel representing the issuer, investor and corporate advisory communities that advises the FCA on technical listing, policy issues and regulation proposals that impact equity and debt primary markets.

The Panel meets formally four times each year and holds four scheduled informal sessions. Over the past year, members have also been involved in several ad hoc sub-groups to discuss in more depth the impact of the war in Ukraine on markets, the Primary Markets Effectiveness Review, the UK Secondary Capital Raising Review (from the response to which Mark Austin as the Review's Independent Chair recused himself) and ESG-related proposals.

The LAAP Chair is also an ex-officio member of the FCA's Markets Practitioner Panel, which helps foster a close working relationship and coordination between the two panels. LAAP and the MPP have submitted a number of joint responses to consultations during the past year.

During the past year, the Panel continued to welcome the opportunity to engage with the FCA's Chair, CEO and other members of its Executive Committee. The Panel also enjoys a close and constructive relationship with members of the FCA's Market Oversight and Markets Policy teams.

This report outlines LAAP's main areas of focus and activity in the past year.

2. Primary Markets Effectiveness Review

The Primary Markets Effectiveness Review continued to be a key area of focus for the Panel, which welcomed the boldness and breadth of vision in the FCA's consultation papers and discussion papers. The Panel were encouraged by the FCA's consideration for the UK's global competitive position in its work and its recognition of the competitive opportunity for London to reaffirm its role as an 'honest broker' in international capital markets.

The Panel's formal response emphasised the need for forward-thinking and proportionate outcomes-based reforms to ensure that the UK remains on the front foot as an attractive destination for issuers and investors whilst at the same time it continues to uphold high regulatory standards. The Panel agreed that there was merit in simplifying the existing listing regime and creating a single segment for equity shares in commercial companies.

The Panel advised the FCA that a single segment should contain common standards that would apply to established and growth companies, incorporated in the UK as well as overseas, within an overarching legislative framework. It noted that the preference for a single segment did not necessarily mean abandoning the requirements of the premium listing segment in their entirety, instead there should be a careful review to ensure that those elements of maximum value to investors and/or issuers were retained.

The Panel welcomed the FCA's bold reforms in relation to dual class share structures, free float requirements, and the minimum market capitalisation threshold. The Panel recognised that the FCA's open-minded approach may need to involve further refinements to the listing regime including clarifying and facilitating a shift to more of a disclosure-based principles approach to governance and transparency. The Panel also encouraged the FCA to review how the sponsor regime operates and whether there was an opportunity to both reaffirm its role for investors and to reconsider some of its more prescriptive requirements to ensure that the regime was proportionate and was fit for the future.

In summary, the Panel acknowledged that the implementation and marketing of the FCA's reforms would be critical to maintaining and enhancing the UK's competitive advantage. The Panel looks forward to continuing to engage in detail with the FCA on this important topic as it develops its regulatory approach through Phase 2 of the Review.

3. Future Regulatory Framework

The UK's future regulatory framework continued to be a priority for the Panel.

The Panel reiterated its support for the Treasury's ambitions for London to remain and advance as a thriving and competitive international listing and capital-raising destination alongside the shift to a proportionate, outcomes-based regulatory framework designed with a clear strategic vision.

The Panel welcomed the proposed addition of a "secondary" competitiveness objective for the FCA. It noted that the development of a pragmatic, agile and cost-effective regime, globally aligned and avoiding 'gold-plating' where it is not necessary or in the best interests of the market, should not compromise the UK's reputation for high regulatory standards or encourage a wider deregulatory 'race to the bottom'.

The Panel also supported the proposal for Parliament to delegate the detail of policy making to the regulators and recognised the FRF Review's aim to streamline the regulatory process. The Panel encouraged the Treasury to consider the demands on regulators and consider the volume and sequencing of regulatory initiatives and the operational cost of adapting systems and maintaining compliance to both regulators and industry. It noted the need for clearly defined outcomes to guide and promote collaboration between regulatory institutions ensuring that the breadth of policy initiatives do not conflict with or offset the benefits of one another. This will help to ensure that they do not risk the attractiveness, effectiveness, and international competitiveness of UK capital markets.

The Panel will continue to work closely with the FCA as the regulatory landscape continues to evolve and the longer-term opportunities become clearer.

4. ESG

This topic continued to be a priority for the Panel with the increasingly urgent societal and industry focus on addressing the impacts of climate change and social inequality, whilst reaffirming the UK's leading governance standards. The sector's rapid growth continues to afford the UK an opportunity to become an increasingly attractive global venue for ESG-aligned capital markets with the development of a flexible, proportionate and competitive regime.

The Panel were encouraged by the FCA's leadership in promoting the international harmonisation and standardisation of green taxonomies for issuers that were aligned to the TCFD (Task Force on Climate-related Financial Disclosures) requirements. The Panel emphasised that this alignment was essential to helping investors make informed choices, issuers provide meaningful disclosures on a "comply or explain" basis and firms obtain the funding necessary for the transition to net zero.

The Panel supported bringing ESG data and rating providers inside the FCA's regulatory perimeter. It noted that limited competition and differing methodologies along with inconsistencies in "green criteria" have the potential to undermine investor confidence, risk market integrity and give rise to "greenwashing".

The Panel also welcomed the FCA's measures to help ensure that listed company boards better reflect the society in which they operate and agreed that a "comply or explain" data-driven approach was the right approach for now and that it will be key to holding firms accountable for meeting stretching targets while recognising the recruitment challenges that may be involved. The Panel encouraged the FCA to consider extending these measures and target improved representation across other protected characteristics as well as gender and ethnicity.

The Panel looks forward to engaging further on this important topic as the FCA continues to develop its regulatory framework.

5. Audit market reforms

The Panel engaged with the FCA, FRC and BEIS as well as No 10 and HM Treasury after BEIS's publication of its white paper on audit market and corporate governance reforms.

The Panel's formal response outlined its support for the Government's objective to ensure that UK corporate governance and audit maintains a high level of trust and public confidence. It noted that that was a clear link between good financial reporting procedures, good audit and good corporate governance, being the behaviours, systems and processes through which businesses were run.

The Panel however, in a direct letter to BEIS, No 10 and HM Treasury, expressed significant concerns that the well-meaning, yet disproportionate, costly and outsized proposals could materially increase the risk of actually making the UK less attractive and competitive as a global capital market in contrast with the underlying aims of the UK Listing Review as well as generally as a place to do business. The Panel also remained concerned by the timing and wider implications of the comprehensive proposals, particularly for firms operating in a challenging market environment, audit quality and measures aimed at enhancing the diversity of representation in boardrooms.

The Panel nevertheless continued to be encouraged by the close coordination between the FCA and FRC to mitigate and manage the risks arising from regulatory overlap in responsibilities between the FCA and the proposed new statutory body (the Audit, Reporting and Governance Authority or ARGA).

The Panel will continue to advocate for a coherent, consistent and proportionate outcomes-based approach to audit and corporate governance reform and looks forward to continuing to work with the FCA, BEIS, the FRC and ARGA following the recent Queen's Speech to ensure that the resultant regulatory regime actually delivers on its objectives.

6. UK Secondary Capital Raising Review

The Panel welcomed the opportunity to improve the efficiency of further capital raisings by listed companies, which as the pandemic evidenced would help reduce transaction execution risk particularly during times of market volatility.

The Panel discussed the need to implement forward-thinking changes without compromising quality to help further enhance the attractiveness and competitiveness of the UK's offering as a listing venue and international financial centre. The Panel noted in its formal response to the Review that it believed that the duration, cost and complexity (most notably disclosure and documentation obligations) of secondary capital raises should be reduced to deliver more efficient and de-risked processes that leverage technological advances where possible.

The Panel also highlighted that the majority of Covid-19 placings worked effectively and demonstrated the benefits of permanently relaxing the Pre-Emption Group pre-emption disapplication limit to 20% (or more), with appropriate conditions attached. It noted that sustaining this flexibility in helping companies access growth and emergency capital would also enhance the UK's ability to attract more high-tech and other growth company IPOs.

The Panel looks forward to hearing the Review's findings in due course and engaging further with the FCA, Treasury and BEIS on maximising the opportunity for the UK's capital markets.

7. FCA's strategic initiatives and its engagement with the market

As well as engaging on more technical listing-related issues, the Panel has also contributed views to the FCA on its transformation programme and wholesale markets strategy along with other relevant strategic initiatives such as, for example, the implementation of the sanctions regime and creation of side pockets for affected retail investment funds arising from the Russian invasion of Ukraine.

A recurring theme in the Panel's discussions on the FCA's strategic approach has been to consider the potentially adverse impact on the UK's capital markets – both in absolute terms and in terms of perception - of the additional costs and burden of new regulations for both issuers and investors.

The Panel welcomed the opportunity to provide input into the FCA's strategic thinking and it looks forward to continuing its engagement, in particular to contributing to the development of a forward-looking regulatory framework that delivers for the UK capital markets.

Panel diversity statement

The FCA has agreed to adopt diversity targets for all the FCA's Independent Panels. These targets reflect those introduced by the FCA in April 2022 for the board and executive management of listed companies:

- At least 40% of each Panel are women
- At least one of the senior positions (Chair, Deputy Chair or equivalent) across the Panels is held by a woman
- At least one member of each Panel is from an ethnic minority background

The FCA has collected information on diversity across all Independent Panels. It is working to improve the data it holds and to be able to provide figures for individual Panels (where relevant) for next year's Annual Reports. Based on the information held as of 31 March 2022, this shows that across all the Panels:

- *36% of all Panel members were women*
- *43% of the senior Panel positions across all Panels were held by women*
- *7% of all Panel members were from a minority ethnic background*

The Panel supports the FCA in its objective of improving diversity in the appointments it makes to all the independent Panels

Members of the Listing Authority Advisory Panel

(1 April 2021 – 31 March 2022)

Mark Austin – Chair

Corporate Partner, Capital Markets, Freshfields Bruckhaus Deringer LLP

Mandy Gradden – Deputy Chair

Chief Financial Officer, Ascential plc

Kathryn McLeland - Deputy Chair

Chief Financial Officer, M&G

Gary Admans

Head of Liquidity and Capital Markets, BP Treasury London, BP plc

Ed Cook

Managing Director, Co-Head of Global Capital Markets, and Global Head of Corporate Solutions, BlackRock

Darko Hajdukovic

Head of Multi-Asset Primary Markets and Investment Funds, London Stock Exchange Group plc

Virginia Khoo

(Since 1 August 2021)

Head of UK & Ireland Equity Advisory, BNP Paribas

James Laing

Managing Director, Investor Advisory, Rothschild & Co

Ursula Newton

Partner, Capital Markets Group, PwC

Euan Stirling

(Until 31 December 2021)

Global Head of Stewardship and ESG Investment, Aberdeen Standard Investments

Aileen Taylor

Group Company Secretary and Chief Governance Officer, HSBC Holdings Plc

James Taylor

Co-Head of Investment Banking, Numis Securities

Amanda Thomas

Partner, Head of the London International Capital Markets Group and Know-How and Training Team