

Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons
London SW1A 0AA

Rt Hon Rachel Reeves MP
Chair of the Business, Energy and Industrial Strategy Committee
House of Commons
London SW1A 0AA

6 October 2017

Dear Nicky & Rachel,

Proposal to create a new Premium Listing category for sovereign controlled companies

Thank you for your letter regarding the FCA's consultation on creating a new Premium Listing category for sovereign-controlled companies.

The response to date to the consultation has illustrated the strength of views on both sides with regard to this proposal. I am not surprised by this divergence of views, since we pick up elements of the strength of feeling in other areas of the debate on listings.

Within the UK Listing Regime, issuers with a Premium Listing are required to meet UK rules that are more stringent than EU minimum requirements. Companies with a Standard Listing in the UK only need to meet those minimum requirements. At present there are three separate categories within Premium Listing. However, some of the rules in the existing Premium Listing categories – specifically those addressing the relationship between the company and its controlling shareholder – introduce significant complexity in situations where the controlling shareholder is a sovereign country.

Our proposal would add a fourth category, which would be open to sovereign-controlled companies. Large companies undergoing privatisation are likely to want to adopt higher standards of governance than those consistent with Standard Listing, and to be able to demonstrate compliance with those higher standards. This is important to gain the confidence of a larger investor base.

The new category would apply all aspects of the existing Premium Listing commercial company category, such as reporting against the Financial Reporting Council's (FRC) UK Corporate Governance Code, save for certain modifications specific to the relationship between the company and its controlling shareholder.

These modifications, which we consider reasonable in light of the particular nature of sovereign-controlled companies, would be the key points of difference between the original Premium Listing commercial company category and the proposed new category.

Sovereign-controlled companies would still be required to meet the broader requirements of the current Premium Listing regime and thus would have to meet higher standards than those already set by the Standard Listing regime.

We do not think protections for investors will be weakened. Plainly, absent the new category, sovereign-controlled companies would be unable to choose a Premium Listing; they would therefore not be bound by any of the Premium Listing requirements that might otherwise offer additional protection for investors.

If the new category is clearly delineated within Premium Listing, investors would be fully aware that companies had chosen it because of their particular relationship with their sovereign shareholder. Investors could choose whether or not to invest, in the knowledge of that relationship, and with the benefit of greater protection than if the company had a Standard Listing. Moreover, the obligations in the existing Premium Listing category for commercial companies would be unchanged. Any existing Premium Listed company that also met the criteria for inclusion in the new category, and wished to move to it, could only do so if authorised by specific independent shareholder vote.

I do think that some of the negative commentary leaves the incorrect impression that the Premium Listing category is monolithic in form, and therefore, that any issuer included in that category must also be included in the main FTSE UK index, with a requirement for it to be owned by index funds tracking the FTSE-100. In fact, neither inference is true. As with active investors, the position of passive investors (investors who invest via index-tracking funds) is unlikely to be affected. We expect almost all applicants for this category to be overseas companies and so there is little prospect that these companies will be included in, for example, the FTSE UK series of indices, which includes the FTSE-100. Passive investors are only likely to be exposed to these companies if they have a product tracking emerging or global markets, in which case they will be holding them as part of a diversified portfolio of higher risk stocks.

The proposal is out for consultation and we will take all feedback into account in deciding whether to proceed.

Saudi Aramco is an example of a company potentially eligible for the proposed Premium Listing category, but the proposal is designed for all companies in this situation. You asked several questions about the interactions with various parties, including Saudi Aramco, during the development of these proposals. As you might expect, in the normal course of the FCA's duties, we hold meetings with potential listing candidates which, given the commercial sensitivities, we do not disclose. However, given the public discussion of these events, we can confirm that we held conversations with Saudi Aramco and their advisors in light of their interest in a possible UK listing in the early part of this year. We emphasised during those conversations that we were reviewing the Listing Regime.

We informed the FRC of our intention to launch a consultation shortly before we published it. Given the relatively small number of potentially eligible companies, and that these are probably from overseas jurisdictions which would not otherwise choose to be bound by the UK corporate governance model, these proposals are unlikely to have a significant impact on that model.

Our discussion with the FRC focused on a different impact of the proposal, namely, that companies issuing securities via a Depositary Receipt structure would be brought into the scope of the FRC's UK Corporate Governance Code for the first time – an expansion of the current scope of the FRC's Code.

Treasury officials were first informed we were working on the sovereign-controlled companies consultation in March of this year. I have had no conversations with Ministers on the subject, albeit the fact of the consultation's forthcoming publication was raised at an introductory meeting with the Economic Secretary to the Treasury, because publication was scheduled to take place within 48 hours.

Our proposals are consistent with the Treasury's recommendations to the FCA, published at the time of the Spring Budget in early March. The recommendations include the point that London retaining its position as the leading international financial centre supports the aim of sustainable economic growth. Those recommendations had been discussed with Treasury.

I thought it would be useful to take this opportunity to deal with one other point that is sometimes mentioned in commentary on the sovereign controlled companies consultation, namely that our proposal would compromise corporate governance standards in respect of the 'free float' rule. This is not the case. The Listing Rules have for many years included provisions based on EU law setting out that 25% of the securities to be listed should be held in public hands. However the Listing Rules also state that the FCA may allow an applicant a lower percentage, where the market will operate properly with that lower percentage, having regard to the number and value of the securities distributed to free float shareholders and the extent of their distribution to the public. Again this is provided for in underlying EU law. In any event, the purpose of the 'free float' rule is not corporate governance; rather, it is to ensure that the appropriate conditions exist for a liquid market. We have previously made clear publicly that we will permit lower percentages than 25%, where the value and distribution is such that there can be a liquid market. The consultation does not propose any change to the 'free float' rule.

I hope that this is helpful.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive, slightly slanted style.

Andrew Bailey
Chief Executive