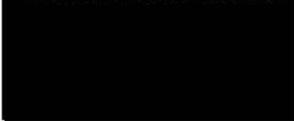


Rt Hon Nicky Morgan MP  
Chair of the Treasury Select Committee  
Committee Office



5 December 2017

Dear Nicky

### **Follow up to the Treasury Committee on free float requirement for listed companies**

Following my letter dated 20 November, I said I would write to you separately concerning the free float requirement for listed companies, which I have set out below.

Ms McGovern asked whether the Financial Conduct Authority (FCA) had used the powers it has under the Listing Rules to allow a company to be listed with a free float smaller than 25%.

The Listing Rules state that the FCA may agree free-float percentages below 25%. Specifically, the Listing Rules include guidance stating that "The FCA may modify LR6.1.19R [the rule setting out the minimum free-float requirement] to accept a percentage lower than 25% if it considers that the market will operate properly with a lower percentage in view of the large number of shares of the same class and the extent of their distribution to the public".

Further guidance in the Listing Rules goes on to say: "in considering whether to grant a modification, the FCA may take into account: (a) shares held in non-European Economic Area (EEA) States; (b) the number and nature of the public shareholders; and (c) whether the expected market value of the shares in public hands at admission exceeds £100 million."

The intention behind these provisions, which derive from European law, is very clearly to ensure that appropriate conditions exist for a liquid market in the shares. They are not a corporate governance measure. As a result, when we consider reduced free float percentages, the only criteria we take into account are the two criteria in the rules; the number of shares of the same class (which we interpret to refer to the value of the free-float block) and the distribution of the shares.

We have already made clear publicly that we are prepared to consider lower free-float percentages. We would expect, given the framework against which such requests are judged, that such consideration would be in the context of a large transaction. But it remains perfectly possible that we may grant a request for a lower percentage on more occasions in the future.

Since April 2013 when the FCA came into being, we have granted requests to permit a lower percentage than 25% in a small number of cases. Those cases relating to new applicants for listing are:

| <b>Date</b> | <b>Company</b>                 | <b>Percentage free float permitted</b> | <b>Company value at IPO</b> | <b>Value of the free float amount</b> |
|-------------|--------------------------------|--|-----------------------------|---------------------------------------|
| 2013        | Merlin Entertainments plc      | 20%                                    | £3.2bn                      | £640m                                 |
| 2014        | B&M European Value Retail S.A. | 20%                                    | £2.9bn                      | £580m                                 |

It is likely that our predecessor organisation the Financial Services Authority (FSA) and the London Stock Exchange, which was the listing authority before the FSA, also exercised the power on occasion but the information is not readily available. To obtain the relevant information from the FSA files would require a significant manual search of the records.

While we are not proposing to change the free-float requirements for the proposed new Premium Listing category for sovereign controlled companies, the sovereign controlled issuers consultation does propose that issuers of global depository receipts (GDRs) would be eligible for the new category. A GDR structure is a long established and widely used investment structure used by companies seeking investors in overseas capital markets. In a GDR structure, shares are deposited with a depository bank which holds them on trust for investors and issues 'receipts' representing those underlying shares to investors. It is those receipts or GDRs that are admitted to the stock market in question and traded among investors. We have long permitted the listing of GDRs in the standard listing segment. If we proceed with our sovereign controlled issuers proposals we would for the first time permit the admission of GDRs to the premium segment of the Official List.

It is worth highlighting how the free float rules work in relation to GDRs. The free-float rules have always applied to the GDRs on a 'per class' basis. In other words, the rules require 25% of the GDR class in public hands. However it is unlikely that 25% of the GDRs will represent 25% of the total underlying share capital. By way of example, 50% of a company's share capital might be deposited with the depository bank (to

back the GDRs being issued). If all of the GDRs are then sold to a broad distribution of investors, the entire GDR class issued would still represent only 50% of the total issued share capital. However, the free float test would be fully met as 100% of that class of security would have been distributed to the market (notwithstanding it only representing 50% of the outstanding equity).

I have sought in previous correspondence with the Committee to distinguish the UK listing regime operated by the FCA from the indices UK investors use. Indices and their rules, including the well-known FTSE-100 index, are determined by commercial providers. In many cases index providers will include provisions addressing free-float. FTSE rules, for example, exclude companies with low free float percentages from the FTSE UK series, including the FTSE-100 index. So companies seeking our agreement to float with a low free-float need to weigh-up possible exclusion from certain indices if they choose to proceed.

Ms McGovern also referenced my letter confirming that a possible Saudi Aramco IPO had not been discussed with ministers. She asked whether we have had conversations about the Saudi Aramco listing with government officials. I explained that we have had a small number of conversations about timetabling issues. As you will be aware, in the Budget Statement, the Chancellor referred to a number of measures resulting from HM Treasury's patient capital work. This is another important initiative in the area of primary market effectiveness. Throughout this year, we have discussed our work in this area with government officials, primarily to ensure appropriate co-ordination of our two initiatives – on primary markets and sovereign listing – and the patient capital work. Our sovereign controlled issuers consultation was also raised at an introductory meeting with the Economic Secretary to the Treasury because publication was scheduled to take place within 48 hours, a point which we have previously commented on. I regard all of this as consistent with joined-up policy-making and in no sense has it compromised the operational independence of the FCA.

I hope this is helpful.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Andrew", with a long horizontal stroke extending to the right.

**Andrew Bailey**  
**Chief Executive**