

FTSE Russell  
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24 August 2021

Dear Sir/Madam,

### **FTSE UK Index Series: User Consultation**

UK Finance and AFME are writing on behalf of our member firms in response to your July 2021 FTSE UK Index Series: User Consultation, for which we thank you for extending the opportunity to respond.

UK Finance and a selection of our members have separately responded using the online survey to the specific questions raised by FTSE Russell in your consultation. The purpose of this letter is to provide additional colour for FTSE Russell on the perspective our members have on the interaction between the Premium List and inclusion in FTSE's UK Index Series, the ongoing consultations by both the FCA and FTSE Russell and views more generally on the relevant topics of free float and dual class share structures.

### **Relationship between Premium List and FTSE UK Index Series**

Our members are of the view that London's Premium List is globally recognised as a mark of quality among the international investment community and are highly supportive of both protecting the integrity and broadening the attraction of the Premium List brand.

Lord Hill noted in his March 2021 review of the UK Listing Regime, however, that a lack of flexibility in some areas is playing a part in turning away some issuers from London. Our members see great potential benefits in the current proposals to modernise and streamline the requirements of the Premium List in such a way that, whilst continuing to support its globally "trusted" brand, ensures that these requirements are more broadly attractive to a range of high-quality issuers who might otherwise choose to list elsewhere.

The ability for issuers entering the Premium List to qualify for FTSE UK Index Series inclusion is, in our members' view, a critical aspect of the overall appeal of the Premium List, adds to its brand and further differentiates it from similar listings that may be available in other markets. Our members would therefore strongly encourage and support the maximum degree of alignment between any reform of the requirements for the Premium List by the FCA and FTSE Russell's own potential changes to its UK Series Index inclusion criteria.

Our members do not consider a scenario where there is an increasing divergence between these two sets of requirements to be a desirable outcome for London or attractive to new issuers, particularly those that may be considering a Premium Listing on the basis of potential new FCA rules around free float and/or dual class share structures.

Given this critical degree of overlap, our members would therefore encourage engagement and coordination between the FCA and FTSE Russell prior to both bodies finalising their respective rule changes, including dialogue on how the parameters of the Premium List could be defined in a way that facilitates the process of modernising the Premium List and broadening its attractiveness, whilst also providing a regime that is satisfactory to FTSE.

### **Members' views on free float and dual class share structures**

By way of additional colour on the perspective our members have on the key issues raised by FTSE Russell in its consultation of free float and dual class share structures, below is a summary of the key submissions our members previously made to the March 2021 Lord Hill review of the UK Listing Regime and the recent FCA proposals:

#### **Free float**

- The free float requirement in the UK is at its core a protection guaranteeing sufficient liquidity of the issuer's shares. As a mechanism for achieving this aim, the current model of a fixed percentage of 25% is out of line with other leading financial markets, such as the New York Stock Exchange, where there is no free float requirement but other measures of liquidity are taken into account, and Hong Kong where a lower level is available for issuers with a minimum market capitalisation level.
- This has on occasion served as a significant barrier to entry for issuers exploring a London listing, both in respect of pre-IPO shareholders being unwilling to sell such a large proportion, but also the implication it has for dilution and value leakage at IPO. On float, shareholders will often prefer to stay invested to take advantage of post-IPO growth and not want to be forced to sell at the minimum level required to achieve a 25% free float.
- Instead, such issuers are going to competitor markets, such as the U.S., where the listing requirements based on liquidity allow for a listing with a free float suitable for their stage of growth, whilst ensuring that sufficient liquidity is met by meeting the eligibility criteria relating to size, shares in issue and number of shareholders.
- In respect of liquidity, we also note that the FTSE UK Index Series currently also requires that securities which do not turn over at least 0.025% of their shares in issue based on their monthly median for at least 10 of the 12 months prior to the annual index review, will not be eligible for inclusion until the next annual review.
- From a governance perspective, our members' view is that a lowered free float level that ensures liquidity does not detract from the wide range of additional governance protections in place under the UK Listing Regime, whilst serving to attract issuers who are deterred from the UK as a listing venue because of the current free float requirements.
- Lord Hill also recommended a reduction in the UK free float requirements on this basis, as well as greater scope for alternative measures for demonstrating liquidity by issuers beyond a fixed percentage free float. In response to this the FCA has proposed a reduction to a 10% free float level, which our members are strongly supportive of, together with a raising of the minimum market capitalisation level to £50m.

## Dual class share structures

- As illustrated by numerous issuers recently listing with dual class share (“DCS”) structures in the U.S., DCS structures are becoming increasingly important for global high-growth, innovative, founder-led companies looking to list. Despite exclusion from FTSE eligibility, some issuers in the UK (e.g. The Hut Group, S4 Capital, Deliveroo and Wise) have successfully listed on the Standard List in London with DCS structures in place and in doing so demonstrating significant buy-side demand for the securities despite the weighted control.
- Competitor listing regimes approach DCS structures with greater flexibility than the UK. For example, the New York Stock Exchange and NASDAQ permit broad listed and unlisted DCS arrangements, offering a range of DCS structures from enhanced voting shares (e.g. Facebook) to classes with no voting rights (e.g. Snap). The Hong Kong Stock Exchange takes a more restrictive approach, whilst still facilitating DCS structures for certain issuers by permitting founders of companies, who are also directors of the issuer, to hold weighted voting rights on a “sunset” basis, subject to carve-outs for fundamental resolutions and a minimum holding (amongst other conditions).
- Our members strongly believe that in order for the UK to be a competitive market amongst the increasing number of prospective issuers desiring DCS structures, such structures should be permitted on the Premium List, subject to certain checks and balances. Whilst recognising the governance concerns associated with weighted voting rights, we believe that with clear conditions that can be easily understood by the market and mandatory “sunsets”, such structures can be introduced to the Premium List whilst maintaining the “gold standard” of governance associated with it as a listing venue.
- We also believe, as noted by Lord Hill in his report, that there is a valid case for founders and other early-stage owners to want to retain a degree of enhanced protection and control in the transitional period following an IPO, including to preserve their vision for the business and ability to implement this effectively.
- From a governance perspective, there are a range of other protections and safeguards available to shareholders and other stakeholders under both the Premium Listing rules and the wider UK listing regime, including the UK Corporate Governance Code. Investors have also implicitly indicated through their support for recent UK IPOs featuring DCS structures that they do not necessarily equate DCS structures with lower standards of governance and are willing to evaluate issuers on a case-by-case basis.
- The FCA’s current proposals are to allow DCS structures on the Premium List, which our members strongly support. The FCA’s proposal include:
  - (a) permitting DCS structures on the Premium List subject to a maximum ratio of 20:1 in the case of weighted voting rights;
  - (b) such DCS rights only to be held by directors and to be generally non-transferable and limited to a five-year period;
  - (c) such DCS rights only to be available in two limited circumstances: (i) vote on the removal of the holder as a director at any time; and (ii) following a change of control, on any matter (to operate as a takeover defence); and
  - (d) an exclusion on the ability to exercise weighted voting on mandatory Listing Rule approval matters.

- Whilst our members would like to see a wider application of DCS rights beyond these proposed matters, particularly given that several recent high-profile DCS IPOs in London have demonstrated that market practice is moving in this direction and this is most likely to attract issuers to make use of DCS structures on the Premium List, they are supportive of the move by the FCA to permit these structures on the Premium List.

I hope the above detail is helpful and informative. Please do let me know if we can be of further assistance to FTSE Russell as the conclusions of this consultation are reached.

Kind regards,



Conor Lawlor

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