Norges Bank
Investment
Management

cp23-31@fca.org.uk
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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UK Primary Markets Effectiveness Review: detailed proposals for listing rule reforms

We refer to the Financial Conduct Authority's consultation on the Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms. We appreciate the opportunity to continue contributing our investor perspective to the policy debate about the future UK listings regime.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with 15,765 billion Norwegian kroner at year end 2023. Of this, GBP 78 billion was invested in the shares of UK companies.

We appreciate the FCA's objective of achieving a stronger UK listed market. As an investor with 70% of its holdings in listed equity, we share the interest in an effective and thriving listed sector. We also recognise the challenges that the UK, similarly to other markets, has faced in recent years when it comes to reduced IPO numbers. However, we are concerned that the FCA's efforts to boost listings by lowering corporate governance requirements will undermine the UK's reputation as a market with robust investor protection, and might ultimately not be successful in driving companies' IPO locations. As expressed in our previous consultation response, we suggest that the FCA reconsiders its proposal to remove key investor protection safeguards such as a mandatory time-based sunset clause for dual class share structures and shareholder votes on related party transactions and significant transactions.

As a global investor, we are concerned about reforms to weaken investor protection driven by the aim to attract primary listings. As acknowledged by the FCA, there are many factors driving a company's decision to list in a given market, including valuation and research coverage, the presence of a large pool of investors with deep expertise in certain sectors, and liquidity. We are unconvinced that corporate governance requirements are the key factor in determining where a company lists. Consideration of the likelihood of achieving a higher valuation likely plays a relatively larger role. Furthermore, the proposals will affect costs for investors, by requiring more stringent monitoring and due diligence, and hinder stewardship efforts. In particular, we note that a more permissive approach to unequal voting rights runs counter to the FCA's intention to encourage investor stewardship and the higher expectations on institutional investors to protect minority interests.

Regarding dual class shares (Q6), we continue to believe that "one share, one vote" is the best regime to secure the fair treatment of all shareholders. The alignment of economic ownership and voting rights ensures that shareholders have the appropriate incentives when exercising their rights, and avoids putting minority shareholders at risk. Allowing dual class shares on a broader scale hinders the effectiveness of voting, which is the key tool used by investors to play their role in monitoring corporate governance at investee companies. Any deviation from the "one share, one vote" principle should be contained and subject to appropriate safeguards. We regret that, following the previous consultation, the FCA decided to go in the opposite direction and remove the previously suggested 10-year sunset clause. We encourage the FCA to reconsider this approach and require that any multiple class share mechanism lapses automatically after a certain number of years (preferably 5). Empirical research has shown that any potential valuation benefits linked to dual class share structures dissipate after 5 to 10 years.[1] We also do not support the proposal to remove limits on the maximum enhanced voting ratio, but welcome the proposal to restrict the transfer of such shares.

In respect to related party transactions (Q15), we do not agree with the FCA's proposal to remove the mandatory shareholder vote and turn it into a disclosure-based regime, subject to a "fair and reasonable" confirmation by a sponsor. We note that a majority of jurisdictions surveyed in the OECD Corporate Governance Factbook 2023 require shareholder approval for such transactions, which are inherently risky for minority investors due to the potential conflict of interest and extraction of benefits of private control.[2] At the very least, an alternative to removing the shareholder approval would be to increase the existing threshold for requiring the vote. Similarly on significant transactions (Q8), we disagree with the proposal to remove the mandatory vote for class 1 transactions and turn it into a disclosure-based mechanism. Empirical research shows a significant difference in the performance of deals subject to a vote and deals with no mandatory vote, and a correlation between returns and shareholder-approved equity issuances.[3] If the proposal were enacted, shareholders would no longer receive any information on transactions between 5% and 25% of the company's value, and would thus be unable to exert scrutiny over such non-ordinary transactions. An alternative to the suggested approach would be to raise the nominal threshold for class 1 transactions requiring a vote.

Moreover, we believe that removing the eligibility requirements for commercial companies (Q3) and the eligibility and continuing obligations in regard to independence and control of the business (Q4) could increase risks for investors. We are concerned in particular about the combined effect of having more complex corporate structures in place and removing the

[1] The Life-Cycle of Dual Class Firm Valuations- Paper.pdf (ecgi.global)
[2] OECD Corporate Governance Factbook - OECD
[3] See bechtpolorossifinal.pdf (ecgi.global) and Does Mandatory Shareholder Voting Prevent Bad Acquisitions? | The Review of Financial Studies | Oxford Academic (oup.com)

Norges Bank Investment Management
is a part of Norges Bank – the Central Bank of Norway

Postal address
P.O. Box 0179 Sentrum,
NO-0I07 Oslo

Visiting address
Bankplassen 2,
Oslo

Tel: +47 24 07 30 00
Fax: +47 24 07 30 01
www.nbim.no

Registration of Business Enterprises
NO 937 884 117 MVA

mandatory shareholder vote for related party transactions. On the other hand, we support the FCA's decision to maintain the current regime for controlling shareholders (Q5), and the overall approach to annual disclosures and reporting requirements against the UK Corporate Governance Code, climate, and diversity (Q24).

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely

DocuSigned by:
Carine Smith Ihenacho
C28B267008BE42F...

Carine Smith Ihenacho
Chief Governance and Compliance Officer

DocuSigned by:
4A194F1D76A6473...

Elisa Cencig
Head of Policy Engagement