

Financial Conduct Authority
Primary Markets Effectiveness Review

Via Email: cp21-21@fca.org.uk

Management and Investment Resources

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Primary Markets Effectiveness Review Consultation

Dear Sirs,

I am submitting these comments as an active investor in the shares of public companies both listed on the main UK stock exchange and on the AIM market.

I give the answers to your detail questions below (answers in red):

List of questions

Q1: Would a single segment for equity shares in commercial companies meet the needs of both issuers and investors.

Answer: Yes and this would be a good simplification of an over-complex regulatory structure.

Q2: Which elements of the existing listing regime would you consider it most difficult or least desirable for issuers and/or investors to operate without? Are there any particular elements you would reinstate? ie the controlling shareholder regime, or the free float requirements.

Answer: The controlling shareholder regime would need to be retained. As regards free float requirements, see comments below.

Q3: Would the role of the sponsor be a significant loss? Is their role under any specific element of existing requirements considered significantly beneficial to issuers or investors currently?

Answer: It is not clear that sponsors add anything significantly to the quality of listings or provide additional information to investors but they do add significantly to the cost to issuers of listing. If issuers require advice on listing, they can purchase that easily enough.

Q4: What would be the benefit of being admitted to the Official List rather than just admission to a trading venue?

Answer: There is significant advantage in having the FCA approve listings as trading venues are often keen to list companies as they have a financial incentive to do so. Some independent review is required.

Q5: Should we have a role in approving the admission criteria set by trading venues and/or indices? Could adequate investor protection be maintained if different trading venues compete on admission requirements?

Answer: Yes the FCA should take an interest in admission criteria to ensure quality is maintained.

Q6: What types of issuers would find it hard to comply with the standards within the existing premium listing segment and why?

Answer: no comment.

Q7: Do unlisted markets provide a suitable alternative to listed markets? Would a gap emerge for any particular type of issuer? Do you consider there would be any particular benefits or drawbacks to this approach?

Answer: Unlisted markets are not a good alternative to listed markets. They have poorer standards of regulation. I would prefer that it was easier for companies to meet the requirements for a listing.

Q8: What types of companies or strategies should the 'alternative' segment be aimed at?

Answer: I see no great benefit to investors of having alternative segments. There are many aspects of companies that investors look at when considering investments. Such matters as length of trading are just one aspect. So long as information is disclosed on all relevant such matters in a prospectus, and that is readily available, then classifying companies into segments does not help.

Q9: Do the existing provisions in the standard segment need to be changed to suit these companies, either through relaxation or to provide additional shareholder protections?

Answer: There should be relaxation of the rules to make listing easier.

Q10: How important is our role in setting additional admission standards to listing in the 'alternative' segment? Are there any benefits to this role being performed by us rather than a trading venue, or market discipline?

Answer: Relying on “market discipline” is not a good idea. It has never proved effective. Likewise relying on trading venues is not likely to be effective as they have a financial motive to relax admission rules. There is benefit in the FCA enforcing some minimum standards for all listings.

Q11: Do you consider the alignment between admission to the index and admission to the ‘senior’ segment to be important? Should the indices consider setting more objective admission criteria?

Answer: As I do not support the use of segments, I do not support indices setting their own criteria.

Q12: How can the process for listing debt and debt-like securities be improved for issuers without jeopardising investor protection?

Answer: No comment.

Q13: Should there be a separate listing segment for debt and debt-like securities?

Answer: No comment.

Q14: Which particular elements of the listing regime could be tailored to improve their effectiveness for other types of securities? In what way?

Answer: No comment.

Q15: Do issuers consider the process of admitting further issues to both the FCA and the trading venue to be burdensome?

Answer: There is certainly needless duplication at present.

Q16: Would the existing procedures conducted by trading venues to ensure issuers comply with their disclosure obligations (production of a prospectus) need to be enhanced if we were to cease admitting further issues to the Official List? What costs would be associated with these, if any?

Answer: I do not support the proposal to drop admittance to the official list and rely on trading venues to ensure compliance.

Q17: Are there any legal, regulatory or tax requirements that are connected with further issues being admitted to the Official List, that could not be maintained by further issues being admitted to a trading venue?

Answer: There are clearly potential tax issues as “unlisted” securities are subject to different tax rules – for example re inheritance tax.

Q18: Do you agree with our rationale for introducing DCSS to the premium listing segment? Is there any additional evidence that we should consider?

Answer: I am strongly opposed to dual class structures. I do not see that allowing them would significantly make listing on UK stock markets more attractive and there are several potential disadvantages to investors to allowing such structures. Where existing management wish to retain some control they already have the capability to do that by maintaining a substantial shareholding and retaining directorships.

Q19: Do you foresee any limitations to our proposal if the weighted voting shares are unlisted?

Answer: No comment.

Q20: Do you consider that a five year sunset period for DCSS in the premium listing segment is the correct length to protect companies from unwanted takeovers? Please provide evidence for your answer.

Answer: No comment as I do not support DCSS.

Q21: Do you consider that the mechanism proposed will be effective in providing a deterrent to unwanted takeovers? Please give reasons for your answer and any possible alternatives.

Answer: What is an "unwanted takeover"? Unwanted by who? If the majority of shareholders support a takeover then it should take place. There is no good evidence that takeovers inhibit the development of companies.

Q22: Do you agree with the proposed controls around DCSS in the premium listing segment? Are there any additional controls that would make the regime more effective?

Answer: No comment as I am opposed to DCSS.

Q23: Do you agree with our proposal to raise the minimum market capitalisation for companies seeking to list under standard and premium listing to £50m? If not, please state your reasons and indicate what alternative threshold may be more appropriate along with any supporting evidence. We also welcome views on whether we should consider setting out conditions under which we might modify the proposed rule on the new threshold, and if so what criteria stakeholders think we could usefully consider.

Answer: I would suggest the current limit is too low but the proposed limit of £50 million is too high. In general I would prefer that it is easier to list on the official list and setting a limit of £50m is too high a hurdle. I suggest £10m would be a good limit.

Q24: Do you consider that the current level of market capitalisation for listed debt remains appropriate? Please give reasons for your answer.

Answer: No comment.

Q25: Do you agree with our proposal to reduce free float to 10% and to remove current guidance on modifications? Please give your reasons.

Answer: Yes in that free float does not necessarily ensure liquidity and the current rule is a needless complexity that might deter listings.

Q26: Would you find information about issuers' free float level useful to inform investment decision-making?

Answer: Yes that would be advantageous but companies annual reports already provide such information to some extent and disclosures re substantial holdings (or changes thereto) already provide additional information.

Q27: Do you agree with our proposal to leave track record requirements as they are now, based on our assessment that this would only affect a small number of stakeholders? If you disagree, please provide further evidence or examples of the wider impact this has on prospective listing applicants and proposed amendments.

Answer: I consider a three-year track record as more onerous than necessary. In the current world, such historic information can be relatively irrelevant to the making of investment decisions where investors are looking at the future rather than the past. Having a short track record should not be a barrier to listing so long as it is disclosed in a prospectus.

Q28: What types of companies struggle to meet the existing requirement in the premium segment for a 3 year revenue track record covering 75% of the business? What alternatives could be considered for these companies?

Answer: High growth businesses in new markets may have difficulty.

Q29: Do you foresee any unintended consequences of these changes intended to modernise the Listing Rules,

Answer: No comment.

Yours sincerely

Roger W. Lawson
Managing Director