

Primary Markets Policy Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Date: 22 March 2024

Brunel Pension Partnership Consultation Response | FCA CP23/31 Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms

We welcome the opportunity to respond to Consultation Paper CP23/31 - Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms.

Brunel Pension Partnership is one of eight UK Local Government Pension Scheme (LGPS) pools, bringing together circa £35 billion investments of 10 likeminded pension funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire.

Our aim is to forge better futures by investing for a world worth living in. We do this by making long-term, sustainable investments on behalf of our clients. By using our collective expertise, we seek to set an example for the industry, and to use our voice to argue for broader change. We are proud to be a recognised leader in Responsible Investment, and a driving force behind structural change in the financial industry.

We are cognisant of the challenging investment environment in the UK and support due consideration of all potential factors that can strengthen the wider business ecosystem. However, we have provided extensive feedback (via PLSA, [ICGN](#), as a signatory to the [joint letter](#) from UK asset owners as well as by directly [responding to the FCA Consultation Paper 23/10](#)) that the proposals put forward by the FCA in reforming the UK listing regime weaken governance standards and establish significant barriers for effective investor stewardship – ultimately undermining the attractiveness of the market for high quality investors.

As a pooling company investing the assets of the LGPS Fund, we have been subject to repeated encouragement to invest into the UK. However, these proposals significantly weaken the investment quality, potentially jeopardising returns and our ability to demonstrate fiduciary duty.

We are disappointed that despite consistent efforts from the investment community to communicate these concerns, the latest proposals do not evidence willingness to find middle ground in key areas of concern. In fact, the proposals on dual class share structures have further regressed from what was initially proposed in CP23/10. We think that wider use of unequal voting rights will make it more difficult for investors to effectively engage and escalate to drive changes in their underlying holdings. These proposals, therefore, run counter to the FCA's objective of enabling more effective investor stewardship.

Through this response, we reiterate our views on proposals related to dual class share structures, related and significant party transactions and offer alternative options for consideration. We have also included some feedback on the consultation approach and impact assessment.

Dual class share structures (DCSS)

The negative impact of DCSS on shareholder rights is well documented. We would like to draw your attention to the latest research from Investor Coalition for Equal Votes which indicates that not only do DCSS fundamentally damage shareholders' rights, but that any potential financial advantages of dual class share structures for companies, if they exist, tend to recede quite rapidly over a short period of time.¹ In light of this evidence, our position is that where dual class share structures exist, we would expect robust safeguards such as time-bound sunset provisions to be in place. This has also been acknowledged by the FCA in the past as an effective mechanism to protect minority shareholders' interests and safeguard against the entrenchment of enhanced voting rights. We are concerned, therefore, about the change in position on the relevance of this safeguard.

We strongly recommend that a mandatory sunset clause of five years is maintained. If the FCA were to extend this time limit, companies should be required to establish

¹ [icev-report-2023-undermining-the-shareholder-voice.pdf \(azureedge.net\)](https://www.azureedge.net/icev-report-2023-undermining-the-shareholder-voice.pdf)

a shareholder vote at the end of five years and provide an explanatory note around why the extension will not weaken governance standards. Enhanced voting rights should not apply to the vote.

Significant transactions and related party transactions

We also strongly encourage the FCA to maintain a mandatory shareholder vote for related party transactions and significant transactions above a certain threshold. We do not believe that a disclosure-based regime would be sufficient to protect shareholders from erosion of value. As previously highlighted in our response, shareholder votes on significant and related party transactions deter questionable practices and abuse, and their continued presence is critical to good corporate governance. The absence of these votes will drive up costs for investors due to additional due diligence. It is also highly unlikely that companies will engage extensively with their investors on these topics in the absence of a mandatory vote.

We recommend that the FCA consider increasing the specific thresholds, rather than eliminate the votes on these topics.

Approach to consultation and impact assessment

We acknowledge that the consultation presents challenges for the FCA given strong views from both the issuer and investment communities on the proposals. However, increased evidence that a balanced approach has been adopted will offer greater assurance to market participants – this could take the form of more rigorous impact analysis including a clear assessment of how the proposed measures will enable greater UK listings as well as the impact on the governance landscape in the UK. We would also like to see more transparency from the FCA in the publication of consultation responses to enable a better understanding of the nature of responses received.

Overall, we remain unconvinced that necessary evidence has been provided to substantiate the changes proposed to the listing regime. As highlighted by an [article](#) in the Financial Times, “there is a risk that lighter touch listing regulations will saddle quoted UK companies with a higher cost of capital while providing an entrée for more dodgy foreign companies into the London Stock Exchange.”

We would strongly urge the FCA to reconsider these proposals given the material, unintended, consequences of proceeding with these changes. We remain available for further dialogue. Please contact vaishnavi.ravishankar@brunelpp.org or ri.brunel@brunelpp.org.

Regards,

Faith Ward

Chief Responsible Investment Officer
Brunel Pension Partnership

Vaishnavi Ravishankar

Head of Stewardship
Brunel Pension Partnership