Capital Markets Policy
Financial Conduct Authority
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Date: 14.09.2021

# Consultation Paper on Primary Markets Effectiveness Review, CP21/21

Norges Bank Investment Management (NBIM) appreciates the opportunity to respond to the consultation paper on the Primary Markets Effectiveness Review conducted by the Financial Conduct Authority (FCA). The response we provide is based on our experience as an active participant in both UK markets and primary markets globally.

NBIM is the investment management division of the Norwegian Central Bank ("Norges Bank") and is responsible for investing the Norwegian Government Pension Fund Global in a globally diversified manner. NBIM held assets valued at GBP 931 billion as of 31 December 2020, of which GBP 67 billion was invested in UK equities and bonds of UK issuers.

NBIM is an active participant in primary markets, having participated in nearly 140 IPOs globally in 2019, and more than 600 equity capital markets events with a total allocation of more than USD 7.5 billion.

As a long-term investor NBIM has a vested interest in well-functioning financial markets that facilitates the efficient allocation of capital and promotes long-term economic growth. We support a regulatory environment for trading in financial instruments that facilitates such outcomes.

**Primary Markets Effectiveness Review**

Primary markets serve an important function in capital markets. They enable a broad set of market participants to invest in corporate equity, to distribute the risk of these investments, and to facilitate economic growth. At the same time, they allow private equity investors and founders to crystallize some of the present value of their investments, either for consumption or for further risk capital investment opportunities.

The 'recycling' of proceeds to private equity from initial public offerings (IPOs) into further risk capital investments suggests that maintaining the pipeline of IPOs is important. We agree with the FCA that the recent decrease in the number of listed companies, not just in the UK but globally, may be a cause for concern about the IPO pipeline. We appreciate the analysis of the causes of this decline by the FCA as well as the UK Listing Review and the Review of UK FinTech.

Public investors in IPOs are necessarily at an informational disadvantage compared to insiders including founders and private equity investors. Prospectus and other disclosure requirements can serve to reduce this disadvantage, but cannot eliminate it. Public investors need additional protections compared to the insiders. This includes ensuring shareholder voting rights and maximizing the probability of a liquid secondary market.

The proposed changes to the primary listings regime are designed to weaken these protections for public investors, in order to ensure that the pipeline of IPOs is not interrupted. Evaluating the proposed changes requires weighing the costs of weakened protections against the benefits of the IPO pipeline.

**Dual Class Share Structures (Questions 18-22)**
As an investor predominately investing in public markets, we are supportive of measures that motivate companies to go public. At the same time, we believe that shareholders as bearers of the ultimate economic risk should be compensated through the right to vote on fundamental corporate decisions[1]. Voting rights should be proportionate to cash flow rights so that shareholders have the appropriate incentives when influencing the company. We believe that the "one share, one vote" principle is the best regime to secure the fair treatment of all shareholders and hold the board of directors to account.

We appreciate the FCA's objectives to facilitate innovative growth companies listing on public markets at an earlier stage in their development. We understand the FCA's rationale for introducing dual class shares structures within the Premium Listing segment in certain limited circumstances. Founders may have superior knowledge, and greater control rights can support them in implementing their long-term vision. We understand that unequal voting rights may encourage founders to list early and to seek a Premium Listing at the London Stock Exchange, which generally offers strong protection of minority shareholders.

While multiple share classes may in some cases be efficient at the time of the listing, voting rights should be aligned with cash flow rights over time. We therefore support the FCA's proposal to introduce a sunset clause and other mechanisms to safeguard shareholder rights. The proposed 5-year sunset period seems to be an appropriate length to achieve the FCA's objective to protect companies from unwanted takeovers, while safeguarding shareholder rights.

We also welcome the additional safeguards proposed by the FCA, including the 20:1 limit to weighted voting rights, the limitation of specified weighted voting rights to directors of the company, and the strict limit on the use of weighted voting rights. Further restricting any transfer of shares from founders would make sure that superior voting rights do not end up

[1] See the NBIM Position Paper on Multiple Share Classes, May 2020 https://www.nbim.no/en/the-fund/responsible-investment/our-voting-records/position-papers/multiple-share-classes/

with beneficiaries that do not share the founder's deep knowledge and vision for the company, taking a way the justification for granting superior voting rights.

**Minimum Market Capitalization and Free Float Requirements (Questions 23-26)**
We appreciate the consideration given to secondary market liquidity and its importance for IPO investors.

We support the proposed update to minimum market capitalization requirements from GBP 700,000 to GBP 50 million for standard and premium listings, and consider the proposed minimum to be reasonable for the current market environment. We would suggest revisiting this threshold on a regular basis – somewhat more frequently than the period since the last review in 1984 perhaps, but not too frequently. A target of a certain percentage of median market capitalization of existing listings, or a percentile of the distribution of market capitalizations, may be a useful benchmark to consider.

In combination with the proposed change in minimum market capitalization, we view the proposed minimum free float level of 10% as reasonable, particularly from a comparative global perspective. We agree that the benefits of increased listings activity outweigh the potential risks from decreased minimum free float levels. We would suggest clarifying the position of the FCA on companies that breach their ongoing obligation of a minimum free float due to a takeover situation, where the company might not be able to come back into compliance.

**Conclusion**
We support the efforts of the FCA to review and update the primary markets listing requirements, with the aim of enabling IPOs of companies at an earlier stage of their growth path, the recycling of private equity capital into new company formation, and the participation of public investors in the growth potential of companies.

Even though we generally favour proportionality of voting rights to cash flow rights, we support the FCA's proposed rules on Dual Class Share Structures, given the thoughtful design of guardrails around these structures. We also support the updates on minimum market capitalisation and free float requirements, bringing the UK in line with global standards.

We welcome this opportunity to comment on the FCA's proposal, and remain available for any questions.

Yours respectfully,

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