UK Government – UK Listings Review – Call for Evidence

About Barclays

Barclays is a British universal bank. We are diversified by business, by different types of customer and client, and geography. Our businesses include consumer banking and payments operations around the world, as well as a top-tier, full service, global corporate and investment bank, all of which are supported by our service company which provides technology, operations and functional services across the Group. For further information about Barclays, please visit our website home.barclays.

Barclays' Response

Barclays strongly welcomes this review into the UK Listings Regime. Capital markets are international in nature and the UK has a unique opportunity to realign its approach to attracting international investment whilst upholding UK capital markets values such as strong corporate governance and a reputation for financial services expertise.

2020 has shown that strong economies need strong capital markets. At the beginning of the COVID crisis Barclays helped a large number of companies who were in a difficult position in terms of liquidity. Barclays was the #1 bookrunner and most active house for UK Equity Capital Markets in 2020, leading fundraises for clients such as Compass Group, SSP Group and WH Smith amongst others. As the leading British institution in the UK and European IPO league tables, we have unique insight and expertise into the dynamics of the UK market.

In addition, Barclays facilitated approximately 45% of total lending under the Covid Corporate Financing Facility (CCFF) and by the end of 2020 had approved 10,177 loans with a value of £2.41 billion under the Coronavirus Business Interruption Loan Scheme (CBILS).

We agree with the overarching objective of boosting the UK as a destination for IPOs and optimising the capital raising process for companies seeking to list on the main UK markets. We would also note that we have participated in and, in all material aspects, agree with the UK Finance submission on this topic and the below represents the particular points which we feel relevant to highlight.

Free Float Requirements

- When considering the free float requirement, we must keep in mind the overall objective of boosting the UK's attractiveness for companies seeking to list. We feel that the current level of 25% is too high and can be relaxed.
- Our experience is that for many investors, 25% is an arbitrary number. Their decision as to whether or not they support an IPO is based on a range of factors, including the size of the overall deal and whether or not it is likely to be sufficiently liquid for them.
- We are also aware of the view that has been taken in the past that the free float requirements are an important part of the overall governance protections that investors benefit from when they in invest in Premium listed companies. We think this misconception is confusing and that in this regard more emphasis should be put on the other aspects of the rules that more directly ensure good governance i.e., the requirement to comply or explain with the UK Corporate Governance Code. This would, in

turn, allow a more informed and nuanced debate regarding the minimum levels required to ensure investors benefit from a sufficiently liquid market post IPO.

- It is also important to keep in mind that many growth companies, particularly smaller technology-focused companies, will normally have the option of raising private capital for smaller sums. An IPO in relation to which 25% of the issued share capital has to be free float can be inherently unattractive and can encourage company owners to seek unrealistically high valuations from the market given the need to sell more equity than they otherwise would choose to sell. It also increases the risk of a “pulled” transaction in the event of short-term market volatility, which contributes to the perception that the UK and European IPO markets are less reliable than those in the US.
- As to an alternative level, a minimum in the region of 10 – 15% would, we believe, be sufficient to ensure adequate liquidity provided that such lower level is coupled with a minimum value of the free float shares and potentially a minimum number of investors holding those free float shares. We believe that such a lower threshold is validated by the fact that trading levels of UK premium listed companies typically settle at around 0.5% of their free float.
- It is also important to recognise that the FTSE Russell (“FTSE”) index has its own free float requirements for index inclusions which could, perhaps, remain at 25% as an investor protection. However, there should be more flexibility for companies to *get* listed at a lower level as this would make the market more competitive compared to private fundraising.

<u>Dual Class Share Structures or other owner-control mechanisms</u>

- Our experience is that many company founders would welcome dual class share structures because such structures can allow them to focus on longer-term investment and planning once listed; for example, by providing a degree of protection against unwanted hostile acquisition approaches. A lot of high growth companies see underlying trading volatility, particularly in the years immediately post IPO, from one quarter to the next. If such shorter-term concerns can be alleviated with the implementation of these structures it could promote better, longer-term decision making in our view. Therefore we would suggest that dual class share structures be permitted, provided that the relevant issuers can comply with the other Premium segment requirements. The fact that dual class share structures are a barrier to being Premium listed means that companies such as The Hut Group (THG) are driven to Standard listing. By definition, this means that there is less governance and protections for investors when the goal should be to encourage better governance. As such, the focus should be on opening up access to the Premium Listing.
- We note and agree with the suggestions made by UK Finance regarding the circumstances in which DCS structures should be permitted.
- There is also perhaps a wider point here about FTSE eligibility. Dual class means that a prospective company cannot access the FTSE UK indices, to protect passive investors, but we would suggest that the FTSE should have a renewed committee process which gives FTSE the authority to allow the prospective company to list, so long as such company has instituted good corporate governance.
- We believe that there is also a fundamental debate to be had about the objective of the UK FTSE indices. Are they designed to represent the make-up of the UK economic landscape, or to be used as a governance tool? At the moment this answer appears to be a mixture, and we think there is merit in focusing governance protections in either the Listing Rules or the FTSE rules, not a combination that lacks considered alignment between the two.

<u>Other Issues</u>

- In relation to Special Purpose Acquisition Companies (SPACs): there has been significant issuance in the US and some recent issuance on Continental European exchanges for vehicles that mirror the structure seen in the US. We note that in the UK, there is the assumption under the Listing Rules that a SPAC issuer's shares should be suspended upon announcement of a transaction unless sufficient financial information regarding the acquisition target is included in the acquisition announcement. This has been flagged by investors as a particularly unattractive aspect of the UK market compared to other markets (in particular the US where the SPAC trades continuously post-announcement). We believe the review should consider (i) the possibility of reversing the assumption referred to above, provided that sufficient financial information regarding the target is also published on announcement, and (ii) providing guidance on what financial information will be deemed to be sufficient for this purpose.