



Primary Markets Policy Team
Financial Conduct Authority
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Consultation Response – CP17/21 Proposal to create a new premium listing category for sovereign controlled companies

We welcome the opportunity to comment on the proposal for creating an additional category under the listing rules for sovereign controlled companies (CP17/21). Royal London Asset Management (RLAM) manages £106 billion in assets on behalf of its parent, Royal London Group, and a number of other external clients, including Local Authorities, charities and universities. As an institutional investor, we invest money on behalf life and pension savers in the UK.

We agree with the FCA that the purpose of primary markets is to both provide access to capital for companies, and provide investment opportunities to investors. We are also sympathetic to concerns about ensuring the UK remains competitive in attracting capital to London. However, we believe that capital markets do not simply provide a platform for financial transactions. They have a much broader function – which is to facilitate meaningful wealth creation for the benefit of society. It is important to remember that wealth can be both created and destroyed within capital markets. Therefore regulations must aim to support wealth creation and protect from wealth destruction.

For this reason, **we are opposed to the proposal to create an additional category within the Premium Listing regime.** We are concerned that the new category is being created to facilitate the listing of Saudi Aramco on the London Stock Exchange under favourable terms and weaker governance protections for pension savers. The best way to achieve the goal of creating and protecting wealth for the benefit of society is to ensure there is a robust governance regime in place. The proposals put forward by the FCA to exempt the disapply certain aspects of the the related party rules and the controlling shareholder rules do not support this ultimate aim.

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Related Party Rules

- 1.1 We disagree with the proposal to disapply the rules governing related party transactions between the sovereign controlling shareholder and the company.
- 1.2 There is a significant risk that company assets may be used for political purposes and/or public policy objectives to the detriment of the company and its minority shareholders. Related party transactions with the sovereign controlling shareholder could be used to facilitate transactions that are not in the long-term interests of minority shareholders and the company as a whole. As such, independent oversight of such transactions is very important; and any action to weaken these requirements is not prudent.
- 1.3 We believe there is a higher risk of corruption and expropriation of assets in sovereign controlled companies. Scrutiny of related party transactions with the sovereign controlling shareholder is important to help mitigate any downside risk of corruption.
- 1.4 We agree that sovereign controlled companies will have extensive and complex relationships with the sovereign. This is precisely the reason why related party rules are so important and why the sovereign controlling shareholder should not be exempt from these rules.
- 1.5 The FCA asserts that investors are well-positioned to evaluate and assess the risks of investing in a sovereign controlled company (3.35). While we agree that investors can and will come to their own judgement of the risk and whether or not to invest in such companies, we do not think this is sufficient grounds to disapply the related party rules. The power imbalance between a sovereign shareholder and minority shareholders is significant; the minority shareholders are at a distinct disadvantage with regard to assessing the relative risks of investing in a sovereign controlled company. This in turn increases the risks to minority investors and creates an imperative for good governance.
- 1.6 Contrary to the FCA's view put forward in the consultation, we believe the risks of investing in the equity of a sovereign controlled company differ from the risks of investing in debt instruments issued by foreign governments. Equity investments in public companies by their nature are riskier and therefore require stronger governance protections.
- 1.7 Furthermore, the sovereign controlling shareholder will inevitably have access to more information than minority shareholders; again, making related party rules of critical importance to ensure there is oversight to approve the use of corporate assets.

Controlling Shareholder Rules

- 2.1. We fundamentally disagree with the proposal to disapply the controlling shareholder rules for sovereign controlled companies, and the assertion that these rules have no 'usefulness'.

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- 2.2. We do not agree with the FCA's assumption that sovereigns are incentivised to maintain credibility in capital markets (3.40). While this may be the case in some circumstances, independent shareholders cannot be assured that sovereigns will always act in their best long-term interests or in that of the company, see points 1.2 and 1.3 above.
- 2.3. The role of the independent directors in the case of a sovereign controlled company is arguably even more important in maintaining trust in the business, and to ensure the business is operating in the best long-term interests of all.
- 2.4. Any weakening of the rules regarding director elections exposes minority shareholders to heightened risks. Therefore, we support the proposal put forward by the Institute of Directors (IoD) in favour of strengthening the rules to provide minority shareholders a binding vote (or veto) on the election of the independent directors. This would provide assurance that some level of independent oversight is being exercised on behalf of minority shareholders.
- 2.5. We agree that a relationship agreement between the sovereign and the company should be in place, but we do not consider this a substitute for ensuring high governance standards are implemented in good faith.

Conclusion

We do not believe an additional listing category is required. Companies that do not want to adhere to the higher governance standards of the Premium listing are already able to list under the Standard category. The proposals put forward in the consultation would significantly weaken the governance protections and expose ordinary investors and pension savers to greater risks. It was not long ago when investors suffered significant losses after investing in foreign-controlled companies like ENRC and Petrofac. In our view, eroding governance standards in the short-term to accommodate the needs of Saudi Aramco and other similar sovereign-controlled companies will come at the expense of creating sustainable wealth creation over the long-term.

Sincerely,

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