Status: EEA Authorized
Reference number: 13553399

Banbury Road Summertown
272 Banbury Road, Oxford, UK

Essex
DO2 2LPX T 91 LP

Q-INNOVATOR INVESTMENT LIMITED

CERTIFICATE OF LICENCE

This 22nd, day of December 2021

Q-INNOVATOR INVESTMENT LIMITED

Has been granted an Investment Broker License pursuant to Section 28 of the Securities Act 2004
Rule 3 of the Securities (Licensing) Rules 2006 of the Financial Conduct Authority
(Consolidated Licensing and Fees) Rules 2007

George Brandon
Issued on behalf of the Financial Conduct Authority
by the Chief Executive

Richard Lloyd
Executive Director

Phone Number:
+44 7481 342547

Website Address:
www.q-innovator.net

FCA FINANCIAL CONDUCT AUTHORITY

Provision of Banking Services – Information Request

9 August 2023

SECTION 1 - SUMMARY

1. **Firm name**
2. **Relevant FRN(s)**
3. **Total number of customers** *(for each year half)*
   i. **Personal**
   ii. **Business**
4. **Total number of accounts opening applications** *(for each year half)*
   i. **Personal**
   ii. **Business**

PLEASE NOTE: The following question numbering will vary between the personal and business sections.

SECTION 2 - BUSINESS JUSTIFICATION (PERSONAL & BUSINESS SECTIONS)

5. **Number of customers whose accounts have been denied, suspended, or terminated for the following reasons:** *(for each year half)*
   a) Customer - Expression of political or any other opinions
   b) Customer - Reputational risk
   c) Financial Crime - Suspicion identified
   d) Financial Crime - Due diligence concerns
   e) Commercial - Costs of serving or complying with financial crime requirements
   f) Commercial – Geographic (decisions taken not to serve certain customer locations)
   g) ***Business only***: Commercial - market led decision. E.g., concerns about the financial health of the sector or market share deemed too high
   h) Account Related – Not meeting account criteria (e.g., small business using personal account; customer not using account as intended excl. financial crime)
   i) Account Related – Dormant account
   j) ***Business only***: Account Criteria - Specific concerns about the financial viability of the account holder or customer
   k) Customer Conduct - Unacceptable behaviour towards the bank
   l) Other – [If >0] Please explain *(Free text - 3000 characters)*
   m) Total
6. **Where not identified as the principal reason (in the previous question), the number of customers whose accounts have been denied, suspended, or terminated where an 'expression of political or any other opinion' was a factor in the decision** *(for each year half)*

SECTION 3 - COMPLAINTS (PERSONAL & BUSINESS SECTIONS)

7. **Number of customers who complained about their account being denied, suspended, or terminated, broken down by the following reasons:** *(for each year half)*
   a) Customer - Expression of political or any other opinions
   b) Customer - Reputational risk
   c) Financial Crime - Suspicion identified
   d) Financial Crime - Due diligence concerns
   e) Commercial - Costs of serving or complying with financial crime requirements
   f) Commercial – Geographic (decisions taken not to serve certain customer locations)
   g) **Business only:** Commercial - market led decision. E.g., concerns about the financial health of the sector or market share deemed too high

h) Account Related – Not meeting account criteria (e.g., small business using personal account; customer not using account as intended excl. financial crime)
i) Account Related – Dormant Account
j) **Business only:** Account Criteria - Specific concerns about the financial viability of the account holder or customer
k) Customer Conduct - Unacceptable behaviour towards the bank
l) Other – [If >0] Please explain *(Free text - 3000 characters)*
m) Total

SECTION 4 - CUSTOMER TYPES (PERSONAL & BUSINESS SECTIONS)

8. For the customer groups below please specify the number of customers as of 30 June 2023.
a) Politically Exposed Persons (PEPs)
b) Political parties
c) Not-for-profits & non-profits – Charities, clubs, administrations, unions, etc
d) Adult entertainment industry
e) Pawn brokers
f) Money services business / Payments firms / E-money firms
g) UK expats living overseas
h) Digital Asset Businesses (incl. crypto assets)
i) Trustees
j) Refugees
k) Previously bankrupt
l) Ex-offenders

9. Please specify how many customers have applied, been denied, suspended, or terminated for the following groups below: *(for each year half)*
a) Politically Exposed Persons (PEPs)
b) Political parties
c) Not-for-profits & non-profits – Charities, clubs, administrations, unions, etc
d) Adult entertainment industry
e) Pawn brokers
f) Money services business / Payments firms / E-money firms
g) UK expats living overseas
h) Digital asset businesses (incl. crypto assets)
i) Trustees
j) Refugees
k) Previously bankrupt
l) Ex-offenders
m) Any other customer groups you identify in your customer records – [If >0] Please set out which groups, the applicable policies, and the rational. *(Free text - 3000 characters)*

SECTION 5 - POLICIES AND PROCEDURES (PERSONAL & BUSINESS SECTIONS)

10. Do you have any policies that set out specific groups of customers that are excluded from the provision of services by your bank? *(Y/N)*
a. [If yes] Please set out which groups, the applicable policies, and the rational. *(Free text - 3000 characters)*

11. Do you have any other policies, guidances, or risk appetites, which result in groups of customers being excluded? *(Y/N)*
a. [If yes] Please set out which groups, the applicable policies, and the rational. *(Free text - 3000 characters)*

12. Additional context or commentary *(Free text - 3000 characters)*

FCA FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

20 September 2023

Dear CEO,

Insurance market priorities 2023-2025

We want to update you on the FCA's priorities for the life insurance market and broader insurance market 2023-2025, the specific risks of harm we are most concerned about, what we want firms to do about them and where we intend to focus the majority of our work in this area.

The broader insurance market is essential to the UK economy providing a vital service for millions of UK consumers and businesses. The market has 3 key sectors: personal and commercial lines insurance, wholesale insurance and life insurance. The wide variety of products and services within it includes personal and commercial lines products such as home and motor insurance that provide financial protection, wholesale products and services that price and underwrite risks from around the world, and life insurance products that provide income to millions of customers before and at retirement, as well as long-term protection products.

Life insurers manage c.£2.35trn of customer assets across c.90m policies (at end 2022), helping customers manage their risks and to save for their retirement as well as other long-term savings needs. In personal and commercial lines markets, our 2022 FCA Financial Lives survey, shows 84% of adults surveyed hold an insurance product with over two-thirds (68%) of them reporting they always or usually shop around for these products. Further, the wholesale insurance market is a fundamental enabler to the economy allowing risks to be pooled and covered with around £55bn of Gross Written Premiums (GWP) written in 2021 alone. The health of the UK insurance market remains significantly important to the UK economy.

As with all financial services, the insurance market has faced, and continues to face, significant challenges such as the aftereffects of COVID-19, supporting customers with cost of living pressures and adjusting to higher inflation and interest rates. Additionally, climate change, artificial intelligence, resourcing challenges and strains on profitability have the potential to materially increase the existing risks of harm about which we are concerned. Ensuring we have the right data to assess both current and emerging risks of harm is a key priority for us.

Our strategic objective under the Financial Services and Markets Act (FSMA) is to make financial services markets function well. A key aim for the UK insurance market is that it

continues to be a successful industry that helps customers achieve their long-term financial goals and is there for consumers and companies when the worst happens. Where insurance works well, we see customers invested in good value pensions products with good quality and timely support when they need it, and claims being met quickly and fairly at the time of customers' greatest need.

However, when we take a closer look at specific areas, too often we find significant failings. For example, in the last year we have taken supervisory action against firms where we have seen:

- instances of very long waiting times/settlement delays
- weak identification of vulnerable customers
- the continued sale of products not providing fair value
- paying away substantial amounts of commission to third parties where it was not clear how those commission levels had been assessed as being fair value
- failure to implement general insurance pricing practices rules
- discriminatory pricing practices
- undervaluation of motor claims, and
- poor business interruption claims handling.

As a regulator, we are required to comply with our statutory obligations, we do this by focusing our resources on ensuring firms achieve good outcomes for consumers to meet their needs and to ensure the market is functioning well. We expect Boards to do the same and oversee firms and ensure their objectives are in line with our priorities. While we generally see good intent from Boards, we are concerned that not enough action is being taken to ensure good outcomes for customers. We therefore expect firms' Boards to ensure concrete, proactive action is taken throughout the firm in line with our rules and expectations and not to treat them as a compliance exercise or wait for us to force action.

Market-wide priorities

While the UK insurance market covers a broad and diverse range of firms, our focus is on 4 market-wide priorities alongside sector-specific priorities. These are consistent with our strategic outcomes and commitments:

Setting & Testing Higher Standards

Putting consumers' needs first: Embedding the Consumer Duty

We have a strong focus on Consumer Duty implementation, especially in the current tough macro-economic environment – for both consumers and firms. We expect firms to assess and address issues with Products & Services, Price & Value, Consumer Understanding and Consumer Support. We also expect firms to put the consumer at the centre of their business to ensure they are delivering good consumer outcomes. This is both for open products and services now and in readiness for the Duty applying to closed products and services from 31 July 2024. We set out our expectations on implementing the Consumer Duty for Life Insurance and Personal & Commercial Lines Insurance earlier this year. We will consider using our range of regulatory tools to assess the effectiveness of this implementation, which may include mystery shopping exercises across different sectors.

***Strategy for positive change - our ESG priorities:* Governance and Culture**

Poor governance and culture in the insurance market leads directly to poor outcomes for consumers, market participants and employees and these have been key root causes of recent major conduct failings.

Firms should be able to show how they are actively working towards having a diverse workforce at all levels in their organisation. This will help firms understand customers' diverse needs and make the market an attractive career proposition for future talent. These positive outcomes can be advanced through firms assessing and improving the drivers of culture in your firm, considering leadership, purpose, governance, and your approach to recruiting, managing and rewarding employees. We have seen encouraging market commitments in this area but remain disappointed on the general lack of progress within the market overall, especially in the wholesale market.

***Minimising the impact of operational disruption:* Operational resilience and the increasing reliance on third parties**

Operational resilience is the ability of firms, financial market infrastructures and the financial sector as a whole to prevent, adapt and respond to, recover and learn from operational disruption. We have recently seen incidences of a lack of operational resilience within firms to the detriment of customers and the wider market. We are particularly concerned with the level of governance, oversight and contingency planning on outsourced services where, if a problem occurs, customers suffer harm because adequate controls and contingency plans are not in place.

Our Operational Resilience Policy (PS21/3) accompanied rules and guidance. Firm had a year implementation period until the rules came into force on 31 March 2022. After that firms needed to as soon as reasonably practicable and no later than 3 years, show that they are which comes into effect in March 2025, requires in-scope firms to be able to remain within Impact Tolerance (ITol) in severe but plausible scenarios for their Important Business Services (IBSs). To meet this requirement firms must have scenario tested their IBSs to identify any vulnerability in their operational resilience and acted on any findings before March 2025, when the 3-year transitional period ends.

It is good practice for firms to have credible plans in place to manage and recover from operational problems, take remedial action where necessary and notify the regulators promptly as appropriate. In particular, we draw attention to the risks of cyber-attacks and the need to ensure you have adequate controls in place where information is held by third parties.

Improving oversight of Appointed Representatives

Many firms in the insurance market operate as principals with Appointed Representatives (ARs) to bring benefits such as supporting innovation as some firms use the model to trial new services and propositions, providing increased customer choice and driving competition by providing market access for smaller firms. However, we have seen a wide range of harms where firms operate with the AR model, as set out in our policy statement last year. Our strengthened rules, which came into force on 8 December 2022, give principals more responsibility for ensuring your ARs are fit and proper. We are using data and analytics to help us identify higher risk principals and taking appropriate action on outlier firms. We will be testing that firms are properly embedding the new rules across the AR regime and increasing and improving our engagement with principal firms and other stakeholders. We expect principal firms to ensure high standards both within their firm, and at their ARs. Principals need to take steps to ensure their ARs operate within those high standards and to take assertive action with those ARs that fall below the principal firm's standards.

In addition to the Market-wide priorities, we will also be focused on wider regulatory priorities over the next 2 years. These include the Future Regulatory Framework and its impact on the Insurance market, our new secondary competitiveness objective – with a focus on the wholesale market, and climate change risks. On climate change risk, we encourage firms to be systematically informed about the climate change risk impact across their organisation and continually challenge inputs and outputs of the climate change models they use.

Life insurance specific priorities

In August 2021, we wrote to firms within the life insurance sector to set out our view of the key risks of harm and our supervisory strategy. Our life insurance portfolio takes account of the risks within all life insurance firms, including mutuals. Within this portfolio we also include the main regulated Third-Party Administrators (TPAs) which perform various services on an outsourced basis for life insurers.

As well as the market-wide priorities, we will also be focusing on the following areas in your sector.

Setting & Testing Higher Standards

Putting consumers' needs first: Price and value

The Consumer Duty strengthens the need to deliver fair price and value for all retail products. This includes pensions and other long-term savings products, annuities and long-term protection.

Pensions and long-term savings products can have complex value chains. We expect there to be transparency in the charging process, including for closed book products invested in unit-linked or with-profits funds. We expect firms to ensure that consumers are not paying excessive fees and charges, that the overall value is fair, and that they are provided with the necessary information and support to understand the end-to-end fees breakdown to make informed choices and decisions.

As part of Consumer Duty requirements, we expect firms to make assessments of the fair value of open and closed book business to the customers that have them. We will be conducting work to fully understand the transparency of charges across the value chain and how firms assess overall product value. We will focus particularly on unit-linked investments which have not been subject to the same requirements as Authorised Fund Managers managing authorised investment funds. As part of this work, we want to understand what actions firms have taken where they have identified instances of unfair value and how they will be measuring this on an ongoing basis. We will use this data to evaluate whether remedies are needed.

Recently, annuity sales have increased significantly in response to increases in annuity rates. While consumers' response to improved annuity rates may be positive, the gap between the worst and best rates offered on standard (non-underwritten) annuities has widened. As we noted in our letter to life insurers in December 2022, given that consumers will be locking into an annuity rate for life, we expect firms to ensure that the prices offered are fair value to consumers. We also expect, in accordance with our rules on pension annuity comparison information (COBS 19.9), firms make it clear that consumers may achieve a higher rate by shopping around on the open market, including for impaired / enhanced annuities. This should be shown prominently, clearly and in an engaging way in the documentation a customer receives.

While the market for retail annuities might be price-competitive, pricing may be used as a way to manage a firm's capital budget. For example, firms may reduce annuity rates so they are less attractive, to avoid selling too many relative to the available capital budget or operational capacity. Insurers should ensure that, relative to market conditions / the yields on assets being used to back annuities, they are still providing fair value for customers buying their annuities.

Providing fair value includes individually underwritten annuities, where customers disclose particular health and lifestyle circumstances (enhanced annuities). There is a well-established, and rational, expectation across customers and financial advisers that where particular health and lifestyle factors are disclosed this should provide a higher (or at least the same) income, compared to an annuity without making disclosures. Given this, customers who qualify for these products may not seek quotes for annuities that do not allow for any health and lifestyle circumstances. Insurers (and intermediaries where appropriate) should ensure that customers who disclose information about their health and lifestyle circumstances when buying an annuity are not left worse off - due to any targeted pricing management, or disproportionately high distribution costs - than if they bought an annuity without these additional disclosures.

We will continue to monitor activity in the annuity market and will take action if we consider the actions of firms across the value chain, including the level and transparency of commission on non-advised annuities, could harm the delivery of good outcomes to annuity customers.

For the life protection market, through our thematic review of PROD 4 rules, we are testing whether protection products are delivering fair value to customers. We continue to engage with insurers to identify where there may be evidence of poor outcomes. We are also concerned that levels of commission may not always be consistent with fair value and may incentivise unnecessary product churn.

***Putting consumers' needs first / Dealing with problem firms:* Consumer support & service quality**

We have seen plenty of evidence in recent years of poor service being delivered to life insurance customers. This includes slow transfer and claim settlement times, as well as lengthy response times, and we expect firms to address this as a matter of urgency. We are also concerned about potentially poor service standard targets life insurers set themselves. Additionally, much of the poor service we have seen seems to be linked to migrations or transformation activity on legacy business. We expect to see firms raising the overall standard of their service to ensure good outcomes for their customers.

Transformation activities are a known risk to firms. This is both because of the technical elements involved and of the potential impact that key actions such as migrations can have on wider customer services. Insurers should have strong governance of transformation activities to ensure they are progressing in a way and on a timescale to-achieve the best overall outcomes and support for their customers.

There are also other developments which could continue to affect insurers' service levels unless firms actively manage these risks. For example, the economic environment continues to affect firms' ability to recruit staff. Firms should take a holistic view of their service levels to identify risks of potential service downturns and manage these before problems occur.

The Consumer Duty has further raised the standards expected of firms for the quality of service being delivered and how they factor this into assessing the fair value of what they deliver to customers. We expect firms to have a clear view of the standards they

are trying to achieve, why these meet the needs of their customers in different product lines and plans for how they will achieve and maintain these standards. Given the wide range of products and older systems often involved, we expect closed book products to present different challenges to open book products in delivering the expected service standards. It is imperative that firms have a clear roadmap to comply with the Duty by the deadline for closed books.

We aim to understand the drivers of inadequate service where it arises. Where we identify firms that are not acting to deliver good customer outcomes or have inadequate processes in place to avoid causing foreseeable harms, we will intervene using our regulatory tools. More broadly, we will collect data in targeted areas to understand how life insurers' actual service standards compare with intended standards and how customer experience differs across a range of factors and between firms.

Putting consumers' needs first: **Effective customer journeys**

Providing adequate support to customers involves more than providing baseline service levels. We expect firms to demonstrate that they provide effective support to customers throughout their journey and can evidence they have this support in place. The overall customer journeys around retirement will continue to be a key focus of our attention given that these can be highly complex, with customers taking significant life decisions at various stages. It is essential that firms understand their customer journeys, how current economic conditions may influence customer behaviour and needs, where poor support is likely to cause the most harm and, where weaknesses are identified, how best to improve customer outcomes.

A key way to support customers to make informed decisions may involve providing regulated advice or guidance. It remains important that, where regulated advice is not provided, firms consider the guidance they can provide to deliver good outcomes for their customers. We continue to work with the Treasury to review the Advice Guidance Boundary and have set out guidance for firms on how best to provide support within the current rules.

Putting consumers' needs first: **Supporting customers in financial difficulty**

The behaviours and needs of customers are likely to continue changing and it is essential that firms appropriately understand these changes and mitigate any foreseeable risks of harm to customers arising from them. For example, the increasing cost of living may mean customers engage more frequently with their products than previously. We also expect that more customers will become financially vulnerable and will require those people they engage with at life insurers to be informed, well-trained and empowered to provide support. Such changes present a foreseeable risk of harm to customers, and we expect insurers to be taking proactive steps to understand what their changing customer needs are, or are likely to be, to avoid foreseeable customer harm. In December 2022, we set out our expectations of how life insurers should support their customers given the rising cost of living.

Minimising the impact of operational disruptions: **Effectiveness of outsourcing oversight**

The extent of outsourcing of servicing, administration and systems functions to regulated Third-Party Administrators (TPAs) within the life insurance sector has continued to increase over recent years. This reliance on TPAs, and concentration within a small

number of TPAs, presents risks to life insurers which we expect to form a key part of firms' risk assessments.

In our February 2023 Consumer Duty letter to life insurers we highlighted that, where activities are dealt with by TPAs, the ultimate responsibility for customer outcomes lie with the insurer. While insurers have assured us they remain responsible, we have been disappointed by how some have responded to operational events. This suggests a disconnect of understanding and oversight of outsourced processes may have emerged. We will look for evidence that both insurers and TPAs understand and have implemented their respective responsibilities under the Duty into their three lines of defence model. We may intervene to restrict or delay additional outsourcing arrangements if firms cannot satisfactorily demonstrate they are meeting these responsibilities.

Cyber security and data loss risks are concerns across all sectors. We believe there to be particular concerns at life insurers given the high volume of sensitive personal information held and the interdependencies between TPAs and life insurers. Our expectation is that firms assess the risk of consumer harm which may arise from cyber-attacks and develop adequate responses to minimise potential impact. We will review whether firm-specific action is required to address resilience, particularly in relation to TPAs.

***Putting consumers' needs first*: Suitability and value of life protection products**

We continue to see evidence of poor selling practices of protection products. While our data provided evidence of insurers taking appropriate actions in response to intelligence about poor broker conduct and remediating customers, we consider that insurers could often have acted sooner. We also want to see firms improve their due diligence on new brokers to avoid their products being sold to customers for whom they will not pay out as expected, and to avoid the unnecessary re-broking of policies. Where insurers identify the potential for customer loss in the policies they hold, we expect them to remediate customers appropriately and promptly. A potential driver of poor outcomes is the commission structures between insurers and brokers. We expect firms to perform thorough assessments of their products and distribution models to ensure they offer fair value, in line with PROD 4 and Consumer Duty expectations. Insurers should monitor brokers in their distribution channels to identify instances where either unsuitable products may be sold, or products do not offer fair value.

We engaged with product providers earlier this year to understand how effectively their controls manage the risks of poor selling practices within their distribution channels. We are also continuing with our thematic review of firms' implementation of PROD 4 rules and assessments of fair value, which includes the level of commission structures under pure protection products. We will share feedback with the market once we have completed this work and continue to engage with providers.

We have seen evidence of reviewable whole of life policies not delivering good outcomes for customers. We have also seen premiums increasing substantially at review points, leaving customers to either pay the increased premium or reduce the level of pay-out their beneficiaries would receive on their death. Firms should already be able to demonstrate they are taking active steps to identify and rectify the causes of poor outcomes for customers. In guidance published in 2016 we set expectations for firms to periodically review their closed book products, to check they remain fit for purpose and continue to meet the general needs and reasonable expectations of the customers they were designed for, taking account of changing economic conditions.

Building on this with the PROD 4 rules and the Consumer Duty, insurers should make sure that products remain suitable for customers' needs, offer fair value on an ongoing

basis, and that clear and timely communications to customers detail the nature of the product and any changes.

Strategy for positive change – our ESG priorities: Sustainability-related investments and disclosures

We know life insurers can have a role in driving the net-zero transition by aligning their underwriting and investment activities with net zero. We expect firms to align their actions with any ESG and sustainability-related public commitments that they may make. Firms should note that any sustainability-related claims must be communicated in a way that is clear, fair and not misleading. We have proposed a specific rule that reinforces this requirement and directly links it to sustainability claims in our consultation on Sustainability Disclosure Requirements and investment labels. The proposed policy will not cover unit-linked pension funds and we propose to consult on rules for pension funds in due course.

Life insurers may be in scope of our Taskforce for Climate Related Financial Disclosures (TCFD) rules. They may therefore be required to make entity-level disclosures on how they are managing climate-related risks and opportunities for assets managed or administered on behalf of clients and consumers. We encourage listed companies to supplement their existing reporting with reporting aligned with both the International Sustainability Standards Board (ISSB) standards and Transition Path Taskforce (TPT) Framework on a voluntary basis, ahead of potential future requirements.

In addition, firms have diverted investments to 'sustainable' default funds in recent months. However, because of the degree of members' inertia (in pensions in particular), there is a real risk of consumers landing in funds they may not understand or may not change if they don't want to be invested. We expect firms to ensure they have a good understanding of consumers' expectations and appetite for sustainable investments and communicate clearly to keep them appropriately informed about the funds they are invested in.

Smaller firms

As part of our risk-based approach to supervision, a substantial portion of our engagement with life insurers is with the largest firms. However, we recognise the importance of smaller firms, including a large number of small mutuals, to their policyholders and members. We will be specifically engaging with smaller firms to understand how they are meeting Consumer Duty requirements and delivering good customer outcomes in a sustainable way.

Action for firms

You are responsible for ensuring that your firm meets FCA requirements including the obligations and expectations set out above. You should take all necessary action to ensure these are met and that you are prepared for the additional requirements that the Consumer Duty brings to these priority areas. We will use the Senior Managers & Certification Regime to engage directly with accountable individuals on areas of concern.

A significant part of our activity over the next 2 years will be to test firms against our priorities and expectations. We will also continue to use data to identify outliers and, where firms are not meeting our rules and expectations, we will take action.

If you have any questions, please contact your supervisory contact or call us on 0300 500 0597. This is the primary point of contact for your firm's day-to-day interactions with the FCA. Our website has further details of how to contact us.

However, we know there may be occasions when your firm faces urgent issues of strategic importance. In such significant circumstances, please contact the Head of Department responsible for the life insurance portfolio, Andrew Kay, at Andrew.Kay@fca.org.uk.

Yours sincerely

Matt Brewis
Director of Insurance
Supervision, Policy & Competition – Consumers & Competition

To Primary Markets Policy Team 6 July 2023

By email

FCA Listing Authority Advisory Panel (LAAP) and Markets Practitioner Panel (MPP) formal response to CP 23-10 Primary Markets Effectiveness Review

MPP is an independent statutory panel that the FCA is required to establish and maintain under FSMA. It advises the FCA on policy issues, regulatory proposals and other strategic matters that are likely to affect wholesale financial markets. LAAP is an independent statutory*[1] panel that advises the FCA on policy issues which affect issuers of securities, and on policy and regulation proposals from the FCA listing's function.

The FCA Board appoints Panel Members as individuals, not as representatives of any individual firm. They are expected to contribute to the respective panels from the perspective of wholesale and securities markets or the primary market sub-sector in which they are working, drawing on their personal experience and industry sentiment more generally

This joint response reflects views widely held by LAAP and MPP Members and does not necessarily imply unanimity on all areas of feedback.

Executive summary

We strongly support the FCA's proposals to create a genuine single listing segment for equities which is attractive to and balances the needs of investors and issuers – the two key stakeholders in the context of this debate. This model will provide investors with access to the information they need to make investment decisions, and attract and retain companies, particularly those with high-growth potential.

The reforms proposed in the consultation paper are an essential part of the ongoing reforms to the UK capital markets and should help the UK remain relevant as a global listing venue. Once the consultation period has concluded, the new regime should be implemented quickly for new issuers, subject to appropriate grandfathering.

There are a number of areas where we believe particular attention is needed.

For the reforms to be successful, the corporate governance and stewardship regime in the UK also urgently needs to be reviewed and reformed holistically to make it fit for purpose for the coming years. The 'comply or explain' regime has in reality become 'comply or else' and, as such, we believe that it is acting as a constraint on the discretion and efficacy of boards as the delegated managers of issuers. This is ultimately to the detriment of the UK when compared to competitor jurisdictions. An alternative view provided is that the approach of investors and the role of proxy voting agencies requires addressing, rather than the Codes

[1] *The status of LAAP changes to 'statutory' under provisions within the Financial Services and Markets Bill. The takes effect two months following the receipt of Royal Ascent.

themselves, and that Boards should perhaps be more willing to accept higher levels of dissent.

It is important to be mindful of this constraint in the context of these reforms, as the comply or explain regime for the UK Corporate Governance Code will apply to all companies listed on the listing category for equity shares in commercial companies (ESCC). This will include overseas issuers for which the current flexibility of the standard listing segment has been key. It will be important to consider grandfathering provisions for existing overseas issuers on the standard listing segment who may be unable to comply with these rules and to give new issuers a genuine option to comply with the corporate governance code of their jurisdiction. The willingness of investors and proxy voting agencies to accept such provisions would be another factor to consider.

We agree with the FCA's principle of ensuring that sponsors play a role where there is most value and, if the regime is to be retained at least in part, that they are appropriately remunerated for that function. In the paper, the FCA indicates that from its perspective this is at the listing gateway. The proposals still contain however a number of requirements post-listing, with a risk that the ongoing administrative costs of performing the sponsor role exceed the fees associated with sponsor-related events and so the number of sponsors reduces over time.

There is little mention of retail investors in CP23/10 which is at odds with the emphasis placed on allowing retail shareholders greater access to secondary offers in the Secondary Capital Raising Review and the new Pre-Emption Group Guidance. We are in favour of the FCA's Listing Rules themselves being amended so that existing retail shareholders are included in a follow-on offer of new securities. In addition, we suggest a mandatory retail tranche of at least 5-10 per cent on IPOs so that equal treatment (vis-à-vis institutional investors) is enshrined for retail investors on primary issuances not just secondary issuances.

Two Panel members have expressed concerns in relation to proposals on dual class shares, related party and significant transactions and are of the opinion these require further discussion to demonstrate adequate safeguards are provided to shareholders. Therefore, in our responses to questions on these areas, although we are reflecting majority views, these are not held by all members. Similar concerns have been expressed by other industry respondents and we welcome further debate with the FCA and to try and address areas of outstanding concerns.

Q1: Do you agree with the proposal to remove specific financial information eligibility requirements for a single ESCC category? If not, please explain why and any alternative preferred approach.

Yes.

Q2: Do you agree with a proposal to explore a modified approach to the independence of business and control of business provisions for a single ECSS category, with a view to enhancing flexibility, alongside ensuring clear categories for funds and other investment vehicles?

Yes.

Q3: Do you have views on what rule or guidance changes may be helpful, and whether certain disclosures could also be enhanced to support investors and market integrity, or any alternative approaches we should consider?

Additional FCA guidance would be helpful. However, we do not believe that disclosure requirements should be extended to beyond levels required by UK MAR.

Q4: Do you agree with our proposed approach to dual class share structures for the single ESCC category and the proposed parameters? If you disagree, please explain why and provide any alternative proposals.

We generally agree with the FCA's proposal to introduce a more permissive approach to dual class share structures, In actuality, there should not be any restrictions on the form of DCSS that is permitted, as per the current standard listing segment. A disclosure- based approach should be adopted instead, in line with the broader approach of principle outlined in CP23/10. Market dynamics would determine the acceptable parameters of any particular DCSS framework and investors would be able to make their own decisions on the basis of full disclosure. Separately, it will be important to determine when the holder of enhanced voting rights shares will be categorised as a controlling shareholder.

Two members have expressed concerns with the proposals as consulted on and would like to ensure adequate safeguards are in place to protect investors.

Q5: Do you agree with our proposed approach to the controlling shareholder regime for a single ESCC category? Do you have any views on the suitability of alternative approaches to the one proposed?

Generally, yes.

Q6: Do you agree that our proposals as regards controlling shareholders align with our need to act, as far as is reasonably possible, in a way which is compatible with our strategic objective of ensuring markets work well and advances our market integrity and consumer protection objectives? If you don't agree, how do you believe these should be balanced differently?

Generally, yes, two of our members have expressed some concerns and welcome further discussion.

Q7: Do you agree with the proposed approach to significant transactions for a single ESCC category? If not, please explain why and any alternative proposals.

Generally, yes, but as previously outlined, two our members have expressed some concerns and welcome further discussions.

Q8: Do you consider that additional disclosure could be considered to further support transparency to shareholders on significant transactions and, if so, what (e.g., considering current circulars)

Generally, no. We consider that the existing UK MAR disclosure obligations, together with subsequent disclosure of information about the relevant transaction in the company's next financial statements, should be sufficient, however two members would like further discussion on adequate safeguards for shareholders.

Q9: Should we consider further mechanisms prior to a significant transaction being formally completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed commercial company equity issuers in place of shareholder approval? What should those mechanisms be and why?

Generally, no.

Q10: Should the Sponsor's advisory role in assessing whether a potentially significant transaction meets the proposed disclosure threshold be mandatory or optional, and what are your reasons? Do you agree with our proposal that Sponsors have more discretion to modify the class tests, including substituting the tests with alternative measures, without seeking formal FCA agreement to the modifications? If you disagree, please provide your reasons and alternative proposals.

In line with how the FCA indicates in the consultation paper that sponsors provide the most value is at the point of listing, accordingly, there would be no need for a sponsor in relation to significant transactions. The sponsor role in any context needs to be clearly defined to benefit the listed company, along with any other expertise that the FCA might deem necessary that an issuer seeks.

Q11: Should we consider expanding the Sponsor's role further on any aspects of significant transactions?

No.

Q12: Do you agree with the proposed approach to RPTs for a single ESCC category, which is based on a mandatory announcement at and above the 5% threshold, supported by the 'fair and reasonable' assurance model which includes the Sponsor's confirmation as described above? If not, please explain why and any alternative proposals in the context of a single ESCC category.

No. If sponsors are retained at the point of listing only, there would be no need for a sponsor in relation to significant transactions and therefore no relevant threshold for a 'fair and reasonable' assurance model. In any addition, a fair and reasonable opinion could be provided by any financial adviser with suitable expertise, to consider the impact on minority shareholders. The overall approach supports the proposal of a more disclosure-based regime.

Q13: Do you consider that additional disclosure requirements could be considered to further support transparency to shareholders on RPTs, and should we consider requiring certain mechanisms prior to a deal being completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed companies to replace the requirement for independent shareholder approval?

Generally, no, however as previously outlined in our Executive Summary, two members have expressed concerns with the proposals as consulted on and would welcome further discussion.

Q14: Should it be mandatory for a listed company in the single ESCC category to obtain guidance from a Sponsor on the application of the LR, DTR and MAR whenever it is proposing to enter into a related party transaction (irrespective of the size of the transaction), or should it be at the company's discretion?

No.

Q15: Should it be mandatory for the Sponsor to consult with the FCA and agree any modifications to the class tests and classification of a proposed RPT, or should the Sponsor have more discretion? Please explain your reasons.

No.

Q16: Are there any broader, alternative mechanisms that existing shareholders or prospective investors would want to see in place of, or made use of, in order to strengthen shareholder protection in relation to RPTs in the event that these changes are made to our LR? If so, would these be matters for inclusion in our LR or are they found, for example, in legislation or market practice?

Generally, no, however as previously outlined in our cover letter, two members have expressed concerns with the proposals as consulted on and would like further discussion.

Q17: Do you agree with the proposed approach to cancellation of listing for the single ESCC category, and do you have any views on other possible changes to the existing cancellation process?

Yes.

Q18: Do you think that the notice period proposed for the single ESCC category for de-listing should be extended (taking the approach of other jurisdictions) and if so to what? What would the benefits be?

No.

Q19: Do you consider the policy for cancellation of listing by the FCA after a long suspension should be revisited? If so, how?

No.

Q20: Do you agree with retaining shareholder approval provisions on discounted share issuance and on share buy-backs, as currently required by the premium LR, as part of a single ESCC category, or would these be problematic for certain issuers?

No.

Q21: Do you agree with our proposed approach to reporting against the UK Corporate Governance Code for companies listed in the single ESCC category, and are there any other mechanisms the FCA could consider to promote corporate governance standards?

Yes. We agree with the proposed approach to reporting against the UK Corporate Governance Code, except in the case of international companies. In these cases, it would be more appropriate to allow companies to report against their domestic code if they choose, with the requirement that they indicate if they are doing so. This would provide investors with sufficient information regarding the company and understand the reasoning behind their disclosure approach without placing undue burden on the companies themselves.

Q22: Do you have any views on the proposed application of reporting requirements under LR 9.8 (i.e., premium LR requirements) as the basis for the single ESCC category?

No comment on specific requirements. As noted, the ESCC should accommodate international companies.

Q23: Do you agree with our proposed changes to the LR principles? If not, please explain why and provide details of any alternative suggested approach.

Please see our response to Q4 with regards to ensuring that the rules permit the proposed regime for dual class share structures.

Q24: We are considering applying the principles as eligibility criteria, to clarify expected standards and reflect the fact that in practice these requirements need to be complied with at the point of listing. Please provide details if you foresee any issues with this approach.

We do not foresee any issues with this approach.

Q25: Do you agree with our proposed changes to strengthen cooperation and information gathering provisions as outlined in this section? If not,

please explain why and any alternative suggested approach to addressing the issue identified.

No comment.

Q26: In relation to our proposal to ask issuers to provide contact details of their key persons, do you think this should include details of the CEO, CFO and COO? Do you have any other suggestions as to other key roles that we should consider? Also, are there circumstances where it would be appropriate for an issuer to nominate a third party (such as an FCA authorised advisor), as a key person and, if so, why?

We generally agree however we question whether all firms will have a standalone COO, and if the details of the CEO and CFO would be adequate

Q27: Are there specific considerations we need to take into account for different issuer or security types, in relation to our proposals in this section, that we should take into account as we develop our proposals further?

No.

Q28: Do respondents have any concerns about the availability of Sponsor services as a result of the proposed changes to the listing regime and the Sponsor role?

No

Q29: We welcome views from Sponsors on whether they would be able to adapt or willing to provide services to a potentially wider and more diverse range of issuers? We particularly welcome any information or data on the implementation and ongoing costs Sponsors may incur as a result of our proposals.

The decision as to whether to provide sponsor services will be a decision that each adviser will need to make based upon their individual circumstances given the cost and liability profile involved.

Q30: Do Sponsors have any concerns about performing the Sponsor role and providing Sponsor assurances within the model proposed? Please provide details.

No, as long as there is clarity on the ongoing responsibilities of a sponsor and there is sufficient guidance on the criteria to be applied by them, and their responsibilities being clearly articulated. If retained and in whatever form, the purpose of the Sponsor Regime should be communicated to ensure all stakeholders are clear on the function and the requirements of the sponsor and imposed them, so that is well understood.

Q31: Do you have any concerns that Sponsors will be able to demonstrate continued competence under our proposed approach? What matters should the FCA take into account when assessing Sponsor competence?

No. We support the clarification that when the FCA is assessing competence, they will be likely to consider transactions on which a sponsor has advised on that have not required a sponsor declaration.

Q32: We welcome views on proposed restructure of the listing regime set out above. In particular, do you agree with our preliminary proposals for dealing with issuers that are not issuers of equity share in commercial companies?

Please see our response to Q21. The regime should accommodate the situation of international companies appropriately, in particular with regards to UK Corporate Governance Code.

Q33: Have we identified the impacts on different issuer types and sufficiently delineated between them? If you have alternative suggestions that we should consider, please provide details

Yes

Q34: We welcome views and suggestions on our proposed approach as outlined above and in Annex 4, for updating the LR sourcebook.

We welcome the simplified approach.

Q35: If you have views on what transitional arrangements maybe required, please provide details.

As noted in our cover letter, it will be essential to provide for appropriate grandfathering of existing listed companies and for there to be sufficient guidance ahead of the implementation of the regime changes. Perhaps a more lenient timescale should be afforded to existing standard listed issuers of equity shares that are commercial companies transferring to the new ESCC category given that they will be more impacted by the proposals than existing premium listed commercial company issuers.

Q36: How long do you think issuers may need to prepare for and implement the various changes proposed in this consultation? For example, how long would commercial company issuers of standard listed equity shares need to prepare to ensure they could meet additional obligations proposed under the ESCC listing category, such as those relating to significant transactions and related party transactions (discussed in Chapter 5). Please also provide reasons.

Where companies are able to comply with the new rules, we would recommend that they are able to join the ESCC as soon as possible, noting the response above that existing companies that are not able to do so should not be removed from the market and hence will need appropriate grandfathering and guidance.

Q37: Have we identified the areas where cost to issuers, advisors or Sponsors may be increased as a result of our ESCC single segment proposals? If not, please explain the additional costs that we should consider in our CBA.

The other proposals are expected to reduce the costs associated for companies rather than increase.

Q38: Please provide estimates for familiarisation costs and implementation costs for the different policy elements of the proposed new ESCC category, if possible.

No comment.

Q39: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs that might arise to issuers, advisors or Sponsors.

We have previously cited the 'hidden costs' for sponsors in fulfilling their current roles and would refer back to those comments in past submissions.

Q40: Are there any other considerations we should take into account?

No.

Q41: Have we identified the areas where cost to issuers or Sponsors may be increased as a result of our overarching proposals? If not, please explain the additional costs that we should consider in our CBA.

No comment.

Q42: Please provide estimates for familiarisation costs and implementation costs for the proposed new overarching provisions, if possible.

No comment.

Q43: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to issuers, advisors or Sponsors.

No comment.

Q44: Are there any other considerations we should take into account?

No comments. As noted before, it will be important to consider the impact of the additional costs on sponsors in light of the reduction in the number of firms performing the role.

Q45: Have we identified the areas where our proposals may impose additional costs on investors? If not, please explain the additional costs that we should consider in our CBA.

No comment.

Q46: To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to or other impacts on investors.

No comment.

Q47: We do not know how index providers will react to our proposals, but we invite feedback on estimated impacts and costs associated with any re-balancing of indices that may arise.

No comment.

Q48: Have we correctly identified the costs to parties in relation to indexation as a consequence or follow-on from our proposals? To assist us to quantify these costs or any other costs we should consider, please provide data or additional information to explain the additional costs or other impacts.

No comment.

Q49: Do you agree with the benefits of our proposals that we have identified above? If not, please explain why.

No comment.

Q50: Are there any additional benefits that we should consider in our CBA?

No other benefits to add, though we note that it is critically important to ensure the regime keeps flexibility for a range of companies to join the UK's public markets.

Q51: What do you consider to be the most important factors in deciding where to list (for example, regulation, valuations, depth of capital markets, comparable peers, investor / analyst expertise, taxation, director remuneration requirements, indexation, location of main operations). Please rank your factors in order of importance.

No comment

Q52: Do you have any suggestions as to how we might quantify the benefits of our proposals? And can you provide any evidence of the cost savings to issuers that might arise from our proposals to no longer obtain shareholder approval for certain significant transactions and RPTs?

No comment.

We would be very happy to discuss our views with you further if this would be helpful.

Yours sincerely

The FCA's Listing Authority Advisory Panel
The FCA's Markets Practitioner Panel