5 January 2021

Dear Lord Hill

Call for Evidence – UK Listings Review

The Universities Superannuation Scheme (USS) welcomes the opportunity to respond to the Call for Evidence as part of your UK Listings review.

By way of background, Universities Superannuation Scheme was established in 1974 as the principal pension scheme for universities and other higher education institutions in the UK. It has more than 400,000 members across more than 350 institutions and is one of the largest pension schemes in the UK, with total fund assets of approximately £68 billion (as at 31 March 2020).

The Scheme's trustee is Universities Superannuation Scheme Limited, a corporate trustee which provides scheme management and trusteeship from its offices based in Liverpool and London in the UK. The trustee company delegates implementation of its investment strategy to a wholly-owned investment management subsidiary company - USS Investment Management Limited - which provides in-house investment management and advisory services. The purpose of the trustee company is to work with higher education employers to build a secure financial future for our members and their families.

USS's investment team directly manages the majority of the scheme's assets which allows our investment approach to be tailored to the scheme's requirements and provides us with a unique perspective compared to many other institutional investors. As an institutional investor that takes seriously its fiduciary obligations, USS aims to be an active, engaged and responsible owner of the companies and assets in which it invests.

We would like to make the following points as part of your Call for Evidence:

Maintaining the attractiveness and integrity of the UK markets

The protection of all investors, including minority shareholders, is vital to maintaining the attractiveness and integrity of the UK markets. Confidence that investors' rights are protected, together with the high standards inherent in a premium listing, serves to lower the cost of capital for companies, and underpins the UK's attractiveness for raising capital. Central to the UK's Listing Regime is the one-share, one-vote principle which remains sacrosanct and a central tenet to accepted corporate governance standards.

Whilst we recognise that an excessively strict listing regime would not be in the interests of investors and that they have responsibilities to undertake proper due diligence on companies in which they invest, *we would be strongly opposed to proposals* which would materially dilute the high standards of the UK Listing Regime, particularly in the Premium Segment.

Indeed, we recall the lessons learnt from past examples such as with Eurasian Natural Resources Corporation (ENRC) being allowed to list on the London Stock Exchange with an 18% free float in 2007. Six years' later the company exited the stock market amidst significant criticism over its governance and was subsequently investigated by the Serious Fraud Office. In 2013 FCA updated the listing rules, following calls from USS and other investors, to better protect minority shareholders from companies listing with small free floats to "promote market integrity and empower minority shareholders to hold

the companies they invest in to account"1. This experience serves as a salutary lesson that waiving or reducing the minimum free float requirements exposes shareholders to significant risk.

We would therefore call for the retention of the UK's listing rules on dual class voting structures and free float thresholds and ensure that principle of one-share, one-vote is protected.

The current UK listing regime structure is fit for purpose

As a stakeholder and participant in the UK market, USS is a beneficiary of the health of the UK economy and is therefore supportive of initiatives that encourage high quality and well-governed companies to come to the UK market. However, such initiatives should not be at the expense of the integrity and high standards of the listing regime for which London is renowned at a global level. We believe that the current structure works well in attracting international companies irrespective of the competition faced from other markets.

The current listing regime also offers many alternative segments and categories, including a standard listing, which is aimed at companies for whom the requirements of the UK premium listing regime may be too onerous. Although we recognise that fast-growth technology, e-commerce and science companies may have different corporate and voting structures to more traditional and established industries, there is no justification - in our view - to dilute the standard and premium listing rules in order to accommodate these companies. We believe it would be preferable to create a new category for these companies if it is genuinely believed that the current structure is not fit for purpose for these entities to list. This was exemplified in the FCA's Discussion Paper on the effectiveness of UK primary capital markets, published in February 2017, which put forward the idea of a new listing segment for international firms "where there is a founding family or government that wishes to retain control rights that are incompatible with a conventional premium listing".

The unintended consequences

USS is also concerned about the unintended consequences if substantial changes are made to UK's Listing Regime – a point we made when responding to a previous FCA consultation on proposals to create a new premium listing category for sovereign controlled companies in October 2017.

Firstly, USS is concerned that any significant dilution of the standards in the listing regime could set a precedent for the UK listing regime in a post-Brexit environment. If the UK embarks on a potential 'race to the bottom' as competition increases amongst jurisdictions seeking to attract new listings of tech companies, for example, there is a risk that standards will be further diluted.

Secondly, as a premium listing is a prerequisite for index inclusion for many index providers, there is a risk that companies with alternative governance and voting structures may appear unwittingly in the portfolios of index fund investors' portfolios, if these companies are afforded a premium label. This could arise as index providers will undoubtedly face commercial pressure to include such securities in their indices, forcing investors to invest in these companies despite the loss of valuable investor protections.

Conclusion

USS would be strongly opposed to proposals which could dilute key investor protections and shareholder rights and set an unfortunate precedent which could lead to unintended consequences, when the current regime is fit for purpose. We raised similar concerns at the time when the listing

[1] FCA – The FCA Strengthens the Listing Rules to Enhance Protections for Shareholders, 2013

rules were changed to allow state-owned companies such as Saudi Aramco to list in the premium segment – an event which ultimately did not take place.

I hope the above points are helpful as you embark on your deliberations. We would welcome the opportunity to discuss further the above points in the series of discussions planned for January.

Please do not hesitate to contact me should you require any further information, or you would like us to elaborate on our concerns.

Yours sincerely

Dr Daniel Summerfield
Head of Corporate Affairs

Tel: 07950 320660
Email: dsummerfield@uss.co.uk