ICGN
International Corporate Governance Network
Inspiring good governance & stewardship

ICGN Statement on High Standards of Corporate Governance and Investor Protections as Pre-requisites for UK Capital Market Competitiveness and Growth

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The International Corporate Governance Network (ICGN) is concerned by recent announcements in the UK which may be detrimental to corporate governance standards and shareholder protections, thereby undermining the UK's economic growth and attractiveness as a global financial centre, and with potentially significant implications for pensioners, insurance and retail investors' savings.

ICGN members include global institutional investors responsible for assets under management of USD $77 trillion, 77% of whom are based outside of the UK. Our concerns are shared by the co-signatories to this letter - investors, and associations who represent institutional investors in their respective jurisdictions around the world.

The UK's reputation for high quality listing and governance standards and resultant overseas investor confidence is both a competitive advantage and a positive differentiator for the UK market in a global context. According to the census from UK's Office for National Statistics, the proportion of shares in UK companies listed on the London Stock Exchange (LSE) held by overseas investors increased to a record high of 57.7% of the value of the UK stock market in 2022, up from 53.3% in 2020. For such companies, being listed on the UK premium segment is a powerful signal that the company adopts the highest governance standards and is well-placed to thrive over the long-term. In the quest to grow and attract company listings, market integrity is something that must be preserved, and not diluted.

The UK's advanced corporate governance standards, under the direction of the Financial Reporting Council (FRC), have inspired regulators worldwide in their own governance reforms and investors have used them as a gold standard when commenting on other markets' governance and listing requirements, as well as in their direct engagement with investee companies. Robust governance structures, high-quality corporate reporting, and strong investor protections are pre-requisites for a competitive market which safeguards corporate resilience, long-term value creation and ensures economic growth.

Commensurately, the UK's leadership with the FRC's Stewardship Code has led to a proliferation of similar codes in over two dozen markets around the world. ICGN's own Global Stewardship Principles complement this effort by emphasising the importance of investors taking a responsible approach to the allocation and management of capital on behalf of underlying beneficiaries, thereby contributing to long-term corporate value, impacting sustainable economies and social prosperity. Importantly, this includes the expectation that investors will make considered use of their votes and enter into constructive dialogue with companies in respect of long-term corporate performance.

Investors' ability to act as responsible and effective stewards is reliant on them having strong shareholder rights and protections. We fear that this is in regression in the UK. We note, among others, the Financial Conduct Authority's (FCA) ambition to introduce "the most far-reaching reforms of the UK's listing regime in three decades" including proposals to replace the 'standard' and 'premium' segments with a single listing category. We are particularly concerned by the introduction of a more permissive approach to dual class shares structures - with few shareholder protection safeguards - and the removal of shareholder votes prior to

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significant transactions and related party transactions. These proposals will expose investors to undue risk, with potentially significant implications for underlying beneficiaries including pensioners, insurance, and retail investors' savings. At a time when the FCA is encouraging investors to play a greater, and more responsible, stewardship role in promoting the long-term success of companies through monitoring, voting and engagement, the imposition of weaker voting rights will have the opposite effect by inhibiting investor influence.

We understand the challenges of attracting new listing, but these are not unique to the UK; European markets face the same predicament, while leading Asian markets continue to thrive - largely due to a surge in Chinese IPOs. The Japan Exchange Group has also experienced exponential growth in listed companies over recent years, a market which has promulgated corporate governance and investor stewardship reforms as key pillars for capital market competitiveness. We therefore challenge assertions of a need to roll back the UK's corporate governance standards and restrain effective investor stewardship activities through these regulatory proposals.

Such proposals risk undermining investor confidence to invest in UK assets. As the FCA acknowledges, "a company's decision on both whether to list and, if so, where to list is driven by a range of factors". While it is unclear whether the changes proposed to the listing rule would help attract listing in the UK, the proposed reforms are likely to harm the UK's reputation as a market with robust investor protection, high corporate governance standards, strong reporting regime and a stable policy environment. We encourage the authorities - before taking action - to assess the unintended and long-term consequences of the proposed measures, which may reduce the pool of institutional and retail investors willing to invest in UK-listed companies.

With this letter, investors wish to engage in a constructive dialogue with the UK authorities and key stakeholders on measures to promote growth, high quality stewardship, and excellent corporate governance.

Yours faithfully,

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About ICGN

Established in 1995, ICGN's purpose is to convene capital market participants to develop, promote and embed high standards of corporate governance and investor stewardship worldwide to preserve and enhance long-term value, contributing to sustainable economies, societies, and the environment. Led by investors responsible for assets under management of over $77 trillion, ICGN members are based in over 40 countries - largely in Europe and North America, with growing representation in Asia. For more information visit www.icgn.org.

Contact

Please contact the ICGN Secretariat if you have comments or questions about this Statement, by emailing policy@icgn.org

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