FTSE leaders highlight impact of market reforms on nimble, high-growth companies

Plans to fortify UK capital markets have received particularly staunch support from smaller London-listed companies.

Recent government efforts to review and reform the UK capital markets and thereby amplify its competitive edge as a leading international financial hub, including the high-level Edinburgh Reforms campaign[1] from Chancellor Jeremy Hunt and the FCA's ongoing review of the UK listing rules[2], have been widely welcomed by senior leaders of FTSE companies[3]. However, it is also apparent that there is often a clear difference in sentiment among senior leaders of agile, rapidly scaling listed companies, compared with their larger peers, of which policymakers need to be cognisant.

Earlier this year, we carried out a survey of 150 FTSE leaders to find out more. Responses came from CEOs, CFOs, Chairs, NEDs and other senior executives across the full range of the FTSE index. Though our research revealed a positive consensus as to how the current and proposed reforms could benefit the UK market, there was a disparity in the responses between the largest and smallest listed companies.

Agile, rapidly scaling companies more bullish on reforms

Our research revealed that senior leaders at smaller listed companies are more bullish than their larger listed peers about how they could benefit from the reforms.

In terms of how best to encourage pension funds to invest in UK-listed companies – a key topic to the reforms debate and raised by Hunt at his most recent Mansion House speech – medium-sized growth company respondents are more optimistic than other FTSE company leaders about allocations increasing over the next two years. This could be in response to sustained higher inflation, with some pension trustees revisiting their asset allocation strategy to increase holdings in growth equities – especially due to fast-expanding companies' ability to provide a hedge against inflation.[4]

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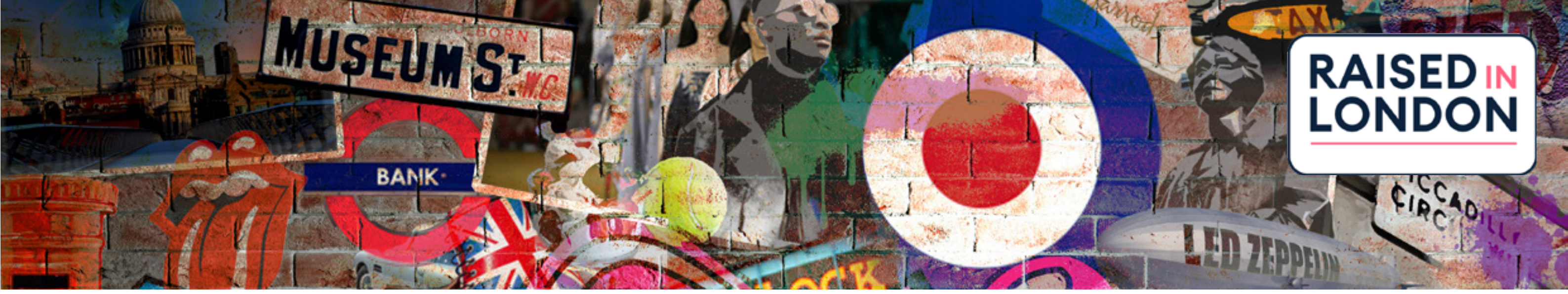
Our findings also highlighted the topic of investment research, another issue Hunt is addressing following Rachel Kent's recent Investment Research Review[5]. The government proposes once again to allow brokers to bundle their fees with research costs for smaller, accelerating companies. This could result in more research coverage and hence more liquidity and greater institutional interest in these companies. Our research revealed that, while the majority (92%) of FTSE leaders are in favour of this proposal, of the 8% that are against, none were from smaller companies.

1 Financial Services: The Edinburgh Reforms (9 December 2022)
2 FCA proposes to simplify rules to help encourage companies to list in the UK (3 May 2023)
3 Raised in London - The FTSE Leaders on UK Capital Markets survey (May 2023) – Numis commissioned a FTSE Leaders' survey on capital markets. The responses are based on 150 board/senior directors of UK-listed companies, of which 27% work for FTSE 100 companies; 27% for FTSE 250 companies; 33% for AIM companies and 13% for other FTSE-listed companies. Respondents are CEOs, CFOs, heads of investor relations, senior independent directors and chairpersons.
4 The Ups and Downs of Small Caps and Inflation (21 August 2023)
5 Investment Research Review (9 March 2023)



This reflects the frequently debated point that conflicts of interest are liable to deny high-growth-stage listed companies from receiving equal, or even adequate, investment research coverage. The UK Investment Research Review cited research from the Quoted Company Alliance, which found that 56% of respondents from small- and medium-sized enterprises agree that research should be more independent to raise investor interest in these companies.[6]

Fortifying London's listing appeal

Despite waning popularity in recent years for new listings, the UK is still home to large and varied equity markets. This, however, raises challenges for policymakers wishing to implement reforms that benefit listed companies at all growth stages because, as our research reveals, respondents' opinions do differ between larger company leaders as compared with nimble, high-growth company leaders.

Although 99% of respondents are in favour of the FCA's proposal to scrap the UK's two-tier listing format for a single listing standard, 42% want the regulator to go further to make listing in London more appealing. Interestingly, the majority of those wanting stronger proposals are from medium-sized companies.

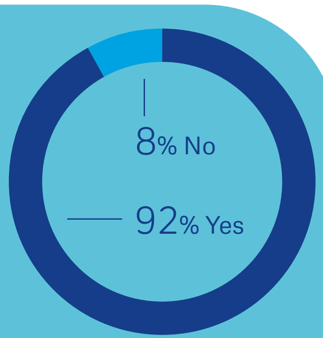
There is also a disparity in sentiment as to FTSE leaders' confidence in the quality standards of the UK capital markets. Interestingly, a majority of FTSE giants and mid-size company respondents are aligned in strong agreement that London remains an attractive listing venue for high-quality companies.

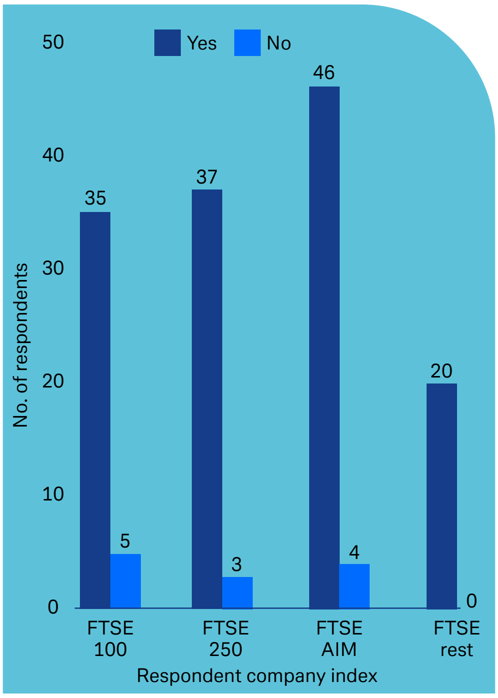
The issue of remuneration also prompted a different response from rapidly scaling listed company leaders than it did among their larger peers. Of the 38% of FTSE leaders who identify *'an environment that allows for more competitive executive remuneration'* as the most important factor for improving London's attractiveness as a listing venue, the majority of these were from nimble, high-growth companies. This could reflect the fact that smaller companies are often unable to pay the executive packages that larger companies can typically afford, thereby frustrating their recruitment and retention efforts.

This also represents a wider split in FTSE leader sentiment as to how the UK's competitiveness can best be amplified, with 32% of all respondents believing *'a less rigid corporate governance model'* is key – with respondents from larger companies making up the majority of this percentage.

Ensuring regulatory reform strikes the right balance for all market players will be an ongoing challenge for UK policymakers, not least due to the significantly different experiences and perspectives of those leading larger and smaller companies. It is therefore key to ensure regular and comprehensive debate takes place among all parties to find the most powerful measures that will strengthen London's appeal in the long-term.

The government proposes once again to allow brokers to bundle their fees with research costs for smaller listed companies. This could result in more research coverage and hence more liquidity and greater institutional interest in these companies. Do you favour the government allowing the bundling of research and brokerage fees?





6 UK Investment Research Review (10 July 2023)

Important notice

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