Don Robert
Chair
London Stock Exchange Group plc
10 Paternoster Square
London
EC4M 7LS

OPEN LETTER

7 May 2024

Dear Mr Robert

London Stock Exchange – weakening the Listing Rules

In common with some other large pension funds, LAPFF has long held the position that governance standards and the UK Listing Regime need to be strong.

These represent core elements of investor protection. Large pension funds will often be captive investors in whatever comes to listing on the London market by virtue of passive investing in the form of indexation.

We are therefore very concerned that an active role is being pursued by the London Stock Exchange that runs counter to our view, particularly in the shape of the central role being taken by the Chief Executive of the London Stock Exchange ('LSE') in the Capital Markets Industry Task Force ('CMIT')[1].

As you are aware, LAPFF (the Local Authority Pension Fund Forum) represents the interests of 87 UK public sector pension fund members and seven pools with combined assets of over £350bn of whom 56 hold shares directly in London Stock Exchange Group, representing just under 1.5% of the share capital.

For several years we have undertaken studies into issues relevant to listed companies that have failed. I categorise them here as: -

- companies that should never have been listed - due to relaxation of the Listing Rules from 2000 - 2010 - particularly in the mining sector, including coal miner BUMI,
- bad accounting standards, which undermined both the statutory capital maintenance regime, which affected banks in particular, as well as undermining the prudential regulatory regime for banks specifically,
- poor auditing,
- bad accounting regulation. LAPFF's public criticism of the Financial Reporting Council was a contributor to its demise in its then form.

In spite of those issues the main message coming from the CMIT is that the UK has been losing listings, primarily to the USA, because of overly onerous rules in the UK

[1] https://capitalmarketsindustrytaskforce.com/

and that relaxing the Listing Regime is a solution to that. We note the absence of the LSE in relation to the debates at the time on the matters in the bullet points above, and the lack of reference to these matters by the CMIT now.

It is important that public policy making is evidence based. However, we are concerned that the positions being taken by CMIT are neither evidence based nor balanced, and some positions have little credibility in basic terms.

In citing the loss of listings, we note that both Shell and Unilever chose London in deciding to cease their respective dual listings (London and Amsterdam).

We also note that the Financial Times has reported that there isn't a uniquely UK problem and that for example in the USA the number of companies listed there has fallen from more than 7,000 in 2000 to less than 4,000 now[2].

Public policy should be made in the public interest. But it is immediately obvious that the composition of the CMIT, as well as the name of the group being "capital markets industry", is not balanced and is predominantly comprised of "fee takers" in the capital system not the beneficial owners - shareholders – or fiduciaries acting on their behalf.

As well as no examination of the issues we set out as bullet points above, we see no examination by the CMIT of the material number and financial effect of de-listings due to insolvencies. These include Northern Rock, Carillion, Bradford & Bingley, NMC Heath, Quindell, and Finablr. These had accounting and governance problems.

Yet one of the CMIT members is from KPMG and KPMG not only audited three of these companies but was fined £3m in respect of its audit of Quindell[3] and was fined £21m in the case of Carillion[4]. The KPMG audit of Bradford & Bingley also raises questions given that it was not a going concern within months of the audit report being issued. We believe accounting standards were a factor.

Arguments that the listing of risky companies can be of benefit to the UK economy also doesn't stand up to our scrutiny.

NMC Health operated hospitals in the Middle East, had no economic footprint in the UK. Its London Headquarters was a small, serviced office suite[5]. The offices of Finablr were more casual than even that. The office was in a hot desk business centre on Old Street[6].

Rather than there being net benefit to the UK economy capital has been destroyed that could have been deployed elsewhere.

It is therefore possible to conclude that the only parties to gain are those that take the fees.

We note that when the Stock Exchange was demutualised that the listing function was removed from the LSE. That sits with the fact that the Listing Rules might be

[2] https://www.ft.com/content/63c1c429-6324-48eb-9a9a-db11cc2faacb
[3] https://www.lawgazette.co.uk/news/kpmg-pays-5m-to-settle-quindell-audit-claim/5114305.article
[4] https://www.theguardian.com/business/2023/oct/12/kpmg-fined-record-21m-over-carillion-audit-failures
[5] Level 1, Devonshire House One Mayfair Place Mayfair London W1J 8AJ
[6] 17th Floor, The Tower, The Bower, 207 Old Street, London EC1V 9NR

compromised if a listed company is setting Listing Rules for itself as well other listed companies.

In lobbying to lower the governance and listing regime the LSE not only risks loss of its reputation, but also “poisoning the well” making the UK an unfavourable place to allocate capital.

Investors rely on the LSE (and other exchanges) for accurate and legally robust information regarding companies, and such obligations are also requirements for all listed companies making any public statements.

It follows that in its lobbying work the LSE should also be presenting accurate and rigorous claims when it seeks to influence policy.

We therefore ask LSEG to make public any evidence it has regarding any link between the listing rules resulting in fewer listings or less investment.

Completeness of information is also important, and we would expect the LSE to comment in an accurate and informed manner on the wider impact on shareholder rights and corporate governance standards of positions it is taking.

This would also seem necessary for the providers of capital to weigh up the relative merits and attractiveness of London as a financial centre, as well as LSEG as a listed company itself.

I look forward to hearing from you after you have discussed this with your board.

Given the issues at stake this is an open letter.

Best regards,

Cllr Doug McMurdo

Chair, LAPFF