

Market consultation

The FTSE Russell logo consists of a light blue circle containing the text "FTSE" stacked above "Russell" in a white, sans-serif font.

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# FTSE UK Index Series: User Consultation

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## Introduction

The recommendations resulting from [The UK Listing Review](#), chaired by Lord Hill, [were published on 03 March 2021](#). Consequently, the Financial Conduct Authority (“FCA”) launched its own Primary Markets Effectiveness Review consultation ([Consultation Paper](#)) on 05 July 2021. The FCA’s consultation will close on 14 September 2021, with any changes to the UK Listing Regime expected to be announced and implemented prior to the end of 2021.

FTSE Russell seeks to review whether any potential, proposed changes to the UK Listing Regime that may result from the Hill Review and the associated FCA consultation may impact the eligibility criteria for the FTSE UK Index Series. To this end, FTSE Russell is inviting index users to participate in a market consultation to facilitate this review and any further analysis of potential amendments to the UK Listing Regime.

The two, key areas on which FTSE Russell is seeking feedback and that are related to the inclusion criteria for the FTSE UK Index Series are:

- i) **Dual Class Share Structures and the associated Minimum Voting Rights Requirement;**  
and
- ii) **the Minimum Free Float Requirements.**

Please note that FTSE Russell’s indices are designed to serve the FTSE Russell client base and there is no guarantee that any changes to the UK Listing Regime will result in significant updates to the FTSE UK Index Series as they pertain to index eligibility. Furthermore, the potential, long-term impact to the FTSE UK Index Series is largely unknown – this will depend on whether a change to the UK Listing Regime results in an increasing number of index eligible companies choosing to list in London going forward.

This consultation will close on **20 August 2021** and FTSE Russell intends to communicate any updates to the FTSE UK Index Series ground rules once any changes to the UK Listing Regime have been confirmed. Any updates to the ground rules are expected to take effect from the March 2022 index review. However, FTSE Russell will consider the outcome of the FCA consultation and any confirmed changes to the UK Listing Regime and if necessary, conduct a follow-up consultation, before finalising any changes to the FTSE UK Index Series ground rules.

FTSE Russell notes that the FCA is also asking stakeholders to opine on several discussion items with regard to the UK Listing Regime which are not a feature of this consultation. FTSE Russell intends to launch another consultation on the eligibility criteria for the FTSE UK Index Series once any potential developments to the Listing Regime are better understood.

## Responding to the Consultation

The questions set out in this consultation document are included in order to gather feedback and may or may not result in changes to our indices or data solutions.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/FTSEUKIndexSeriesConsultation>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation results, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact [committeesecretary@ftserussell.com](mailto:committeesecretary@ftserussell.com)

# Dual Class Share Structures and the Minimum Voting Rights Required

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Dual Class Share Structures (“DCSSs”) allow for the issuance of listed or unlisted stock with multiple votes per share, in addition to an ordinary share with its traditional single vote.

Currently, the FCA’s listing rules for the Premium segment preclude the inclusion of Dual Class Share Structures in line with the “one share, one vote” principle. The FCA is consulting the market as to whether it should allow time-limited Dual Class Share Structures within the Premium listing segment, with a maximum duration of five years from the date of the company’s listing, provided the following conditions are met:

- there is a maximum weighted voting ratio of 20:1;
- the DCSSs are held by directors of the company or beneficiaries of a company director’s estate;
- weighted voting rights are only available in two limited circumstances: (i) a vote on the removal of the holder of the DCSS as a director at any time, and (ii) following a change of control, on any matter (to operate as a strong deterrent to a takeover); and
- a conversion to ordinary Premium listed shares takes place upon the transfer of the DCSS to anyone other than a beneficiary of the director’s estate.

The proposed weighted voting shares would be unlisted and referred to as “Specified Weighted Voting Rights Shares”, and the ordinary share class would retain one vote for every share held. Please note that “non-voting” share classes with zero voting rights that exist in other jurisdictions will not be permitted.

There are currently no provisions within the FTSE UK Index Series ground rules which stipulate that Dual Class Share Structures are ineligible for inclusion, although the voting power required to be in public hands is 5%, consistent with the voting power requirement within the FTSE Global Equity Index Series (“GEIS”). However, DCSSs are omitted as a matter of course on account of their current ineligibility for admission to the Premium Segment (a prerequisite for FTSE UK Index Series inclusion).

Additionally, given the “one share, one vote” requirement for a Premium Listing and the minimum free float requirements for FTSE UK Index Series inclusion, the percentage of voting rights that must be held by public shareholders is a minimum of 25% for UK incorporated companies and greater than 50% for non-UK incorporated companies.

For the avoidance of doubt, the voting rights requirement cannot be higher than the free float requirement if the FCA proposal is implemented. In the absence of a Special Voting Rights share class, the number of voting rights in public hands will be equivalent to the free float when all shareholders have one vote per share. If a Specified Weighted Voting Rights share class exists, the percentage of voting power in public hands is reduced accordingly.



## Free Float Requirement

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The UK Listing rules currently state that for a company to list, 25% of a company's shares must be available for the public to purchase (although Listing Rule 6.14.5 of the FCA Handbook allows a lower free float at the FCA's discretion). The FCA is consulting on a proposal to lower the minimum number of shares in public hands requirement to 10%, after concluding that there is minimal difference between the liquidity profiles of issuers with a 10% free float and issuers with a 25% free float.

The minimum free float requirement for FTSE UK Index Series inclusion for a company incorporated in the UK is 25%\* – this is comparable with the minimum "shares in public hands" currently required by the UKLA for a Standard and Premium listing. However, for non-UK incorporated companies the free float must be greater than 50%\* – this is consequent to a historical view (supported via a market consultation in 2011) that overseas-based companies which are controlled by founders or related parties might act against the interests of minority equity holders.

\*Please note: the FTSE Russell calculation of minimum free float is based on the ordinary share capital issued by the company and may include shares that would otherwise be excluded solely because they are subject to a lock-in clause of twelve months or less from their first day of trading, but that would in all other respects be considered part of a company's free float. Therefore a new company may be initially included in the FTSE UK Index Series with a free float below the minimum parameters where the free float is expected to meet the minimum requirements within 12 months of the company's first day of trading (as per existing Rules 5.1.2 and 5.1.3).



## Consultation Questions

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In light of the FCA's consultation and potential changes to the listing requirements, FTSE Russell invites stakeholders to respond to the questions outlined below. This will assist with the review of the FTSE UK Index Series eligibility criteria once any proposed changes to the Listings Regime are confirmed.

### Voting rights calculations

1. **If DCSS companies are included in the Premium Segment, the ordinary line of DCSS companies will be eligible (subject to meeting all other eligibility criteria) for the FTSE UK Index Series by virtue of their Premium listing.**

**For the purposes of rule 6.3 (see Appendix A) of the FTSE UK Index Series, how should FTSE Russell define "voting rights" when applying the test to determine whether 5% of a company's voting rights is in public hands?**

- A.  Voting rights should be applied in proportion to the enhanced voting power of Specified Weighted Voting Rights Shares (please see example Option B in Appendix B)
- B.  Each share should represent only one vote (please see Option A in Appendix B)

Other/additional comments:

### Free float requirements for UK incorporated companies

2. **For UK incorporated companies, irrespective of whether the company has a DCSS, should FTSE Russell lower the minimum free float requirement for constituent securities of the FTSE UK Index Series?**

**Please note: the existing minimum free float requirement of 25% for UK incorporated companies was originally set with minority shareholder interests in mind (and not motivated by liquidity concerns).**

- A.  No – it should remain at 25%, but with the current exception that IPO companies may float at a lower percentage provided that the lock-ins on a sufficient number of shares expire within one year of the first day of trading to ensure that the free float threshold is reached at that point
- B.  Yes – to 10% (or whichever alternative level is established following the FCA consultation)

Other/additional comments:

### Free float requirements for non-UK incorporated companies

3. For non-UK incorporated companies, irrespective of whether the company has a DCSS, should FTSE Russell lower the free float requirement for the constituent securities of the FTSE UK Index Series?

**Please note: the existing greater than 50% free float requirement for non-UK incorporated companies was originally set with minority shareholder interests in mind (and not motivated by liquidity concerns).**

- A.  No – it should remain at greater than 50%, but with the current exception that IPO companies may float at a lower percentage provided that the lock-ins on a sufficient number of shares expire within one year of the first day of trading to ensure that the free float threshold is reached at that point
- B.  Yes – to 10% (or whichever alternative level is established following the FCA consultation)

Other/additional comments:



## Appendix A

# Existing Minimum Voting Rights Rule

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### 6.3 Minimum Voting Rights

6.3.1 Companies assigned a developed market nationality are required to have greater than 5% of the company's voting rights (aggregated across all of its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted shareholders or they will be deemed ineligible for index inclusion.

6.3.2 Existing constituents with a developed market nationality who do not currently meet the above requirement have a 5 year grandfathering period to comply. If subsequently they continue to fail the minimum voting rights requirement they will be removed from FTSE Russell indices at the September 2022 review.

6.3.3 The percentage of a company's voting rights in public hands is calculated as:

$$\frac{\text{The number of votes in the hands of shareholders that are unrestricted as determined by the application of FTSE Russell free float definitions}}{\text{The total number of votes conferred by the shares outstanding of all the company's voting securities including those that have not been admitted to trading on a regulated venue}}$$

For example, Company A has 100m listed Class A shares each conferring one vote, free float is 65%. It also has 300m unlisted Class B shares each conferring 10 votes.

The test to assess whether the listed Class A line has the required greater than 5% of the company's voting rights is as follows:

$$\frac{65\text{m (i. e. 100m Class A voting rights * 65\% float)}}{3.1\text{bn (i. e. 100m Class A + 3bn Class B)}} = 2.097\% \text{ of the company's voting rights in public hands}$$





## Appendix B

# Example Voting Rights Calculations for Dual Class Share Structures (DCSS)

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Company A has 100m Premium listed Ordinary shares each conferring one vote with a free float of 100%. It also has 25m unlisted Specified Weighted Voting Rights Shares each conferring one vote (except in specific circumstances where each share confers 20 votes).

### Voting Rights – Example A

For the purposes of example A the 25m unlisted Specified Weighted Voting Rights Shares are deemed to confer one vote per share.

$(100\text{m Ord shares} \times 100\% \text{ float} \times 1 \text{ voting right}) + (25\text{m} \times 1 \text{ voting right})$

$100\text{m} / 125\text{m} = 80\%$  of the company's voting rights are in public hands

### Voting Rights (example B)

For the purposes of example B, the 25m unlisted Specified Weighted Voting Rights Shares are deemed to confer the enhanced voting power (i.e. 20 votes per share)

$(100\text{m Ord shares} \times 100\% \text{ float} \times 1 \text{ voting right}) + (25\text{m} \times 20 \text{ voting rights}^*)$

$100\text{m} / 600\text{m} = 16.67\%$  of the company's voting rights are in public hands



## Appendix C

# References

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FTSE UK Index Series ground rules:

[https://research.ftserussell.com/products/downloads/FTSE\\_UK\\_Index\\_Series.pdf](https://research.ftserussell.com/products/downloads/FTSE_UK_Index_Series.pdf)

FCA Primary Markets Effectiveness Review – Consultation Paper:

[CP21/21: Primary Markets Effectiveness Review \(fca.org.uk\)](https://www.fca.org.uk/publications/primary-markets-effectiveness-review)

UK Listing Review:

<https://www.gov.uk/government/publications/uk-listings-review/call-for-evidence-uk-listings-review>

Listing Review Recommendations:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/966133/UK\\_Listing\\_Review\\_3\\_March.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966133/UK_Listing_Review_3_March.pdf)

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