

UKLA Publications

LIST!



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Introduction

Welcome to this special edition of List!, which brings you the results of the recently completed Market User Survey. In March 2006, the Listing Authority Advisory Committee (LAAC) – a body of market practitioners put together by the FSA Board to advise the UK Listing Authority (UKLA) on primary markets issues – commissioned RS Consulting to devise a survey with two main aims. These were to:

- measure the efficiency and effectiveness of the UKLA and the level of market satisfaction with the service it provides to its users; and
- seek views on the implementation of the new Listing Rules and the Prospectus Directive.

The survey was undertaken in Autumn 2006 and we would like to thank you if you took the time to participate in the survey. The results have now been analysed and presented both to LAAC and the FSA Board. In this special edition of List! we have detailed the main findings, and included some reflections on those findings from both LAAC and the UKLA.

Summary of findings

In summary, respondents to the survey sent some valuable messages on service standards, particularly on timeliness and consistency of response. We have already made changes to helpdesk staffing which we believe will address some of the comments about the helpdesk's capacity to give direct answers. We would also urge advisers to make full use of the Suitably Experienced Employee (SEE) call to signal possible areas of contention and to narrow what some respondents identified as a gap in the UKLA's awareness of the commercial context of a transaction.

We would not have expected the results of the survey to be uniformly positive. It is not in the nature of a regulator, after all, always to give easy or accommodative answers. However, where we can improve service standards, we will, and this survey has usefully highlighted some of the areas where improvement can be made. We are currently reviewing the most effective way of repeating the survey in the future.

The survey's approach

The survey had two distinct phases. Under the first stage 20 in-depth interviews were conducted with a cross-section of advisers and issuers who had participated in transactions reviewed by the UKLA since 1 July 2005 (the date the Prospectus Directive and the new Listing Rules were implemented). The second stage comprised a postal questionnaire designed to measure satisfaction with the UKLA both overall and in relation to 23 specific performance attributes (using 10-point scales), and to gauge perceptions on 28 opinion statements (using four-point agree/disagree scales). Scores of 1 to 5 were grouped as Low; scores of 6 and 7 were grouped as Medium; scores of 8 to 10 were grouped as High. The survey was sent to all issuers who had transacted since 1 July 2005, all sponsor firms, and the major debt advisers and law and accountancy firms. In total responses were received from 130 participants, with 55 coming from advisers, and 75 from issuers.

The results of the survey

The results that follow below are the results presented to the FSA Board by RS Consulting.

Overall Satisfaction with the UKLA

In this first assessment of market users' views, the mean of scores given by the 120 issuers and advisers who rated their overall satisfaction with UKLA's efficiency and effectiveness stood at a medium level (6.92 on a 10-point scale). This reflected mostly positive but some negative experiences of UKLA.

Service Standards in Five Areas

Timeliness

Eighty-seven percent of market users thought the statutory turnaround deadlines set for the UKLA were reasonable, and a slightly larger proportion (91%) said the UKLA performed well in meeting deadlines during the review process. Nevertheless, 29% of market users questioned whether UKLA provided complete and consistent comments irrespective of busy periods.

Debt and equity users reported different experiences of UKLA's timeliness. All debt users surveyed (issuers and advisers) said UKLA was meeting its deadlines in all or most cases. The comparable figure for all equity users (issuers and advisers) was 88%, with 12% saying statutory deadlines were met only sometimes or rarely.

Accessibility

Market users generally took a positive view of the continuity of contact provided by the UKLA during the review process, and the availability of UKLA for discussion, both before submitting documents and upon receiving Comment Sheets. The SEE call was also positively viewed by 90% of those who had experience of it. A minority of 20%, however, gave UKLA low scores (1 to 5 on the 10-point scale) for its availability for discussion before submitting documents.

Readers' ability to discuss and resolve issues arising during the review process was one of the areas of lowest satisfaction among market users. Perhaps offsetting this, 85% thought UKLA escalated issues appropriately during the review process.

Quality and consistency of response

Most market users (95%) agreed strongly or somewhat that UKLA was thorough in its review of documents submitted. Although 29% said

UKLA had raised comments on old drafting or raised issues late in the review process, UKLA was rated moderately well for providing consistent comments on a single transaction. It fared slightly less well for providing consistent comments across similar transactions.

A sizeable minority of 42% gave low scores for UKLA's understanding of the commercial context of transactions it reviewed. Sponsors were slightly over-represented among those giving low scores for UKLA's understanding of the commercial context of transactions it reviewed and also for UKLA's availability for discussion before submitting documents.

The UKLA Helpdesk

Eighty nine percent of market users considered the helpdesk to be the first port of call for general queries, and 61% rated it highly (8 to 10 on a 10-point scale) for the ability to make contact quickly and easily. A minority of 28% felt that helpdesk staff lacked the knowledge and experience to address queries efficiently and effectively – a minority in which advisers were over-represented, perhaps in part because they may submit more difficult issues to the helpdesk than issuers.

Education and advisory initiatives

Satisfaction with List! received the highest score of all performance attributes tested, and factsheets were also highly rated. Neither of these well-regarded initiatives was associated with overall satisfaction, however.

Implementation of the Prospectus Directive and the New Listing Rules

Implementation of the Prospectus Directive (PD)

Ninety-three percent of market users thought UKLA's implementation of the PD was efficient and effective, and 95% compared it favourably with implementation by Competent Authorities (CAs) in other EU countries. Since implementation, market users also felt that UKLA had interpreted the PD in a consistent manner.

Only a third of market users had been involved in the passporting process, predominantly debt users. Among the limited number who had experienced

it, satisfaction with UKLA's application of passporting was relatively high.

Implementation of the new Listing Rules

Eighty percent of market users agreed that UKLA had successfully streamlined and modernised the Listing Rules, at least to some extent. They strongly endorsed the Eligibility Rules as a means of demonstrating the status of a company, the sponsor regime, and creating the Professional Securities Market, although some uncertainty was evident about interpretation of the Listing Principles.

Consultation before implementation

The consultation process before the implementation of the PD and the Listing Rules was taken up by 45% of advisers surveyed. It was generally thought to have been worthwhile and effective by those who took part, some of whom recommended it as a model for future interaction between UKLA and market users.

Comparing Debt and Equity Users' Satisfaction with UKLA

Debt users were more satisfied with UKLA's performance on all measures associated with timeliness and most of the measures associated with the quality and consistency of UKLA's responses. They were also more likely to agree that UKLA had streamlined and modernised the Listing Rules and that, within the framework applicable to all EU CAs, UKLA operated flexibly enough to meet their business needs. All of these were associated with overall satisfaction.

Across all measures taken, there were no instances in which equity users gave significantly higher ratings than debt users.

UKLA's Performance in Meeting HM Treasury Objectives

Performance scores given to UKLA on two of the three objectives set by the Treasury were significantly higher than UKLA's mean score for overall satisfaction (6.92). These two objectives, which are associated with overall satisfaction, were:

- Maintaining the integrity and international competitiveness of UK markets for listed securities (mean satisfaction score 7.66); the ratings given were informed by the perceived importance of establishing the right balance **between** integrity and competitiveness, and UKLA's perceived ability to do so.
- Providing an appropriate level of protection for investors in listed securities (mean satisfaction score 7.59); comments emphasised that UKLA was not the sole source of protection for investors and that regulation can only go so far in providing such protection. After that, balance was required in the face of differing needs in segments of market.

The third Treasury objective, facilitating access to listed markets for a broad range of enterprises, produced a lower mean performance score (7.25) than the other two Treasury objectives and was not associated with overall satisfaction with UKLA.

KEY FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

General observations and areas of particular satisfaction

When reporting the results of the survey to the FSA Board, LAAC highlighted the broadly positive messages received about the areas surveyed and an overall average satisfaction score of just under seven out of ten. LAAC believed this is a credit to the work that the UKLA has done in preparing the market for the changes to the rules, and in approaching the issues in a pragmatic way while engaging with market users.

The positive results endorse our implementation of the PD and the new Listing Rules, and of our service standards more generally. During the period surveyed there was a wholesale change to the regulatory regime because of the implementation of the PD and the new Listing Rules. This period also saw transaction volumes significantly above historical levels. Despite these factors, as LAAC reported to the Board, the overall message received from participants in the survey was a positive one. There were also several areas where participants responded particularly positively:

Implementation of the Prospectus Directive and the new Listing Rules (3.41/4 Mean Score)

There was a high level of satisfaction amongst market users for the implementation of the PD and the New Listing Rules. Market users thought that our implementation of the PD was efficient and effective, and compared it favourably with implementation by other EU Competent Authorities (3.23/4). Market users also thought the UKLA interprets the PD in a consistent manner. We devoted considerable time and effort to ensuring the most effective implementation of the new regime possible, and we are pleased to see these efforts being recognised in the market.

Quality and consistency of response (3.41/4 Mean Score)

Market users were satisfied the UKLA conducts a thorough review of all documents submitted and thought we are effective in enforcing compliance with both the Listing Rules and the Prospectus Rules.

Accessibility (3.34/4 Mean Score)

Market users took a positive view of the continuity of contact provided by the UKLA during the vetting process and the availability of the UKLA for discussion. Ninety percent of those who had experienced the SEE call thought it provided enough opportunity to discuss key issues at an early stage. In addition the helpdesk scored highly on accessibility because market users are able to make contact with it quickly and easily.

Education and advisory initiatives

List! received the highest satisfaction score of all performance attributes tested. Factsheets were also highly rated and the seminars for sponsors and the market users' forum also received high satisfaction ratings.

Areas where further consideration is needed

There were several areas where mixed messages were received, and which both LAAC and the UKLA thought needed more detailed consideration. The following section sets out those areas together with the recommendations made by LAAC, and the details of how we intend to address these areas.

The UKLA Helpdesk

The main respondents giving the helpdesk a 'low' satisfaction rating were sponsors and advisers. LAAC believes the low scores partly reflect the way the market uses the helpdesk and the already considerable level of knowledge from those calling to achieve a solution. LAAC recommended clearer communication in this area from the UKLA to explain how the helpdesk should be used, the level of experience held by staff on the helpdesk, and the likely response times.

Last year we produced several factsheets to help clarify a number of procedural issues, and Factsheet Issue Number 2 (<http://www.fsa.gov.uk/pubs/ukla/factsheet2.pdf>) sets out some useful details about the UKLA Helpdesk. Among other things, the factsheet details response times and how issuers should request guidance, including which type of requests should be made in writing and which may be made verbally. We take the view that certain types of query are complex enough to always be made in writing rather than verbally. The survey indicated that at least 90% of the queries where a written submission was requested fell into one of these categories.

An area that emerged as a clear concern was the experience and expertise of the staff who worked on the helpdesk, and a frustration that callers weren't always being given an immediate response to their queries. The UKLA has historically had a policy of staffing the helpdesk with new joiners to the department, as this was considered to be an effective training tool. However, more recently we have moved away from this policy, as we decided we could more effectively ensure consistency of response, and the mitigation of our own risk, if we staffed the helpdesk with more senior members of staff. We have also established dedicated equity and debt helpdesks to ensure a greater degree of specialisation and expertise. This means the staff answering helpdesk calls will be readers with experience ranging from around a year to over ten years. The department's managers and technical specialists (members of the department with the same level of technical competence and authority as managers, but without line management responsibility) also answer helpdesk calls.

It is important in this context that the UKLA staff members who answer the helpdesk are also document readers. Using senior members of the department to staff the helpdesk is a significant commitment of the department's resources which reflects the importance we attach to this function. However, we would ask that market users also approach the helpdesk in the same spirit. Roughly a quarter of calls to the helpdesk are from people who have chosen the wrong helpdesk option or are using the helpdesk as a general switchboard. And another 20% relate to queries that should be capable of being answered in-house because of their routine nature. This is a significant call on the time of senior members of the department, and seriously impacts our ability to respond more quickly both to document submissions and to substantive helpdesk queries. We will focus on communicating more broadly our expectations in relation to the use of the helpdesk in the coming year.

It is also important to note that however senior the helpdesk adviser, we will always need to consult internally for the more complex helpdesk queries. We expect the helpdesk, if used appropriately, to be the channel through which complex technical queries are brought into the department. As such, it is inevitable that queries should be discussed and escalated internally before a response is given. This is essential both for ensuring proper risk management and consistency of response. So the helpdesk will never be able to provide an instant response to all queries without internal consultation. Factsheet Issue Number 2 sets out our response times for written and oral queries. These response times take into account the need to discuss and escalate the more complex queries to enable a considered response to be given. For urgent queries we try to accommodate shorter timetables if we can.

Timeliness of response and accommodation of urgent issuer timetables

Generally the perception of our ability to meet the turnaround times for document review and approval was high, with approximately 90% of respondents indicating that we met our targets in most or all cases. Our success in meeting our turnaround times is something that we report monthly to the Treasury, and we have data generated automatically by our transaction database that gives us a precise indication about our success in this regard. We have a target of meeting our deadlines for 98% of cases. It is only in exceptional circumstances these deadlines are not met, and in most cases, we achieve 100% compliance.

Respondents to the survey were less convinced that we are able to accommodate an applicant's timetable if a transaction is urgent. Our transaction database also allows us to produce numbers for the average turnaround times for all transactions. Set out below are the average turnaround times for the last 12 months. These numbers illustrate that we consistently outperform these deadlines. In future, we will consider whether to publish these turnaround times on a regular basis. These average response rates reflect the extent to which we try to show an awareness of the commercial timetables to which transactions are subject, and our attempts to accommodate urgent timetables. If we were to try to increase response rates further, there would be an inevitable resourcing implication, with a consequent impact on fee levels. There was some indication in the responses to the survey that there might be an appetite for issuers to pay for a faster service at extra cost. LAAC recommended that we should consider whether this would be possible or desirable, and this is an area that we are intending to look at in greater depth this year.

	Reported Treasury Targets (days)	Average Turnaround Times (days)						
		Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06
Initial comments: new applicant	10	5.96	4.27	4.21	6.15	3.13	3.88	4.58
Initial comments: existing issuer	5	2.62	2.80	3.34	3.17	3.28	3.52	2.78
Subsequent comments	3	1.59	1.58	1.25	1.06	1.73	1.57	1.30

	Reported Treasury Targets (days)	Average Turnaround Times (days)						
		Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07
Initial comments: new applicant	10	6.55	4.19	6.42	4.31	5.65	7.6	4.26
Initial comments: existing issuer	5	3.29	3.76	3.00	3.23	2.97	2.84	2.58
Subsequent comments	3	1.44	1.51	1.59	1.09	1.06	1.58	1.13

Quality/Consistency of Response across transactions

A significant minority of respondents to the survey expressed concern that we should try to ensure a greater degree of consistency of response across similar transactions. Both we and LAAC recognised that during the initial period of implementation of the PD and the new Listing Rules, there was some uncertainty about the interpretation of the new rules. During this period, there were several instances where an initial view that we had formed on a technical query was overturned or reversed. This was particularly the case for queries on financial information and the transitional provisions under the PD. This largely reflected the newness of the rules, the ambiguity of their drafting, and on occasions the need for further guidance from CESR. Now that this period is behind us, both LAAC and the UKLA expect this to be less of an issue in future.

We are acutely aware of the importance of the consistent treatment of similar transactions, and we have a number of processes in place to ensure this is the case. This includes cross-reading across the teams, and reviewing all first sets of comments by the department's managers. We also have robust internal procedures in place to ensure that key decisions and the more complex issues raised by helpdesk queries or the document review process are properly escalated internally. We will assign a transaction manager to each document or helpdesk query in the department and any novel or contentious issues will be escalated to that manager as a matter of course. The transaction manager may decide to escalate the issue to the department's managers' meeting, which can be called daily, and which is attended by all the department's managers. And, if appropriate, the meeting can be attended by representatives from the policy department and our legal counsel division. Before each meeting we will review our internal databases to ensure we consider any relevant precedents. There is also a good deal of internal discussion between managers and associates of novel or contentious issues outside the more formal context of the managers meeting.

These processes are designed to try to ensure the UKLA takes a consistent approach for important or complex technical issues. However, an approach that is flexible enough to allow differing approaches in different situations will inevitably lead to 'inconsistent' applications of rules. But we feel this to be a necessary consequence of a principles-based regime.

Consistency of response within transactions

A significant minority of respondents also suggested we could do more to ensure there is greater consistency of approach within transactions, and specifically that new comments or issues should not be raised on old drafting part-way through the vetting process. We have a well-established position within the department that we should not raise new comments on existing drafting in later drafts. We take this principle very seriously because we are aware of the potential impact of new issues being raised late in the vetting process. Of course, if a later draft of a document is significantly black-lined, comments may be raised on those newly black-lined sections. In light of the feedback from respondents in this area we have reiterated to the department the importance of not raising new comments on old drafting, and have clarified that any decision to raise such comments should first be escalated to a manager.

Commercial Understanding

The UKLA was given a low rating by 40% of respondents for its understanding of the commercial context of the transactions that it is asked to approve. LAAC believed sometimes as regulator we will be criticised for saying 'no', despite having sound justification for regulatory reasons, and this was to an extent what underlay this response. The SEE call was generally well regarded by respondents to the survey, and we see this to be one of the main opportunities for sponsors to explain to us the important features, together with the commercial context, of the transaction being undertaken. The SEE call is outlined in more detail in Factsheet Issue Number 1 (<http://www.fsa.gov.uk/pubs/ukla/factsheet1.pdf>), which also sets out all aspects of the review and approval process from internal allocation, the suitably experienced employee call and turnaround times.