



**The Quoted
Companies Alliance**

FTSE Group
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Dear Sirs,

FTSE – FTSE UK Index Series User Consultation

INTRODUCTION

The Quoted Companies Alliance is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

RESPONSE

We welcome the opportunity to respond to this consultation.

1. **Should FTSE apply a minimum free float threshold of 25% for all UK incorporated companies when determining eligibility for inclusion in the FTSE UK index series (including the FTSE ALL-Share and the FTSE 100 Index)?**

Yes, we believe that FTSE should apply a minimum free float threshold of 25% for all UK incorporated companies when determining eligibility for inclusion in all the FTSE UK index series, except for the FTSE 100 Index. Increasing the minimum free float threshold would help increase minority shareholders protections and also reflect that the shares are 'premium' listed' (which requires a 25% free float to list), in line with recent adjustments with the regulated market structure.

We believe that, for the FTSE 100, FTSE should consider setting the eligibility criteria at a minimum free float threshold of 50% of all UK incorporated companies. The general approach for inclusion into the FTSE 100, which in itself is an 'extra' premium label for Premium listed shares, should be the same for all companies, whether overseas or UK incorporated. This should reflect that all companies have to follow the same listing rules for a premium listing to be included in the index and also indicate a higher standard that would be expected by shareholders in companies of this size.

2. **In the event of FTSE applying a minimum 25% threshold and in cases where the UKLA has granted an exception to the 25% minimum free float it requires of UK incorporated companies seeking a premium listing, should FTSE maintain its 25% threshold or permit flexibility to follow UKLA's decision?**

FTSE should maintain the flexibility to follow the UKLA's decision, but decisions to permit a lower level should be on a case by case basis. FTSE should attempt to maintain its 25% threshold for all FTSE

UK indices and the 50% threshold for the FTSE 100 index as much as possible to provide for consistency.

3. **In the event of FTSE applying a minimum 25% threshold to UK incorporated companies, FTSE All-share stocks with less than 25% free float will be grandfathered to allow them time to increase their free float. What period of time do you feel is satisfactory for this purpose?**

We believe that there should be a two year transition period to ensure that companies, and especially smaller companies that are part of the All-Share, have adequate time to increase their free float if they wish to maintain their positions the index.

4. **Separate to above scenario, FTSE is considering the creation of a new set of UK indices, running alongside the current series, which would impose a higher set of corporate governance.**

Would you welcome a new index series in which companies would only be admitted based on minimum governance criteria?

We do not see the need or investor demand to create an additional index series, especially with the recent change in market structure. There is currently a Premium listing and Standard listing category, with the Premium segment having higher corporate governance requirements. These segments already distinguish companies which choose to adopt a higher set of disclosures and behaviours.

If the FTSE UK Index Series consistently enforces their position to not include Standard Listed companies and incorporates the higher standard of governance requirements into their criteria for inclusion in the indices, then there should be no need to create a separate indices series that imposes a higher set of corporate governance.

5. **Space for additional comments.**

The Quoted Companies Alliance believes that FTSE should consider establishing a complementary set of indices which reflect companies' contribution to local economies, initially for the UK and Europe.

The main indices used in the UK for benchmarking and investment, the FTSE All-Share and the FTSE100 (which makes up the vast proportion of the All-Share index), are not designed to be a representation of the UK economy. There are many examples of companies within the FTSE 100 which are global companies which happen to be headquartered in the UK rather than companies which are wholly or mainly UK related. Many pension funds and retail investment vehicles use the FTSE All-Share as a benchmark for the UK economy. As a result investors who think they are electing to invest in UK-centric companies may be unaware that they are exposed to international volatility and economic changes through the weightings and constituents of the FTSE All-Share index.

In this new index series, FTSE should consider allocating companies to more than one country by virtue of their relative contribution to different countries. Alternatively global companies which have a wide reach could be excluded altogether.

If you would like to discuss this in more detail, we would be pleased to attend a meeting.

Yours sincerely,



Tim Ward
Chief Executive

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the Quoted Companies Alliance represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The Quoted Companies Alliance is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies;
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

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Quoted Companies Alliance's Aims and Objectives

The Quoted Companies Alliance works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
 - corporation tax payable of £560 million per annum
 - income tax paid of £3 billion per annum
 - social security paid (employers' NIC) of £3 billion per annum
 - employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

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