

## Alert | Capital Markets



August 2023

### UK Listing Regime Reform Update

The decline in the number of companies seeking a public listing in the UK has been widely discussed, with various concerns consequently raised over the attractiveness of the UK as a listing venue for both UK and international companies. Efforts have been and continue to be made by the UK government to attempt to reverse this trend, including through targeted regulatory reforms aimed at unblocking some of the (perceived) disadvantages and complexities which companies face when looking to list in the UK.

#### Snapshot of current status

The **comment period** closed 28 June 2023 on the UK Financial Conduct Authority (FCA)'s most recent consultation paper, **CP23/10, Primary Markets Effectiveness Review: Feedback to DP22/2 and proposed equity listing rule reforms**. Setting out a “blueprint” for proposed changes, this consultation paper is the latest step in contemplated reforms to the UK listing regime dating back to 2020, some of which already have been implemented and others which remain a work in progress. This GT Alert provides an overview on what the FCA is proposing and what to expect in the near-term.

The FCA said in CP23/10 that its desire is to “*make the UK Listing Regime more accessible, effective, easier to understand and competitive*”. The proposed reforms, therefore, represent a rebalancing of mandatory requirements and investor gatekeeping, with a reduction in the perceived gold-plating of a premium listing while still maintaining high standards and appropriate proportionality, as further detailed below.

### Single listing share category

Currently, there are two listing segments on the Main Market of the London Stock Exchange (LSE) – standard and premium. The premium listing segment requirements, designed to provide increased investor protection through a “gold standard” of corporate governance and disclosure requirements, has become to be regarded by some investors and companies as overly burdensome (as noted in Lord Hill’s [2021 UK Listing Review](#)). Conversely, the standard listing category is viewed by some investors as an inferior offering sitting awkwardly between the premium segment and the [LSE’s AIM Market](#) with insufficiently robust rules leading to governance and other concerns. Partially in response to such concerns, the FCA is proposing to replace and consolidate the two segments into a single listing category for commercial company issuers of equity shares, which would have a more “straightforward” framework that is flexible to cater to a diverse range of companies.

#### *Proposed changes*

The FCA is proposing the following changes (as compared with the current requirements under the premium listing regime) for companies going public:

- no longer requiring a three-year financial and revenue earning track record;
- a more permissive approach to dual-class share structures, including allowing enhanced voting rights on all matters by shareholders that must also be directors of the issuer<sup>1</sup> (which would cease to be exercisable after 10 years – in effect, a sunset provision), except for the issuance of new shares at a discount of more than 10% (which would revert to one share, one vote);
- no longer requiring compulsory shareholder approval and a shareholder circular for significant transactions: instead, a company entering into a Class 1 transaction meeting a 25% class test threshold would have to publish an announcement containing certain information that is currently required for a Class 2 transaction;
- no longer requiring a “clean” working capital statement;
- simplified eligibility rules around a company having an independent business and operational control over its main activities: a company instead would need only keep the market apprised of its operations, current trading position and performance, including by being able to obtain, identify and disclose inside information;
- modified rules around the need for a relationship agreement with a controlling shareholder: this would be replaced with a risk-based disclosure approach including an obligation on companies to comply or explain if they do not have such an agreement with a controlling shareholder; and
- no longer requiring an independent shareholder vote for related party transactions in certain circumstances: instead, a company would need to publish an announcement for related party transactions above a 5% class test threshold, including a statement that it is fair and reasonable so far as the shareholders are concerned and the directors have been so advised by the company’s sponsor (see below).

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<sup>1</sup> In CP23/10 the FCA notes that its proposal for enhanced voting rights is only for an individual who “remains involved in setting the strategic direction of the company for which [it uses] being a director as a proxy”.

## Sponsor regime

Currently, the sponsor regime mandates that an FCA-approved investment bank or similar institution act as an adviser to a company when it first applies for a premium listing and then after this for certain material listing-related events or transactions as set out in Listing Rule 8.2.1R, such as when it applies for the admission of securities which requires the production of a prospectus. The sponsor must be competent to provide “sponsor services” and adhere to certain principles, such as acting with due care and skill. As the FCA explained in [DP22/2](#), a sponsor has a dual-facing role – the provision of services to issuers and regulatory obligations owed to the FCA.

### *Proposed changes*

In CP23/10, the FCA proposes to retain the sponsor regime for the new single category for equity shares in commercial companies, with modifications, to support companies primarily at the listing application stage. Thereafter, post-listing, the need for a sponsor to be appointed would be reduced.

## Other listing categories

The FCA proposes to maintain separate listing categories for other specialist categories of listed securities, including closed-ended investment funds and different types of non-equity instruments.

### Next steps

A further consultation paper, including draft rules, is expected to be published in autumn 2023. The FCA has said it is aiming for an accelerated timetable to implement the proposed changes (subject to market feedback), with substantial progress by the end of this year.

## Implemented changes and other related initiatives

Certain [changes](#), following Lord Hill’s UK Listing Review mentioned above, were already made to the Listing Rules in 2021 with the same aim of making London a more attractive and competitive listing venue. The key changes included:

- allowing for a dual-class structure for premium listed companies;
- reducing the percentage of shares that are required to be held in public hands from 25% to 10%; and
- increasing the minimum market capitalisation threshold for listing from £700,000 to £30 million.

### *UK Secondary Capital Raising Review*

The UK Listing Review also resulted in the July 2022 [UK Secondary Capital Raising Review](#) (SCRR), which made recommendations on how further capital raising by already-listed companies could be made more efficient, and HM Treasury’s further work to propose draft legislation to create a new public offer and admission to trading regime to replace the UK Prospectus Regulation. The FCA is further considering the main SCRR recommendations, a focus of which was on modernising the UK’s shareholding framework, and is continuing to engage with the [Digitisation Taskforce](#) that was launched following the SCRR, the aim of which is to drive forward the full digitisation of UK shareholding by eliminating paper share certificates. In July 2023, the Digitisation Taskforce published an [interim report](#) setting out recommendations and questions for the industry to consider, with feedback due by 25 September 2023.

## Conclusion and looking ahead

As the FCA made clear in CP23/10, changing the listing regulatory regime is just one aspect of making the UK's capital markets work more efficiently and be more competitive with other global markets.

Considerations of other factors, such as liquidity levels and valuations as well as taxation and indexation, will be at play, in addition to the roles of other policymakers and stakeholders across the capital markets ecosystem. As of now, it seems likely that the spotlight on revitalising the UK markets will remain for some time to come.

## Authors

This GT Alert was prepared by:

- **Andrew Caunt** | +44 (0) 203.349.8743 | [Andrew.Caunt@gtlaw.com](mailto:Andrew.Caunt@gtlaw.com)
- **Dorothee Fischer-Appelt** | +44 (0) 203.349.8862 | [Dorothee.Fischer-Appelt@gtlaw.com](mailto:Dorothee.Fischer-Appelt@gtlaw.com)
- **James Mountain** | +44 (0) 203.349.8739 | [James.Mountain@gtlaw.com](mailto:James.Mountain@gtlaw.com)
- **Megan Gray** | +44 (0) 203.100.6759 | [Megan.Gray@gtlaw.com](mailto:Megan.Gray@gtlaw.com)
- **Patrick G. Lilly** | +44 (0) 203.349.8797 | [Patrick.Lilly@gtlaw.com](mailto:Patrick.Lilly@gtlaw.com)

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