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The UK's Financial Conduct Authority Proposes Significant Reforms of Listing Rules



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On 3 May, the UK's Financial Conduct Authority ("FCA") issued [Consultation Paper CP23/10](#) setting out significant proposals to reform equity listing rules.

There has been a precipitous decline in the number of listed companies in the UK of around 40% from a 2008 peak, and between 2015 and 2020, the UK hosted only 5% of Initial Public Offerings globally. In light of this decline, and following on from earlier review exercises and recommendations (including Lord Hill's UK Listing review and the Kalifa Review on UK fintech), the FCA is now proposing changes to the listing rulebook to replace current "standard" and "premium" listing segments with a single segment for "equity shares in commercial companies" ("ESCC"). The FCA is hoping that simplifying the listing regime and removing those eligibility requirements and other regulatory burdens that are perceived as deterring early-stage companies will propel London's international competitiveness. In order to reflect the diversity of listed issuers the UK wants to retain and attract, underneath this single listing structure will be "categories" of different issuer and security types, namely: commercial companies (including strategic investment companies); closed-ended investment funds; sovereign-controlled commercial companies; open-ended investment companies; SPACs and cash shells; other shares including secondary listings, preference shares and deferred shares; debt and debt-like securities; certificates; securitised derivatives, and miscellaneous securities.

New listing category for equity shares in commercial companies

In CP23/10, the FCA is consulting on a new, single category for ESCC with commensurate proposals on eligibility and ongoing listing requirements, with the aim of improving the accessibility and competitiveness of the UK listing regime. The changes proposed include:

- Removing the current premium listing requirements to provide historical financial information, a revenue-earning track record and information to

satisfy the FCA that the applicant has sufficient working capital;

- Modifying current premium listing requirements to demonstrate that the applicant for listing carries on an independent business as its main activity and retains operational control over that business. This will facilitate more flexibility to take account of diverse business models and more complex corporate structures, including those that act as strategic investors by taking non-controlling positions (but which are not fund vehicles) and SPACs or shells that do not have operating activities;
- Reforming dual class share structures to allow enhanced voting rights to be exercised on all matters and at all times, but with conversion to ordinary shares with one share, one vote after 10 years rather than the current maximum sunset period of 5 years;
- Ceasing to require a shareholder vote and shareholder circulars for related party transactions, including when that related party is a controlling shareholder;
- Reframing the requirement for a controlling shareholder agreement to a comply or explain approach under which the absence of an agreement would require specific disclosures and inclusion in the prospectus and annual report of relevant risk factors; and
- Removing current mandatory shareholder approvals and shareholder circular requirements in relation to large “significant” transactions.

Single set of Listing Principles

These will underpin the reformed regime and combine the current Listing Principles and Premium Listing Principles into a single body of principles that are tailored according to different categories of listing. A further consultation in the autumn will consider the interaction with UK company law and directors’ fiduciary duties. The autumn consultation will also consider further details on proposals to accommodate different segments of issuers and securities.

Our thoughts

This is the most significant shake-up of the UK’s listing regime in decades, and while the direction of travel has been largely welcomed by the market, concerns about investor rights have also been voiced, which will certainly play out in the consultation process.
