

Insights

LORD HILL'S RECOMMENDATIONS ON THE UK LISTING REVIEW

4 March 2021

SUMMARY

The FCA has welcomed Lord Hill's recommendations from the UK Listings Review, launched by HM Treasury last November.

The review has highlighted that the listing regime is in need of reform and now is the time to act. Between 2015 and 2020 London accounted for only 5% of IPOs globally with the composition of the FTSE Index consisting of companies that are either financial or more representative of the 'old economy' than the companies of the future.

The 15 recommendations consist of a mix of both immediate and longer term steps, and include specific suggestions with a view to strengthening the UK capital markets.

Lord Hill's Recommendations

Monitoring and delivering results

The first and over-arching recommendation is for the Chancellor to present to Parliament an annual report on the state of the City that sets out the progress that has been made in improving the UK's competitive position over the previous period. The first edition could be published in early 2022.

HM Treasury should consider widening the remit of the FCA so it is responsible for taking into account the UK's overall attractiveness as a place to do business. This would enable the FCA to move decisively to relax or tighten a rule in response to changing market dynamics.

Dual class share structures (DCSS)

Allow companies with DCSS to list in the premium listing segment but maintain high corporate governance standards by applying certain conditions. DCSSs are currently only permitted to list on the standard listing segment. The founder would be the holder of B class shares and would be

engaged in the running of the company for a certain period while allowing others to share in its growth. Conditions should include (i) a maximum duration of five years; (ii) a maximum weighted voting ratio of 20:1 to ensure that holders of weighted voting rights need to have a maximum economic interest in the company; (iii) limitations on transfer – the shares must convert on transfer; (iv) limitations on who is able to hold the voting class shares; and (v) voting matters being limited to ensure the holder(s) are able to continue as a director and able to block a change of control for the duration of the DCSS. At the end of the transition period companies would either become subject to the Listing Rules applicable to premium listed companies or move segment.

Repositioning of standard listing segment

Rebrand and rename the standard listing segment to, for example, the Main Segment or refer to companies by the relevant Chapter in the Listing Rules. For example, a Chapter 6 listing (current premium) or a Chapter 14 listing (current standard). In addition, investor groups should be encouraged to publish industry guidelines on areas that they see as particularly important that would allow for standard listed companies to be included within leading indices.

Free float requirements

Reassess the free float requirements by lowering the absolute requirement from 25% to 15% (on the basis that the current threshold is perceived to be deterring companies from listing in London) and allow companies of different market caps to use alternative measures to demonstrate there will be sufficient liquidity in their shares following listing. This also includes reviewing the current definition of 'shares in public hands' to consider whether the shares are in fact contributing to liquidity.

Special purpose acquisition companies (SPACs)

SPACS are on the rise and according to this report, 248 SPAC vehicles were listed in the US in 2020 raising the equivalent of £63.5bn. Many believe this trend will continue and the UK is currently losing out on home-grown and strategically significant companies coming to market in London. The current FCA rules are a key factor why the UK has not been an attractive market for SPAC listings to date as they can require the shares in the SPAC to be suspended when an intended acquisition is announced. This is seen as a key deterrent for potential investors as they are 'locked into' their investment and unable to redeem their shares for an uncertain period of time pending completion of the business combination.

The recommendation is that this rule is removed and replaced with appropriate rules and guidance including the rights investors in SPACs must have to:

- vote on acquisitions prior to their completion
- redeem their initial investment prior to completion of the business combination.

The prospectus regime

Recommendations include a fundamental review of the prospectus requirements so that they better cater for the types of companies coming to market in London and reflect the maturity of the UK capital markets. For example:

- decoupling when a prospectus is required and separating the requirements for admission to a regulated market from offers to the public
- change how the prospectus exemption thresholds function so that documentation is only required where it is appropriate for the type of transaction being undertaken and suits the circumstances of the capital issuance
- use of alternative listing documentation (e.g. in the event of further issuances).

Dual listings

For secondary and dual listings, consider whether prospectuses drawn up under other jurisdictions' rules can be used to meet UK requirements.

Forward-looking information

Adjust the liability regime associated with prospectuses so directors could publish and stand behind their forward-looking models. This would enable investors to receive higher quality information on which to base their investment decision.

Financial track record

- Maintain the three-year track record for the premium listing segment but extend the provisions for scientific research-based companies regarding revenue earning requirement to apply to a wider range of high growth innovative companies across a variety of sectors.
- Amend the requirement for historical financial information covering at least 75% of an issuer's business for premium listings to a test that is only applicable to the most recent financial period within the three-year track record. This would reduce the period of disclosure from three to two years for acquisitions made in the last financial period.

Empower retail investors & improve capital raising

Consider use of technology to improve retail investor involvement in corporate actions and consider re-establishing the Rights Issue Review Group and its outstanding recommendations in terms of capital raising models to improve the efficiency of secondary fundraisings (e.g. an accelerated rights issue like the Australian RAPIDS model).

The effects of the COVID pandemic highlighted inefficiencies in the market which were particularly felt by retail investors. Only a small amount of capital could be raised without triggering prospectus requirements and where retail investors were invited to participate in a capital raise, most of the time they only had a matter of hours to decide to invest due to the timetable set by the offer made to institutional investors. The report includes recommendations to amend the rules applicable to secondary capital raises to make them quicker and retail friendly.

Improve the efficiency of the IPO process

Review the recent changes to the IPO process which provide, following publication of the registration document, for a seven day black out period before connected analysts' research can be published if unconnected research analysts have not yet been briefed in the private phase. It is understood that these changes have had a detrimental side effect including cost, time implications and an increased execution risk.

Conclusion

These recommendations are likely to be welcomed by the market as feedback from the review identified a need for change/reform and there is an opportunity now, post Brexit, to strengthen the UK's standing as one of the world's leading global financial centres.

The FCA will now consider the recommendations for changes to the Listing Rules with the aim of publishing a consultation paper by summer and new rules by late 2021.

UK Listing Review – 3 March 2021

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MEET THE TEAM



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