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FCA CONSULTATION ON PRIMARY MARKETS EFFECTIVENESS

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SUMMARY

Lord Hill's review of the Listing Regime along with the Kalifa Review of UK FinTech highlighted specific elements of the listing regime that act as barriers to companies listing. According to the Lord Hill's review, the number of listed companies in the UK has fallen by about 40% from a peak in 2008.

To address this the FCA has published a consultation which discusses the functioning of the listing regime, exploring potential future models and consults on targeted changes to remove barriers to listing. The proposals being consulted on adopt some of Lord Hill's recommendation to allow dual class share structures and to make the free float requirements more flexible.

This consultation together with HM Treasury's consultation on the review of the prospectus regime and the FCA consultation on SPACs (we currently await the results of this) demonstrate the UK government's drive and urgency to improve capital markets and increase London's attractiveness as a place to take a company public.

Changes to the Listing regime - proposals include:

- a targeted form of dual class shares structure (DCSS) within premium listing;
- increasing the minimum market capitalisation threshold for both the premium and standard listing segments for shares in companies other than funds from £700,000 to £50m;
- reducing the required free float level from 25% to 10%;
- showing more willingness to allow waivers for the coverage of the 3-year track record; and
- minor simplification and modernisation to the Listing Rules, Disclosure Guidance and Transparency Rules (DTRs) and Prospectus Regulation Rules (PRR).

The proposals for DCSS, free float and track-record are aimed at reducing the barrier to entry to listing for companies in a proportionate and controlled way.

Different potential models for the UK listing regime

In addition to the specific proposals outlined above, the consultation seeks views more generally on the potential models for the UK listing regime as follows:

- Model 1: Create a single segment for UK listed companies and set the minimum possible requirements for eligibility for listing ie. set at current level in the standard segment. This would provide easier access to listing but lower corporate governance standards and less shareholder protections.
- Model 2: Create a single segment for UK listed companies and raise both eligibility and continuing obligations for all UK listed companies to that in the premium segment ie. set at current level in the premium segment. This model involves a higher standard of protection for shareholders but it may reduce choice for issuers and in turn the number of companies listing.
- Model 3: Maintain the status quo but an enhanced version ie. a senior segment aimed at companies with a track record and an alternative segment with minimum eligibility requirements for companies with particular strategies ie. acquisitive in nature or start-ups. The FCA would continue to have a strong role but it may be difficult for issuers to understand the purpose of different segments.
- Model 4: Maintain two segments for UK listed companies but allow the market to set minimum standards for the 'alternative' segment. This would be broadly similar to Model 3 but market discipline would set the minimum requirements rather than the FCA which may create uncertainty. Issuers may need to agree features such as free float with potential investors, or they could be set by the relevant trading venue.

Based upon responses, the FCA will develop proposals for concrete changes to the listing regime for future consultation.

The consultation closes on 14 September and the FCA will make the relevant rules by late 2021.

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MEET THE TEAM

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