

Insights

FCA PLANNING REFORM OF THE LISTING REGIME

May 27, 2022

SUMMARY

The FCA have published the next stage of the Primary Markets Effectiveness Review. They propose that companies who wish to list in the UK would no longer have to choose between two different segments (premium and standard) with different branding and standards. Instead, all listed companies would need to meet one set of criteria and could then choose to opt into a further set of obligations. These would be focussed on enhancing shareholder engagement and be overseen by the FCA.

This [discussion paper](#) is open until 28 July 2022 and will be followed by feedback and a consultation paper.

Proposed reforms

Establishing one listing segment for equity shares of commercial companies, which would feature:

- a single set of eligibility criteria including the 10% free float, minimum market capitalisation of £30m, and the ability to comply with mandatory continuing obligations (see below);
- the requirement for a sponsor for equity shares in commercial companies (other than overseas companies with a secondary listing) to provide assurance, maintain standards and protect investors, although the FCA is also seeking views on the role of the sponsor, its fees and conflicts and record keeping processes;
- no financial eligibility requirements (i.e. the three years of audited historical financial information, three years revenue earning track record and a 'clean' or unqualified working capital statement would not be required) but instead moving to a regime based upon disclosure and allowing investors to decide whether to invest based on the disclosures in the prospectus. The aim of this is to reduce the barriers to those companies that are often unable to meet the financial eligibility criteria and so list on other markets which can then make it difficult for UK investors to access these companies;

- a robust, minimum set of continuing obligations ('mandatory') with issuers having a choice to adopt further additional obligations ('supplementary') based upon the existing continuing obligations for premium listed companies. The FCA's suggested division between mandatory and supplementary obligations would put, for example, related party transactions, the control of business rules and the rules around pre-emption rights, rights issues/open offers and share buybacks within the mandatory category and areas where lack of transparency or accountability could result in investor detriment e.g. dilution. It is suggested that the controlling shareholder and significant transactions rules (i.e. the class tests) are appropriate for the supplementary category and the extent to which a sponsor would be required after the IPO process would depend on the chosen design of any new single segment regime;
- during the IPO process, an issuer would decide whether the supplementary obligations were suitable for them based on the specific characteristics of the business, ownership or the needs of their shareholders. Moving in and out of the supplementary regime would be analogous to the process now for moving between listing segments and require shareholder approval, where appropriate;
- the FCA would retain the regime that currently applies to standard listed companies for securities other than equity shares in commercial companies;
- the FCA would also retain the regime that currently applies to standard listed companies for secondary listings of equity shares in commercial companies that are incorporated overseas; and
- transitional provisions would apply to allow existing standard listed companies to retain their listing in the standard segment or to move to the new single segment and undergo a FCA eligibility assessment. The FCA suggests that existing companies listed in the premium segment would have open conversations with their shareholders about whether the supplementary obligations are appropriate. This could be achieved by way of a shareholder vote.

The FCA is also seeking views on:

- whether to apply the Premium Listing Principles to all companies within the single segment;
- the level of threshold for Class 1 transactions and whether this is currently set at the right level; and
- whether there should be a reduction in record-keeping requirements for sponsors without undermining the benefits of the sponsor regime to the FCA.

Finally the FCA notes that it is for the index providers to assess what the requirements will be for companies to be eligible for index inclusion but that it is in ongoing dialogue with the index providers

regarding these issues,

Objectives of the reforms

The objectives of the reforms are to:

- ensure that the value of being listed is simpler to understand by removing complexity that is not serving a genuine and defined purpose;
- promote broad access to listing for a wider range of companies, while continuing to set clear, simple and robust minimum ongoing standards for listed companies, providing greater investment opportunities for investors on UK markets;
- empower investors to conduct their own decision-making over the suitability of listed issuers to meet their investment needs through clear, high-quality disclosures; and
- allow issuers and investors flexibility to agree where additional shareholder engagement, overseen by the FCA, is appropriate.

Clare Cole, Director of Market Oversight at the FCA, has commented that last year was one of the best years for raising investment since 2007 and that now is a good time to build on this success and have open conversations to make sure the rules are fit for the future and competitive.

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