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THE MANSION HOUSE SPEECH – PROSPECTUS REFORM AND INVESTMENT RESEARCH REVIEW

11 July 2023

SUMMARY

The Chancellor has delivered his first Mansion House speech with a focus on bolstering the UK capital markets. The speech highlighted the:

- highly innovative step and global first of establishing a new ‘intermittent trading venue’ to enable private companies to have access to capital markets prior to listing;
- publication of draft legislation on prospectus reforms; and
- acceptance of all the recommendations in Rachel Kent’s Investment Research Review aimed at removing the requirement to unbundle research costs.

Prospectus reforms

Lord Hill’s Review, in 2020, recommended that the government undertake a fundamental review of the UK prospectus regime to make it more flexible and responsive to changing market conditions. As a result and after several consultations, draft legislation has now been published with the expectation that final legislation will be enacted by the end of 2023, subject to parliamentary time allowing. Key changes include:

- **a new public offer regime** – all public offers of relevant securities will be prohibited unless the offer falls within one of the exemptions (as opposed to the current regime where public offers require a prospectus unless an exemption applies);
- **admission to trading on regulated markets** – the FCA will have enhanced rule-making responsibilities to specify when a prospectus is required and what it should contain;
- **admission to trading on multilateral trading facilities (“MTFs” ie. AIM)** – the FCA will have rulemaking powers over ‘primary MTFs’ and may require an issuer to publish a document

referred to as a 'MTF admission prospectus' as a condition of admission of the securities to trading on AIM. This document will not need to be reviewed or approved by the FCA and the London Stock Exchange will retain broad discretion over the content requirements but it will be subject to withdrawal rights, the responsibility provisions for prospectuses and the provisions detailed below on forward-looking statements;

- **forward-looking statements** – there will be a different liability threshold, based on fraud or recklessness (as opposed to negligence), for certain categories of forward-looking statements in prospectuses or MTF admission prospectuses with the aim of encouraging issuers to include statements that predict the future performance of a company and which are useful to investors when deciding whether to acquire securities; and

- **offers of securities not admitted to trading** – offers of securities above a £5 million threshold will need to be made through a public offer platform or within the scope of one of the other exemptions from the prohibition on offers to the public. The existing exemption for offers below €8 million will be removed.

Whilst a large part of the existing regime will change, some principles and aspects will be retained including the 'necessary information test' to ensure that an overall standard of preparation remains. Comments on the draft SI are requested by 21 August.

INVESTMENT RESEARCH REVIEW

The government has welcomed the UK Investment Research Review. There is a consensus that investment research is an important part of the UK public capital markets and the availability and quality of expert analyst research is significant in attracting (and retaining) issuers and investors. The Review identified seven recommendations for action aimed at protecting and developing the UK as a centre of excellence for investment research.

Recommendations:

1. Introduce a Research Platform to help generate research. Improved research coverage would help promote a greater interest in smaller cap companies where there is currently a paucity of research coverage; it could also be used to initiate research on private companies and to provide accessibility of investment research to retail investors.

2. Allow additional optionality for paying for investment research. To address some of the consequences of the MiFID II unbundling requirements, the Review recommends additional optionality regarding payment for research to permit asset managers to pay for research on a bundled basis and to ensure that UK asset managers remain able to procure research from elsewhere, particularly from the US.

3. Allow greater access to investment research for retail investors.

4. Involve academic institutions in supporting investment research initiatives. The Research Platform should explore a range of mechanism to strengthen the collaboration between academic institutions and the capital markets ecosystem on the basis that the UK has leading expertise in the world of academia.

5. Support issuer-sponsored research by implementing a code of conduct.

6. Clarify aspects of the UK regulatory regime for investment research and consider introducing a bespoke regime. This could involve simplifying the current regime or introducing a bespoke regime relating specifically to investment research.

7. Review the rules relating to investment research in the context of IPOs. The Review recommends that the following points are considered further:
   - changing the FCA Conduct of Business Rules, introduced in 2018, designed to encourage unconnected research analysts to produce research in connection with IPOs. These rules have not had the desired effect of increasing IPO coverage by unconnected analysts but have consequentially extended the UK IPO timetable, putting the UK at a competitive disadvantage;
   - making IPO connected analyst research available on a basis similar to the prospectus so that all investors can access the same information; and
   - the current restrictions on connected analysts meeting potential IPO candidates prior to an investment bank being mandated on the IPO are also seen as putting the UK at a disadvantage to other listing venues.

The government has accepted all of the recommendations in the Review and welcome the FCA's commitment to start immediate engagement with the market to introduce these reforms. The anticipated timetable for these is by the first half of next year.

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