

UK Listings Review

Summary

The independent Listings Review was [published](#) by Lord Hill and HM Treasury on March 3rd ahead of the Chancellor Rishi Sunak's second budget. The review sets out several reforms for the UK's listing regime including:

- updating the current listing rules to allow dual class share structures in the London Stock Exchange's (LSE) premium listing segment;
- reducing free float requirements from 25% to 15% and allow companies to use other measures to demonstrate liquidity;
- rebranding and repositioning the LSE's standard listing segment to increase its appeal to companies of all sizes and types;
- a fundamental review of the prospectus regime;
- liberalising the rules regarding special purpose acquisition companies (SPACs), with appropriate safeguards for investors; and
- an annual report on the state of the City, and its competitive position, delivered to Parliament by the Chancellor.

Responding to the proposals, the FCA has committed to consult on reforms to the listing rules by Summer 2021 with the aim of bringing forward appropriate changes by the end of 2021.

Context

In November 2020, the Chancellor announced his intention to review the UK's listings regime and asked former EU Commissioner Lord Hill to lead this work. The **objective of the review was to examine how the UK could enhance its position as an international destination for IPOs** and improve the capital-raising process for companies seeking to list in London.

The review has been positioned by the government as a fundamental part of their post-Brexit strategy for financial services alongside the Treasury's [Future Regulatory Framework Review](#), the recently concluded [Kalifa Review of UK Fintech](#) and the ongoing [Overseas Framework Review](#).

However, as well as being about identifying future opportunities to attract new investment, the review also sought to **address growing concern about the decline of London as a centre for IPOs**. Between 2015 and 2020, London accounted for only 5% of IPOs globally and the number of listed companies in the UK has fallen by about 40% from its peak in 2008.

There has also been growing **concern about the UK's lack of attractiveness for IPOs for special purpose acquisition companies (SPACs)**. In 2020, 248 SPAC vehicles were listed in the US raising the US\$ equivalent of £63.5 billion. However, in the corresponding period only four SPACs were listed in the UK.

Observations and next steps

The support of the FCA will be critical for meaningful reform of the UK's listings regime. The regulator has confirmed it intends to consult on changes to the rules in the summer with the aim of bringing rule changes forward by the end of 2021.

- The listings rules currently form part of the FCA Handbook and can be amended by the FCA subject to the usual conditions under the Financial Services and Markets Act (FSMA) requiring the regulator to publish proposals in draft, undertake cost-benefit analysis and conduct any necessary public consultations.
- Responding to the publication of Lord Hill's recommendations, the FCA has confirmed that it will consider the proposals in line with its objectives and aim to publish a consultation paper by the summer. Subject to feedback and FCA board approval, it will then seek to make any relevant rule changes by the end of this year.
- The proposed review of the prospectus regime falls outside the FCA's rulemaking powers and would require legislative reform. The FCA has also confirmed it supports a fundamental review of the UK's current legislative framework and will work with HM Treasury and market participants to develop policy options.

The proposals published today have political support from HM Treasury and are a key part of the government's post-Brexit reforms. However, progress is likely to be brought forward in stages given the complexity and lack of bandwidth of both HM Treasury and the FCA.

- It has been clear throughout the Listings Review that there is strong political support for significant reform from both HM Treasury and Number 10. The decision of the Chancellor to publish the Review as part of his second budget also signifies the degree to which he is personally keen to be aligned with these proposals and see fast progress being made. However, for fundamental change to be made, the FCA will also need to be on board with the proposals.
- There is concern within HM Treasury as to the bandwidth available for post-Brexit regulatory reform. Future progress on the recommendations is likely to be undertaken in phases as part of a rolling programme of post-Brexit reforms rather than a one-off review and actions.
- The Listings Review is just one part of the Government's post-Brexit review into the competitiveness of the UK. Many of the measures proposed, such as a new competitiveness mandate for the FCA, will be dependent upon HM Treasury's response to the Future Regulatory Framework Review, which is expected to report later this year. The proposals coming out of this review are likely to be adopted over a multi-year programme of reform with a future financial services bill potentially being brought forward in 2022.

Summary of the proposals

Recommendation	Status
Monitoring the competitiveness of the UK as a global financial services centre	
<p>The Chancellor should present an annual report to Parliament on the “State of the City”, setting out the steps that have been taken or are to be taken to promote the attractiveness of the UK as a well-regulated global financial centre.</p>	<p>HMT has confirmed it will implement this proposal. Likely to be early 2022</p>
<p>HMT should consider whether the current statutory objectives of the FCA provide it with sufficient scope to play its part in building an environment for companies looking to list that is not just well-regulated but also welcoming, supportive and dynamic.</p>	<p>HMT is reviewing a “growth” or “competitiveness” requirement for the FCA as part of the Future Regulatory Framework Review</p>
Improving the environment for companies to go public	
<p>Allow companies with dual class share structures to list in the premium listing segment but maintain high corporate governance standards by applying certain conditions including (1) a maximum duration of five years and a maximum weighted voting ratio of 20:1; (2) voting matters would be limited to ensure holder(s) are able to continue as director(s) and able to block a change of control of the company; and (3) limits would also be placed on the transfer of B class shares.</p> <p>At the end of the transition period, companies would become subject to all the rules of the premium listing segment or could move segment subject to a shareholder vote.</p>	<p>For the FCA to consider, subject to consultation on listing rule changes</p>
<p>Rebrand and remarket the standard listing segment. Its name should be changed, or companies could be referred to having been admitted to the Official List either by way of a Chapter 6 listing (current premium) or a Chapter 14 listing (current standard).</p>	<p>FCA working with LSE subject to consultation on listing rule and agreement from LSE to rebrand its market segments</p>
<p>Lowering the absolute requirement for free float from 25% to 15% and allowing more choice for companies of different sizes to use measures of liquidity other than an absolute free float percentage.</p> <p>This should be supported by amending the definition of “shares in public hands” to consider whether the shares are in fact contributing to liquidity. The current definition could be widened to increase the threshold above which investment managers and other institutional shareholders are excluded from contributing to free float from 5% to 10%.</p>	<p>For the FCA to consider, subject to consultation on listing rule changes</p>

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SPACs	
<p>Revise the listing rules to remove the rebuttable presumption of suspension of shares in SPACs on announcement of a potential acquisition and replace it with new rules and guidance to increase investor confidence (similar to changes made for commercial companies in 2018).</p>	<p>For the FCA to consider, subject to consultation on listing rule changes</p>
<p>The FCA should develop additional rules and guidance to improve protections considering:</p> <ol style="list-style-type: none"> (1) the information that SPACs must disclose to the market upon the announcement of a transaction in relation to a target company; (2) the rights investors in SPACs must have to vote on acquisitions prior to their completion; (3) the rights investors in SPACs must have to redeem their initial investment prior to the completion of a transaction; and (4) if necessary, to safeguard market integrity, the size of SPACs below which the suspension presumption may continue to apply. 	<p>For the FCA to consider, subject to consultation on listing rule changes</p>
Re-designing the prospectus regime	
<p>As part of the Future Regulatory Framework Review, HMT should prioritise work to conduct a fundamental review of the prospectus regime. At a minimum, government should look to reform:</p> <ol style="list-style-type: none"> (1) changing prospectus requirements to treat admission to a regulated market and offers to the public separately; (2) changing the prospectus exemption thresholds function so that documentation is only required where it is appropriate for the type of transaction being undertaken; and (3) enabling the use of alternative listing documentation where appropriate. 	<p>HMT and FCA would need to launch a consultative review of the on-shored Prospectus Regulation and bring forward legislative change to enact reform</p>
<p>Maintain the existing approach within the listing rules for secondary and dual listing. And as part of the review of the prospectus regime, consider whether prospectuses drawn up under other jurisdictions' rules can be used to meet UK requirements.</p>	<p>HMT is encouraged to consider within the Future Regulatory Framework Review, so that consideration is given to whether the FCA is able to develop such a framework for other jurisdictions</p>

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Tailoring information requirements	
Amend the liability regime for issuers and their directors to facilitate the provision of forward-looking information by issuers in prospectus.	HMT would need to launch a consultation on the liability regime for prospectuses, listing particular and other published information under FSMA and bring forward legislative change (as necessary)
Maintain the three-year track record requirement for the premium listing segment.	For the FCA to consider, subject to consultation on listing rule changes
Review the provisions for scientific research-based companies regarding the revenue earning requirement to broaden their application to a wider range of high growth innovative companies across a variety of sectors.	For the FCA to consider, subject to consultation on listing rule changes
Amend the requirement for historical financial information covering at least 75% of an issuer's business for premium listings so that this test is only applicable to the most recent financial period within the three-year track record.	For the FCA to consider, subject to consultation on listing rule changes
Expanding the opportunities for retail investors	
Consider how technology can be used to improve retail investor involvement in corporate actions and their undertaking of an appropriate stewardship role.	For BEIS to consider, in consultation with HMT and FCA, alongside BEIS's response to the Law Commission's scoping paper on intermediated securities
Consider how to improve the efficiency of further capital raising by listed companies by re-establishing the Rights Issue Review Group (RIRG), with industry representation, alongside BEIS, the FCA and the Bank of England.	For HMT to consider re-establishing the RIRG
Consider the outstanding recommendations made by RIRG regarding these the raising models used in other jurisdictions, such as Australia's RAPIDS model, in order to facilitate a quicker, more	Depending on the re-establishment of the RIRG and the outcome of any review, for HMT to

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efficient process for raising capital for existing listed companies and more easily involve retail investors.	consider in consultation with BEIS and FCA. Both legislative and FCA rule changes would be likely
Efficiency	
Review the FCA’s conduct of business rules relating to the inclusion of unconnected research analysts in an IPO process, which under current practice mean an extra seven days being added to the public phase of the process.	For the FCA to consider subject to completing an impact assessment before consulting on changes to the FCA Handbook