

FCA Reforms UK Listing Rules

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The Financial Conduct Authority (FCA) has now published the [final draft of the UK Listing Rules](#) (UKLRs) which will come into force on Monday 29 July 2024. This follows our [previous article](#) which provides a broad overview of some of the provisions incorporated in the [initial draft of the UKLR](#) published on 7 March 2024.

The new UKLRs form part of the FCA's endeavours to reform the UK's listing regime and strengthen the attractiveness of UK capital markets. Through these reforms, the FCA is seeking to simplify the UK's listing regime, streamline eligibility requirements for listing and align it with international market standards. This is to ensure that UK public markets are: (i) more uniform and consistent from a regulatory perspective; (ii) more accessible at an earlier stage to a wider range of companies with diverse capital structures and business models and which operate in growth sectors of the world economy; and (iii) a more viable exit option for companies owned by financial institutions such as private equity firms.

The reforms began in 2021 when the FCA commenced its review of the UK listing regime and subsequently published [Consultation Paper 23/31: Detailed proposals for listing rules reforms](#) (CP 23/31). Simultaneously, the FCA has also published the final [UK Listing Rules \(Consequential Amendments\) Instrument 2024](#), which sets out the proposed consequential changes to other FCA Handbook sourcebooks.

KEY CHANGES

The key changes to the UK listing regime include:^[1]

- **Simplified Listing Categories:** Merging the premium and standard listing segments of the London Stock Exchange (LSE) to create a single point of entry to the UK market for commercial companies, which has been named the Equity Shares (Commercial Company) category (ESCC).
- **Sponsor Delegation:** Sponsors will be required for commercial companies, closed-ended investment funds and shell companies (which include SPACs). Notably, for such companies, a sponsor will be required both as a condition of listing and on reverse takeovers, but not on a continuous basis.
- **No Track Record or Working Capital Statement:** Removing the requirements for a three-year financial and revenue earning track record and "clean" working capital statement as conditions to listing.

- **Dual-Class Share Structures:** Allowing for both natural persons and institutional investors to hold super voting rights under dual-class share structures.
- **No Shareholder Vote for Large Transactions:** Removing compulsory shareholder votes for large transactions (formerly “Class One” transactions) and related party transactions and increasing the thresholds at which key information must be disclosed to the market. The FCA has retained the existing requirement for shareholder votes for certain key corporate actions such as reverse takeovers, cancellation of listing, share buy-backs and non-pre-emptive discounted share cancellations.
- **No Relationship Agreement Requirement:** There will now no longer be a requirement for issuers to enter into binding relationship agreements with controlling shareholders.

VARIATIONS FROM PROPOSED RULES

The final UKLRs are broadly as described in CP23/31 with certain notable changes which include:

- **Disclosures relating to significant transactions:** Companies falling into the ESCC category will have greater flexibility in respect of the timing and content of announcements for significant transactions. Announcements relating to acquisitions do not require audited financial information on the target or a statement regarding the fairness of the consideration. However, financial disclosures on the target will be required for disposals. Furthermore, following completion, ESCC companies will be required to make a notification to confirm that the transaction has taken place.
- **No prescriptive “severe financial difficulty” disclosure rules:** In addition to the above, the final UKLRs have not retained the concept of a company in “severe financial difficulty” or the prescriptive list of additional enhanced disclosures for such situations. Instead, the FCA has introduced guidance setting out the types of information issuers should consider disclosing, such as the nature, urgency and severity of the financial difficulty. The notification may also contain information about financing arrangements connected to the transaction and details of what may happen if a proposed transaction is not completed.
- **Enhanced voting rights for institutional investors:** Institutional investors may now hold enhanced voting rights under dual-class share structures implemented at IPO. Such enhanced voting rights are subject to a 10-year sunset period. Previously, the FCA had limited dual class structures as being available only to natural persons, such as founders and had originally proposed no mandated time-based sunset periods in CP23/31.
- **Controlling shareholders:** ESCC companies must be independent from any controlling shareholder, however there will no longer be a requirement for a written relationship agreement. Instead, directors of ESCC companies are required to formally opine on any resolutions proposed by a controlling shareholder if they consider such resolution to circumvent the proper application of the UKLRs. Such opinion will need to be included in the circular relating to that shareholder resolution.
- **Shell companies and SPACs:** The FCA has broadly reverted to the rules that currently apply to shell companies and SPACs in the standard listing segment, with enhanced eligibility requirements for such issuers pertaining to a time limit of 24 months to complete a transaction, but with additional flexibility to extend this time limit by 12 months up to three times subject to shareholder approval. This can be extended for a further period of up to six months in specified circumstances. Furthermore, larger SPACs may voluntarily choose to put in place sufficient investor protections in order to avoid a presumption of suspension.

OUR COMMENTS

The FCA’s final rules for the new listing regime represent a shift to a more disclosure-based (as opposed to rules-based) approach, ensuring that investors are able to make informed decisions based on disclosure.

The final rules represent a balance between regulation and de-regulation as whilst they remove some of the barriers which prevented listed companies from competing with private equity (by no longer imposing shareholder votes on significant and related party transactions), important investor protections have been retained, for example shareholder votes for reverse takeovers and cancellations of listings.

The removal of the three-year track record will enable businesses in newer sectors to grow through the public markets. The availability of dual-class structures for institutional shareholders will enable private equity investors to avail themselves of this critical protection.

Critically, whilst the FCA will continue to maintain oversight of the UK-listed markets, by expanding the sponsor regime (which now has a wider remit to cover commercial companies, closed ended investment funds and shell companies), there has been an element of de-regulation by delegation. Alongside this, the FCA has also published [Primary Market Bulletin 50](#), which sets out its expectations relating to the sponsor's role in conducting due diligence in specialist areas, record keeping as well as the release of a new technical note explaining the FCA's approach to supervisory reviews of sponsors.

NEXT STEPS

The new UKLRs, which will be contained in the new UK Listing Rules sourcebook, will come into force on Monday 29 July 2024. Following their implementation, the FCA will formally review the new UK listing regime in five years' time to assess the impacts on all parts of the market.

[1] See paragraph 1.15 of [Policy Statement PS24/6](#) for an overview of the key features of the final UKLRs and a full [summary](#) of the changes from CP23/31.

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