Primary Markets Effectiveness Review

Consultation Paper
CP21/21***

July 2021

How to respond

We are asking for comments on this Consultation Paper (CP) by **14 September 2021**.

You can send them to us using the form on our website at: www.fca.org.uk/cp21-21-response-form

Or in writing to:

Capital Markets Policy
Financial Conduct Authority
12 Endeavour Square London E20 1JN

Telephone:
FCA switchboard 0800 111 6768 (freephone) or 0300 500 8082 from the UK, or +44 207 066 1000 from abroad

Email:
cp21-21@fca.org.uk

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1 Summary

Why we are consulting

1.1 Primary, public markets are critical in enabling companies to finance their businesses, which in turn create growth and jobs for the UK economy. Trusted public markets also provide opportunities for investors in a well understood environment with high standards of disclosure and FCA oversight. More companies listing at an earlier stage in their life cycle means more opportunities for investors to share in the returns of those companies as they grow.

1.2 According to the UK Listing Review, the number of listed companies in the UK has fallen by about 40% from a recent peak in 2008. Between 2015 and 2020, the UK accounted for only 5% of IPOs globally.

1.3 Recently, both the UK Listing Review, chaired by Lord Jonathan Hill and the Kalifa Review of UK FinTech have highlighted specific elements of our listing regime that act as barriers to companies listing. While they recognise that our Listing Rules are only one part of the wider landscape contributing to these barriers, they made specific recommendations for improvements to the regime.

1.4 For these reasons, this publication aims to serve 2 purposes and is structured as such. Firstly, we discuss the functioning of the listing regime so we can better understand the purpose and value to both issuers and investors of listing. This will provide key input to how we can improve the regime to make it more efficient and accessible, while keeping high standards for the UK public markets. Secondly, we are consulting on targeted changes to our existing regime to remove barriers to listing and to improve the accessibility of our rulebooks.

Who this applies to

1.5 This consultation should be read by:

- issuers
- prospective issuers considering a UK listing
- existing and prospective investors in listed companies, including institutional and individual investors
- law firms, investment banks and other advisors and intermediaries who may assist issuers
- exchanges or venue operators
- intermediaries who may facilitate, including providing execution and/or marketing of, investments into issuers, whether at initial public offering (IPO) or in secondary markets

1.6 This consultation will also be of interest to:

- trade associations representing the various market participants above
- wider financial market participants, such as research analysts

What we want to change

1.7 We are opening up a broad discussion on the purpose and value of our listing regime, to ensure that it has an understood purpose, is clear and accessible to users. To inform our thinking, we would like feedback on which elements of the existing listing regime are most important. We will then consider whether more significant structural changes to the regime would be beneficial in the medium term.

1.8 We are **consulting** on the following targeted measures to remove barriers to listing, ensure the listing regime continues to uphold the highest standards of market integrity and to improve the accessibility of our rulebooks:

a. allowing dual class share structures (DCSS) within the premium listing segment in certain limited circumstances.
b. as part of the eligibility criteria set out in our Listing Rules, reducing the amount of shares an issuer is required to have in public hands (i.e. free float) from 25% to 10%.
c. 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 £50 million.
d. making several minor changes to the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules to ensure they are simplified where appropriate and reflect current business practices.

1.9 We have also considered making changes to the premium listing segment eligibility criteria in our Listing Rules, for the track-record requirements. While we have concluded that it would not be appropriate to propose specific rule changes at this time, we clarify our expectations in this paper and seek views on whether changes are needed.

How it links to our objectives

Market integrity

1.10 Our proposals are designed to reduce barriers and costs for companies considering listing, which should encourage more companies to become or stay listed in the UK. At the same time, market transparency and integrity would remain high. This should increase broader investor confidence in the UK listed markets and the reputation of UK listing.

1.11 Improving the effectiveness of primary markets helps us to protect and enhance the integrity of the UK financial system through greater liquidity and greater stability.

Measuring success

1.12 We aim to measure the impact of our proposed changes by monitoring:

- the reduction in the barriers to entry from listing and subsequent attractiveness of UK listing for issuers
- whether we have reduced existing harms to investors and markets, and
- whether any additional harms have emerged

1.13 We will look at a range of indicators, including the number and size of traditional IPOs on our listed markets, and the number and size of issuers who are accessing the listed markets via different means. This should give us an indication whether there has been an increase in investor choice.

1.14 In particular, we will continue to scrutinise listing applications. As part of our gateway processes, we will monitor the number and type of issuers that want to use the additional flexibility that our proposals will provide, and subsequently how they are received by the market.

1.15 We will also monitor activity to determine if new areas of misconduct are emerging or existing misconduct is increasing.

1.16 However, we know that the Listing Rules only constitute one element of the wider landscape of public markets, and many other factors also determine when and where companies choose to list. Therefore, these measures may not automatically result in an overall increase in the number of listed companies. We will monitor the effect of our proposed changes to understand whether the Listing Rules remain a barrier to the entry of companies to public markets. We will also conduct further work with stakeholders to understand the population of issuers who choose to list elsewhere and why.

Next steps

1.17 We are consulting for 10 weeks on these proposals.

1.18 Subject to consultation feedback and FCA Board approval, we will seek to make relevant rules by late 2021.

1.19 On the discussion subjects, we will provide feedback and issue a potential further consultation on the wider listing regime changes in due course, if appropriate.

1.20 Please respond by completing the form on our website or sending a response to [cp21-21@fca.org.uk]

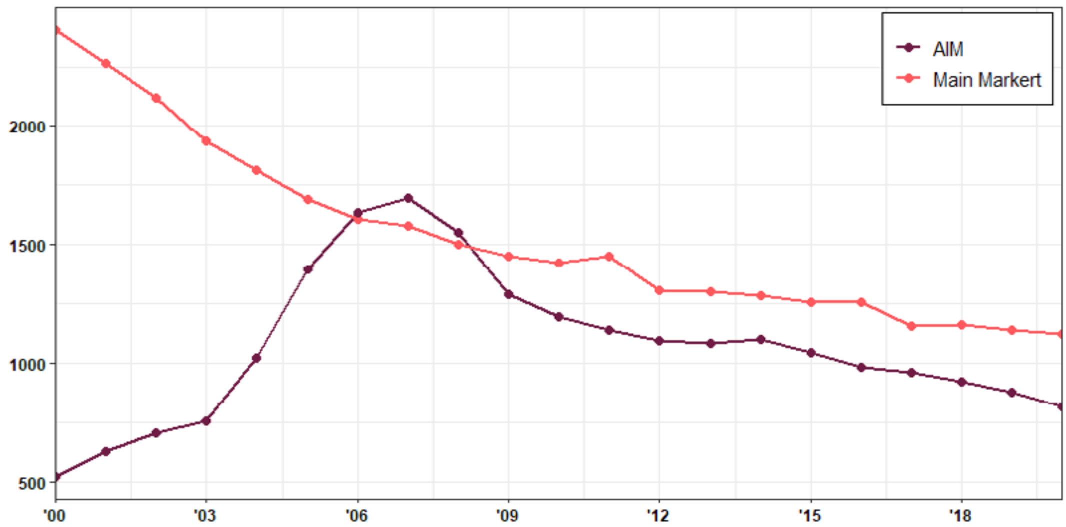
2 The wider context

2.1 This chapter considers recent trends across UK equity primary markets as well as putting them in a global context. We then consider the wider regulatory context in primary markets as well as other developments in wholesale markets.

Market trends

2.2 The market has seen a great deal of change since our previous 2017 analysis. Some of this is a continuation of trends identified in DP17/2 such as issuers remaining private for longer. Some are a response to global events such as Brexit or even more recently to the Covid-19 pandemic. However, it is clear from the chart below that there has been a general decline in the number of companies being admitted to public markets.

Chart 1: Number of companies admitted to the LSE Main Market and AIM

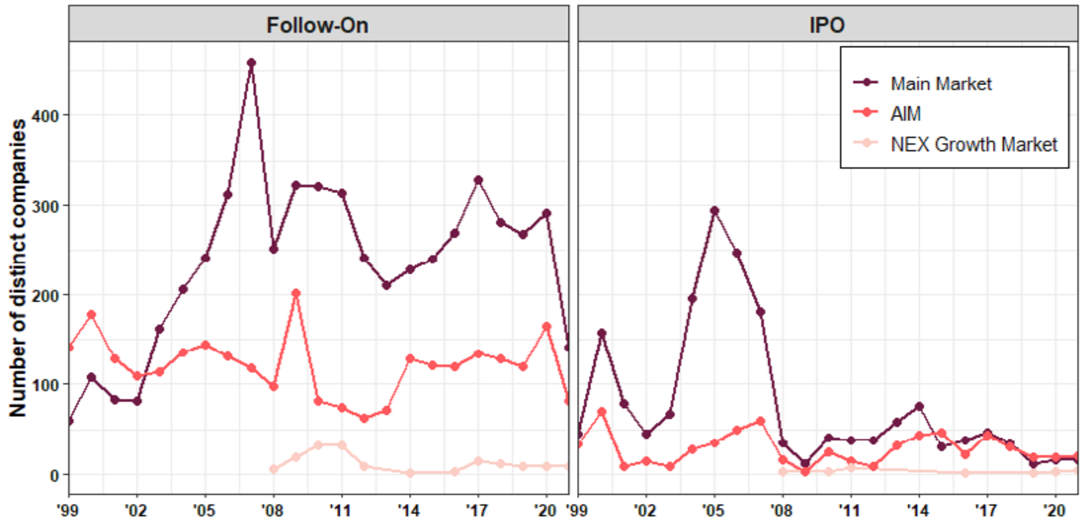


Source: London Stock Exchange

Note: In July 2019, Aquis Exchange PLC announced an agreement to buy NEX Exchange. In March 2020, the FCA approved the acquisition and on completion NEX Exchange was re-named Aquis Stock Exchange. It was previously known as ISDX, PLUS Markets and OFEX

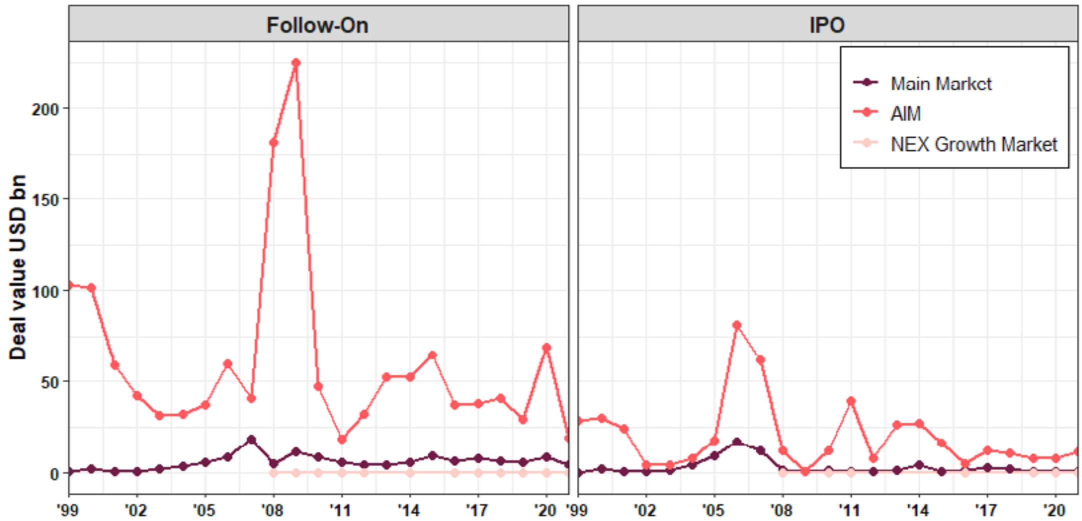
2.3 However, it is also important to consider the number and value of follow-on capital raisings (charts 2 & 4) which suggests public markets still function well to meet the needs of companies that have been admitted to them.

Charts 2 & 3: Number of distinct companies that raised funds through Follow-On and IPO, by market. (Main Market, AIM, NEX)



Source: Dealogic

Chart 4 & 5: Deal value raised by deal type (Follow-On vs IPO) and market (Main Market, AIM, NEX)



Source: Dealogic

2.4 Our DP17/2 analysis showed that the most common cause of de-listing from the Main Market and ceasing trading on AIM was takeovers, and overseas companies cancelling their secondary listings in the UK. Other reasons included issuers moving to private capital or insolvency. Our analysis did not indicate there were issues with UK issuers leaving UK markets to list overseas, in fact data generally suggest UK companies prefer UK capital markets at times of uncertainty.

2.5 There are a range of complex factors that may drive fewer IPOs or admissions to trading in the UK. Regulatory burdens or costs are often cited as one in external research studies, e.g. a 2018 survey by PWC of 400 executives found 42% said this was the main reason. However, this is by no means the only driver of long-term trends. Increased borrowing, fuelled by very low interest rates, and plentiful capital from private markets are often cited as other key factors. Private capital is also seen by some as more supportive of innovation and growth, while public markets drive a short-term focus on share price, making it harder for listed companies to build their business over time. A number of research papers discuss these trends in detail, including a 2019 paper by New Financial.

Global trends in listing

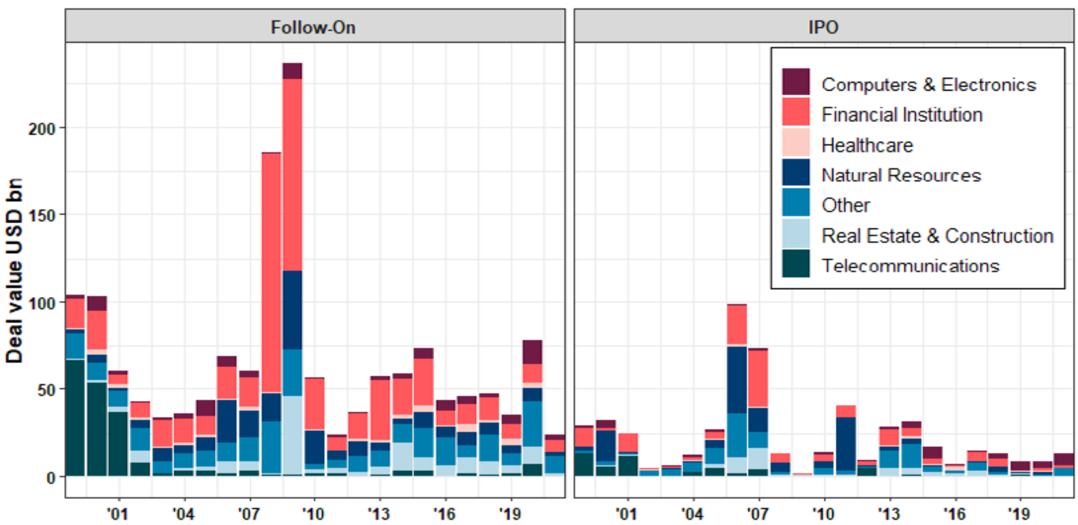
2.6 Much has been written on the steady reduction in companies going public over the past 20 or 30 years. OECD monitoring shows that between 1994-2000, there were on average 1152 IPOs per year. That number fell to 853 in the period 2001-07 and again to just 453 per year in the period 2008-15.

2.7 Yet, 2020 saw a 42% growth in capital raised globally via IPOs as compared to 2019, with $331 billion raised across 1591 listings according to a report by Baker Mackenzie. Much of this growth was delivered by domestic listings in both US and mainland China and was led by both financial and technology listings. Technology companies raised $55 billion across 257 listings.

2.8 However, the UK's share of global IPOs has been decreasing rapidly. As noted by New Financial, in 2006 the UK hosted 10% of global IPOs – by 2018 this had reduced to only 5%.

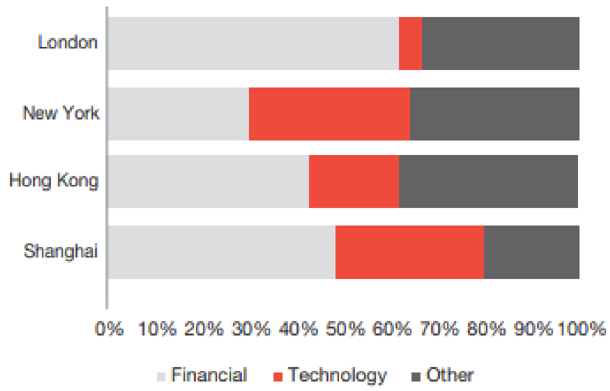
2.9 IPO activity since 2011 has been dominated by the rise of 'new economy' companies, and while UK markets continue to be attractive for listings of financial companies, there have been comparatively fewer technology IPOs. This contrasts with other jurisdictions, as shown in chart 7.

Charts 6 and 7: Deal value by Follow-On vs IPO and industry sectors



Source: Dealogic

Charts 8: Top IPOs by sector in London, New York, Hong Kong and Shanghai, 2016-18



Source: Dealogic, PWC Capital Markets in 2030, the future of equity capital markets.

Technology companies in the UK

2.10 The UK's relatively low proportion of technology listings does not appear to be because the UK lacks technology companies. TechNation's 2020 report states:

- the UK is Europe's top scaling tech nation and is increasing its lead in the world.
- investment into UK tech companies in 2019 was a record **£10.1bn**.
- 95 companies were valued at $250-$800m in 2019 in the UK, a 27% increase from 2018.
- the UK is 3rd in the world for tech unicorns behind only the US and China, with 77 companies valued at over $1bn.
- tech sector GVA grew nearly 6 times as fast as that of the UK economy as a whole – £104bn in 2010 to £149bn in 2018, +43% in 8 years.
- UK tech employment grew by 40% in the last 2 years, now accounting for 9% of the national workforce with **2.93m jobs created**.

2.11 Further, the Kalifa Review of UK Fintech highlighted results of a 2019 survey of UK fintechs, with a third of the 224 fintech firms surveyed stating they expected to undertake an IPO within the next 5 years.

2.12 For this reason, it seems reasonable to consider whether there are barriers within the listing regime that mean technology companies are not choosing to list in the UK.

Wider regulatory context

2.13 We have had responsibility for the listing regime since it was passed to the FSA in the early 2000s when the London Stock Exchange demutualised. Since then we have conducted reviews of the regime more or less every 5 years to consider whether it is operating effectively to meet the needs of both issuers and investors. The current review of primary markets effectiveness began in 2017 when we published DP 17/2. This is the continuation of that work.

2.14 While the rules governing listing were not, for the most part, set at EU level, various EU directives and regulations provided the framework within which the listing regime operates (eg the Consolidated Admissions and Reporting Directive (CARD), the Prospectus Regulation, the Market Abuse Regulation, the Transparency Directive). A consequence of EU withdrawal is that we are now able to act more nimbly and have more freedom to reform the regime. We can act to better tailor the regime to meet the needs of the UK market.

2.15 Recent fallout from the pandemic has also highlighted the benefits of well-functioning capital markets. When the effects of the pandemic were most acutely felt in 2020, listed companies were able to use primary markets to quickly raise much needed emergency capital. UK companies admitted to the LSE's Main Market and AIM raised £14.7 billion in equity between April and June 2020, almost double (194%) the amount in the same period in the previous year. Well-functioning capital markets will continue to be essential to the economy as recovery begins.

2.16 We are also aware of the changing nature of companies in today's economy. There is a growing group of companies with different needs to the traditional companies that currently dominate UK public markets. We continue to place a high level of importance upon high standards of corporate governance and shareholders protections. But we also see the need to question the way some of our rules work and whether they could be refined and improved to support the growth of these companies, as well functioning capital markets should.

2.17 The Chancellor highlighted the importance of ensuring our future listing regime in Nov 2020, when he announced the Government's plans to set up a taskforce to boost the number of companies who want to list here in the UK. Central to this forward plan for financial services was ensuring the UK was open, innovative and at the forefront of green finance. The Government has sought to drive these objectives forwards through both the Kalifa Review of UK FinTech and the UK Listing Review, chaired by Lord Jonathan Hill.

The Kalifa Review of UK Fintech and the UK Listing Review

2.18 The Kalifa Review of Fintech was published on 26 February 2021, recommending amendments to UK Listing Rules to make the UK a more attractive location for Fintech public listings. On the listing regime, it recommended:

- reducing free float requirements on the premium listing segment from 25% to 10%, for a limited time post-IPO; or putting in place a minimum threshold.
- enhancing governance rights by a golden share or dual class share structures in the premium listing segment.

2.19 On 3 March 2021, Lord Hill published his recommendations in the UK Listing Review aimed at making our listing regime more competitive and better fit for purpose. The specific recommendations to the FCA were:

- allow companies with dual class share structures to list in the premium listing segment but maintain high corporate governance standards by applying certain conditions (recommendation 3).
- review the structure of the listing regime, specifically rebranding and remarketing the standard listing segment, noting that 'the key feature of the newly branded segment should be emphasised as being its flexibility' (recommendation 4).
- reassess free float requirements at and following listing. This includes lowering the absolute requirement for free float to 15% and allowing more choice for companies of different sizes to use measures of liquidity other than an absolute free float percentage (recommendation 5).

- revise the Listing Rules which can require trading to be suspended in the shares of special purpose acquisition companies ('SPACs') on announcement of a potential acquisition. This includes providing additional protections for shareholders at the time of the acquisition, such as a shareholder vote and redemption rights. (recommendation 6)
- maintain the 3 year track record requirement for the premium listing segment but to review whether the carve-out provisions for scientific research-based companies in relation to the 3 year track record requirement should also extend to a wider range of high growth innovative, companies across a variety of sectors (recommendation 10).
- amend the requirement for historical financial information covering at least 75% of an issuer's business for premium listings so that this test only applies to the most recent financial period within the three-year track record (recommendation 11).
- review the relatively recently introduced conduct of business rules in the FCA Handbook on including unconnected research analysts in an IPO process, which in practice mean an extra 7 days being added to the public phase of the process. (recommendation 14).

2.20 We have considered these recommendations in light of our own objectives and acted quickly to bring forwards a consultation on SPACs, where relevant industry groups and our Listing Authority Advisory Panel (LAAP) highlighted the need for fast action.

2.21 This publication forms our initial response to the more central recommendations for the listing regime by both these independent reviews. We are likely to consult on further proposals for reforming the listing regime based on the responses to this publication.

Our vision for wholesale financial markets

2.22 The listing regime is only one part of the broader landscape that makes up the UK financial system. From a regulatory perspective, we consider it important to ensure that the same principles underly our approach to ensure we fulfil our operational objectives:

- to secure an appropriate degree of protection for consumers.
- to protect and enhance the integrity of the UK financial system, and
- to promote effective competition in the interests of consumers.

2.23 So, we have developed a set of principles that underpins our approach to regulating wholesale markets. These have informed the proposals put forward in this publication and will inform our future approach to all wholesale market regulation.

2.24 Our vision for regulating wholesale financial markets is to support markets that are:

- **Open and accessible** – A market that supports the real UK economy by providing access to capital for a wide range of issuers and their financing needs, and opportunities for a range of participants to use capital efficiently.
- **High standards focussed on outcomes** – A market that is characterised by robust proportionate standards that are focused on outcomes rather than prescriptive rules. These standards are effectively enforced, setting the international example without unnecessary friction and costs

- **Transparent and trusted** – A market where the quality of information supports capital raising and liquidity. Market participants can operate within it with confidence in the market's integrity and cleanliness.
- **World-leading and innovative** – A market that is at the forefront of positive, global capital market trends, such as sustainability, and supports and adapts to entrepreneurship and technology which allows for competition across market functions.
- **Serves the public interest** – A market that helps support sustainable growth, jobs and wealth generation across society including Environmental, Social and Governance (ESG) considerations.
- **Accountable** – A market that protects shareholder rights, promotes stewardship, and encourages good corporate governance by companies publicly traded in the UK.

2.25 These 6 principles will inform our regulatory approach as we consider reforms to primary and secondary market regulation, inputting to the Treasury's work on the prospectus regime and bringing about wholesale market reform. It will also inform our work in the post-trade area, guiding our own reforms and our input into those being undertaken by both the Treasury and the Bank of England.

Recent developments

Task Force on Climate Change Disclosures (TCFD)

2.26 We introduced TCFD-aligned disclosure rules for premium listed commercial companies in December 2020, with the rules being in force for accounting periods beginning on or after 1 January 2021. We therefore expect to see reports against the rules in early 2022.

2.27 On 22 June 2021 we published a further consultation seeking views on how we can extend the application of our TCFD-aligned disclosure rules to a wider scope of issuers. Subject to the feedback we receive, we intend for these rules to be in place by year-end so they can apply for accounting periods beginning on or after 1 January 2022.

Open-ended Investment Companies (OEICs)

2.28 In January 2021 we published final rules on creating a more proportionate listing regime for open-ended investment companies in standard listing by dis-applying or amending existing requirements that:

- are disproportionate because they prescribe transparency and safeguards, including rights to shareholders, that are already present in underlying funds regimes under which the OEIC is already authorised or recognised or
- are not relevant or are inoperable for OEICs because they don't take account of the specific features of OEICs' business models or structures

2.29 These rules are due to come into force on 4 January 2022.

Wider effects of this consultation

2.30 The measures that are being **consulted** on in this publication are forward-looking and are not intended to affect issuers with existing listings, only new applicants. Where relevant, we have noted where issuers listed in the standard listing segment before these rules came into force may be able to use the proposed new rules to move to the premium listing segment. This is particularly relevant for the proposals on dual class share structures.

2.31 Chapter 3 includes a wider **discussion** of the future of the listing regime. This will be taken forwards in conjunction with reforms to the prospectus regime over a longer period than the targeted measures we are consulting on in parallel. We consider that taking this forward will offer significant opportunities to explore reforms that will make UK markets more efficient and effective in the long term.

2.32 Subject to feedback on the **consultation**, we are seeking to make final rules before the end of this year to give certainty for listed companies considering funding rounds in Q1 2022.

Unintended consequences of our intervention

2.33 Primary markets regulation in general involves reaching a balance between the interests of issuers and investors, although effective regulation should attract companies to list it should also give confidence to investors to deploy capital to our markets.

2.34 As part of our policy development, we have considered potential risks to investors, particularly those related to the introduction of securities of companies with dual class structures into the premium listing segment. These are about certain shareholders having too much influence over the governance and decision-making of companies in the premium listing segment. We have also considered additional risks to consumers who invest via passive funds. Without changes to investment mandates these consumers are likely to be invested in companies with dual class structures that would not previously have been eligible for inclusion in the premium listing segment and may be more susceptible to corporate governance failures.

2.35 We have sought to design proposals that are targeted and minimise these concerns. We have also considered these changes in the context of the entire listing regime and the considerable additional shareholder protections that premium listing provides. These include the controlling shareholder regime and disclosures made under the UK Corporate Governance Code.

2.36 When making changes that affect the standard segment, such as free float, we have considered the impact alongside the other policy proposals being made, such as the increase in minimum market capitalisation. We considered that the combined effect of these measures should not result in harm to investors.

2.37 We have also specifically considered the consequences of raising the minimum market capitalisation for listing, and where issuers that fall below this level will go as an alternative.

2.38 We consider that there are alternative unlisted markets that may be more appropriate for these issuers, that provide tailor-made rules and regimes for smaller issuers. These markets also tend to have a more specialised investor base that may be more able to understand the particular risks associated with investing in smaller issuers.

2.39 We also know that some issuers may be unable to meet the requirements of admission to those alternative unlisted markets and may seek alternative methods of raising capital. We will continue to monitor market developments in this area to understand whether we need to take further regulatory action to ensure investors are appropriately protected should activity move elsewhere.

2.40 We explore these issues in more detail in the relevant chapters.

Equality and diversity considerations

2.41 We considered equality and diversity in developing our policy proposals. As part of our proposed changes to make the Listing Rules more accessible, we have included updating the term 'chairman' to 'chair', to be consistent with best practice (please see chapter 9 for details).

2.42 We have also considered the equality and diversity issues that may arise from the other proposals in this Consultation Paper.

2.43 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

2.44 In the meantime, we welcome your input to this consultation on this.

3 Discussion of the purpose of the listing regime

3.1 In this chapter we provide an overview of the UK's primary markets regulatory framework and our regulatory role. We then set out a discussion on the potential different purposes of the UK listing regime. This is to inform how we might consider improving our listing regime to be more effective in the future.

3.2 Issuers, investors and advisors have told us that they don't understand the purpose of listing, particularly as a separate concept to being admitted to a particular market. This is particularly true of listing in the standard segment, where many view the segment as inferior to a premium listing as it does not have a defined purpose for listings by commercial companies. The standard listing segment contains various types of securities, ranging from equity shares of premium listed investment entities and debt securities, to preference shares, and securitised derivatives. This adds to the complexity when trying to understand the purpose of our rules.

3.3 An effective primary market seeks to strike the appropriate balance between providing access to capital for companies and the appropriate level of protection for shareholders. To optimise the effectiveness of our listed markets, the discussion in this chapter seeks to understand:

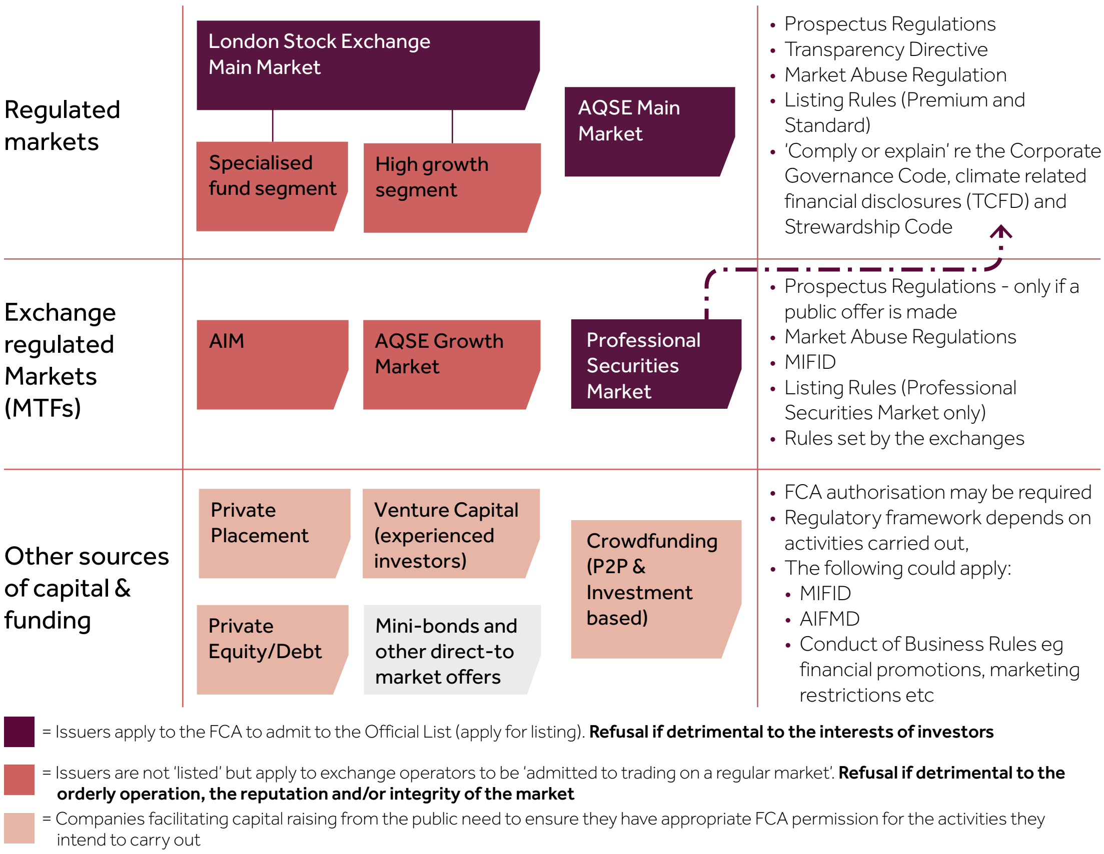
- what issuers and investors value in the current listing regime;
- the balance between the FCA's role and oversight, versus that of market operators;
- the benefits and weaknesses of our regime as currently structured; and
- any specific considerations we should consider for non-equity securities.

3.4 We also consider if there is duplication between certain requirements on issuers seeking admission of their securities to the Official List and admission to a trading venue, which could potentially be removed to reduce burdens on issuers.

Existing primary markets regulatory framework

3.5 The UK's primary markets are extremely diverse, catering for the needs of a wide range of issuers and investors, ranging from crowdfunding platforms to premium listed IPOs by mature issuers. The diagram below provides an overview of the relevant markets, rules and regulations that applied before EU withdrawal. The EU directives and regulations have been onshored in the UK in various ways, but for simplicity we have referred to their EU predecessors to help readers understand the existing UK market structure.

Overview of UK primary capital markets & regulatory framework



The prospectus regime

3.6 Under the current regime, inherited from the EU, public offers and admissions to a regulated market in the UK require a prospectus to be produced, then scrutinised and approved by us. Exemptions to this are laid out in FSMA.

3.7 This prospectus must follow prescribed disclosure requirements which ensure that it includes all the necessary information which is material to an investor to make an informed assessment. Those responsible for drawing up a prospectus are liable should they omit information or provide untrue or misleading statements in the prospectus.

3.8 The Government is currently carrying out a fundamental review of the UK's prospectus regime and published a consultation paper on 1 July 2021. In particular this considers the circumstances when a prospectus is required. We are closely engaged with this work and note the close interlinkage between the prospectus regime and the listing regime. This will have significant implications for the design of both regimes going forward.

The UK listing regime

3.9 The UK listing regime was passed to the FSA in the early 2000s when the London Stock Exchange demutualised. At its core, the Listing Rules set out initial eligibility criteria that issuers of securities must meet to be admitted to the Official List. The FCA has responsibility for setting these rules and scrutinising applications to the Official List. The Listing Rules, combined with the Disclosure Guidance and Transparency Rules (DTRs) also apply continuing obligations on disclosures, and shareholder protection and governance requirements. The latter are significantly enhanced for premium listed issuers, who must also meet specific requirements for further FCA approval of documents supporting certain transactions by issuers, as well as an obligation to appoint a sponsor.

3.10 We have the power to refuse a listing if the eligibility criteria are not met or if it would be detrimental to investors' interests. We also have powers to suspend or cancel listing for example, for breaches of the continuing obligations that are sufficiently serious to warrant this.

3.11 There is an important distinction to be made between admission to the FCA's Official List (also referred to as 'listing') and admission to a trading venue. We devise the Listing Rules and admit securities to the Official List – in either the premium segment or the standard segment. In parallel, for securities to be publicly traded they need to be admitted to a regulated market or a Multilateral Trading Facility (MTF). In some cases, this admission requires admission to the Official List, but it is not required for admission to all markets.

3.12 Since 2001, we have conducted 3 substantive reviews of the listing regime as well as the most recent one in 2017. The first 2 took place between 2003-2005 and 2008-2010. These reviews predominately incorporated changes that resulted from the EU directives. These reviews also undertook a fundamental review of the regime to determine where the Listing Rules should be super-equivalent to the EU regime. The third review, between 2012 and 2014, was specifically aimed at strengthening minority shareholder rights and protections. In each case, the evolving EU framework set the backdrop for the UK listing regime.

Listing segments

3.13 The Listing Rules provide different routes to listing for different types of securities. These are divided into 2 segments: premium and standard.

3.14 Within the premium segment there are specific rules for:

- equity shares in commercial companies (LR 6)
- closed-ended investment funds (LR 15)
- sovereign controlled commercial companies (LR 21)
- *open-ended investment companies (LR 16). In January 2021 we published final rules to create a more proportionate listing regime for open-ended investment companies in standard listing. These rules are due to come into force on 4 January 2022.*

3.15 The standard listing segment is more complex as it provides rules for a wider range of securities:

- shares in companies, including equity shares in commercial companies, equity shares of premium listed investment entities and certain types of preference shares (LR 14)
- debt and debt like securities (LR 17)
- certificates representing certain securities (LR 18)
- securitised derivatives (LR 19)
- miscellaneous securities – includes warrants and options and other similar securities (LR 20)

3.16 In some cases, there is a clear, single route for the listing of particular types of securities, in others there is a choice. An issuer of equity shares in a commercial company can either list in the premium or the standard listing segment if they are able to meet the eligibility criteria. The primary topic discussed in this chapter is where this choice exists for the listing of shares in commercial companies. We are not currently proposing changes for other securities that are listed in the standard segment but would welcome views on this.

Discussion on the purpose of the UK listing regime

3.17 To maximise the effectiveness of our listed markets for both issuers and investors in equity shares in commercial companies, we want to understand:

- what issuers and investors value in the current listing regime;
- the balance between our role and oversight, versus that of operators of trading venues; and
- the benefits and weaknesses of our regime as currently structured.

Different potential models for the UK listing regime

3.18 We have described 4 different models of how the listing regime could be structured and seek views in answer to the questions that follow. We will use responses to this chapter to further develop proposals for concrete changes to the listing regime for future consultation so welcome views on all scenarios.

3.19 These models are not intended to be discrete 'options' nor are they ordered by preference. Instead, they highlight key features that the listing regime could be focused on, or conversely aspects we could remove or delegate to trading venue operators or rely upon market discipline. This seeks to draw out views on what value the listing regime and our oversight of listed issuers currently has for investors, issuers and wider market participants. We therefore include 2 more 'extreme' models involving converging to a single lower or higher set of listing standards for companies admitted to the Official List (referred to as 'UK listed companies'). We also provide 2 other models, by way of contrast, that are more iterative variants of our existing structure.

3.20 The models that follow focus predominately on equity shares in commercial companies – those securities that could be listed under either chapter 6 or chapter 14 of the Listing Rules. We know that when we consider how to take forward responses to this discussion chapter, we will need to consider other types of securities in more detail. We welcome views from respondents on whether any special consideration is necessary within any of the models we will go on to describe.

Model 1: Create a single segment for UK listed companies and set the minimum possible requirements for eligibility for listing.

3.21 This model refocuses the concept of listing on requirements based on minimum eligibility to be a listed company. For example, it could be pared back to:

- ensuring that investors have enough information to make an informed assessment of the business seeking admission, for example through the requirement for a prospectus

- requiring systems and controls for complying with market abuse regulations and maintaining ongoing disclosures responsibilities (those included in the DTRs) and
- requiring the publication of relevant documents on decision making (for example those included under LR 14.3.6).

3.22 Radically, all elements of the Listing Rules, ie those currently in the premium listing segment, involving track record of the company, shareholder protection and governance could be removed, including the requirement for a sponsor.

3.23 Disclosure could be used to ensure investor protection and market integrity was maintained- ie the level of adherence to the UK Corporate Governance Code, adherence with international standards on climate-related financial disclosures, rights attached to securities etc. However, we would not expect to set our own minimum standards or levels for the outcome of these disclosures.

3.24 Both trading venues and indices would likely need to set admission criteria, and possibly continuing obligations, independently of the Listing Rules. These might need to be designed in a way that was appropriate for both the issuers and investors on their markets and trading venues may be expected to ensure they fulfilled their regulatory obligations to maintain fair and orderly markets. For example, a trading venue may choose to establish specific market segments for particular types of companies with admission requirements tailored to their needs and those of their investors. Alternatively, a trading venue may choose to replace elements of the Listing Rules such as number of shares in public hands (free float) in different ways to achieve different purposes such as enhanced corporate governance or a more refined approach to ensuring liquidity.

Model 1: where companies would list

Type of company	Listing segment
Growth company	Single segment
Established company	Single segment
Overseas company	Single segment

Q1: **Would a single segment for equity shares in commercial companies meet the needs of both issuers and investors?**

Q2: **Which elements of the existing listing regime would you consider it most difficult or least desirable for issuers and/or investors to operate without? Are there any particular elements you would reinstate? ie the controlling shareholder regime, or the free float requirements**

Q3: **Would the role of the sponsor be a significant loss? Is their role under any specific element of existing requirements considered significantly beneficial to issuers or investors currently?**

Q4: **What would be the benefit of being admitted to the Official List rather than just admission to a trading venue?**

Q5: Should we have a role in approving the admission criteria set by trading venues and/or indices? Could adequate investor protection be maintained if different trading venues compete on admission requirements?

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.

3.25 In contrast to model 1, this model involves a single listing segment for UK listed companies that replicates our premium listing requirements with FCA oversight of these requirements. This would move the listing regime in the UK closer to that which was in place before the introduction of EU minimum requirements for listing and remove the standard listing segment for UK companies. These requirements would include:

- the need for a 'sponsor' to be appointed for admission, and significant or related party transactions;
- FCA approval of certain circulars and shareholder approval in prescribed circumstances; and
- a regime for providing additional protections for minority shareholders from controlling shareholders.

3.26 We would also continue to encourage best practice in areas such as corporate governance and climate related financial disclosures (TCFD) for UK listed companies.

3.27 Companies that could not meet these requirements, or choose not to, could opt to be admitted to markets for securities that are not admitted to the Official List (referred to as 'unlisted markets'). Investors would have a clear demarcation between what to expect from a UK listed company compared to a company admitted to an unlisted market.

3.28 Overseas companies seeking a listing in the UK, would need to comply with the same Listing Rules as UK companies, or seek admission to an unlisted market.

3.29 As now, trading venues could use admission to the Official List by us as eligibility criteria for senior markets. The operators of unlisted markets would continue to set their own admission criteria. If we have concerns about access of companies to the unlisted markets or lack of investor protection measures, we could take a more active role in considering changes to their admission rules. This would be analogous to the SEC's role in approving exchange rules.

3.30 Indices could use admission to the Official List as one of their inclusion criteria and develop other indices for unlisted markets where appropriate, although they would be under no obligation to do so.

Model 2: where companies would list

Type of company	Listing segment	
Growth company	Unlisted market	
Established company	Single segment	
Overseas company	Single segment	Unlisted market

Q6: What types of issuers would find it hard to comply with the standards within the existing premium listing segment and why?

Q7: Do unlisted markets provide a suitable alternative to listed markets? Would a gap emerge for any particular type of issuer? Do you consider there would be any particular benefits or drawbacks to this approach?

Model 3: Maintain 2 broad segments for UK listed companies (enhanced version of the status quo)

3.31 This model retains 2 listed segments for shares in commercial companies, each with a defined purpose.

3.32 A "senior" segment would be aimed at companies with an established track record and contain additional requirements on shareholder protection and governance. (as described in model 2)

3.33 We could explore targeted improvements to the existing regime to ensure the senior segment balances high standards with some flexibility. It would also recognise changes in the types of companies coming to market, or where existing high standards could be more efficient and effective. For example, we could consider whether the current rules that require a company to demonstrate it has a sufficient track record (ie 3 years of historical financial information covering 75% of their business and revenue generating track record during this period) could be replaced by an alternative requirement for companies in different sectors.

3.34 We would set minimum eligibility requirements for an 'alternative' segment (as described in model 1)

3.35 However, we could describe the 'alternative' segment as being primarily aimed at companies with particular strategies. For example:

- companies who are acquisitive in nature and are likely to find the requirement to gain shareholder approval of significant transactions difficult to operate.
- start-ups who may want to use particular share structures that provide safeguards from unwanted takeovers in the early years of the company's development.

3.36 Trading venues would be able to continue to use our segments as admission criteria without setting their own in isolation.

3.37 As they do now, indices could also continue to use admission to the 'senior' segment as one of their inclusion criteria should they choose to. They could also devise additional criteria for related matters to create governance or geographic criteria to respond to the needs of their users.

Model 3: where companies would list

Type of company	Listing segment	
Growth company	Alternative segment	
Established company	Senior segment	
Overseas company	Senior segment	Alternative segment

Q8: What types of companies or strategies should the 'alternative' segment be aimed at?

Q9: Do the existing provisions in the standard segment need to be changed to suit these companies, either through relaxation or to provide additional shareholder protections?

Model 4: Maintain 2 segments for UK listed companies but allow the market to set minimum standards for the 'alternative' segment. (based on UK Listing Review proposal)

3.38 This would be broadly similar to the previous model described. However instead of us setting the minimum eligibility requirements for the alternative segment, we would allow market discipline to set the minimum requirements. Our role becomes limited to verifying basic eligibility information for securities, approving prospectuses and setting certain ongoing disclosures (those currently in the DTRs concerning financial reporting) to ensure market integrity is maintained, and to secure an appropriate degree of protection for retail investors in particular.

3.39 Issuers may need to agree features such as free float with potential investors, or they could be set by the relevant trading venue. This could be on a case by case basis as investors make clear what features they will or will not support when particular types of companies come to market. For example, investors may be more tolerant of lower free floats for larger companies, or more open to more innovative shares structures for companies from particular sectors. Companies may choose to adopt elements of the senior segment regime into their own articles of association to show higher levels of governance. It may be that these develop into market conventions over time, similar to the guidelines that are set by the Pre-emption Rights Group. The primary method of determining eligibility requirements would be market discipline.

3.40 The market structure that results from this model may be more dependent on the reaction of indices and exchanges than the previous three. By highlighting that companies listed in the 'alternative' segment may include additional corporate governance measures and may ultimately be similar to the 'senior' segment, admission to the 'senior' segment might no longer be a suitable criterion for index inclusion. This would almost certainly be the case if a significant number of large UK listed companies used this option.

3.41 Trading venues would likely need to consider whether the existing branding of segments on their markets is appropriate, and rather like the indices, perhaps seek to set criteria that are more objective and suited to their markets. We already see this on unlisted growth markets like AIM and AQSE where segmentation is set by the trading venues themselves.

Model 4: where companies would list

Type of company	Listing segment	
Growth company	Alternative segment	
Established company	Senior segment	
Overseas company	Senior segment	Alternative segment

Q10: How important is our role in setting additional admission standards to listing in the 'alternative' segment? Are there any benefits to this role being performed by us rather than a trading venue, or market discipline?

Q11: Do you consider the alignment between admission to the index and admission to the 'senior' segment to be important? Should the indices consider setting more objective admission criteria?

Model	Comparison with existing regime	Benefits	Negatives
Model 1: Create a single segment for UK listed companies and set the minimum possible requirements for eligibility for listing.	Requirements set at current level in the *Standard* Segment	• Easier access by issuers to listing and less ongoing cost (sponsors) or FCA intervention • Minimum standards maintained	• Trading venues may compete to offer lower admission requirements putting shareholder protections at risk • Lower corporate governance standards and FCA influence to encourage other higher standards (e.g. TCFD) • Removes a defining feature of the UK as a listing destination of choice for international companies
Model 2: Create a single segment for UK listed companies and raise standards for all UK listed companies to that in the premium segment.	Requirements set at current level in the *Premium* Segment	• High standards of shareholder protection and governance • Simple and clear for issuers and investors	• May reduce the number of companies listing • Reduces choice for issuers should alternative unlisted markets be inappropriate • Increase rigidity in the system
Model 3: Maintain 2 broad segments for UK listed companies	Enhanced version of the status quo	• Strong role of the FCA • Strong shareholder protection and governance principles • Alternative listing segment for issuers	• Difficult for issuers to understand the purpose of different segments • Rigidity of approach by trading venues/indices
Model 4: Maintain 2 segments for UK listed companies but allow the market to set minimum standards for the 'alternative' segment.	Similar to the status quo Based on UK Listing Review proposal	• Strong role of the FCA in premium segment • Strong shareholder protection and governance principles • Choice for issuers between the listing segments • More flexibility in structures for issuers (case by case approach)	• May be difficult for issuers to understand the purpose of different segments • Additional flexibility brings less predictability ie what investors will require of them, reaction of trading venues/indices in introducing additional rules • Lack of certainty on how the market will develop

Other securities

3.42 Currently, most bonds listed in the UK are admitted to trading on a regulated market and to the Official List in the 'standard listing – debt and debt-like securities' subcategory. Most regulatory obligations that apply to these bonds stem from admission to the regulated market rather than the listing regime. These include ensuring investors are provided with a prospectus, transparency obligations to ensure they produce and publish financial statements, and adherence to the market abuse regime ensuring issuers announce inside information on a timely basis.

3.43 The requirements for debt and debt-like securities in the listing regime are minimal. However, we are interested in understanding whether any elements of the regime cause particular burdens to issuers, as these may stem from the listing regime itself or from being admitted to a regulated market.

3.44 We also acknowledge that much of the recent public discussion about the listing regime has focused on equities. As we further develop our own proposals on how to improve the effectiveness of primary markets, we are keen to understand whether additional measures are needed to take into account the features of different kinds of securities. For example, exchange traded funds or venture capital trusts. While the above models do not preclude retaining additional segmentation for other types of non-equity securities alongside them, it may make the regime more complex – a situation we are trying to avoid. Each segment should have a clearly defined purpose that is easily understood by investors and issuers.

Q12: How can the process for listing debt and debt-like securities be improved for issuers without jeopardising investor protection?

Q13: Should there be a separate listing segment for debt and debt-like securities?

Q14: Which particular elements of the listing regime could be tailored to improve their effectiveness for other types of securities? In what way?

Removing duplication between admission to the Official List and admission to a trading venue

3.45 When considering the purpose of the listing regime and how it could operate more effectively, we have also undertaken analysis of the entire landscape. This has led us to question areas where we and trading venues perform duplicated processes and what the added value of these processes is in supporting our objectives.

3.46 Currently, we admit securities to the Official List both when the class of securities is first admitted, and for any further issues after this. When issuers apply to us for admission of further issues, they must, in parallel, apply to the trading venue they are admitted to for admission as well. We receive dozens of applications for listing of further issues each day, particularly for further issues of debt securities. We coordinate with the trading venues to ensure that admission happens simultaneously.

3.47 When securities are admitted to the Official List for the first time, we approve a prospectus, ensure that the relevant eligibility criteria are met and verify that the securities are freely transferrable. We do not propose any changes to this process at this time.

3.48 However, when further issues are admitted to the Official list it is less clear what value is associated with both us and the trading venue conducting parallel processes. This may be a relic of when the listing regime was operated by the London Stock Exchange.

3.49 We have considered 3 possible benefits from our current performance of this role:

a. **Ascertaining the total number of securities that are listed so that total voting rights are known:** Holders of securities must meet disclosure requirements of their major holdings if their holdings breach certain percentage thresholds. These disclosures provide information regarding the total voting rights, not the number of securities admitted to the Official List. Rather, issuers calculate and disclose total voting rights, for example, upon completion of a specific transaction. Where the amount is in question, issuers will typically refer to registrars or the trading venue they are admitted to in order to reconcile the numbers. As we understand it, the number of securities admitted to the Official List would not be relevant in these circumstances.
b. **Ascertaining whether the securities are freely negotiable and will trade in a fair and orderly way:** Existing regulatory requirements under MiFID allow trading venues to rely upon admission to the Official List to fulfil these requirements rather than fulfilling them themselves. We do not currently perform significant checks on further issues to ensure the securities will trade in a fair and orderly way. Our view is that this requirement is not necessary for securities that are listed because of the additional regulatory requirements this involves. When considering whether further issues meet the requirement for being freely negotiable, the element of the regulation that is most important is ensuring the further issue is fungible (interchangeable) with those securities already issued. This is performed by the issuer providing the ISIN number of the relevant securities. We understand trading venues already require this information when admitting further issues.
c. **Ascertaining whether a prospectus is required.** Under the on-shored Prospectus Regulation, when an issuer admits further issues of securities to a regulated market a prospectus is not always required as a number of exemptions may apply. Criminal sanctions apply to issuers who admit securities to a regulated market without a prospectus unless they are subject to one of these exemptions. Under our rules, Recognised Investment Exchanges (RIEs) must also maintain effective arrangements to verify that issuers of transferable securities admitted to trading on a regulated market operated by it comply with the disclosure obligations (REC 2.12.2AA UK). These disclosure obligations include the requirements under the on-shored Prospectus Regulation. When issuers apply for admission of further issues to the Official List, we will check that an exemption applies where no prospectus is being produced, although the requirement stems from admission to a regulated market rather than admission to the Official List. Our rules require Recognised Investment Exchanges to ensure compliance with the relevant disclosure obligations. However, it may be that trading venues currently take comfort from the fact we perform this check and so may need to consider whether their own processes are adequate if we do not perform this role.

3.50 In all these 3 cases, we do not see a strong case for maintaining the duplicative process. As an alternative, we would potentially consider simply admitting a class of securities to the Official list, rather than individual securities. This would mean issuers would no longer apply to us for the admission of further issues to the Official List.

Legal concerns

3.51 When the FSA took over maintenance of the Official List from the LSE, the FSA consulted on market participants' concerns about legal certainty of the term 'listed on a stock exchange', given the separation that was soon to be undertaken between securities 'being listed' i.e. admitted to the Official List, and being 'admitted to an exchange'. At the time, the FSA undertook to ensure that admission to trading and admission to listing would occur simultaneously. This was seen to resolve any legal uncertainty or other outstanding issues arising from references to being 'officially listed on a stock exchange'.

3.52 Similarly, we are keen to understand whether legal uncertainty would increase should we no longer perform the function of admitting further issues to the Official List. Trading venues would still be expected to admit further issues, and so there would be a single event that could be referred to, as it was pre-2000, as 'listed on a stock exchange'. However, there would no longer be a parallel process conducted between us and the trading venue. We are particularly interested in any regulatory or tax implications that may arise outside of our rules.

3.53 Subject to responses to the questions below, we may look to bring forward rule changes for future consultation if there is an opportunity to remove duplicative processes, without imposing any significant burdens or practical barriers for market participants.

Q15: **Do issuers consider the process of admitting further issues to both the FCA and the trading venue to be burdensome?**

Q16: **Would the existing procedures conducted by trading venues to ensure issuers comply with their disclosure obligations (production of a prospectus) need to be enhanced if we were to cease admitting further issues to the Official List? What costs would be associated with these, if any?**

Q17: **Are there any legal, regulatory or tax requirements that are connected with further issues being admitted to the Official List, that could not be maintained by further issues being admitted to a trading venue?**

4 Overview of the measures we are consulting on

4.1 Through our own engagement with stakeholders, review of industry surveys and the UK Listing Review and Kalifa Review of UK Fintech, we have identified specific aspects of the Listing Rules which act as barriers to entry for some issuers considering entry to the UK markets. We have also been told that there are some areas where simplification or modernisation would improve the user experience with our regime.

4.2 We also know from our role in admitting securities to the Official List that there are some very small companies who struggle to meet the requirements of the listing regime and which, if admitted, can undermine the integrity and quality of those markets.

4.3 In the following chapters we set out proposals including:

- 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 £50 million
- 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
- minor simplification and modernisation to the Listing Rules, Disclosure Guidance and Transparency Rules (DTRs) and Prospectus Regulation Rules (PRR).

4.4 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. We have designed our proposals with the objectives of facilitating private companies transitioning to the public markets earlier, which will expand the opportunities available to investors. We have also included specific safeguards to address additional risks from the proposals.

4.5 Raising the minimum market capitalisation requirement aims to ensure the listing regime continues to uphold the highest standards of market integrity.

4.6 The final set of changes are minor but aim to improve the accessibility of our rulebooks.

4.7 Taken together, our proposals should reduce barriers and costs for companies considering listing, which should encourage more companies to become or stay listed in the UK. This should increase broader investor confidence in the UK listed markets and the reputation of UK listing.

4.8 We recognise that we are both opening a wider debate on the role and function of listing in this paper as well as consulting on specific changes and the latter may be seen as pre-empting the discussion on the former. We do not believe that this is the case. Any redesign of the listing regime would be able to incorporate the proposals set out here.

4.9 Many stakeholders have advised us that these specific issues are significant and urgent concerns and are affecting decisions currently being made by prospective issuers. Any changes on a fundamental basis to the listing regime will take time. So we believe it is important to act quickly on these specific issues while at the same time considering the bigger questions set out in the previous chapter.

5 Dual class share structures

5.1 This chapter sets out our proposal to facilitate a targeted and time-limited form of dual class share structure (DCSS) within our premium listing segment.

5.2 Specifically, we intend to introduce a **5 year exception** to the rule that restricts votes on matters relevant to premium listing to holders of premium listed shares only. The purpose of this is to enable holders of unlisted weighted voting rights shares, **a specific kind of DCSS**, to also participate in these votes and thereby to remove a major obstacle to that kind of structure listing in the premium segment.

5.3 In line with the UK Listing Review's recommendations, the specified kind of DCSS to which the exception will apply is one where the class of shares with weighted voting rights meets the following conditions:

- a maximum weighted voting ratio of 20:1
- may only be held by directors of the company or beneficiaries of such a director's estate
- weighted voted rights only to be available in two limited circumstances: (i) a vote on the removal of the holder as a director at any time and (ii) following a change of control, on any matter (to operate as a strong deterrent to a takeover)
- conversion to ordinary premium listed shares upon transfer to anyone other than a beneficiary of the director's estate

5.4 We propose that shares that meet these conditions will be referred to as 'specified weighted voting rights shares' for the purposes of the premium listing regime.

5.5 Through our own engagement with stakeholders, review of industry surveys and the UK Listing Review and Kalifa Review of UK Fintech, we know that there are specific aspects of the Listing Rules which are acting as barriers to listing for some issuers.

5.6 Our objective is to facilitate innovative growth companies listing on public markets at an earlier stage in their development than they otherwise would have. This will consequently expand the opportunities available to investors to participate as these companies grow.

Background

5.7 A DCSS involves a class of shares that allows a shareholder (or group of shareholders) to retain voting control over a company that is disproportionate to their economic interest in the company.

5.8 A typical DCSS involves a company having two classes of shares, identical in all respects, except for voting rights. One class of shares is a 'low vote' share, carrying one vote per share, and another class of shares is a 'high vote' share, typically carrying 10 or 20 votes per share. The high vote shares are typically held by the founder (and potentially some or all other pre-IPO shareholders), while the low vote shares are held by third party investors on listing.

5.9 Historically, the FSA and then the FCA have chosen not to facilitate companies with this type of DCSS listing in the premium segment. This is based on the principle that premium listed shares should operate under a 'one share, one vote' system. This served to ensure premium listing represented a high corporate governance standard.

5.10 In 2013, when we last considered this issue in CP13/15, we introduced LR 9.2.21R and Premium Listing Principle 4. LR 9.2.21R limits participation in votes arising as a result of the Listing Rules for premium listed companies (such as approval of Class 1 and Related Party Transactions) to shares that are themselves premium listed. Premium Listing Principle 4 provides that where a company has more than one premium listed class of share, the voting rights attached to those shares should be broadly proportionate to their interest in the equity. Together, these elements were intended to disincentivise the creation of artificial structures involving multiple classes with different voting powers designed to allow control to rest with a small group of shareholders.

5.11 In general terms, DCSS structure could be incompatible with current Listing Rules for the premium segment in several ways, including:

- under LR 9.2.21R (as noted above), voting on matters relevant to premium listing is exclusively reserved to holders of premium listed shareholders
- under the LR eligibility conditions and continuing obligations an issuer must be able to demonstrate it can run an independent business, including the freedom to pursue its own business strategy
- where the intention is to list the class carrying weighted voting rights, that would be incompatible with Premium Listing Principle 4

5.12 Generally speaking, therefore, it is currently impractical to list shares issued by a company with a DCSS in the premium listing segment.

5.13 We are proposing to remove a key obstacle to the specific kind of limited DCSS by allowing an unlisted class of shares that meets the conditions – specified weighted voting rights shares – to vote on the premium listed issues otherwise reserved to holders of premium listed shareholders by LR 9.2.21R for a period of five years.

5.14 We do not propose to amend Premium Listing Principle 4 because we do not consider this to be necessary for the specified kind of DCSS described to be compatible with the Listing Rules. This is because one of the key conditions attached to this kind of DCSS is that the shares that carry weighted voting rights may only be held by a director or a beneficiary of their estate. This particular limitation means that we would not expect such shares to be listed.

5.15 It is important to note that there are no restrictions to a DCSS in our standard listing segment, where the Premium Listing Principles and LR 9.2.21R, for instance, do not apply, as well as in unlisted markets in the UK.

Recent UK developments around DCSS

5.16 As part of the UK Listing Review, there was a call and subsequent recommendation that we should consider allowing companies with DCSS to list in the premium listing segment. This was because the prohibition was a significant barrier to certain types of company listing in that segment. The recommendation also proposed maintaining high corporate governance standards in parallel, by applying certain conditions to DCSS.

5.17 The conditions the UK Listing Review set out were:

- a maximum duration of five years;
- a maximum weighted voting ratio of 20:1;
- requiring holder(s) of B class shares to be a director of the company;
- voting matters being limited to ensuring the holder(s) are able to continue as a director and able to block a change of control of the company; and
- limitations on transfer of the B class shares.

5.18 Alongside the UK Listing Review, the Kalifa Review of UK Fintech recommended that we should explore DCSS or a 'golden share' concept.

5.19 We have also heard wider representations about DCSS and seen evidence of a change in the nature of companies coming to market. These suggests we should update the approach we took when we last consulted on this issue in 2013.

5.20 At the same time, we recognise that some stakeholders, particularly among investor groups, believe that DCSS risk undermining strong corporate governance and do not allow for sufficient shareholder influence over company management. This is particularly the case where they grant wide-ranging voting control that is transferable and persists over time. This is also relevant given the increasing focus on investments based on environmental, social and governance (ESG) factors.

5.21 We have taken these concerns into account when designing the proposals set out below, seeking to retain the majority of the shareholder protections that characterise the premium listing regime. We also know that some investors may not support DCSS.

Why we are intervening

5.22 While the UK remains a leading financial centre, there may be scope to bolster the accessibility of our listed markets to innovative technology companies and address the broader long-run decline in the number of companies on UK listed markets. We consider listed markets can improve choice for issuers and investors based on high levels of transparency, price efficiency and access. Allowing companies using specified weighted voting rights shares in premium listing is intended to broaden the listed investment landscape for both institutional and retail investors in the UK.

5.23 Companies in new industries, predominately led by founders and reflecting the ideas-led products or services they are offering, want to be able to access our most 'senior' premium listing segment to strengthen their companies' reputation. At the same time, these issuers may be particularly sensitive to the threat of a takeover or removal as directors once they become listed companies, before they have had an opportunity to deliver the next phase in their business strategy. These companies are therefore more likely to choose to list in other jurisdictions if dual class shares remain unavailable in the premium listing segment.

5.24 There is also a possibility that these companies choose to list in the standard segment, on unlisted markets, or remain private. While none of these outcomes is necessarily bad, we do consider that the additional corporate governance and shareholder protections in the premium listing segment are better for shareholders.

5.25 The stronger corporate governance conditions in the premium listing segment also give greater confidence to the market, attracting superior levels of investment by a larger number of investors. As a result, issuers are themselves attracted to the premium segment where they can draw greater levels of investment at, potentially, a better price than compared with the standard segment

Q18: Do you agree with our rationale for introducing DCSS to the premium listing segment? Is there any additional evidence that we should consider?

Changes we are proposing

Scope

5.26 We propose amending the Listing Rules that apply to premium listed issuers to enable holders of specified weighted voting rights shares to vote in matters otherwise reserved to shareholders of premium listed shares for up to five years from the date the premium listed shares were admitted to premium listing. This would only be available to issuers seeking admission to premium listing for the first time.

5.27 The specific features of the regime have been designed to meet the needs of founder-led growth companies, and address the specific barriers to these companies listing in the premium segment. However, we do not limit the scope of the regime to these companies, instead preferring to set objective criteria that different types of company may meet.

5.28 We do not propose to allow Sovereign Controlled Commercial Companies, listed under LR 21, or Closed-Ended Investment Funds, listed under LR 15, to make use of this exemption. We consider that the specific features of these issuers are already taken account of in the Listing Rules and they are unlikely to benefit from the specific features of the changes we are proposing.

5.29 Any company using this exemption would be covered by the provisions within LR 9.2.6ER that require a document describing the rights attached to the listed equity shares to be forwarded to the FCA for publication. These would then be accessible to all shareholders, and the public via the National Storage Mechanism.

Specified weighted voting rights shares

5.30 We are proposing to amend LR 9.2.21R, so that holders of unlisted shares with specified weighted voting rights would no longer be precluded from exercising voting rights attached to those shares on matters relevant to premium listing. This should enable a structure with those specific shares to operate effectively in the premium listing segment, while the company concerned continues to remain subject to all other applicable Listing Rules.

5.31 It is important to note that while the holders of the shares with specified weighted voting rights will be able to participate in these votes, it will be on a 'one share one vote' basis. The additional weight of the voting rights will not apply other than following a change in control (as described below).

5.32 The matters where LR 9.2.21R applies, and therefore the matters which holders of specified weighted voting rights shares would be able to participate as a result of our proposals are:

- approving a cancelling of listing, which needs 75% approval under LR 5.2R,
- approving the transfer between listing categories (in particular in this context, a transfer from premium listing (commercial company) to standard listing) which needs 75% under LR 5.4A
- approving a class 1 transaction, which needs shareholder approval under LR 10.5.1R and approving a materially changed class 1 transaction under LR 10.5.2R
- documents requiring prior approval including employee share schemes and long-term incentive plans and discounted option arrangements under LR 9.4
- votes on transactions such as rights issues and open offers under LR 9.5
- approval for significant transactions under LR 10
- approval for related party transactions under LR 11
- dealing in own securities and shares as outlined in LR 12

5.33 We are also not proposing to amend the rules on controlling shareholders/ independent shareholders or the requirements that the listed company carries on an independent business. In our view the specified weighted voting rights shares to which the exception to LR 9.2.21R applies would not necessarily be inconsistent with these requirements. They provide important shareholder protections that we wish to maintain.

5.34 We do not propose removing the protections that apply to independent shareholders where applicable to these votes, as referred to in LR 9.2.21R. So, for instance, approval of a cancellation of listing will continue to be subject to an additional majority vote of independent shareholders.

Q19: Do you foresee any limitations to our proposal if the weighted voting shares are unlisted?

Controls and limitations

5.35 A key premise of the amendments we are proposing is that they can only be taken advantage of by shares that meet the conditions for specified weighted voting rights shares. These will need to be demonstrated as a condition of eligibility for listing.

5.36 These conditions are that:

a. they entitle the holder to more than one vote per share on votes to remove the holder as a director of the company
b. in the event of a successful change of control, they allow the holder to exercise weighted voting rights in all circumstances
c. they set a cap on weighted voting rights relative to ordinary shares of 20:1
d. they require holders to be limited to directors of the company at the time of IPO, or following the death of a director, a beneficiary of the director's estate; and
e. they include a mechanism for the end of the 5 year exemption period, for example the conversion of the weighted voting shares to ordinary shares or their expiration

5-year limit on the use of DCSS within the premium listing segment

5.37 We propose that the exception to LR 9.2.21R is only applicable, in respect of each issuer, for up to 5 years from the date on which the company first had a class of ordinary shares admitted to premium listing – in effect a 5 year sunset clause. As noted, it would need to be demonstrated through the company's constitutional arrangements prior to listing that this provision can be complied with under the new LR 6.9.1AR.

5.38 Companies may choose for the weighted voting rights to be available for shorter periods than this.

5.39 We also recognise that some companies may want to extend their DCSS arrangements for longer than 5 years at the expense of their premium listing. To achieve this, the company would need to pass a shareholder vote to move to another segment, or de-list, in accordance with LR 5.4A or LR 5.2. It is important to note these matters do not fall within the matters that specified weighted voting rights shares would be permitted to carry weighted voting rights on, unless there has been a change of control (see below). Under these circumstances the holder would not be able to exercise their weighted voting rights in voting on the proposal to move segment or to delist. But a holder of specified weighted voting rights shares may participate in these votes on a one vote per share basis.

5.40 We do not expect issuers to find ways to extend the period during which they are able to take advantage of the changes we are proposing while remaining in the premium listing segment. We have therefore made clear in our proposal that we will not allow artificial means of prolonging the 5 year period.

5.41 We consider that a period of 5 years is appropriate to remove the threat of an opportunistic takeover in the early stages of listing. We believe mandatory time-based sunset provisions are the most effective safeguard against the entrenchment of weighted voting rights and a permanent exposure to moral hazard by minority shareholders. This number is consistent with the various academic research highlighted, such as, Cremers, Lauterbach, and Pajuste (2018), who found that discounts on the value of DCSS companies usually start to appear between 6 and 9 years after the IPOs.

5.42 From an investor perspective, there is also evidence that five years is perceived as an acceptable period for which to allow greater control by a new issuers' management. The CFA asked members in Asian jurisdictions, 'Which one of the following time-based sunset provisions do you consider as optimal?' Respondents were split between 3-5 years (48%) and 5-10 years (44%).

> **Q20: Do you consider that a five year sunset period for DCSS in the premium listing segment is the correct length to protect companies from unwanted takeovers? Please provide evidence for your answer.**

Prevention of removal as director

5.43 The only circumstance in which specified weighted voting rights shares would be permitted to carry weighting voting rights is when there is a vote on the removal of the holder of specified weighted voting rights shares as a director, unless there has been a change of control (see below).

Weighted voting rights to be used to deter takeovers

5.44 The other way we propose for holders of specified weighted voting rights to benefit from the DCSS is following a change of control. Should the change of control be completed the share's weighted voting rights may apply to any matter put to the shareholders to be decided at a general meeting, including those required under the Listing Rules.

5.45 We consider this will be an effective deterrent from any potential takeover within the five year period, and as such the likelihood of this occurring is low. We consider this would make a DCSS company an unattractive takeover target.

5.46 For the purpose of the proposed rules, we define change of control as

- the acquisition by any person (other than the holder of a dual class share structure or any person acting in concert with them) of an interest in shares carrying more than 50% of voting rights that members of the company can exercise on a poll in a general meeting
- the moment at which a scheme of arrangement under Part 26 of the Companies Act 2006 becomes effective
- the moment at which a takeover offer under Part 28 Companies Act 2006, becomes unconditional in all respects

5.47 It would be for companies to design constitutional arrangements that fulfil these conditions. Consultation with the Takeover Panel may be necessary in individual circumstances. We are aware of structures currently used in the standard listing segment that are similar to this proposal in that they enable individuals to have controlling votes based upon their weighted voting rights following the completion of a takeover.

5.48 We recognise that the effect of this element of the proposal could be a company being listed in the premium listing segment with weighted voting rights across a wide range of matters. However, we consider that were this to occur, it would only be for the remaining duration of the 5 year exemption. Further the existing shareholder protections in the premium-listing segment – the controlling shareholder regime and independent business requirements- would provide additional protections.

Q21: Do you consider that the mechanism proposed will be effective in providing a deterrent to unwanted takeovers? Please give reasons for your answer and any possible alternatives.

A maximum weighted voting right ratio of 20:1

5.49 We propose that a further condition to be satisfied by specified weighted voting rights shares is that, in the two circumstances where they are permitted to carry weighted voting rights, those rights are limited to a maximum weighting ratio of 20:1.

5.50 Weighted voting ratios ensure that the shareholders' stake in governance decisions is related to the degree of economic ownership. The higher this ratio the more disproportionate the level of control the holder would have in the company. This ratio can be set at a higher or lower level, with a commensurate effect on the equity share needed to have 50% control when the weighted voting rights are used.

5.51 It is important to note, that under our proposals and prior to a change of control, the specified weighted voting rights shares will not be used for votes taken under the Listing Rules. They would only be used in votes to prevent the removal of directors.

5.52 Typically, companies that use DCSS set a specific ratio of votes that the weighted shares can hold in comparison to ordinary shares – e.g. 10 or 20 votes per share. If the ratio was set at 10:1 the holder could control 50% of the voting power with 9.1% of the shares. If it was set at 20:1 the holder could control 50% of the voting power with 4.8% of the shares. This relationship is described in the table below.

Table 1: The impact of different weighted voting ratios on equity requirements

Ratio	20:1	10:1	5:1	4:1	3:1	2:1	1:1
Weighted	4.76	9.09	16.67	20.00	25.00	33.33	50.00
Unweighted	95.24	90.91	83.33	80.00	75.00	66.67	50.00

5.53 As we are proposing to limit the use of weighted voting rights severely, we think it is reasonable to set the level relatively high to ensure it is viewed as effective in the limited situations that it can be used. Hong Kong and Singapore, which allow a broader use of weight voting rights than we propose, set this level at 10:1. In the US, where there is no limit on either the ratio or use of DCSS, recent issuers have chosen various different levels. If we had proposed a broader use of DCSS, we would likely have considered a lower ratio to be more appropriate.

Only directors of the company can hold weighted voted shares

5.54 We propose that specified weighted voting rights shares may only be held by a director of the issuer or, following the death of a director, a beneficiary of the director's estate.

5.55 We consider this approach to be consistent with our policy intention that the regime should be more attractive to founder-led growth companies. Allowing individuals who do not direct the business to hold such shares or for those rights to be retained if transferred to another person if the director left their position would not be consistent with this intention.

5.56 This is consistent with our view that the purpose of DCSS should be to allow an individual or group of individuals to carry out their specific vision for how the company should evolve and grow. This provision will prevent directors passing their enhanced voting power to people who are unfamiliar with the company and/or the vision of the founder(s). It is also an important shareholder safeguard. Investors will be aware of any holders of weighted voting rights at the point of investing and may not have the opportunity to divest should the additional voting power pass to another individual.

Controlling shareholder regime

5.57 We are not proposing to amend the rules on controlling shareholders or the requirements that the listed company carries on an independent business. In our view the specified weighted voting rights shares to which the exception to LR 9.2.21R applies would not necessarily be inconsistent with these requirements.

5.58 Prior to a change of control the shares will only permit the holders to exercise weighted voting rights on the removal of a director.

5.59 After a change of control, the holders may exercise weighted voting rights on any matter put to shareholders for a vote at a general meeting, but whether that has implications for the company's ability to run an independent business, and whether that results in the relevant director becoming a controlling shareholder, will depend on the factual circumstances of the particular case. We also note, in any event that in this scenario there will be another shareholder, or group of shareholders acting in concert, that controls or control over 50% of the voting rights independently from the holder of any specified weighted voting rights share not involved in that group.

Potential consequences of our proposed intervention

5.60 We recognise that by admitting companies with a very limited form of DCSS to the premium listing segment we may face claims that it will affect the high corporate governance standards we apply to companies that choose to list here.

5.61 We also note that in jurisdictions with no regulatory limitations on DCSS, such as the US, founders can retain significant control in perpetuity with minimal economic stake in a company (for example Palantir in the United States). At such extremes, we agree incentives on company management may become misaligned, and shareholders' ability to influence them will be materially undermined.

5.62 However, we believe that the premium listing segment provides wide and significant additional safeguards for shareholders, even if using the proposed specified form of dual class share structure. We consider that these are sufficient to maintain high corporate governance standards and investor confidence in such issuers. These safeguards are also significantly higher than in the standard listing segment, or on unlisted markets in the UK, where these companies may otherwise access public markets.

5.63 We also recognise concerns about additional risks to consumers who invest via passive funds. Without changes to investment mandates these consumers are likely to be invested in DCSS companies that would not previously have been eligible for inclusion in the premium listing segment.

5.64 We do not see strong evidence to support a need for any broader application of DCSS. This also takes into consideration our view that a premium listing should continue to represent a high standard of corporate governance and shareholder engagement, and other options remain available if issuers want far more discretion – such as standard listing or unlisted markets.

5.65 When founders bring their companies to market, they often seem to be primarily concerned about their vision not being derailed by being removed as a director/CEO. However, perhaps the bigger risk to founders as they come to market is that their vision is not able to come to fruition because the company, once listed, can be subject to an opportunistic takeover bid at a conventional bid premium to the market price.

5.66 In general, our proposals are designed to be targeted and minimise concerns around corporate governance and address the specific elements of DCSS that are attractive to innovative growth companies. We have also considered these changes in the context of the entire listing regime and the considerable additional protections that premium listing provides. If DCSS do encourage a greater diversity in the types of companies listing in the UK or more 'growth' companies come to market sooner here in our premium segment, it may further diversify investors' risks and improve prospects for positive returns over time.

Q22: Do you agree with the proposed controls around DCSS in the premium listing segment? Are there any additional controls that would make the regime more effective?

6 Minimum market capitalisation

6.1 In this chapter, we set out our proposal to change our premium and standard Listing Rules to require that new issuers seeking to list as premium or standard listed shares must have a minimum market capitalisation (MMC) of £50 million.

6.2 This is because we consider that companies with a low market capitalisation are better suited for admission to other markets such as AIM or AQSE Growth Market. In these markets, they can get more support in meeting regulatory requirements involving market integrity and market abuse and can find an investor base more suited to these companies.

Background

6.3 MMC is the minimum level of aggregate market value of all securities that are to be listed. The current level of market capitalisation is set under Listing Rule 2.2.7R which states that the expected aggregate market value of all securities (excluding treasury shares) to be listed must be at least £700,000 for shares, including shares of a closed-ended investment fund or open-ended investment company.

6.4 In 2005, we set these requirements in the UK at £700,000 to implement EU requirements under Article 43 of the Consolidated Admissions and Reporting Directive (CARD). However, the existence of the requirement pre-dates the EU requirements and has not changed in the UK since 1984.

Why we are proposing to change these requirements

6.5 We consider that current MMC requirements are now out of date given the market value growth since 1984.

6.6 We have provided data in our cost benefit analysis of this proposal (see annex 4) that suggest that liquidity is lowest in companies with smaller market capitalisation.

6.7 Lower liquidity can lead to greater share price volatility. While this is not a problem in itself, it can create conditions for increased investor detriment, for example if there are higher losses due to this greater volatility. We consider this issue in more detail in the cost benefits analysis for this proposal.

6.8 We have looked also at the composition of companies with a small market capitalisation to find out more about them and the type of access to public markets that is most suitable for them.

6.9 Table 2 shows listings of companies between 2017-2021, excluding investment funds and SPACs. Of these companies, 11 were exploration and mining companies, 5 were software companies, 2 were pharmaceutical companies, with the rest from a diverse range of sectors.

Table 2: Companies listing with market capitalisation below £50m 2017-2021

£m	0-10	10-20	20-30	30-40	40-50	Total
No of companies	*22*	*5*	*1*	*3*	*2*	*33*
Aggregate Market capitalisation £m	*114.2*	*73.4*	*27.6*	*106.2*	*96.3*	*417.8*

6.10 Based on our surveillance and monitoring activities, we consider that smaller companies may benefit from the sort of support given by the regulatory regime in place at alternative venues such as AIM or AQSE Growth Market. This support can include use of nominated advisors (NOMADs) or corporate advisers. These advisors are compulsory and generally responsible for advising and guiding companies on their responsibilities under the rules of the venue on an ongoing basis. This recognises that these companies may need additional guidance due to their smaller size.

6.11 Admission to AIM or AQSE Growth Market may also be preferable as the investor base of companies admitted to these venues also tend to be more aware of the risks of investing in companies of smaller size. Admission there may provide clearer signals to investors and lead to better pricing.

6.12 Further, we often spend considerable resources on engaging with applicants with lower market capitalisation that ultimately prove unable to meet eligibility requirements. This leads to costs for both the prospective issuer and ourselves and may not result in the issuer being able to list.

6.13 As there are viable and often preferable alternatives to listing available for companies with smaller market capitalisation, we do not consider that companies will find it harder to access funding more generally as result of this proposal. Further, we consider that investor access to alternative public markets should be sufficient to avoid reducing investment opportunities.

Possible consequences

6.14 Raising the MMC will give investors greater trust and clarity about the types of company with securities admitted to different markets. This will improve confidence in public markets.

6.15 Given this, we consider that the benefits of our proposal, in increasing confidence in listed markets and in providing clearer signals to investors about the quality of listed issuers outweigh any costs to companies with low market capitalisation who will no longer be able to list.

6.16 We point out that raising MMC to £50m will also work alongside our proposal to reduce required free float to 10% to set a minimum float for new IPOs of £5m. This will provide an additional safeguard to liquidity at IPO and suggest at alternative for those companies where liquidity was most likely to be lowest from listing. This will also allow for a more targeted and proportionate free float requirement.

6.17 As our new rules will only apply to new issuers, we foresee no disruption to currently listed issuers, although SPACs may need to consider how these new rules may affect future acquisitions. However, we welcome views and evidence if market participants consider a £50m threshold may prevent certain smaller commercial companies from listing for whom other markets may not be appropriate, for example because their prospective investor base cannot invest in shares admitted to trading on a junior or growth market. If so, we also welcome suggestions on an alternative threshold. Alternatively, or in addition, we would also appreciate views on whether additional flexibility might be useful for prospective listing applicants regarding the conditions under which we might modify the proposed rule requiring a £50m minimum market cap to accommodate certain smaller companies. We could consider providing indicative criteria or factors we may consider in such cases, if helpful, eg the type of company, its recent growth and growth strategy, and likely liquidity of its shares.

Our proposal

6.18 We propose to change LR 2.2.7R1(a) to require that the expected aggregate market value of all securities (as now, excluding treasury shares and shares of a close-ended investment funds or open-ended investment companies) to be listed should be increased from its current level of £700,000 to be at least £50 million for shares.

6.19 This requirement would only apply for new listings and would not apply as a continuing obligation for currently listed companies. Listed companies which had a class of listed shares before the change in LR 2.2.7R(1)(a) and continue to do so after that may list additional classes of shares at the existing MMC of £700,000.

6.20 The expected aggregate market value of shares of a closed-ended investment fund or open-ended investment company) to be listed will remain as at least £700,000.

Q23: Do you agree with our proposal to raise the minimum market capitalisation for companies seeking to list under standard and premium listing to £50m? If not, please state your reasons and indicate what alternative threshold may be more appropriate along with any supporting evidence. We also welcome views on whether we should consider setting out conditions under which we might modify the proposed rule on the new threshold, and if so what criteria stakeholders think we could usefully consider.

Debt listings and the listing of funds

6.21 CARD set the minimum market capitalisation for listed debt at £200,000 and for listed funds at £700,000.

6.22 We have not seen similar concerns about the level set for minimum market capitalisation for debt listings, or the listings of funds, so do not propose changes to the EU directive minimums for these. However, we would be interested in stakeholders' views about whether there are similar issuers for these issuers.

Q24: Do you consider that the current level of market capitalisation for listed debt remains appropriate? Please give reasons for your answer.

7 Minimum number of shares in public hands – 'free float'

7.1 In this chapter we set out proposed changes to our existing Listing Rules that require a minimum proportion of shares to be in public hands ('free float') at admission to listing and as an ongoing requirement. We propose lowering this minimum to 10%.

7.2 We set out our analysis and justification for these changes and seek views in response.

Background

7.3 Free float is the proportion of the shares of a listed company that are in public hands and are not restricted. Under our Listing Rules, shares are only considered to be in public hands if they are held by shareholders who have less than 5% of the total shareholding in a company.

7.4 Shareholders with holdings of 5% or more are assumed to have strategic holdings that do not provide liquidity. Others who do not count for free float purposes include directors and their connected persons, shareholders who have the right to nominate directors, trustees of company employee share schemes and pension funds and shareholders whose shares are locked up for more than 180 days.

Our current free float requirements

7.5 We set free float requirements in the UK to implement EU requirements under article 48 of the Consolidated Admissions and Reporting Directive (CARD). This directive was clear that free float requirements were intended to safeguard liquidity in EU capital markets. CARD required EU Member States to set free float at 25% but allowed them to permit listing at lower levels of free float when there was a large enough number of shares distributed to the public to ensure that that the market would operate properly.

7.6 Free float requirements at the point of listing are set out for the premium segment in Listing Rule 6.14.2R and LR 21.6 and for the standard segment in Listing Rule 14.2.2R and as a continuing obligation for premium and standard listed issuers and holders of global depositary receipts in LR 9.2.15R, LR 14.3 and LR 21.8 and for close ended premium investment funds in LR15.2.

7.7 These requirements are also subject to guidance provisions that we may modify the rules to accept a lower percentage in view of certain factors. These factors include where there are a large number of shares of the same class being admitted and the extent of their distribution to the public. These modifications are on the basis that the company is able to demonstrate a liquid market in its shares will exist upon listing.

7.8 For premium listed companies, we may take account of a market value which exceeds £100m in considering applications for a modification to the rule, where prospective issuers seek to list with a lower free float.

7.9 FTSE Russell, a major UK index provider, changed their free float requirements in the UK index series in 2011, increasing the requirement for UK incorporated companies from 15% to 25%.

The objective of free float

7.10 Liquidity is the ease, speed and price at with which assets such as shares can be bought and sold in the market. A reasonable level of liquidity is viewed as essential for market effectiveness and for the protection of investors.

7.11 Setting a minimum free float requirement has been seen as a way of safeguarding market liquidity.

7.12 In CP 12/25, we discussed whether free float requirements for premium listed issuers acted as an appropriate means to safeguard corporate governance or as a protection for minority investors. Following consideration of this issue we stated that 'free float would be a blunt tool even if used explicitly, to ensure effective governance in a company.' Rather than use free float requirements for this purpose we decided at this time to put in place the controlling shareholder regime. We still consider that setting free float requirements does not provide an effective tool for ensuring effective corporate governance.

7.13 However, we recognise that in exploring potential changes to free float, there is a potential qualitative baseline expectation that a company should have a minimum level of public shares or shareholders in order to be considered 'public'. This has formed part of our reasoning in proposing a free float at 10% and why we have not decided to change the composition of shares made public in ways recommended by the UK Listing Review.

7.14 The UK Listing Review recommended a reduction of the free float requirement from 25% to 15%, changes to the definition of free float so that institutional investors will count towards the free float and to allow companies to use other measures to demonstrate liquidity.

Is free float a good way to ensure liquidity?

7.15 A key driver behind the EU free float requirement is to ensure that listed securities have an adequate degree of liquidity, with EU Member States allowed to permit listing below a free float of 25% where liquidity was otherwise safeguarded. For example, in the case of listing of large market capitalisation companies. We note that other EU jurisdictions have taken greater benefit from this flexibility available under the EU framework, without any clear negative impacts on liquidity.

7.16 In this context, we undertook analysis to determine if free float was a good measure for ensuring liquidity to understand what the potential effects of changing our requirements might be.

7.17 Our review of relevant studies suggests that they find a small correlation between free float and liquidity. We give further details on this literature in the cost benefits analysis (see annex 4).

7.18 We have also considered relevant evidence presented to the UK Listing Review, where some stakeholders have examined the relationship between free float and liquidity.

7.19 We note the evidence provided by LSEG was used to illustrate that 'there is no positive correlation between the free float generated at IPO and increased liquidity in the secondary trading market, when we consider the average daily turnover in the 6 months following the IPO expressed as a percentage of market capitalisation at IPO. Critically, we see no significant reduction in liquidity at free floats below 25%.'

7.20 This is partly because, as noted by the International Monetary Fund, it is difficult to reach a strong theoretical understanding of the many factors that determine liquidity – and consequent consumer harm. This would be necessary to draw any scientifically robust conclusions about what drives liquidity in general and of adjusting the free float requirements.

7.21 We also considered the feasibility of undertaking our own study of the impacts or our proposal on liquidity. However, our analysis suggested that this would require us to look at a broader range of liquidity metrics (such as bid-ask spread) and to filter out effects of other potential variables which may impact upon liquidity such as ownership and leverage. We would also have to make a precise forecast of how free float may change as a result of our proposals.

7.22 Given this, we do not consider that we can estimate such impacts precisely. Further reasoning on this is included in the CBA in annex 4.

7.23 However, we do consider that it would be reasonable to assume that any reduction in liquidity related to the proposed reduction in free float level would be likely to be very small and temporary. This is for 2 reasons:

- issuers can already apply for a modification to our rules to list at a free float of below 25% so some would already have listed at below this level; and
- broad analysis of average free floats in the UK, at IPO, show that typically levels are much higher than 25% (see annex 4)

Is the existing free float requirement a barrier to listing?

7.24 Overall, our analysis suggests that there is some compelling evidence to support concerns in the UK Listing Review and the Kalifa Review of UK Fintech that our free float requirements may be a barrier to companies listing in the UK.

7.25 Our requirements appear to impose more burdens on issuers compared to those of other jurisdictions, including those of EU countries. Many global IPOs have a free float below our current requirements. This may well discourage issuers from listing in the UK.

7.26 We also see evidence that issuers can be deterred from applying to us for modifications to our current free float requirement, to request a lower free float. They can see the process as one that is difficult to navigate, and which adds uncertainty in an IPO process.

7.27 We understand that requiring issuers to maintain a high free float may create execution risks for them at IPO. It takes away their choice to time their capital raising and dilution of share ownership in a way that suits them.

7.28 Further, the data we have considered suggest that our current requirements are disproportionate to their current objective of safeguarding liquidity in the market.

Basis for setting the level free float to 10%

7.29 As set out above we do not consider that we can model precisely the effects of our proposal on liquidity. This means that we do not consider that it is possible to base the minimum level of free float on safeguarding any precise level of liquidity. This reasoning is explained in our CBA. Instead we have considered what the minimum number of shareholders a company should have in order for it to be considered to be 'in public hands'.

7.30 Conceptually, this would suggest that there should be a minimum threshold for the number of public shareholders above zero. We have therefore considered our existing requirements with regard to the nature of shareholders and to what causes us to consider that shares are held in public hands.

7.31 As noted above, shareholders with holdings of 5% or more are assumed to have strategic holdings and are not treated as being held in public hands. Others who do not count for free float purposes include directors and their connected persons, shareholders who have the right to nominate directors, trustees of company employee share schemes and pension funds and shareholders whose shares are locked up for more than 180 days.

7.32 Setting the level of free float at 10%, will therefore ensure that there are more than 2 public shareholders in any company at the point of listing.

7.33 We considered whether there was any available evidence that might suggest we should set this requirement to ensure a higher number of shareholders. However we came to the conclusion that as the purpose of the requirement was not to ensure liquidity, but simply to ensure that the company was to some degree held in public hands, that a higher number was not justified.

Expected consequences of reducing the level of free float

7.34 We do not expect our proposal to reduce free float to lead to a reduction in liquidity in the market. As above, this is largely because we do not think it is likely that free float in the market will change significantly given that average free float is much higher than our current requirements both at IPO and after.

7.35 However, we recognise that some issuers may choose to initially list at levels below our current requirements and that their free float may build over time. Indeed, our proposal aims to provide issuers with more certainly that there is this flexibility.

7.36 But our analysis suggests that our proposal on lower free float at IPO does not create significant risks of unintended consequences for liquidity.

7.37 Beyond this, we have sought to minimise any liquidity risks by combining this proposal with that to raise the minimum market capitalisation required for companies listing on UK markets to £50m. This will mean that all companies will have a minimum float value at IPO of £5m. This puts proposed UK requirements on a par with those of similar markets, such as Euronext.

7.38 In any case we are confident that if our proposal results in any additional listings (at a level of free float below 25%) then the benefits of each of these listings due, for example to benefits for investors in being able to share in the issuers growth at an earlier point in its growth cycle are likely to outweigh any costs from reduced liquidity.

7.39 In light of the above analysis we consider that there are significant potential net benefits in reducing free float from its current level of 25%. A reduction to 10% combined with the proposed minimum market capitalisation of £50m would create a more targeted safeguard for liquidity where it is likely to be lowest while reducing potential barriers created by current requirements.

Our proposal

7.40 We propose to change the free float required under our premium and standard Listing Rules from 25% to 10% both at listing and as a continuing obligation. Data suggests that a significant number of main global IPOs take place at a free float of below 25% but very few at free float of below 10%. If we reduced our requirements to 10% we would therefore allow most issuers flexibility to structure their IPOs in the way that suits them.

7.41 We also propose to remove the guidance in our rules about applying for a modification. This means that we will not accept a free float lower than 10% at listing application or as compliance with the respective continuing obligation.

7.42 This change will also be made to LR 5.2.2 (cancellation of listing) and standard listing LR 18.2.8 and will mean that premium listing guidance 6.14.5G and standard Listing guidance 14.2.3G will be deleted. LR 9.2.15AG, LR14.3.2AG, LR 18.2.9AG, LR 21.6.19G and LR 21.8.19G will also be deleted.

7.43 If issuers are in breach of the 10% level, we would no longer allow them to show they had liquidity via other means, but instead ask that they present a plan for coming back into compliance with the rule as soon as possible.

How will we measure success

7.44 If we go ahead with this proposal following consultation, we will monitor the effects of the new rules by analysing data on listing in the UK market particularly on free float of below 25%. If such listing increases (when other factors are taken into account) then we will consider that this proposal has had a positive effect on listing.

7.45 We will also assess how our proposal has affected investors and whether it is leading to any impacts on corporate governance.

7.46 Further, we will discuss the effect of our new rules with companies considering listing on UK markets and issuers. We will also monitor data to see any effects on liquidity, particularly looking at companies who list at below 25% and the development of their liquidity and free float post IPO.

> **Q25:** **Do you agree with our proposal to reduce free float to 10% and to remove current guidance on modifications? Please give your reasons.**

Discussion on disclosure of free float by issuers

7.47 As noted earlier in this chapter, we understand that investors see a connection between corporate governance and free float. A reduction in a company's free float level can also be an indicator of possible corporate failure.

7.48 Currently, if an issuer breaches the existing continuing obligation around free float, a reaction under our rules could, in theory, lead to suspension or delisting of securities. However, we have rarely suspended or de-listed a company for breach of free float requirements. This would result in shareholders being unable to trade out of their positions which could result in investor detriment. In simple terms if the reason for setting free float is to ensure liquidity, so that investors can enter and exit positions, the tool available to us makes the situation worse.

7.49 We are therefore interested in views on whether an annual (or more frequent) disclosure requirement of an issuers' free float may be more useful to investors than recourse to these actions. We consider that it could allow investors to make their own decisions about the point at which a reduction in free float may influence how they adjust their position.

7.50 We are also interested in understanding any operational challenges that a requirement to establish and disclose free float may pose for issuers.

7.51 Currently, information is made public by exchanges on free float levels and considered in index setting. However, this does not perfectly correspond with the current FCA requirements for free float.

7.52 We are therefore interested in establishing at what level of detail issuers are currently able to access information about their free float and whether there is scope for, and benefit in improved disclosure for investors.

7.53 At this stage we are seeking views on what alternative disclosure might be useful. If we were to take this forward, we would also seek views on what burden this may impose. Any proposals in this area would be subject to cost benefit analysis.

> **Q26:** **Would you find information about issuers' free float level useful to inform investment decision-making?**

8 Track record requirements

8.1 This chapter explores the case for changes to our existing requirements for the financial track record of premium listed companies.

8.2 We note that track record requirements are also set as part of the prospectus regime and that currently, changes to this regime would require primary legislation. The Treasury have recently launched a consultation on changes to this regime that may result in our being granted additional powers. Following the outcome of this consultation we may consider track record requirements as part of a wider review of the prospectus regime.

8.3 In the immediate term, we have considered specific instances where our requirements under the Listing Rules go further than these requirements, and whether they constitute a significant barrier to listing.

8.4 While we are not putting forward specific proposals at this stage, we seek to provide clarity on our willingness to provide flexibility around existing requirements.

Background

8.5 Our current requirements in the premium segment for a track record are set out in Listing Rule 6.2.

8.6 These include a requirement under LR 6.2.1 for a 3-year financial track record covering at least 75% of the business. This is intended to ensure that investors can see the past performance of the business which they are considering investing in over sufficient time and over a sufficient range of the business activities. It also helps ensure that investors have essential information for making their investment decisions when a new issuer is listed, supporting investor protection and market integrity.

8.7 This will also act to safeguard accurate pricing in the market.

8.8 Guidance in LR 6.2.2 states that in determining what amounts to 75% of the applicant's business we will consider the size, in aggregate, of all of the acquisitions that the applicant has entered into during the period required by LR 6.2.1R(1) and up to the date of the prospectus or listing particulars, relative to the size of the applicant as enlarged by the acquisitions.

8.9 Provisions for specialist companies are set out in LRs 6.10, 6.11 and 6.12. The scope of these companies includes mineral companies, scientific research companies and property companies. These companies are able to provide alternatives to the standard information that aim to achieve the same effect.

Track record as a barrier to listing

8.10 The UK Listing Review raised concerns that our current premium listing requirement for historical financial information to cover at least 75% of an issuer's business for the last 3 years can be unduly burdensome. It can also cause a particular barrier for companies that have made multiple acquisitions and disposals before listing.

8.11 We understand that when some issuers are in the margins of fulfilling this requirement (e.g. 70%), they generate historical financial information that may be of little value to investors but meets the letter of the requirement.

8.12 For example, they may include historical financial information on one larger asset that was disposed of 2 years before listing, or on a business that makes up only a very small percentage of the issuer's group, in order to meet the 75% track record requirement.

Our Analysis

8.13 We have considered carefully the merits of a change in our rules, for example that only the last/most recent financial year should comply with the 75% requirement.

8.14 In practice there is an interaction between our track record requirements set out in LR 6.2 with those for disclosures of historic financial information under the prospectus regime. This requires the company to produce 3 years of historic financial information where it has been in existence for this long.

8.15 The prospectus regime also requires the company to include additional information in the prospectus covering complex financial history and significant financial commitment. It also requires additional information to be included 'that investors need to make an informed assessment'.

8.16 We therefore consider that because of the interaction between the prospectus regime, and track record requirements under the listing regime, the benefit from any changes to the track record requirements will be more limited than it appears.

8.17 Due to the interaction of the 75% rule with the revenue earning track record requirements set out in LR 6.3 that set its scope, there may also be broader unintended consequences from any changes to this rule. Changes to the scope of the revenue earning track record could have the effect of removing the requirement to disclose information that is currently useful to investors.

8.18 Beyond this, we consider that only relatively few issuers find the 75% requirement burdensome, while removing the requirements may lead to less clarity for the majority of issuers on the content of the requirements, and risks providing less information for investors.

8.19 Given this, we consider that the costs of a change to our rules, and the additional familiarisation costs that would be incurred, may outweigh its benefits.

8.20 Subject to responses to this consultation, we may seek to publish further guidance on whether we may consider waivers to the existing rules on track record, possibly in a Primary Markets Bulletin, if that was considered helpful. However, this would still be unable to provide definitive examples as any assessment would be based on the facts of each individual case.

Q27: Do you agree with our proposal to leave track record requirements as they are now, based on our assessment that this would only affect a small number of stakeholders? If you disagree, please provide further evidence or examples of the wider impact this has on prospective listing applicants and proposed amendments.

Alternatives for specialist companies

8.21 There are provisions within our rules that allow certain specialist companies to demonstrate their track record using alternative means to revenue generation or some other proxy for revenue generation. For example, under LR 6.11 specialist scientific companies can show detail of patent applications or the ability to attract funds from sophisticated investors.

8.22 The UK Listing Review proposed that current exemptions should be broadened to include other high growth innovative companies from other sectors who are also able to show that they are sufficiently mature in ways other than through having positive revenue earnings.

8.23 We considered how to support the growth of science and technology companies through our Listing Rules in FS 17/3. At this time, we said that we will consider what steps can and should reasonably be taken and continue to engage with stakeholders.

8.24 Before proceeding with any proposals in this area we would like to be clearer about what specific types of high growth innovative companies find meeting this requirement to be a particular barrier to listing. We also want to know how this may differ from those companies included in the existing regime for specialist companies.

8.25 We will then seek further views and evidence from stakeholders on possible proxies for the track record that could be demonstrated by these types of companies.

Q28: What types of companies struggle to meet the existing requirement in the premium segment for a 3 year revenue track record covering 75% of the business? What alternatives could be considered for these companies?

9 Minor changes to the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules

Why we are consulting

9.1 We are consulting on a range of minor changes below to ensure our rules remain up to date and reflect modern technology and business practices.

9.2 These changes are not intended to change market practice but to update the rulebook to:

- remove conflicting requirements, some of which result from changes to the Prospectus Regulation, made before EU withdrawal
- update for technological changes, for example by removing the need for multiple copies of documents, or to remove gender-charged terms.

What we want to change

9.3 These elements all contribute to the perception that the UK listing regime is burdensome and complex, affecting the openness and accessibility of the regime.

Modernisations

- remove requirement for 2 copies of documents now that electronic copies are provided
- remove reference to Document Viewing Facility
- remove the option for full terms of certain documents to be available for physical inspection in the City of London

Duplication and clarifications

- remove competing rules in relation to share buyback exclusions
- update rules on the Notification of Shareholders about the start of the cancellation notice period for a takeover offer
- allow the use of links in circulars
- require Primary Information Providers (PIPs) under general notifications to notify us of a change of control
- updating rules on Class 2 thresholds
- only require issuers to provide submissions where a sponsor is appointed
- class 1 circulars: reconciling LR App 1 and PR App 1 where they have drifted apart
- profit forecasts and profit estimates

Glossary Changes

9.4 The following changes make minor technical amendments to resolve inconsistencies within the glossary terms that underpin the Listing Rules.

- use of the word 'Chair'
- updating the FCA Address
- clarifying the definition of 'electronic copy'
- removal of references to Short Names
- update references of 'UKLA' to 'Primary Markets'
- including a definition of 'trading day' where it has previously been deleted
- amending the definition of 'Public international body' to include the Asian Infrastructure Investment Bank
- option to be italicised in Handbook where applicable
- amend 'IAS' and 'transferable securities' so that they are relevant to the DTRs

Rationale for the changes

9.5 Our intention is to make the Listings Rules themselves more accessible. As we have made changes over time, duplication or conflicts have crept in, or there have been changes to working methods, but the rules have not kept up. While these are low level problems individually, the cumulative effect can make the Listings Rules, DTRs and the PRR difficult for users to follow which add to the overall sense of regulatory burden.

9.6 As outlined above, these proposed changes are grouped into 3 categories. We have identified the following harms with each of these sections:

Modernisations

9.7 Making these modernisation changes will make it easier for issuers to understand and comply with our rules. At the moment, these outdated rules lead to increased compliance costs. These changes will also allow the rules to keep pace with working methods, which failing to do would lead to increased costs for issuers and advisors.

Duplication and clarifications

9.8 Duplication can make it hard for issuers to understand and comply with our rules as competing rules can lead to confusion and increased compliance costs. The clarity provided by clearer, more understandable rules can lead to reduced costs and less time spent by issuers complying with our rules and lower supervision costs for us.

Glossary concerns

9.9 Incorrect or outdated rules in our handbook should always be eliminated as it leads to confusion for issuers and increases our reputational risk. We have used this consultation chapter to make changes where we have been alerted to errors in the Handbook.

Policy proposals

9.10 We provide further detail below on our intentions for the modernisations and duplications. The glossary concerns should be self-explanatory.

Modernisations

9.11 The following changes make minor technical amendments to update and modernise the Listing Rules.

Requests for 2 copies of documents:

9.12 The Listing Rules require issuers to submit 2 copies of documents for all circulars, notices, reports or other documents to which the Listing Rules apply at the same time as they are issued. As submissions are now usually made electronically, the request for 2 copies of a document is outdated. We therefore propose that this reference is removed.

The Document Viewing Facility:

9.13 The National Storage Mechanism (NSM) replaced the FSA's Document Viewing Facility (DVF) on 1 September 2010 yet it is still included in the Listing Rules in several places. We propose that this reference is replaced.

Full terms available for inspection in the City of London:

9.14 In a number of cases (amendments to the constitution, approval or amendment of an employee share scheme or long-term incentive scheme) we allow summaries of terms to be included in circulars which are then supplemented by the full terms being available for (physical) inspection elsewhere. As information can now be made available online, the current requirement is outdated. We propose that this reference is removed, while maintaining that the full terms need to be available electronically.

Duplications and clarifications

9.15 The following changes make minor technical amendments to remove duplications within the Listing Rules.

Share buybacks:

9.16 LR 12 sets out the governance and disclosure rules on dealing in own securities and treasury shares, this includes provisions related to purchases of an issuers' own equity shares. However, by virtue of the meaning of 'transaction' in LR 10.1.3R, purchases of an issuer's own equity shares are not carved out of LR 10. Given the requirements in LR 12, this seems duplicative and so we propose to amend LR 10.1.3R to exclude purchases of an issuer's own equity shares to avoid this duplication.

Start of cancellation notice period in a takeover offer:

9.17 It is possible to read the wording in Listing Rule 5.2.11 R and conclude that there is no automatic threshold when the notification period begins. We are clarifying rules to ensure that the notification period begins when the acceptances threshold of 75% has been received. This is independent of any thresholds for the offer being unconditional.

Allow the use of links in circulars:

9.18 Some companies have highlighted the administrative burden and risk attached to the obligation to publish key financial information in unedited full text via a regulatory information service or RIS. To mitigate this risk and to keep up with working practices.

We propose to allow the use of links in circulars as that this information is also filed in the NSM.

9.19 We propose to amend DTR 6.3.5, giving an exemption to regulated information from being published in full when certain conditions have been met (uploaded to the NSM, the regulated information has been communicated to the media, and a statement is made communicated that the information is available on the NSM).

Only Provide submissions where a sponsor is appointed:

9.20 As a sponsor may not always be required on a further issue, LR 8.4.8 should provide that the relevant submission is required only if a sponsor is appointed in accordance with LR 8.2.1 (in similar form to the wording in LR 8.4.14).

Class 1 Circulars:

9.21 The LR 13 Annex 1 disclosure requirements relate to information typically required in prospectuses and taken from prospectus content requirements, specifically Annex 1 (equity prospectuses) which need to be disclosed in a class 1 circular, with certain adjustments.

9.22 Specifically, LR 13 Annex 1.1 requires disclosure in a class 1 circular of significant changes in the issuer's financial position, as well as trend information. Under the Prospectus Directive, the significant change statement required issuers to disclose any significant change in the financial or trading position of the Group, since the date of the latest historical financial information to be included in the document.

9.23 However, the Prospectus Regulation changed the significant change item, by splitting it into two separate disclosure requirements:

- significant change in the financial position of the Group, and
- significant change in financial performance, now included in the trend information section (item 10.1(b)).

9.24 From a prospectus disclosure perspective, issuers tend to provide one statement on these 2 items.

9.25 We therefore propose to update LR 13 Annex 1.1.1 to reflect this change, so that:

- for the purpose of LR 13 Annex 1.1.1 (1) the reference includes Annex 1 item 18.7.1 (significant change to the financial position), and to Annex 1 item 10.1(b) (significant change in the financial performance)
- for the purpose of LR 13 Annex 1.1.1 (2) the reference includes Annex 1 item 10.1 (a) and item 10.2 (trend information)

Clarification regarding aggregation under LR 10:

9.26 It has been brought to our attention that the aggregation requirements under LR 10 for significant transactions may be unclear.

9.27 We are therefore clarifying that a transaction for which shareholder approval has been obtained and which has subsequently completed, does not need to be further aggregated under LR 10.2.10R (1). Additionally, we are clarifying that any transactions that are aggregated with a class 2 transaction will still be subject to notification requirements in LR 10.4.

9.28 This means that, in the case of aggregated transactions, once the class 2 threshold has been reached, every further transaction requiring aggregation with previous transactions pursuant to LR 10.2.10R (1) must comply with the notification requirements in LR 10.4 for the latest transaction. This would be the case until the class 1 threshold has been reached and the LR 10.5 requirements apply.

Profit forecasts and profit estimates:

9.29 If a listed company includes a profit forecast or a profit estimate in a class 1 circular it must:(1) comply with the requirements for a profit forecast or profit estimate set out in Annex 1 of the PR Regulation; and (2) include a statement confirming that the profit forecast or estimate has been compiled and prepared on a basis which is both:

a. comparable with the historical financial information;
b. consistent with the issuer's accounting policies"

> **Q29: Do you foresee any unintended consequences of these changes intended to modernise the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules?**

Annex 1
Questions in this paper

Q1: **Would a single segment for equity shares in commercial companies meet the needs of both issuers and investors?**

Q2: **Which elements of the existing listing regime would you consider it most difficult or least desirable for issuers and/or investors to operate without? Are there any particular elements you would reinstate? ie the controlling shareholder regime, or the free float requirements**

Q3: **Would the role of the sponsor be a significant loss? Is their role under any specific element of existing requirements considered significantly beneficial to issuers or investors currently?**

Q4: **What would be the benefit of being admitted to the Official List rather than just admission to a trading venue?**

Q5: **Should we have a role in approving the admission criteria set by trading venues and/or indices? Could adequate investor protection be maintained if different trading venues compete on admission requirements?**

Q6: **What types of issuers would find it hard to comply with the standards within the existing premium listing segment and why?**

Q7: **Do unlisted markets provide a suitable alternative to listed markets? Would a gap emerge for any particular type of issuer? Do you consider there would be any particular benefits or drawbacks to this approach?**

Q8: **What types of companies or strategies should the 'alternative' segment be aimed at?**

Q9: **Do the existing provisions in the standard segment need to be changed to suit these companies, either through relaxation or to provide additional shareholder protections?**

Q10: **How important is our role in setting additional admission standards to listing in the 'alternative' segment? Are there any benefits to this role being performed by us rather than a trading venue, or market discipline?**

Q11: **Do you consider the alignment between admission to the index and admission to the 'senior' segment to be important? Should the indices consider setting more objective admission criteria?**

Q12: **How can the process for listing debt and debt-like securities be improved for issuers without jeopardising investor protection?**

Q13: **Should there be a separate listing segment for debt and debt-like securities?**

Q14: **Which particular elements of the listing regime could be tailored to improve their effectiveness for other types of securities? In what way?**

Q15: **Do issuers consider the process of admitting further issues to both the FCA and the trading venue to be burdensome?**

Q16: **Would the existing procedures conducted by trading venues to ensure issuers comply with their disclosure obligations (production of a prospectus) need to be enhanced if we were to cease admitting further issues to the Official List? What costs would be associated with these, if any?**

Q17: **Are there any legal, regulatory or tax requirements that are connected with further issues being admitted to the Official List, that could not be maintained by further issues being admitted to a trading venue?**

Q18: **Do you agree with our rationale for introducing DCSS to the premium listing segment? Is there any additional evidence that we should consider?**

Q19: **Do you foresee any limitations to our proposal if the weighted voting shares are unlisted?**

Q20: **Do you consider that a five year sunset period for DCSS in the premium listing segment is the correct length to protect companies from unwanted takeovers? Please provide evidence for your answer.**

Q21: **Do you consider that the mechanism proposed will be effective in providing a deterrent to unwanted takeovers? Please give reasons for your answer and any possible alternatives.**

Q22: **Do you agree with the proposed controls around DCSS in the premium listing segment? Are there any additional controls that would make the regime more effective?**

Q23: **Do you agree with our proposal to raise the minimum market capitalisation for companies seeking to list under standard and premium listing to £50m? If not, please state your reasons and indicate what alternative threshold may be more appropriate along with any supporting evidence. We also welcome views on whether we should consider setting out conditions under which we might modify the proposed rule on the new threshold, and if so what criteria stakeholders think we could usefully consider.**

Q24: **Do you consider that the current level of market capitalisation for listed debt remains appropriate? Please give reasons for your answer.**

Q25: **Do you agree with our proposal to reduce free float to 10% and to remove current guidance on modifications? Please give your reasons.**

Q26: **Would you find information about issuers' free float level useful to inform investment decision-making?**

Q27: **Do you agree with our proposal to leave track record requirements as they are now, based on our assessment that this would only affect a small number of stakeholders? If you disagree, please provide further evidence or examples of the wider impact this has on prospective listing applicants and proposed amendments.**

Q28: **What types of companies struggle to meet the existing requirement in the premium segment for a 3 year revenue track record covering 75% of the business? What alternatives could be considered for these companies?**

Q29: **Do you foresee any unintended consequences of these changes intended to modernise the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules?**

Annex 2
Cost benefit analysis: dual class share structures

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we consider it is reasonably practicable to do so. Where it is not reasonably practicable to do so, we provide a qualitative assessment of outcomes, taking account of various factors. Our proposals are based on carefully weighing up these multiple factors and reaching a judgement about the appropriate level of investor protection and market integrity.

3. As described in chapter 5, dual class shares allow a shareholder (or group of shareholders) to retain voting control over a company that is disproportionate to their economic interest in the company. A typical dual class share structure involves a company having two classes of shares, identical in all respects, except for voting rights.

4. Historically, the FSA and then the FCA has chosen not to allow DCSS in the premium segment, based on the principle that premium listed shares should operate under a 'one vote, one share' system. Dual class shares are possible in the standard segment.

Problem and rationale for the intervention

Background

5. Issuers in new industries, predominately led by founders want to be able to access the premium listing segment to enhance the reputation of their companies. At the same time, these issuers may be particularly sensitive to the threat of a takeover or removal as directors once they become public companies, before they have had an opportunity to deliver the next phase in their business strategy. Such issuers are therefore more likely to choose to list in other jurisdictions or remain private if dual class shares remain unavailable in the premium listing segment.

6. The Listing Rules for the premium segment do not include an outright prohibition on the listing of shares in DCSS companies. However, they do require that only the holders of premium listed shares can vote on matters on which the Listing Rules require a vote.

7. There is also a possibility that these companies choose to list in other segments other than premium listing. Premium listed companies comply with the UK's highest

standards of regulation and corporate governance, and consequently they may enjoy a lower cost of capital through greater transparency and through building investor confidence.

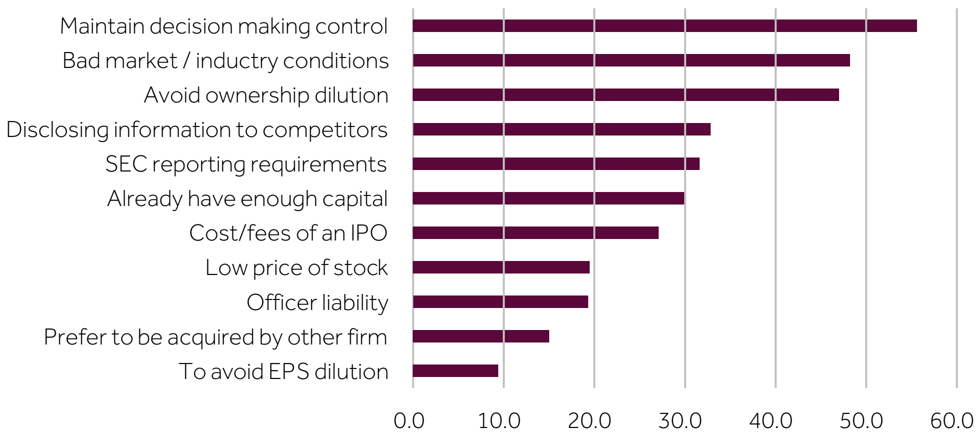
Drivers of harm

8. We consider the existing UK framework may benefit from reforms which could lead to improvements in market efficiency and effectiveness. The harm and drivers identified can be described as follows.

9. **Regulatory failure:** the current rules on DCSS are suboptimal because they act as barriers for some issuers which would benefit from listing in the UK, while these rules do not have offsetting benefits. In particular, companies where there is increased takeover risk – technology companies and companies with intellectual property – choose to incorporate in a jurisdiction with state-level antitakeover provisions or choose not to list at all.

10. A significant barrier is that companies are choosing not to list as they are concerned about losing control of the company. When surveyed, CFOs listed the maintaining of decision-making control and the avoidance of ownership dilution as 2 as the top 3 reasons for deciding not to list. Over half (55%) of companies stated that they preferred to use non-public sources of funding due to the desire to have decision making control.

Figure 1: Survey of CFOs questioning reasons not to list



Source: Evidence from CFOs Pertaining to the IPO Process: Practice, Theory, and Managerial Implications

11. This is also supported by research in The Impact of the Corporate Control Market on IPO Decisions (Boulton 2010). This study found that 26.0% of sample companies in the United States were acquired within five years of their IPO. This study also found that many IPO companies strategically choose the location of the IPO, based on state level anti-takeover to give protections to entrepreneurs. This study demonstrates the concerns that founders may have of an early take-over post IPO and the loss of control, and or vision, for the company they have developed.

12. Alongside this, the UK has one of the highest levels of merger and acquisition activity. Long-term improvements in measures of corporate performance, such as growth profitability and/or more direct measures of innovation are not the typical outcome of takeovers. It can be argued that the focus is on short-term share price performance to avoid the threat of takeover rather than growing the company. This can be a hindrance rather than a help to improving UK investment opportunities.

13. The questions of control is again explored by Ewens and Farre-Mensa (2020) in the Deregulation of the Private Equity Markets and the Decline in IPOs where they found a key reason for companies staying private, or staying private for longer is that it allows founders to retain control of their companies.

The harm

14. The key harm is that by restricting access to DCSS in premium listing we may:

- discourage certain issuers from considering listing in the UK or listing at an earlier stage in their lifecycle, or potentially making a sub-optimal decision to list in our standard segment when they would otherwise be prepared to meet our other enhanced standards in premium listing; and
- reduce opportunities for investors to invest in founder led/growth companies on UK listed markets.

15. Companies staying private for longer or not listing at all, as found by Ewens and Farre-Mensa (2020), has two consequences; firstly it potentially deprives investors of sharing in the growth of the company if it chooses not to list, or secondly, it deprives investors the opportunity to invest earlier in the lifecycle of the company if they are staying private for longer.

16. There is also a possibility that these companies choose to list in the standard segment, on unlisted markets, or remain private. While none of these outcomes is necessarily bad, we do consider that the additional corporate governance and shareholder protections in the premium listing segment are better for shareholders.

Our proposed intervention

17. As stated in chapter 5, companies would be allowed to list two classes of shares in Premium Listing with different voting rights. We intend this to apply to companies that are new to listing or have not previously listed in the premium listing segment. This will allow companies to list earlier in their lifecycle, while retaining more control, and should allow investors to share in the returns from these companies.

18. We propose allowing companies with dual class share structures into premium listing subject to controls outlined in this paper. A key premise of the amendments we are proposing is that they can only be taken advantage of by shares that meet the conditions for specified weighted voting rights shares. These will need to be demonstrated as a condition of eligibility for listing. These conditions are:

- they entitle the holder to more than one vote per share on votes to remove the holder as a director of the company
- in the event of a successful change of control, allows the holder to exercise weighted voting rights in all circumstances
- sets a cap on weighted voting rights relative to ordinary shares of 20:1
- requires holders to be limited to directors of the company at the time of IPO, or following the death of a director, a beneficiary of the director's estate; and
- include a mechanism for the end of the 5 year exemption period, for example the conversion of the weighted voting shares to ordinary shares or their expiration

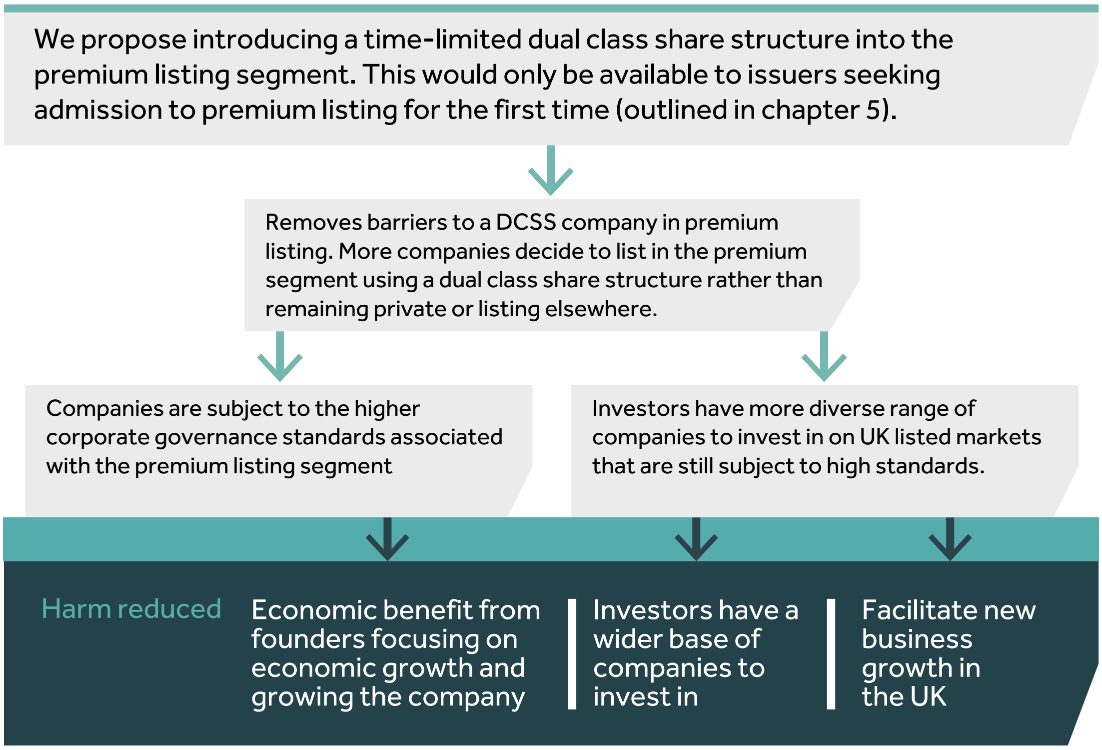
19. We explore the reasoning for introducing a 5 year sunset period below.

20. The CFA asked members in Asian jurisdictions, where DCSS companies have recently been permitted to list, which one of the following time-based sunset provisions they considered as optimal? Respondents were split between 3-5 years (48%) and 5-10 years (44%) *(CFA Institute – A Review of the Debate Surrounding Dual-Class Shares and Their Emergence in Asia Pacific).*

21. As discussed in chapter 5, a year sunset period is consistent with the various academic research we have examined, such as, Cremers, Lauterbach, and Pajuste (2018), who found that the benefits of DCSS structures usually start to fall away between six and nine years after the initial IPOs.

22. Examining externalities such as entrenchment, and the policy rationale to protect founder led companies in the early stages of the development and listing, it would be appropriate to limit the time frame where weighted voting rights can be implemented and to the lower of these scenarios.

Figure 2: Causal chain of introducing DCSS in the premium listing segment



The baseline

23. The counterfactual for our intervention is that companies will continue to list in the premium listing segment based on our current rules (ie it is impractical for companies with DCSS to list in the premium listing segment) or remain private/choose to list elsewhere, including listing in the standard segment using DCSS. We see no reason to believe that other regulatory changes contained in this consultation will significantly affect this baseline.

Assessing the expected costs and benefits

24. The benefits and costs of the changes we propose will only occur for companies listing with a dual class share structure within the premium listing segment. This is a choice, and we are not requiring companies to structure themselves in this way, either as part of their eligibility to list or as part of meeting their ongoing obligations. Our proposed changes are permissive so firm will only incur the costs of taking advantage of the rule change if the private benefits of doing so exceed the costs.

25. It is not reasonably practicable for us to accurately predict the number of companies that may wish to list with DCSS in the premium listing segment as a result of our proposals.

26. As a result, we do not think it is reasonably practicable to fully quantify the benefits and costs that might arise from our proposals. Therefore, we have set out below our quantitative and qualitative assessment of the impact of the proposals.

Expected costs

27. We expect market participants affected by our proposal will read the relevant parts of this consultation and will familiarise themselves with the requirements of the proposed rules.

28. We estimate the familiarisation costs for market participants based on assumptions on the time required to read the 14 pages-long CP excluding the legal instrument. We assume 300 words per page and a reading speed of 100 words per minute and estimate that it would take around 0.7 hours to read this document. We convert this into a monetary value by applying an estimate of the cost of time to market participants, based on the Willis Towers Watson 2016 Financial Services Report, adjusted for subsequent annual wage inflation and including 30% overheads.

29. We conservatively estimate that 1300 issuers on main markets (LSE data) will consider the proposed changes and estimate that per-company costs for 3 compliance officers to read the 14 pages of the CP on DCSS will be ca. £125. (In reality, not all listed companies will read this part of the CP.) Moreover, we estimate that it will cost ca. £310 for 2 members of the legal team to review the instrument. This assumes that to review 50 pages of legal text a legal team member in a listed firm would spend 2 days (14 hours) at a rate of £69/hour (which is adjusted for annual wage inflation and includes 30% overheads). We pro-rate this to the 8 pages of the instrument. Since it is likely that only listed companies which use DCSS will read the instrument and since the number of such firms is unknown, we do not give a total for all listed companies for the legal review.

30. We estimate that approximately 200 advisory firms currently operating in the industry will have to read and understand these changes. We use the same assumptions on words per page and reading speed to calculate costs of reviewing the CP. Moreover, we assume that to review 50 pages of text a legal team member in an advisory firm would spend 0.5 days and pro-rate this to 8 pages of the instrument. In total, we estimate that the one-off familiarisation costs for the advisory firms would be ca. £6,400 for the CP and ca. £6,100 for the instrument.

31. The estimated familiarisation costs and assumptions for listed companies and advisory firms are set out in tables 3 and 4 below. The management of companies floating in the future or new advisory firms will familiarise themselves with the Listing Rules applicable at the time. Therefore, our DCSS proposals do not imply additional costs for such companies or advisors newly joining the industry.

Table 3: Familiarisation costs to review the CP (Figures presented in the text and tables are rounded.)

Category	Number of staff required to read the CP	Hourly staff salary	Familiarisation costs
Listed companies	3	£59	£125 (per company)
Advisory firms	2	£45	£32 (per firm)

Source: FCA approach to CBA, Willis Towers Watson 2016 Financial Services Report

Table 4: Familiarisation costs to review the instrument

Category	Number of staff required	Hourly staff salary	Familiarisation costs
Listed companies	1	£45	£310 (per company)
Advisory firms	1	£55	£31 (per firm)

Source: FCA approach to CBA, Willis Towers Watson 2016 Financial Services Report

32. Market integrity or market confidence risks may arise as an unintended consequences of the DCSS structure that we have put in place. This includes that management may not be as effectively disciplined if they face a reduce risk of removal or the company has less pressure to perform if there is less prospect of a takeover. This could arguably lead to poorer decisions/poorer performance of firm. This will be limited to the scope of DCSS powers being granted to directors.

33. However, we do not think that any material market integrity risks will arise from allowing dual class share structures into Premium Listing. This is because we have sought to minimise such risks through both the controls we have put in place around companies using a dual class share structure in premium listing, and due to the fact these companies will remain subject to wider range of obligations in our premium listing rules. The controls with our proposals include

- A time limit on the use of the DCSS measures and an anti-avoidance measure within the rules.
- The limitations around the use of weighted votes and the investor protections that remain around the controlling shareholder regime.
- The added corporate governance requirements contained in the premium listing segment.

34. A full description of the controls that we have put into place around the use of these shares can be found in chapter 5.

35. Our proposals will not impact existing premium listed companies, given DCSS will only be open to new premium listings. Our proposals may impact some existing standard listed companies to the extent that the introduction of DCSS influenced their potential consideration of moving to a premium listing in future, but this remains optional.

36. We recognise that allowing companies with dual class-share structures may reduce the reputation of the Premium listing brand in the UK and the high corporate governance standards we apply to companies that choose to list here. However, we believe that the safeguards and controls that companies must adhere to when listing in premium listing using a dual class share structure maintains the UK's high corporate governance standards.

37. Lee, Stokes, Taylor and Walter (2013), state that post IPO management incentives can be less aligned with outside shareholders. With a DCSS structure this could lead to sub-optimal decisions and therefore performance of the firm, as management make decisions that are not aligned with most shareholders. However, we believe that the permitted usage of weighted voting (removal of a director and on a change of control) limits this risk.

38. There are likely additional costs for companies from FCA monitoring and applying enforcement oversight of the new rules. However, by requiring issuers to have mechanisms and disclosures in their prospectus documents and constitutional arrangements, we have sought to minimise ongoing costs and we consider these are unlikely to be material in the context of existing costs of compliance companies will have linked to our existing rules for listed companies.

Expected benefits

39. We think that the proposed change to our rules recognises the trade-offs that some companies face when deciding on whether to list in premium listing segment. While the policy proposals will not reduce all the harms we have identified, this change has benefits for issuers, investors and markets that we list below.

40. Benefits to issuers:

- removal of a regulatory barrier that may deter some companies from listing in the UK. This is noted by Deloitte who state '*the shrinkage of equity markets testifies to the powerful appeal of private forms of ownership*'. For companies that would otherwise remain private, this widens the choice for founder led companies wishing to raise capital in the UK, wish to retain control (as seen from the CFA survey in paragraph 11) in the early years, and increases the potential pool of capital available on public markets to private companies that are seeking investment and are sufficiently mature to enter the premium listing segment.
- for companies that would otherwise list in standard listing segment, this would allow them to benefit from the higher corporate governance standards of this segment as well as the reputational benefits listing in the premium listing segment brings. Premium listing may also increase the number prospective investors and the pool of capital willing to invest in an issuer, since some investment mandates may specify that they will only invest in premium-listed equities in the UK.

41. Benefits to investors and markets:

- by removing a regulatory barrier that may deter some companies from listing in the UK, investors may have wider and more diverse opportunities to invest in companies on UK markets. These opportunities will still offer enhanced investor protections from the premium listing segment (e.g. issuers will have to comply with the UK Corporate Governance code, and observe requirements ensuring shareholder notifications or votes on issues such as related party or significant transactions, which remain unaffected by our proposed reforms on DCSS).
- By removing a barrier to listing (as described in the harms), the proposals could facilitate business growth in the real economy, by bringing new companies to list

in the UK (whether from the UK or elsewhere) and increase activity and revenue opportunities for UK based financial and professional services firms. (We note that fee income to these firms is a cost borne by listing firms, i.e. the net benefit is zero.)

42. We consider it better for both investors and issuers that companies which have a market capitalisation of more than £50m operate on public, listed markets rather than unlisted, or private markets. Listed markets are subject to high regulatory standards (especially those of the premium listing segment), of shareholder protection and governance, compared to the alternatives.

43. The stronger corporate governance conditions in the premium listing segment also give greater confidence to the market, attracting superior levels of investment by a larger number of investors. As a result, issuers are themselves attracted to the premium segment where they can draw greater levels of investment at, potentially, a better price than compared with the standard segment.

44. Having considered the quantifiable and non-quantifiable costs and the non-quantifiable benefits, we see reason to believe that the expected benefits will likely outweigh the expected costs. This includes the unintended consequences that may arise from this policy, as the design of the controls seeks to minimise these (reputational risk for the premium listed segment and the impact on corporate governance).

Annex 3
Cost benefit analysis: minimum market capitalisation

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we consider it is reasonably practicable to do so. Where it is not reasonably practicable to do so, we provide a qualitative assessment of outcomes, taking account of various factors. Our proposals are based on carefully weighing up these multiple factors and reaching a judgement about the appropriate level of investor protection and market integrity.

Drivers of harm

3. The main problem we seek to address in making our proposal is regulatory failure. This is because our current requirements allow small companies to be admitted to the Official list, which may give investors inappropriate signals about risks associated with investing in these companies and not direct these companies towards support they may find useful that may be available on other markets.

4. Another driver of harm (market failure) is asymmetric information between investors and listed companies, eg where investors cannot always identify causes of share price volatility.

5. We are concerned that the current requirements in relation to MMC have been unchanged since 1984 and do not provide an appropriate protection for investors.

6. Our data suggests that a minimum market capitalisation set at £700,000 allows small companies to be admitted to the Official list which may have lower liquidity and higher share price volatility than those with a significantly higher market capitalisation.

7. We consider that alternative markets such as AIM and AQSE may be more suitable for such companies as they provide support such as nominated advisors (NOMADS) or corporate advisers, which provide guidance to companies on their responsibilities under the rules of the venue on an ongoing basis.

The harm

8. Our data suggests that small companies below £50m being admitted to the Official List can lead to increased risk of investor harm due to their lower liquidity and higher share price volatility. This may lead to the potential for higher losses of investors, which may in turn act to reduce the wider confidence in companies listed in the UK.

9. Smaller companies listing on main markets may also not receive the type of support and advice, for example from NOMADs and corporate advisers which may be available if they are admitted to AIM or AQSE.

Our proposals

10. We propose to change our listing rules to require that the expected aggregate market value of all securities (excluding treasury shares and shares of a close-ended investment funds or open-ended investment companies) to be listed from its current level of £700,000 to be at least £50 million.

11. We chose a level of £50m as our data suggests that this would capture most of the issuers that showed both lower liquidity and higher share volatility (see paragraphs 18 and 19 below). This also considers that smaller firms can still be admitted to AIM or AQSE, whose rules are likely to be more suitable for companies of that size.

12. Setting a level of £50m also combines with our proposal on free float to set a minimum float level of £5m which puts the UK on a par with other jurisdictions who set free float below 25%. (See chapter 7).

13. This requirement would only apply for new listings and would not apply as a continuing obligation for currently listed companies.

14. The expected aggregate market value of shares of a closed-ended investment fund or open-ended investment company to be listed will remain as at least £700,000.

The baseline: do nothing counterfactual

15. The current level of minimum market capitalisation is set under Listing Rule 2.2.7R which states that the expected aggregate market value of all securities (excluding treasury shares) to be listed must be at least £700,000 for shares and that the expected aggregate market value of shares of a closed-ended investment fund or open-ended investment company to be listed must be at least £700,000.

16. Smaller market cap companies can be admitted to trading on AIM. For AQSE there are some minimum size thresholds such as £700,000 for SPACs and £10m for admission to the Apex market, see here.

Companies listing under the baseline

17. Our analysis of companies listing at a market cap below £50m years since 2017 shows the following

Table 5: Companies listing below £50m 2017-2021 in main market

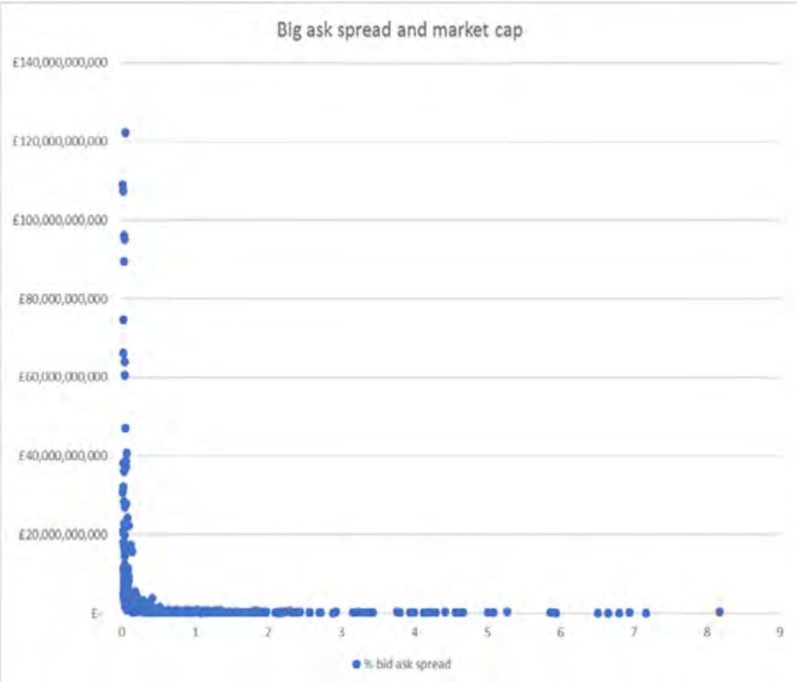
£m	0-10	10-20	20-30	30-40	40-50	Total
No of companies	*22*	*5*	*1*	*3*	*2*	*33*
Aggregate market cap £m	*114.2*	*73.4*	*27.6*	*106.2*	*96.3*	*417.8*

FCA analysis of LSE data.

18. Of these companies, 11 were exploration and mining companies, 5 were software companies, 2 were pharmaceutical companies, with the rest from a diverse range of sectors.

19. Our analysis suggests that companies with lower market capitalisation have lower liquidity. This is shown in Figure 1 below.

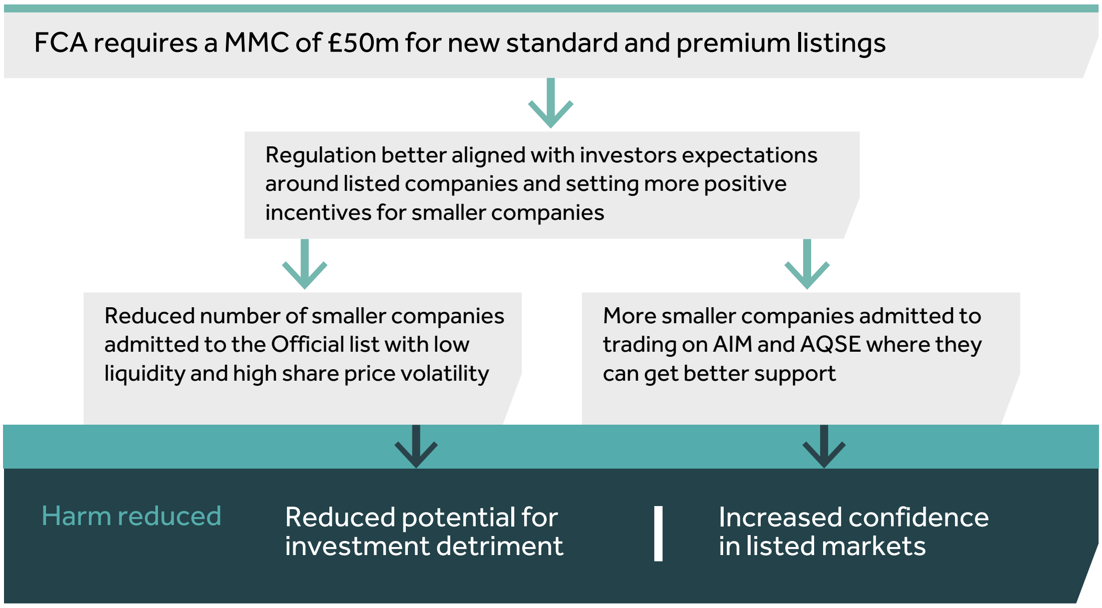
Figure 3 Market cap against bid ask spread.



FCA analysis from FTSE All Share data 2021

20. Our analysis of where we have observed high share price volatility and where we have been provided with alerts over instances of suspicious trading from 2018-2021 suggests that over 85% of these were for market cap companies of below £50m.

21. The causal chain showing the impact of our proposal is set out below:



Summary of cost and benefits of our proposal

22. The expected costs and benefits of our proposal are set out in table 6 below:

Table 6 Costs and benefits of our proposal on minimum market cap

Costs of our proposal	Benefits of our proposal
Additional familiarisation costs for listed companies and their advisors and for small companies considering listing on main markets and their advisors in updating their information. We estimate these costs at ca. £190,000.	Reduced investor harm due to smaller companies listing on other markets which reduces the potential for investor losses.
Potential effect on access to equity funding for smaller companies who may otherwise choose to list on main markets.	Small companies being able to receive support they need on AIM and AQSE
	Improved confidence in listed markets
	Significant regulatory time saving for the FCA

23. We have estimated familiarisation costs as described in paragraphs 26-33

24. Our proposal will have ongoing benefits of increased confidence in listed markets, reduced investor detriment, benefits for companies with a smaller market capitalisation who may receive support on venues more suitable for them. It will also reduce costs of the FCA. Whilst we cannot precisely estimate the scale of these benefits, we consider that they will out-weigh the costs.

Costs and benefits of our proposal

Expected costs

Familiarisation costs

25. We expect market participants affected by our intervention will read relevant changes put forward as part of the proposals in this consultation and will familiarise themselves with the requirements of the proposed rules.

26. We conservatively estimate that 1300 issuers on main markets (LSE data) will consider the proposed changes to market cap. In addition, we estimate that approximately 200 advisory firms currently operating in the industry will have to read and understand these changes.

27. We assume that after the implementation of our proposals, companies listing once the new minimum market capitalisation applies, issuers and advisors will not incur additional implementation cost, because they will in any case familiarise themselves with the rules in force at that point in time.

28. We estimate the familiarisation costs for market participants based on assumptions on the time required to read the 3 pages-long CP excluding the legal instruments. We assume 300 words per page and a reading speed of 100 words per minute and estimate that it would take around 0.15 hours to read the document. We convert this into a monetary value by applying an estimate of the cost of time to market participants, based on the Willis Towers Watson 2016 Financial Services Report, adjusted for subsequent annual wage inflation and including 30% overheads.

29. Total familiarisation costs by participant size and the corresponding assumptions are set out in table 7. In total, we estimate that the one-off familiarisation costs for the industry would be £36,160.

Table 7: Familiarisation costs and assumptions (Figures presented in the table are rounded)

Category	Number of staff required to read the CP	Hourly compliance staff salary	Total familiarisation costs
Listed companies	3	£59	£34,795
Advisory firms	1	£45	£1,365
Total industry one-off familiarisation costs			£36,160

Source: FCA approach to CBA, Willis Towers Watson 2016 Financial Services Report

30. Following familiarisation with the proposals put forward, we expect market participants to conduct a legal review of the proposals and a gap analysis to check their current practices against expectations.

31. We estimate the legal costs for market participants based on assumptions on the time required to read the 3 pages-long legal instrument. We assume that to review 50 pages of text a legal team member in a listed company would spend 2 days and a legal team member in an advisory firm 0.5 days and pro-rate this to 3 pages of the instrument.

32. Total legal costs by market participants size and the corresponding assumptions are set out in table 8. In total, we estimate that the one-off legal costs for the industry would be £153,551.

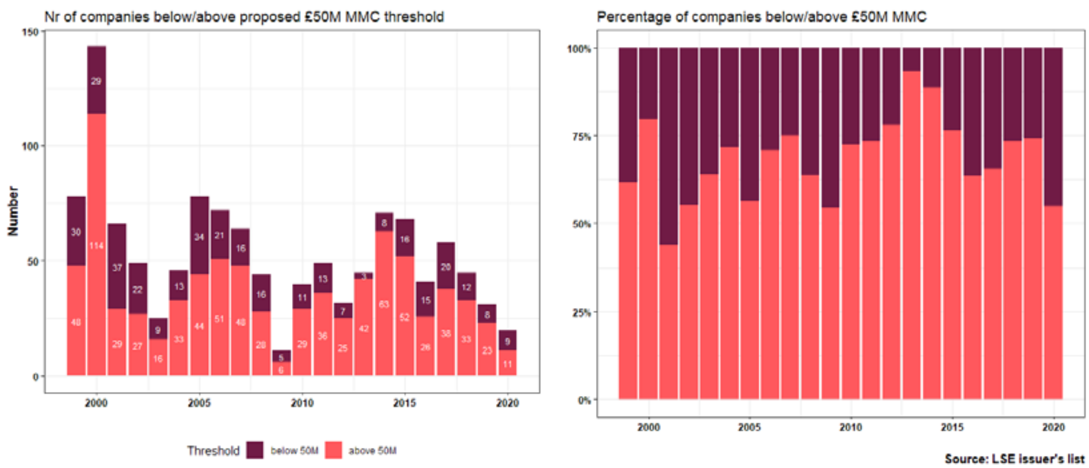
Table 8 Legal costs

Category	Number of legal staff required to read the legal instrument	Hourly legal staff salary	Total legal costs
Listed firms	4	69	£151,258
Advisory firms	1	55	£2,293
Total one-off industry legal costs			£153,551

Potential effects on access to equity funding

33. We expect that our proposal will lead to fewer companies with small market capitalisation being able to be admitted to the Official List.

Figure 4: Companies below the proposal £50m threshold (standard and premium)



Source FCA analysis based on LSE data

34. Figure 4 shows that 9 companies were below the £50m threshold in 2020; over the last five years this figure has been an average of 13 companies each year. This figure is broadly consistent with that in table 5 which only included standard listed companies and excluded any SPACs or investment funds.

35. However, we do not consider it possible to estimate precisely, using a quantitative method, how many companies may choose not be admitted to the Official List if the threshold is raised or whether these companies will instead be admitted to trading on alternative markets such as AIM or AQSE or remain private.

36. We accept that not being able to be admitted to the Official List may constitute a cost for smaller companies. This could relate to additional financing costs related to raising capital or additional reputational costs, where they cannot benefit from listing brands.

37. We do not consider that we can quantify these costs but point out that these companies can be admitted to trading on alternative venues which we consider more suitable for them.

Expected benefits

38. We consider that our proposal should have the following benefits compared to the baseline counterfactual:

a) It should act to improve market integrity by acting to increase investors' confidence in the types of companies admitted to the Official List.

39. Investors may have more confidence in listed market if their losses on shares in companies with lower liquidity and higher share price volatility are currently significant.

b) It should also act to reduce investor detriment in listed companies, reducing losses incurred by investors.

40. We consider that this proposal should act to reduce investor detriment associated with investor losses which occur under the baseline counterfactual.

41. Our analysis has shown that there is lower liquidity and higher share price volatility in companies with lower market capitalisations and this creates the potential for higher investor losses.

42. Whilst we consider that we cannot estimate these losses precisely, we understand that these losses, if significant, could also act to undermine confidence in listed markets.

c) It will redirect companies with small market cap capitalisations to other markets which are more suitable for them and their investors

43. Raising the MMC may mean that some smaller companies which would previously have been admitted to the Official list will now choose to be admitted to trading on other markets such as AIM or AQSE. We consider that these markets may be more suitable for these companies. This is partly as their rules are likely to be more suitable for companies of that size.

44. For example, AIM offers 'a network of advisors and liquidity providers who are experts in the needs of growing companies'. AQSE offers support including corporate advisors, corporate brokers and market makers.

45. This will also provide clearer signals to investors about the nature of the risks investing in these companies.

46. Since we cannot estimate the number of companies that will be admitted to AIM or AQSE because of the new MMC or to monetise the benefit from the additional support, it is not reasonably possible to quantify these benefits.

d) It will save regulatory costs.

47. This proposal will have the added benefit for saving costs incurred by the FCA related to the small companies admitted to the Official List. These may include costs associated with monitoring related to share price volatility and reports of suspicious trading and instances of investor detriment.

Annex 4
Cost benefit analysis: free float

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we consider it is reasonably practicable to do so. Where it is not reasonably practicable to do so, we provide a qualitative assessment of outcomes, taking account of various factors. Our proposals are based on carefully weighing up these multiple factors and reaching a judgement about the appropriate level of investor protection and market integrity. In this case we consider that problems in the data mean that the scope for quantitative analysis is limited as discussed later in this section.

3. This CBA considers this potential harm and assesses the costs and benefits of reducing free float to 10% and removing waivers, i.e. guidance related to a modification.

Problem and rationale for the intervention

4. Our rationale for intervening by changing is based on potential harm arising from current requirements as set out below.

Potential drivers of harm (Market Failure)

5. The potential harm is due to regulatory failure ie current requirements lead to unnecessary costs to issuers and wider detriment. This could relate to our requirements creating regulatory uncertainty whether issuers may be able to list at a free float of below 25%. This may then result in firms not listing, listing later than they would have done under our proposal or listing in other jurisdictions. This may then have knock-on costs in lost taxes and lost employment in the UK of companies who may otherwise have listed and sited themselves in the UK that are not outweighed by their benefits, in particular investor protection.

The harm

6. The harm due to these requirements could be then as follows:

- by not providing issuers regulatory certainty under which circumstances they could list at a free float below 25%, our requirements may deny issuers the opportunity to optimise their execution risk at IPO.

- as free float requirements may appear clearer in other jurisdictions where such IPOs are permitted if certain requirements are met, this in turn may create barriers to listing in the UK particularly for companies which want to list at a lower free float to manage their execution risks or risks of under-pricing. This then may also act to reduce the number of listed companies that investors can choose to invest in, preventing them from sharing more fully in any such companies' value growth.
- there may also be knock-on costs in 'IPOs lost' for the UK in relation to fees not earned here (but also not paid, i.e. a transfer between market participants not made) and possible additional benefits to the UK of companies listing in the UK such as a greater likelihood of locating headquarters in the UK.
- there may also be unnecessary costs associated with applying for a modification (waiver).
- where companies list overseas instead of in the UK, there are also possibly higher costs for investors who chose to invest outside the UK and potentially higher costs of listing in some of the alternative jurisdictions.

Our proposals

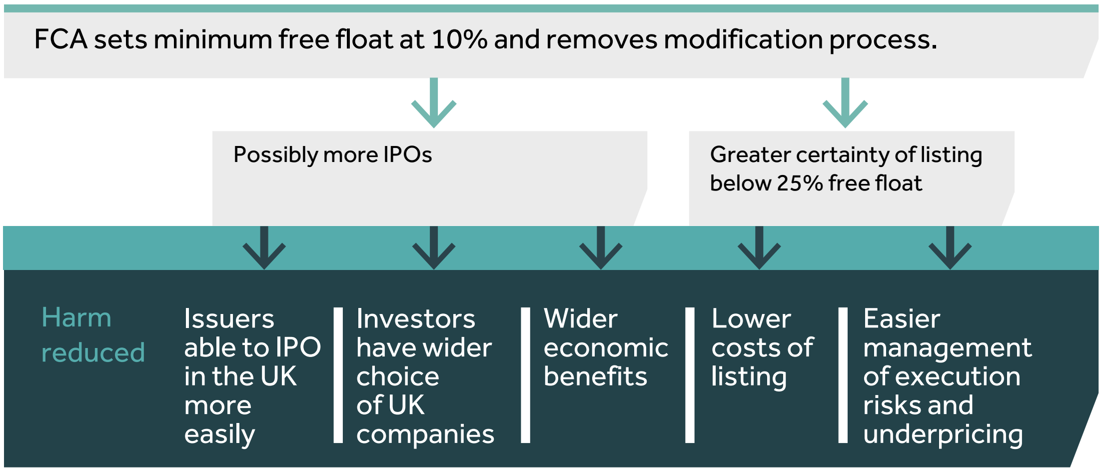
7. To identify possible policy options for closer analysis, we conducted an initial review of the feasibility of a broader scope of options. These were reviewed in relation to how issuers performance against them could be monitored and their likely effects on listing.

8. This analysis suggested that setting a requirement substantially higher than 10% could mean that some of the potential benefits of the change in this requirement, for example related to increasing listing in the UK could be lost as data suggests large IPOs take place below a free float of 15%. Other possible options such as tapering free float requirements over time were considered but not regarded as feasible given the additional monitoring costs they may involve. In light of this, we discuss the costs and benefits of a proposal to reduce to a free float requirement of 10%.

9. Our proposals to change the free float requirement are set out in detail in the CP. These comprise the following:

- amend our Listing Rules on premium and standard listing on the sufficient number of shares to be distributed to the public (the level of 'free float') from 25% to 10%, both at listing and as a continuing obligation, and
- remove existing provisions which allow for companies to apply for a modification to the free float rules

10. We also propose to raise the minimum market capitalisation for companies listing in the UK to £50m, leading to a minimum free float of £5m. The costs and benefits of this proposal are assessed separately in annex 3. of this document and are not considered here.



The baseline and key assumptions

Data used

11. We have considered information from secondary sources to inform our thinking, such as the submissions to the UK Listing Review from stakeholders such as the LSE and relevant studies such as the study undertaken by Oxera for the European Commission and relevant academic research. We have also conducted some analysis based on Dealogic data. More detail on our analysis is included later in this section.

12. We understand that underlying impacts of Brexit and the pandemic are still being felt in the market and these may affect the representativeness of recent data and trends for the situation in future years. Given this, we have tended to avoid relying on 2020 information only and have considered a longer time period. Further we note the following data issues which prevent us from modelling the relationship of free float and liquidity at a granular level under the 'do-nothing' counterfactual:

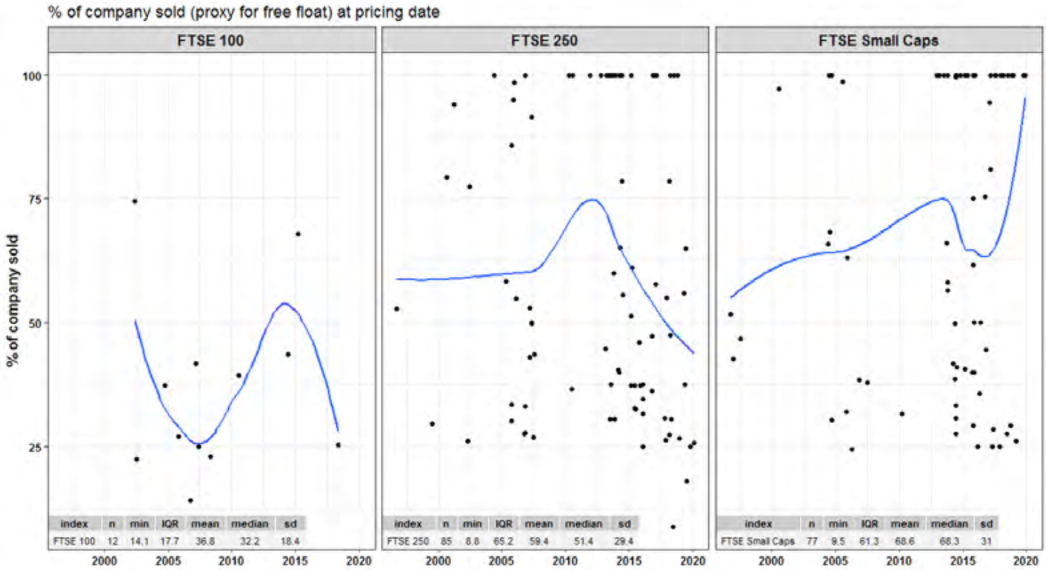
- There is a lack of detailed data on issuer free float beyond shares publicly traded. This is different from free float as defined in our regulation. Under our Listing Rules, shares are only considered to be in public hands if they are held by shareholders who have less than 5% of the total shareholding in a company. Shareholders with holdings of 5% or more are assumed to have strategic holdings that do not provide liquidity. Others who do not count for free float purposes include directors and their connected persons, shareholders who have the right to nominate directors, trustees of company employee share schemes and pension funds and shareholders whose shares are locked up for more than 180 days.
- We do not have access to data on all factors that could possibly have an impact on liquidity, for example ownership data and breakdowns of shareholdings, to understand free float as understood in our regulation.

13. Given this lack of data, we have considered the academic literature to make broad assessments of likely key relationships between free float and liquidity.

14. We note the following main trends under the counterfactual:

a. Average issuer free float is generally much higher than 25% at IPO and across market caps, though it is lower at higher market cap. This is shown in Figure 2 below:

Figure 5: Issuer free float at IPO in UK companies 2000-2020

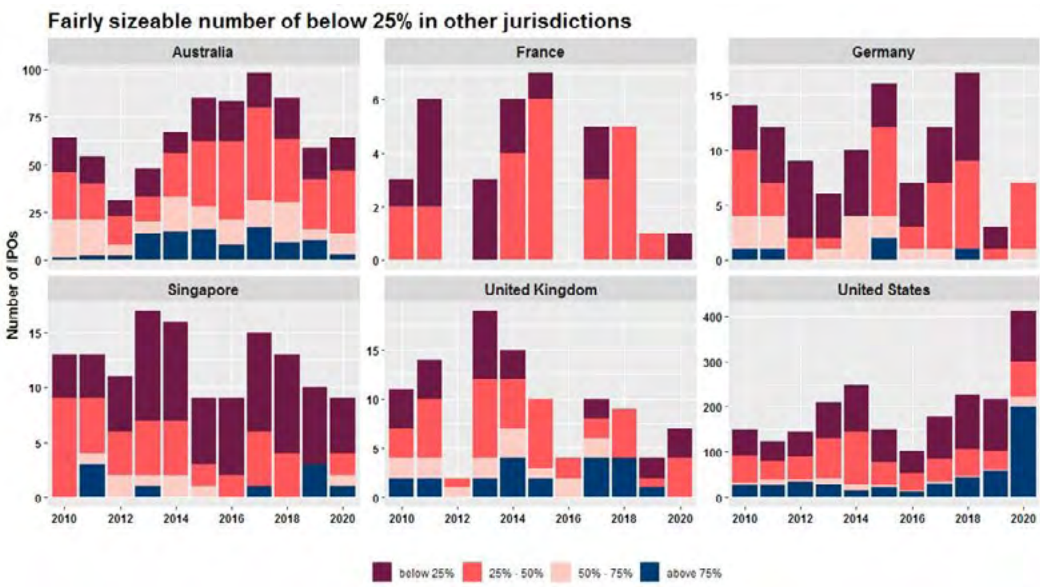


Source: FCA analysis of Dealogic data 1995-2019 The blue line is the average free float at IPO.

b. Our review of existing studies of the relationship between different free floats and liquidity, described later in this section, finds that higher free float is associated with higher liquidity. The higher minimum market cap of £50m will likely mean that fewer stocks with low liquidity are listed on the main market.

c. The number of UK IPOs has declined over recent years. This is shown in figure 6 below.

Figure 6: IPOs and free float across jurisdictions 2010-2020



Source FCA analysis based on Dealogic data

Summary of costs and benefits of our proposal

15. Compared to the baseline described above, we expect that our proposal may have the following costs and benefits as summarised in the table below:

Table 9: Summary of costs and benefits of our proposal

Costs	Benefits
Familiarisation costs of around for issuers and advisors of ca. £72,000 and legal costs of ca. £300,000.	Saved ongoing costs of submitting and handling modifications for issuers and for the FCA.
Potentially higher execution costs for investors in companies listing at a free float of below 25%	Possible increased UK listing (at a free float of below 25%).
	Investors may benefit from a wider pool of UK listed companies to invest in.
	Greater control for issuers over the management of the company at an early stage in the growth of the company
	Investors may be able to invest earlier in these listed companies and enjoy more of the benefits of value growth in these companies.

16. Whilst we cannot quantitatively estimate the net benefits of our proposal, we consider that the benefits described in table 9 will outweigh the costs identified.

Expected costs

Familiarisation costs

17. We expect market participants affected by our intervention will read relevant changes put forward as part of the proposals in this consultation and will familiarise themselves with the requirements of the proposed rules.

18. We conservatively estimate that 1300 issuers on main markets (LSE data) will consider the proposed changes and whether to change their existing level of free float to between 10-25%. There will likely be a subset of firms within the 1300 for which these familiarisations costs will not apply to as they decide or choose to keep a free float above 25%. In addition, we estimate that approximately 200 advisory firms currently operating in the industry will have to read and understand these changes.

19. Management of companies floating in the future will familiarise themselves with the free float rules applicable at the time (whether 25% or 10% minimum). Therefore, our policy proposals do not imply additional costs for such companies or advisors newly joining the industry.

20. We estimate the familiarisation costs for market participants based on assumptions on the time required to read the 6 pages-long CP excluding the legal instruments. We assume 300 words per page and a reading speed of 100 words per minute and estimate that it would take around 0.3 hours to read the document. We convert this into a monetary value by applying an estimate of the cost of time to market participants, based on the Willis Towers Watson 2016 Financial Services Report, adjusted for subsequent annual wage inflation and including 30% overheads.

21. Total familiarisation costs by participant size and the corresponding assumptions are set out in table 10. In total, we estimate that the one-off familiarisation costs for the industry would be £72,320.

Table 10: Familiarisation costs and assumptions (Figures presented in the table are rounded).

Category	Number of staff required to read the CP	Hourly compliance staff salary	Total familiarisation costs
Listed companies	3	£59	£69,591
Advisory firms	1	£45	£2,730
Total industry one-off familiarisation costs			£72,320

Source: FCA approach to CBA, Willis Towers Watson 2016 Financial Services Report

22. Following familiarisation with the proposals put forward, we expect market participants to conduct a legal review of the proposals and a gap analysis to check their current practices against expectations.

23. We estimate the legal costs for market participants based on assumptions on the time required to read the 6 pages-long legal instrument. We assume that to review 50 pages of text a legal team member in a listed company would spend 2 days and a legal team member in an advisory 0.5 days and pro-rate this to 6 pages of the instrument

24. Total legal costs by market participants size and the corresponding assumptions are set out in table 11. In total, we estimate that the one-off legal costs for the industry would be £307,102

Table 11

Category	Number of legal staff required to read the legal instrument	Hourly legal staff salary	Total legal costs
Listed companies	2	£69	£302,516
Advisory firms	1	£55	£4,586
Total one-off industry legal costs			£307,102

Potential effects on corporate governance

25. We recognise that by allowing issuers to list with a lower proportion of shares in public hands, it may be arguable that this could have some effect on corporate governance standards of a company if this means less independent shareholder challenge to an issuer's management. However, we do not think this is likely to be material since we have other protections within our rules, particularly for premium listed companies, which seek to ensure adequate corporate governance standards are met. These are also enhanced via the UK Corporate Governance Code.

26. Further, as noted above, we also expect relatively few issuers will float at the minimum level of 10% and typically free float increases over time, so there is still likely to be a reasonable level of public shareholders.

27. It also cannot be assumed that shares not in public hands are necessarily held by affiliates of the issuer's management. Many companies coming to public markets will have had prior funding rounds that diversify their shareholder base and means there is existing challenge to the issuer within a subset of its 'non-public' shareholders for the purpose of our free float rule. This is true of companies listing in both the standard and premium listing segments. On that basis, we do not consider our free float proposals will have a significant effect on corporate governance, nor do we consider it feasible to assess this.

Potential effects on liquidity in the market

28. We also need to consider the potential effects of our proposal on liquidity in the market.

29. A robust study of these impacts would require the following sequence:

a. forecasting which IPOs would float less than 25% of the shares. This would allow us to build up a profile of issuers which included information about them in relation to other potential drivers of liquidity so that we could estimate any effects of a change in free float for those IPOs with greater accuracy;
b. understanding the effects of free float and other factors on liquidity;
c. quantifying the relationship between liquidity and execution cost;
d. estimating the volume of shares expected to be traded at higher execution cost.

30. However, we cannot predict the number and types of IPOs that will make use of the new rules and we do not have data on all factors affecting liquidity. Because the lack of data on some factors that impact liquidity would likely have rendered (regression) results unreliable, we have not undertaken our own assessment of the relationship between free float and liquidity. We cannot estimate the traded volume of shares in IPOs that will list with a free float of less than 25%. Therefore, more detailed results on the effect of free float on liquidity, for example for free float of 10% to 25% vs 25% to 50%, would still not allow us to reliably assess the potential loss for investors.

31. To assess the risks of unintended consequences from our proposal, we instead have looked to draw reasonable conclusions from main trends and academic research. These find an overall association between free float and liquidity but they don't analyse separately the relationship at lower levels of free float. These include:

- El-Nader 2017: 'Stock liquidity and free float: evidence from the UK.' This study considered the association between liquidity and free float using a sample consisting of 15,650 firm-level observations in the UK stock market (FTSE-100 constituents) over the period from May 2002 to December 2016. It found an association between free float and liquidity, although the correlation varied considerably according to the liquidity measure used. Other factors such as market cap and ownership were also found to have an association with liquidity.
- Ding, Ni, Zhong, 2016 'Free float and market liquidity around the world' investigates the relationship between free float and stock market liquidity using a sample covering 55 countries from 2003 to 2011. It finds that stocks with higher free float have a higher level of liquidity and a lower level of liquidity risk.
- Chan et al., 2004 'Free Float And Market Liquidity: A Study Of Hong Kong Government Intervention' compare 33 stocks in which the Hong Kong government bought a significant proportion of shares with other stocks. They find that there was a higher price effect of trading volume on price for these 33 stocks, but no clear cross-sectional relation between the change in the price effect and the magnitude of government holdings or decrease in free float. (The price effect measures how much the stock price will change for incoming orders of a given size.)

32. We also considered relevant submissions presented to the UK Listing Review, where some stakeholders have examined the relationship between free float and liquidity.

33. We can't predict the number of companies that will float at between 10% and 25% but these companies are likely to be those with a larger market cap where liquidity is generally higher (we are also consulting on a higher minimum market cap of £50m). These companies can already request a modification to have a free float of below 25% if they choose to do so. It is also likely that those that will float at levels below 25% may be quickly subject to an increase in their free float to more than 25%. Even if there could be an impact on liquidity, it is hence unlikely to be significant. And therefore it is unlikely that there could be substantial higher execution cost from our proposal.

34. Given this, we expect the total cost due to an impact on liquidity to be small.

Benefits of our proposal

35. To consider whether our proposal may act to increase the number of UK listings we have assessed whether UK regulatory requirements in relation to free float exceed those in other jurisdictions and data on free float in leading global IPOs.

36. Table 12 below shows that current UK requirements for a free float of at least 25% (and possibility of application for a modification) appear to exceed those of other jurisdictions including those of Euronext.

Table 12: Free float requirements in other jurisdictions main exchanges

Exchange	Free float	Other requirements
US NYSE	None	Main: Min 400 shareholders. Min 1.1m publicly held shares Min share price $4. Min value of $40m publicly held shares. For Non-US companies: Min 5,000 shareholders Min 2.5m publicly held shares. Min value of $4 share price- Min value of $60m publicly held shares. Market: $3m Min value of public float. Min 400 shareholders
US NASDAQ	None	Global Select: Min 450 shareholders or 2,200 shareholders. Min. value of publicly held shares at IPO -$45m to $110m for 'seasoned companies'. Global Round: lot 400 shareholders. 1,1m shares Minimum value of $8m (income standard), $18m Equity Standard, $20m Market value Capital: Round: lot holders: 300; publicly held shares: 1 mi market value of public shares: $15m $5m Net Income
EU Euronext	25% or down to 5% if min float	Minimum float of €5m.
Hong Kong	25% or down to 15% if it meets other requirements	Normally suspended from listing if free float falls below 15% (or 10% if on the 15% float limit) But can be a waived in exceptional circumstances. Min. 300 shareholders. Not more than 50% of the shares to be owned by largest 3 shareholders
Australia	20%	Min. of 300 non-affiliated investors, with holdings at least A$2,000 each
Singapore	20%	Suspended from listing if falls below 10%, but can be waived for a 3 months period or more

Source FCA analysis

37. We have analysed the free float of main global IPOs in 2019 using PWC data in Table 5 below. This shows that none of these IPOs took place in the UK. Five out of these ten IPOs were at a free float estimated as less than 25%, while only one out of ten was lower than 10%.

Table 13: Main global IPOs 2019

Jurisdiction	Company	IPO value $bn	% free float
Saudi SE	Saudi Aramco	25.6	1.5
NYSE	Uber	8.1	10.7
HKEX	Budweiser	5.7	12.8
NYSE	Avantor	3.3	44.6
NASDAQ	Lyft	2.6	12.4
Borsa Italiano	Nexi	2.3	36.4
NASDAQ	XP	2.3	15.1
Deutsche Borse	Team viewer	2.2	37.5
Euronext Paris	Francaise des Jeux	2	48.4
HKEX	ESR Cayman	1.8	27.6

Source FCA analysis of PWC data

38. Given the data in tables 12 and 13 we can see that UK requirements for free float exceed those of other jurisdictions and that many IPOs take place at a free float of between 25% and 10% (see also figure 6).

39. We recognise that 'home bias' remains a strong driver in listing and that we cannot assume that listings which took place in other jurisdictions may have taken place in the UK if the minimum free float had been lower. However, we do consider it reasonable to assume that bringing UK requirements more into line with those of other jurisdictions by allowing free float at below 25% with a modification would act to make it easier for issuers to list in the UK and over time to increase UK listing (relative to the counterfactual).

40. We do not think that it is possible to estimate robustly though this potential impact that our proposal may have beyond noting that it should promote listing.

41. This is particularly the case as this proposal is one of a package of measures, each of which may have a bearing on numbers of companies listing in the UK (e.g. the introduction of a dual-class share structure may increase listing, while a minimum market cap would preclude the listing of companies with a lower market capitalisation).

42. However, to understand the scale of potential benefits that may be available we may consider the fees that would have been raised if IPOs listed in table 4 with a free float of between 10% and 25% had been listed in the UK. Assuming a fees rate of 4% this would have led to fees of $748m. Since these fees are a cost to the firms listing, they net out when assessing the net benefits of the proposal.

43. Whilst it is not reasonable to assume that any of these IPOs may have come to the UK following our proposal, it could lead to an increase in productive investments and associated potential benefits in UK taxes and employment. And the scale of potential benefits is of a different scale than any potential costs due to the proposal.

44. It is also possible that issuers who currently list in the UK at above 25% would have chosen to structure their IPOs differently (for example to manage down execution costs) or would come to market earlier.

45. We also consider that if more issuers list in the UK there will be benefits for investors who will have a larger pool of companies to invest in. Given this, it is also possible that investors will be able to participate in more of the growth of these companies than under our current requirements.

46. We consider that it is not possible for us to estimate robustly these potential benefits which depend on a number of uncertain outcomes, for example the extent to which the proposal encourages greater numbers of companies listing.

Benefits of reduced costs for issuers and the FCA

47. This proposal should have the added benefit of reducing costs for the FCA associated with listed issuers. These costs may relate to monitoring issuers' free float and handling any applications for modifications. We expect that our proposal will also reduce costs for issuers who will no longer need to apply for modifications.

Annex 5
Cost benefit analysis: Minor changes to the Listing Rules, Disclosure Guidance and Transparency Rules and the Prospectus Regulation Rules

1. Section 138I of the Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA) unless the costs and benefits cannot be reasonably estimated or it is not reasonably practicable to estimate them (section 138I) and unless the expected increase in costs is of minimal significance (section 138L).

2. We are proposing a range of minor changes listed in chapter 7 to ensure our rules remain up to date and reflective of modern technology and business practices. These changes are not intended to change market practice. These changes remove conflicting requirements, some of which result from changes to the Prospectus Regulation, made prior to EU withdrawal; and update for technological changes.

3. The details of the current rules which we propose to amend all contribute to the perception that the UK listing regime is burdensome and complex, affecting the openness and accessibility of the regime.

4. The benefits of the changes that we are making: the cumulative effect of these rules and requirements can make the Listings Rules and DTRs easier for users to follow and reducing to the overall sense of regulatory burden from inaccessible rules. The expected benefits of our changes are from decreased costs for companies and advisors as a result of;

- our rules will be easier to understand and comply with;
- rules keeping pace with working methods; and
- the better use technology, and the discarding legacy systems.

5. We also expect decreased supervision costs for FCA and decreased reputational risk for FCA from incorrect rules and definitions in the handbook.

6. As we explain below, we expect that our proposed changes will either result in no cost increases or increases of minimal significance to issuers or firms. Hence, we have not conducted a full cost benefit analysis (in line with section 138L). Having assessed the individual changes proposed in chapter 9 we believe the exemption under section 138I(8)(b) of FSMA applies as, due to the reasons explained below, it is not reasonably practicable to produce an estimate of the costs or benefits arising from the proposed changes. Therefore, no CBA is required for the proposals in this chapter.

Expected costs

7. We considered how much time staff and advisors may spend per firm to familiarise themselves with these changes. We conservatively assumed that 3 persons per listed firm (including both staff and external advisors) would read the summary or the key part of the summary and some of the sections of the instrument (ca. 1,500 words in total). Assuming 15 mins per person, a reading speed of 100 words/minute and an hourly wage for a compliance person of £59, this amounts to ca. £44.6 per firm (15*£59/60*3 =£44.6). The hourly wage is based on the Willis Towers Watson 2016 UK Financial Services Report. Across the 1300 issuers listed on the main market that would amount to ca. £58,000. We believe that this is a cost of minimal significance for the individual issuer and in total for the main market.

8. Implementation costs will be of minimal significance as the changes under each of the themes set out in chapter 9 (Modernisations, Duplications and Clarifications, and Glossary Concerns) do not impose any additional requirements. Our reasoning for this is outlined below.

9. The changes that we are making under modernisations, remove requirements and options for issuers that are outdated (and hence likely no longer used). These changes will also allow rules to keep pace with working practices. This will have implementation cost of no or minimal significance.

10. The changes under duplications and clarifications remove conflicting requirements and makes existing rules clearer and more understandable for issuers to comply with. These will have implementation cost of minimal significance.

11. The changes to the glossary eliminate outdated or where they have been altered to incorrect rules. This will have implementation cost of no or minimal significance.

12. We are satisfied that the proposed changes either does not increase costs to issuers or consumers, or any increase will be of minimal significance.

Annex 6
Compatibility statement

Compliance with legal requirements

1. This annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of enhancing market integrity.

- Market integrity – protecting and enhancing the integrity of the UK financial system by ensuring that we apply the Listing Rules proportionately, transparently and effectively.

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they seek to ensure requirements for listed companies and companies seeking to list their securities are clear and proportionate. We think our measures may encourage a better choice of investment opportunities to investors, and alternative routes to public markets for private companies.

9. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA. In particular:

The need to use our resources in the most efficient and economic way

11. The proposals set out in this CP are consistent with an efficient and economic use of our resources. Our approach is designed to make listing more accessible for issuers, in part by providing more clarity on our rules. This additional clarity will also make it easier for us to assess issuers eligibility for listing. Annex 2 sets out our fill assessment of the expected costs and benefits of these proposals.

12. In particular, our proposal regarding raising the minimum market capitalisation (described in chapter 6), will reduce the number of issuers that would be unlikely to meet our eligibility requirements that can often take significant amounts of supervisory resources during the vetting process. Our proposals to reduce the level of shares required to be in public hands from 25% to 10% alongside removing a discretionary waiver approach linked to the higher existing level should improve certainty for issuers and remove the need for prospective issuers to engage with us in this area going forward, reducing costs for companies and the FCA.

The principle that a burden or restriction should be proportionate to the benefits

13. We consider that our proposals will have a positive impact on ensuring that the burdens and restrictions placed on issuers under the Listing Rules are proportionate to the benefits. We have undertaken a cost-benefit analysis which is included in Annex 2 of this CP.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

14. Our proposals have regard to the desirability of sustainable growth in the medium and long term. They seek to address several potential barriers to listing for issuers, in

particular, innovative growth companies. If more companies choose to list in the UK, it would increase investment opportunities for investors and promote growth in the economy as companies can access deeper pools of capital via public markets.

The principle that we should exercise of our functions as transparently as possible

15. We consider that our proposals will deliver greater transparency in the way we exercise our functions in relation to the Listing Rules.

16. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). We do not expect our proposals to have a direct bearing on financial crime.

Expected effect on mutual societies

17. The FCA does not expect the proposals in this paper to have any meaningful impact on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

18. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

19. We do not consider the proposals in this CP to be inconsistent with our duty to promote effective competition in the interests of consumers. Our measures aim to improve access to listed public markets, giving companies more choice in how they chose to raise capital and investors more access to diverse investment opportunities on transparent UK public markets. Without our changes, some of these opportunities may not be accessible to some consumers or may require investment in private equity or overseas markets, which may be more expensive and/or less transparent for consumers.

Equality and diversity

20. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

21. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 2.40-2.43 of the CP.

Legislative and Regulatory Reform Act 2006 (LRRA)

22. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that they will reduce barriers to issuers listing in the UK which will increase opportunities for investors and thereby contribute to overall market integrity. The design of these measures is intended to provide clarity and transparency to investors. For example, in the proposal regarding dual class share structures, we have designed a targeted regime that only allows a limited form of this structure in the premium listing segment under a particular set of circumstances and subject to strict limitations. At the same time, we have acted proportionately towards issuers by not limiting their ability to use a wider array of share class structures in other listing segments or other markets.

23. As noted above, regarding free float changes we are proposing an approach that achieves greater certainty for companies and their advisors, reducing reliance on FCA discretion linked to potentially subjective criteria for potential waivers under our existing free float approach. The package of minor amendments we are proposing across our primary markets' rulebooks (as set out in chapter 9) to address duplicative, outdated or obscure wording or provisions seeks to improve clarity and accessibility of FCA regulation more generally, consistent with the LRRA.

24. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that they will help support potential issuers comply with the Listing Rules and support them as they grow.

Treasury recommendations about economic policy

25. We consider that our proposals are consistent with the aspects of the government's economic policy to which the Financial Conduct Authority should have regard.

26. In the remit letter from the Chancellor of the Exchequer to the FCA on 23 March 2021, the Chancellor affirms the FCA's role in protecting consumers, promoting competition in financial services and protecting and enhancing the integrity of the UK financial system.

27. The FCA has regard to this letter and the recommendations within. As set out in this Annex, we consider that our proposals are proportionate, aim to increase investor protection and promote effective competition.

28. They are of relevance, in particular, regarding competitiveness and the government's wish to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre and hub for green finance. They are also of relevance regarding innovation, and the government's recommendation that we should encourage new methods of engaging with consumers of financial services and new ways of raising capital, including recognising differences in the nature and objectives of business models, promoting effective competition and ensuring burdens are proportionate.

We consider our changes should have positive impacts across these areas, as generally our changes seek to make UK listed markets more accessible and flexible for different types of company at different stages of growth, including founder-led and more innovative companies. This should in turn diversify the range of investment opportunities available on UK markets, both for domestic and international investors who wish to invest here.

Annex 7
Abbreviations used in this paper

Abbreviation	Description
AIFMD	Alternative Investment Fund Management Directive
AIM	Alternative Investment Market
AQSE	Aquis Stock Exchange
CARD	Consolidated Admissions and Reporting Directive
CBA	Cost Benefit Analysis
CFA	Chartered Financial Analyst
DCSS	Dual Class Share Structure
DTRs	Disclosure Guidance and Transparency Rules
DVF	Document Viewing Facility
ESG	Environmental, Social and Governance
EU	European Union
GVA	Gross Value Added
HFI	Historic Financial Information
HMT	HM Treasury
IAS	International Accounting Standard
IPO	Initial Public Offering
LAAP	Listing Authority Advisory Panel
LR	Listing Rule
LSE	London Stock Exchange
MiFID	Markets in Financial Instruments Directive
MMC	Minimum Market Capitalisation

Abbreviation	Description
NOMAD	Nominated Advisors
NSM	National Storage Mechanism
OECD	Organisation for Economic Co-operation and Development
OEIC	Open-ended Investment Companies
PIP	Primary Information Provider
PRR	Prospectus Regulation Rules
RIE	Recognised Investment Exchanges
SEC	Securities and Exchange Commission
SPAC	Special Purpose Acquisition Company
TCFD	Task Force on Climate Change Disclosures
UK	United Kingdom
UKLA	UK Listing Authority
US	United States

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Appendix 1
Draft Handbook text
Dual class share structure

LISTING RULES (PRIMARY MARKET EFFECTIVENESS) (DUAL CLASS SHARE STRUCTURE) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 96 (Obligations of issuers of listed securities);
(3) section 101 (Listing rules: general provisions);
(4) section 137A (The FCA's general rules);
(5) section 137T (General supplementary powers); and
(6) section 139A (Power of the FCA to give guidance).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Listing Rules sourcebook (LR) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Listing Rules (Primary Market Effectiveness) (Dual Class Share Structure) Instrument 2021.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

specified weighted voting rights shares	has the meaning given to it in *LR* 9.2.22CR.
weighted voting rights shares	*shares* that carry more than one vote on one or more matters to be decided at a general meeting.

Annex B

Amendments to the Listing Rules sourcebook (LR)

In this Annex, underlining indicates new text and striking through indicates deleted text.

6 Additional requirements for premium listing (commercial company)

…

6.9 Constitutional arrangements

…

6.9.1A R Where the *applicant* will have *specified weighted voting rights shares* in issue following *admission*, the *applicant* must have in a place a constitution that ensures that:

(1) the only shareholders other than *premium listed* shareholders who may participate in the shareholder votes referred to in *LR* 9.2.21R(1) are holders of *specified weighted voting rights shares* in accordance with *LR* 9.2.22AR); and

(2) the voting rights attached to *specified weighted voting rights shares* may only count towards the shareholder votes referred to in *LR* 9.2.21R(1) for the period stated in *LR* 9.2.22AR(3) or, where applicable, *LR* 9.2.22AR(4);

…

9 Continuing obligations

…

9.2 Requirements with continuing application

…

Voting on matters relevant to premium listing

9.2.21 R (1) Subject to *LR* 9.2.22AR, ~~Where~~ where the provisions of *LR* 5.2, *LR* 5.4A, *LR* 9.4, *LR* 9.5, *LR* 10, *LR* 11, *LR* 12, or *LR* 15 require a shareholder vote to be taken, that vote must be decided by a resolution of the holders of the *listed company's shares* that have been *admitted* to *premium listing*.

(2) Where the provisions of *LR* 5.2.5R(2), *LR* 5.4A.4R(3)(b)(ii), *LR* 5.4A.4R(3)(c)(ii) or *LR* 9.2.2ER require that the resolution must in addition be approved by *independent shareholders*, only *independent*

shareholders who hold the *listed company's shares* that have been *admitted* to *premium listing* can vote.

…

Voting on matters relevant to premium listing by holders of specified weighted voting rights shares

9.2.22A R (1) Holders of *specified weighted voting rights shares* may participate in a vote on matters falling within the provisions referred to in *LR* 9.2.21R in accordance with the voting rights attached to those *shares*.

(2) *LR* 9.2.22AR(1) only applies with respect to *issuers*:

(a) to which the condition in *LR* 6.9.1AR applied on the first occasion they made an application for *shares* to be *admitted* to *premium listing*; and

(b) which have had no *class* of *weighted voting rights shares* in issue other than *specified weighted voting rights shares* since the *issuer* first had a class of *shares* admitted to *premium listing*.

(3) Subject to paragraph (4), the exception to *LR* 9.2.21R in paragraph (1) applies for a period of 5 years beginning with the date on which the *issuer* first had a *class* of *shares* admitted to *premium listing*.

(4) Where an *admission* of *shares* to *premium listing* is connected with a transaction or arrangement of the kind listed below in relation to a *listed company* (A), the exception to *LR* 9.2.21R in paragraph (1) applies for a period of 5 years beginning with the date on which A first had a *class* of *shares admitted* to *premium listing*:

(a) an acquisition of A;

(b) a reorganisation or restructuring of A's *group*;

(c) the *listing* of a new holding company of A;

(d) a *reverse takeover* in connection with A;

(e) a merger involving A's business;

(f) any transaction or arrangement having similar effect to those set out in (a) to (e).

9.2.22B G The purpose of *LR* 9.2.22AR(4) is to ensure that holders of *specified weighted voting rights shares* only participate in the shareholder votes referred to for 5 years from the date of *company* A's initial *listing*, and not, for example, 5 years from the date of any new holding company's *admission* to *listing*. A group restructuring or a *reverse takeover* or another similar transaction should not have the effect of artificially extending the period within which holders of A's *specified weighted voting rights shares* may exercise voting rights on the matters relevant to *premium listing* referred to in *LR* 9.2.21R(1).

9.2.22C R *Specified weighted voting rights shares* are *weighted voting rights shares* of a *class* which meet the following conditions:

(1) subject to paragraph (2), each *share* carries the same number of votes on matters at a general meeting of the *company* as a *share* in the *class admitted to premium listing*;

(2) in relation to the following matters only, each *share* may carry up to 20 times the votes carried by a *share* in the *class admitted* to *premium listing*:

(a) the removal of the holder as a *director* whether under section 168 of the Companies Act 2006 or otherwise; and

(b) following a change of control in the *issuer*, any matter; and

(3) the *shares* may only be held by a *director* of the *issuer* or, following the death of a *director*, a beneficiary of the *director's* estate.

9.2.22D R (1) For the purposes of *LR* 9.2.22CR(1)(b), (subject to paragraph (2)) a change of control is the acquisition by any *person* of an interest in *shares* in a *listed company* that, taken together with *shares* in which that *person* and any *persons* acting in concert with them are interested, results in that *person* being entitled to exercise or control the exercise of more than 50 per cent of the votes able to be cast on all or substantially all matters at general meetings of the *company*.

(2) There is no change of control for the purposes of *LR* 9.2.22CR(1)(b) where the *person* acquiring an interest in *shares* is a holder of *specified weighted voting rights shares* or any *person* acting in concert with that *person*.

(3) Without prejudice to the generality of paragraph (1), if such an acquisition is effected by means of:

(a) a scheme of arrangement under Part 26 of the Companies Act 2006, a change of control occurs when the scheme of arrangement becomes effective;

(b) a takeover offer under Part 28 of the Companies Act 2006, a change of control occurs when the takeover offer becomes unconditional in all respects.

9.2.22E G The effect of *LR* 9.2.22AR(1) and *LR* 9.2.22CR is that:

(1) the holder of *specified weighting voting rights shares* may vote on matters otherwise reserved to holders of *premium listed shares* under

LR 9.2.22R(1) on the same basis as those shareholders, subject to *LR* 9.2.22AR(2) to (4) and *LR* 9.2.22CR; and

(2) if there is a change of control, the holder of a *specified weighted voting rights share* may then vote on such matters on the basis of weighted voting rights of up to 20 times the votes attaching to a *premium listed share*, subject to *LR* 9.2.22AR(2) to (4) and *LR* 9.2.22CR.

9.2.22F G The *FCA* may modify the operation of *LR* 9.2.21AR to *LR* 9.2.21DR in exceptional circumstances, for example to accommodate the operation of:

(1) special share arrangements designed to protect the national interest;

(2) dual listed company voting arrangements; and

(3) voting rights attaching to *preference shares* or similar *securities* that are in arrears.

Notifications to the FCA: notifications regarding continuing obligations

9.2.23 R A *listed company* must notify the *FCA* without delay if it does not comply with any continuing obligation set out in *LR* 9.2.2AR, *LR* 9.2.2ABR, *LR* 9.2.2ADR, *LR* 9.2.2ER, *LR* 9.2.2FR, *LR* 9.2.15R, ~~or~~ *LR* 9.2.21R or *LR* 9.2.22AR.

…

15 Close-Ended Investment Funds: Premium listing

…

15.4 Continuing obligations

…

Investment policy

…

15.4.1C R *LR* 9.2.22AR to *LR* 9.2.22FG do not apply to a *close-ended investment fund*.

…

16 Open-ended investment companies: Premium listing

…

16.4 Requirements with continuing application

…

16.4.1A R *LR* 9.2.22AR to *LR* 9.2.22FG do not apply to an *open-ended investment company*.

…

21 Sovereign Controlled Commercial Companies: Premium listing

…

21.4 Continuing obligations: Equity shares

…

21.4.1A R *LR* 9.2.22AR to *LR* 9.2.22FG do not apply for the purposes of *LR* 21.4.1R.

…

21.4.4 R For the purposes of *LR* 21.4.1R(1):

(1) in the second sentence of ~~*LR* 2.2.21R~~ *LR* 9.2.21R(2) the reference to the provisions of *LR* 5.4A.4R(3)(b)(ii) and *LR* 5.4A.4R(3)(c)(ii) must be read as a reference to the provisions of *LR* 5.4A.4R(3)(d)(ii);

…

…

21.8 Continuing obligation: Certificates representing shares

Compliance with LR 9 (Continuing obligations)

21.8.1 R A *listed company* must comply with *LR* 9 (Continuing obligations) except:

…

(4) *LR* 9.2.21R to ~~*LR* 9.2.22G~~ *LR* 9.2.22FG; and

…

…

App 1.1 Relevant definitions

Note: the following definitions relevant to the listing rules are extract from the *Glossary*.

App 1.1.1 R …

specified investment	…

specified weighted voting rights shares	has the meaning given to it in *LR* 9.2.22CR.

…

warrant	…
weighted voting rights shares	*shares* that carry more than one vote on one or more matters to be decided at a general meeting.

Appendix 2
Draft Handbook text
Minimum market capitalisation

LISTING RULES (PRIMARY MARKETS EFFECTIVENESS) (MINIMUM MARKET CAPITALISATION) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 96 (Obligations of issuers of listed securities);
(3) section 137A (The FCA's general rules);
(4) section 137T (General supplementary powers); and
(5) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Listing Rules sourcebook (LR) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Listing Rules (Primary Markets Effectiveness) (Minimum Market Capitalisation) Instrument 2021.

By order of the Board
[*date*]

Annex

Amendments to the Listing Rules sourcebook (LR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

2 Requirements for listing: All securities

…

2.2 Requirements for all securities

…

Market capitalisation

2.2.7 R (1) The expected aggregate market value of all *securities* (excluding *treasury shares* and *shares* of a *closed-ended investment fund* or *open-ended investment company*) to be *listed* must be at least:

(a) ~~£700,000~~ £50 million for *shares*; and

…

(1A) The expected aggregate market value of *shares* of a *closed-ended investment fund* or *open-ended investment company* to be *listed* must be at least £700,000.

…

…

After LR TR 15 (Transitional Provisions for a prospectus approved before IP completion day), insert the following new annex. The text is not underlined.

TR 16 Transitional Provisions in relation to market capitalisation under LR 2.2.7 R(1)

(1)	(2) Material to which the transitional provisions applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision coming into force
1.	*LR* 2.2.7 R(1)	R	These transitional provisions apply to an *issuer* that:	[date] Indefinite	[date]

			(a) had at least one *class* of *listed shares* immediately before [date]; (b) continues to have at least one *class* of *listed shares*; and (c) is applying for another *class* of *shares* to be *listed*.		
2.	*LR* 2.2.7 R(1)	R	The expected aggregate market value of all *shares* (excluding *treasury shares*) to be *listed* must be at least £700,000.	[date] Indefinite	[date]

Appendix 3
Draft Handbook text
Shares in public hands

LISTING RULES (PRIMARY MARKETS EFFECTIVENESS) (SHARES IN PUBLIC HANDS) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 96 (Obligations of issuers of listed securities);
(3) section 101 (Listing rules: general provisions);
(4) section 137A (The FCA's general rules);
(5) section 137T (General supplementary powers); and
(6) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The Listing Rules sourcebook (LR) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Listing Rules (Primary Markets Effectiveness) (Shares in Public Hands) Instrument 2021.

By order of the Board
[*date*]

Annex

Amendments to the Listing Rules sourcebook (LR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

5 Suspending, cancelling and restoring listing and reverse takeovers: All securities

…

5.2 Cancelling listing

…

Examples of when the FCA may cancel

5.2.2 G Examples of when the *FCA* may cancel the *listing* of *securities* include (but are not limited to) situations where it appears to the *FCA* that:

(1) …

(2) the *issuer* no longer satisfies its continuing obligations for *listing*, for example of the percentage of *shares* in public hands falls below ~~25% or such lower percentage as the *FCA* may permit~~ 10% (the *FCA* may however allow a reasonable time to restore the percentage, unless this is precluded by the need to maintain the smooth operation of the market or to protect investors); or

(3) …

…

6 Additional requirements for premium listing (commercial company)

…

6.14 Shares in public hands

…

6.14.2 R For the purposes of *LR* 6.14.1R:

(1) [deleted]

(2) a sufficient number of *shares* will be taken to have been distributed to the public when ~~25%~~ 10% of the *shares* for which application for *admission* has been made are in public hands; and

(3) …

…

6.14.5 G ~~(1)~~ ~~The *FCA* may modify *LR* 6.14.1R to accept a percentage lower than 25% if it considers that the market will operate properly with a lower percentage in view of the large number of *shares* of the same *class* and the extent of their distribution to the public.~~

~~[**Note:** article 48 of the *CARD*]~~

~~(2)~~ ~~In considering whether to grant a modification, the *FCA* may take into account the following specific factors:~~

(a) ~~[deleted]~~

~~(b)~~ ~~the number and nature of the public shareholders; and~~

~~(c)~~ ~~in relation to *premium listing (commercial companies)*, whether the expected market value of the *shares* in public hands at *admission* exceeds £100 million.~~ [deleted]

…

…

9 Continuing obligations

…

9.2 Requirements with continuing obligation

…

Shares in public hands

…

9.2.15A G ~~Where the *FCA* has modified *LR* 6.14.1R to accept a percentage lower than 25% on the basis that the market will operate properly with a lower percentage, but the *FCA* considers that in practice the market for the *shares* is not operating properly, the *FCA* may revoke the modification in accordance with *LR* 1.2.1 R (4).~~ [deleted]

…

14 Standard listing (shares)

…

14.2 Requirements for listing

…

Shares in public hands

14.2.2 R (1) …

…

(3) For the purposes of paragraph (1), a sufficient number of *shares* will be taken to have been distributed to the public when ~~25%~~ 10% of the *shares* for which application for *admission* has been made are in public hands.

…

14.2.3 G ~~The *FCA* may modify *LR* 14.2.2 R to accept a percentage lower than 25% if it considers that the market will operate properly with a lower percentage in view of the large number of *shares* of the same *class* and the extent of their distribution to the public.~~

~~[**Note:** Article 48 *CARD*]~~ [deleted]

…

14.3 Continuing obligations

…

Shares in public hands

…

14.3.2A G ~~Where the *FCA* has modified *LR* 14.2.2 R to accept a percentage lower than 25% on the basis that the market will operate properly with a lower percentage, but the *FCA* considers that in practice the market for the *shares* is not operating properly, the *FCA* may revoke the modification in accordance with *LR* 1.2.1 R (4).~~ [deleted]

…

18 Certificates representing certain securities: Standard listing

…

18.2 Requirements for listing

…

Certificates representing equity securities of an overseas company

18.2.8 R (1) …

…

(3) For the purposes of paragraph (1), a sufficient number of certificates will be taken to have been distributed to the public when ~~25%~~ 10% of the certificates for which application for *admission* has been made are in public hands.

…

18.2.9 G ~~The *FCA* may modify *LR* 18.2.8 R to accept a percentage lower than 25% if it considers that the market will operate properly with a lower percentage in view of the large number of certificates of the same *class* and the extent of their distribution to the public.~~

~~[**Note**: Article 48 *CARD*]~~ [deleted]

…

21 Sovereign Controlled Commercial Companies: Premium listing

…

21.6 Requirements for listing: Certificates representing shares

…

Certificates in public hands

21.6.18 R (1) …

…

(3) For the purposes of paragraph (1), a sufficient number of certificates will be taken to have been distributed to the public when ~~25%~~ 10% of the certificates for which application for *admission* has been made are in public hands.

…

21.6.19 G ~~(1) The *FCA* may modify *LR* 21.6.18 R to accept a percentage lower than 25% if it considers that the market will operate properly with a lower percentage in view of the large number of certificates of the same *class* and the extent of their distribution to the public.~~

~~[**Note**: Article 48 *CARD*]~~

~~(2) In considering whether to grant a modification, the *FCA* may take into account the following specific factors:~~

…

~~(b) the number and nature of the public holders of certificates; and~~

~~(c)~~ ~~in relation to *premium listing (sovereign controlled commercial company)* whether the expected market value of the certificates in public hands at *admission* exceeds £100 million.~~ [deleted]

…

21.8 Continuing obligations: Certificates representing shares

…

Additional requirements: certificates in public hands and admission to trading

…

21.8.19 G ~~Where the *FCA* has modified *LR* 21.6.18R to accept a percentage lower than 25% on the basis that the market will operate properly with a lower percentage, but the *FCA* considers that in practice the market for the *certificates representing shares* is not operating properly, the *FCA* may revoke the modification in accordance with *LR* 1.2.1R(4).~~ [deleted]

Appendix 4
Draft Handbook text
Reform and modernisation

LISTING RULES (PRIMARY MARKETS EFFECTIVENESS) (REFORM AND MODERNISATION) INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 84 (Matters which may be dealt with by prospectus rules);
(3) section 88 (Sponsors);
(4) section 89A (Transparency rules);
(5) section 89C (Provision of information by issuers of transferable securities);
(6) section 89O (Corporate governance rules);
(7) section 89P (Primary Information Providers);
(8) section 96 (Obligations of issuers of listed securities);
(9) section 96A (Disclosure of information requirements);
(10) section 137A (The FCA's general rules);
(11) section 137T (General supplementary powers); and
(12) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Listing Rules sourcebook (LR)	Annex B
Prospectus Regulation Rules sourcebook (PRR)	Annex C
Disclosure Guidance and Transparency Rules sourcebook (DTR)	Annex D

Citation

E. This instrument may be cited as the Listing Rules (Primary Markets Effectiveness) (Reform and Modernisation) Instrument 2021.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

IAS	(in *LR* and *DTR*) International Accounting Standards.
national storage mechanism	(in *LR, PRR* and *DTR*) the system identified by the *FCA* on its website as the national storage mechanism for regulatory announcements and certain documents published by *issuers*.

Amend the following definitions as shown.

admission or *admission to listing*	(in *LR*) ~~*admission*~~ admission of *securities* to the *official list*.
list of sponsors	(in *LR*) the list of ~~sponsors~~ *sponsors* maintained by the *FCA* in accordance with section 88(3)(a) of the *Act*.
listed	(1) (except in *LR*, *SUP* 11, *INSPRU* and *IPRU(INS)*) included in an official list. (2) (in *SUP* 11, *INSPRU* and *IPRU(INS)*): (a) included in an official list; or (b) in respect of which facilities for *dealing* on a *regulated market* have been granted. (3) (in *LR*) admitted to the ~~official list~~ *official list* maintained by the *FCA* in accordance with section 74 of the *Act*.
long-term incentive scheme	(in *LR*) any arrangement (other than a retirement benefit plan, a deferred bonus or any other arrangement that is an element of an executive *director's* remuneration package) which may involve the receipt of any asset (including cash or any ~~security~~ *security*) by a *director* or *employee* of the *group*: (a) which includes one or more conditions in respect of service and/or performance to be satisfied over more than one financial year; and (b) pursuant to which the *group* may incur (other than in relation to the establishment and administration of the arrangement) either cost or a liability, whether actual or contingent.

proven reserves	(in *LR*):
	(a) in respect of *mineral companies* primarily involved in the *extraction* of oil and gas resources, those reserves which, on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced; and
	(b) in respect of *mineral companies* other than those primarily involved in the *extraction* of oil and gas resources, those ~~*measured*~~ measured *mineral resources* of which detailed technical and economic studies have demonstrated that *extraction* can be justified at the time of the determination, and under specified economic conditions.
public international body	(in *LR* ~~and *DTR*~~) the African Development Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, the Caribbean Development Bank, the Council of Europe Development Bank, the European Atomic Energy Community, the European Bank for Reconstruction and Development, the European Company for the Financing of Railroad Stock, the *EU*, the European Investment Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Monetary Fund, the Nordic Investment Bank.
trading day	(1) [deleted]
	(2) [deleted]
	(3) (in *FINMAR*) as defined in article 2(1)(p) of the *short selling regulation*, in relation to a trading venue, means a day during which the trading venue concerned is open for trading.
	(4) (in *LR* and *DTR*) any day of normal trading in a *share* on a *regulated market* or *MTF* in the *United Kingdom* for this *share*.
transferable security	(1) (in *PRR*, ~~and~~ *LR* and *DTR*) (as defined in section 102A of the *Act*) anything which is a transferable security for the purposes of *MiFIR*, other than money-market instruments for the purposes of *MiFIR* which have a maturity of less than 12 months.
	…

Delete the following definitions. The text is not shown struck through.

Company Announcements Office	the Company Announcements Office of the London Stock Exchange, the information dissemination provider approved by the *UKLA*.

document viewing facility	(in *LR*) a location identified on the *FCA* website where the public can inspect documents referred to in the *listing rules* as being documents to be made available at the document viewing facility.
UKLA	the *FCA* acting in its capacity as the *competent authority* for the purposes of Part VI of the *Act* (Official Listing).

Annex B

Amendments to the Listing Rules sourcebook (LR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Preliminary: All securities

1.1 Introduction

…

1.1.1 R *LR* applies as follows:

…

~~**Note:** when exercising its functions under *Part VI* of the *Act*, the *FCA* may use the name: the UK Listing Authority.~~

…

1.2 Modifying rules and consulting the FCA

…

Early consultation with the FCA

…

1.2.6 G Where a *listing rule* refers to consultation with the *FCA*, submissions should be made in writing other than in circumstances of exceptional urgency or in the case of a submission from a *sponsor* in relation to the provision of a *sponsor service*.

Address for correspondence

Note: The FCA’s address for correspondence is:

The Financial Conduct Authority
12 Endeavour Square
London, E20 1JN

Tel: 020 7066 8333
~~www.fca.org.uk/markets/ukla~~ https://www.fca.org.uk/markets/primary-markets/contact/request-individual-guidance

…

1.4 Miscellaneous

…

Electronic Communication

…

1.4.9A R A reference to a copy (or copies) of a document in the *listing rules* includes a copy (or copies) of a document produced or stored using *electronic means*.

…

3 Listing applications: All securities

…

3.3 Shares

…

Documents to be provided 48 hours in advance

3.3.2 R The following documents must be submitted, in final form, to the *FCA* by midday two *business days* before the *FCA* is to consider the application:

(1) …

…

Note: The Application for Admission of Securities to the Official List form can be found on the ~~UKLA~~ Primary Markets section of the *FCA* website.

…

Documents to be provided on the day

3.3.3 R The following documents signed by a *sponsor* (if a *sponsor* is required under *LR* 8) or by a duly authorised officer of the *applicant* (if a *sponsor* is not required under *LR* 8) must be submitted, in final form, to the *FCA* before 9 a.m. on the day the *FCA* is to consider the application:

(1) …

…

Note: The Shareholder Statement and the Pricing Statement forms can be found on the ~~UKLA~~ Primary Markets section of the *FCA* website.

…

3.4 Debt and other securities

…

Documents to be provided 48 hours in advance

3.4.4 R An *applicant* must submit, in final form, to the *FCA* by midday two *business days* before the *FCA* is to consider the application:

(1) …

(2) the *prospectus* or *listing particulars* that has been approved by the *FCA*~~.~~;

(3) any approved *supplementary prospectus* or approved *supplementary listing particulars*, if applicable;~~ and~~

…

Note: The Application for Admission of Securities to the Official List form can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.

…

Exempt public sector issuers

3.4.9 R An *issuer* that seeks *admission* of *debt securities* referred to in article 1(2)(b) and (d) of the *Prospectus Regulation* must submit to the *FCA* in final form a completed Application for Admission of Securities to the Official List.

Note: The Application for Admission of Securities to the Official List form can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.

…

3.5 Block listing

…

When a block listing can be used

…

3.5.4 R An *applicant* applying for *admission* to listing by way of a block listing must submit in final form, at least two *business days* before the *FCA* is to consider the application, a completed Application for Admission of Securities to the Official List. An application in respect of multiple schemes must identify the schemes but need not set out separate block listing amounts for each scheme.

Note: The Application for Admission of Securities to the Official List form can be found on the ~~UKLA~~ Primary Markets section of the *FCA* website.

…

3.5.6 R Every six *months* the *applicant* must notify a *RIS* of the details of the number of *securities* covered by the block listing which have been allotted in the previous six *months*, using the Block Listing Six Monthly Return.

Note: A copy of the Block Listing Six Monthly Return can be found on the ~~UKLA~~ Primary Markets section of the *FCA* website.

…

5 Suspending, cancelling and restoring listing and reverse takeovers: All securities

…

5.2 Cancelling listing

…

Cancellation in relation to takeover offers: offeror interested in 50% or less of voting rights

…

5.2.11 R ~~The~~ Where *LR* 5.2.10R applies, the *issuer* must notify shareholders and, in the case of *certificates representing shares*, holders of certificates:

(1) by stating:

(a) that the ~~required 75% has been obtained and~~ *offeror* has reached the threshold described in *LR* 5.2.10R(2);

(b) that the notice period has therefore commenced; and

(c) ~~of~~ the anticipated date of cancellation, or

(2) by stating in the explanatory letter or other material accompanying the section 979 notice:

(a) ~~must state~~ that the notice period has commenced; and

(b) the anticipated date of cancellation.

…

Cancellation in relation to takeover offers: offeror interested in more than 50% of voting rights

…

5.2.11C R ~~The~~ Where *LR* 5.2.11AR applies, the *issuer* must notify shareholders and, in the case of *certificates representing shares*, holders of certificates:

(1) by stating:

(a) that the relevant thresholds described in *LR* 5.2.11AR(2) to (3) have been ~~obtained and~~ reached;

(b) that the notice period has therefore commenced; and ~~of~~

(c) the anticipated date of cancellation, or

(2) by stating in the explanatory letter or other material accompanying the section 979 notice: ~~must state~~

(a) that the notice period has commenced; and

(b) the anticipated date of cancellation.

…

8 Sponsors: Premium listing

…

8.4 Role of a sponsor: transactions

…

New applicants: procedure

8.4.3 R A *sponsor* must:

(1) …

…

[**Note:** the Sponsor's Declaration on an Application for Listing, the Shareholder Statement and the Pricing Statement forms can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.]

…

Application for admission: further shares

…

8.4.8 R A *sponsor* appointed in accordance with *LR* 8.2.1R must not submit to the *FCA* an application on behalf of an *applicant*, in accordance with *LR* 3 (Listing applications), unless it has come to a reasonable opinion, after having made due and careful enquiry, that:

(1) …

…

…

Further issues: procedure

8.4.9 R A *sponsor* must:

(1) …

…

[**Note:** The Sponsor's Declaration on an Application for Listing, the Shareholder Statement and the Pricing Statement forms can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.]

…

Circulars: procedure

8.4.13 R A *sponsor* acting on a transaction falling within *LR* 8.4.11R must:

(1) …

…

[**Note:** The Sponsor's Declaration for the Production of a Circular and the Pricing Statement forms can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.]

Applying for transfer between listing categories

8.4.14 R In relation to a proposed transfer under *LR* 5.4A, if a *sponsor* is appointed in accordance with *LR* 8.2.1AR, it must:

(1) …

…

[**Note:** The Sponsor's Declaration for a Transfer of Listing can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.]

…

Reverse takeovers

8.4.17 R A *sponsor* acting on a *reverse takeover* where the *issuer* decides to make a disclosure announcement under *LR* 5.6.15G must:

(1) …

…

[**Note:** The Sponsor's Declaration for a Reverse Takeover Announcement can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.]

…

8.6 Criteria for approval as a sponsor

…

Application for approval as a sponsor

8.6.2 R A *person* wanting to provide *sponsor services*, and to be included on the *list of sponsors*, must apply to the *FCA* for approval as a *sponsor* by submitting the following to the ~~Sponsor Supervision~~ Primary Markets Specialist Supervision Team at the *FCA's* address:

…

[**Note:** The Sponsor's Firm Application Form can be found on the ~~UKLA~~ Primary Markets section of the *FCA's* website.]

…

8.7 Supervision of sponsors

…

Annual notifications

…

8.7.7A R Written confirmation must be provided by submitting a completed Sponsor Annual Notification Form to the *FCA* at the *FCA's* address.

Note: A copy of the Sponsor Annual Notification Form can be found on the ~~UKLA~~ Primary Markets section of the *FCA* website.

General notifications

…

8.7.10 G Written notifications should be sent to the ~~Sponsor Supervision~~ Primary Markets Specialist Supervision Team at the *FCA's* address.

…

9 Continuing obligations

…

9.2 Requirements with continuing obligation

…

Disclosure of rights attached to equity shares

…

9.2.6F R The documents in *LR* 9.2.6ER must be forwarded to the *FCA* for publication by uploading them to the ~~system identified by the *FCA* on its website as the national storage mechanism~~ *national storage mechanism*.

…

9.2.6H R A *listed company* is exempt from *LR* 9.2.6ER where:

(1) …

…

(3) the documents in (1) and (2) have been forwarded to the *FCA* for publication, or otherwise filed with the *FCA*, by:

(a) forwarding them for publication on ~~the *document viewing facility*~~ a location previously identified on the *FCA* website where the public can inspect documents referred to in the *listing rules* as being documents to be made available at the document viewing facility; or

(b) uploading them to the ~~system identified by the *FCA* on its website as the national storage mechanism~~ *national storage mechanism*.

…

9.4 Documents requiring prior approval

…

Discounted option arrangements

9.4.4 R (1) This *rule* applies to the grant to a *director* or *employee* of a *listed company* or of any *subsidiary undertaking* of a *listed company* of an

~~option~~ *option* to subscribe, ~~warrant~~ *warrant* to subscribe or other similar right to subscribe for *shares* in the capital of the *listed company* or any of its *subsidiary undertakings*.

(2) A *listed company* must not, without the prior approval by an ordinary resolution of the shareholders of the *listed company* in a general meeting, grant the ~~option~~ *option*, ~~warrant~~ *warrant* or other right if the price per *share* payable on the exercise of the ~~option~~ *option*, ~~warrant~~ *warrant* or other similar right to subscribe is less than whichever of the following is used to calculate the exercise price:

(a) …

…

…

9.6 Notifications

Copies of documents

9.6.1 R A *listed company* must forward to the *FCA* for publication ~~through the *document viewing facility*, two copies~~ a copy of all ~~circulars~~ *circulars*, notices, reports or other documents to which the *listing rules* apply at the same time as they are issued, by uploading it to the *national storage mechanism*.

9.6.2 R A *listed company* must forward to the *FCA*~~, for publication through the *document viewing facility*, two copies~~ for publication a copy of all resolutions passed by the *listed company* other than resolutions concerning ordinary business at an annual general meeting as soon as possible after the relevant general meeting, by uploading it to the *national storage mechanism*.

…

Notification of board changes and directors' details

9.6.11 R A *listed company* must notify a *RIS* of any change to the board including:

(1) the appointment of a new *director* stating the appointees name and whether the position is executive, non-executive or ~~chairman~~ chair and the nature of any specific function or responsibility of the position;

(2) …

…

…

…

10 Significant transactions: Premium listing

10.1 Preliminary

…

Meaning of "transaction"

10.1.3 R In this chapter (except where specifically provided to the contrary) a reference to a transaction by a *listed company*:

(1) …

(2) includes the grant or acquisition of an ~~option~~ *option* as if the ~~option~~ *option* had been exercised except that, if exercise is solely at the *listed company's* or *subsidiary undertaking's* discretion, the transaction will be classified on exercise and only the consideration (if any) for the ~~option~~ *option* will be classified on the grant or acquisition;

…

(4) excludes an issue of *securities*, or a transaction to raise finance, which does not involve the acquisition or disposal of any fixed asset of the *listed company* or of its *subsidiary undertakings*; ~~and~~

(5) excludes any transaction between the *listed company* and its wholly-owned *subsidiary undertaking* or between its wholly-owned *subsidiary undertakings*~~.~~; and

(6) excludes a transaction where the *listed company* purchases its own *equity shares*.

…

10.2 Classifying transactions

…

Aggregating transactions

10.2.10 R (1) …

…

(4) Paragraph (1) does not apply to a transaction where:

(a) the *listed company* has obtained shareholder approval for it; and

(b) it has been completed.

10.2.10A G One effect of *LR* 10.2.10R(1) is that if a transaction is aggregated with a *class 2 transaction* completed during the 12 months before the date of the latest transaction, the latest transaction must (depending on the aggregated *percentage ratios*) be classified as either:

(1) a *class 2 transaction*, in which case the *listed company* must comply with the requirements in *LR* 10.4 (Class 2 requirements); or

(2) a *class 1 transaction*, in which case the *listed company* must comply with the requirements in *LR* 10.5 (Class 1 requirements).

…

12 Dealing in own securities and treasury shares: Premium listing

…

12.5 Purchase of own securities other than equity shares

…

Warrants and options

12.5.7 R Where, within a period of 12 months, a *listed company* purchases ~~warrants~~ *warrants* or ~~options~~ *options* over its own *equity shares* which, on exercise, convey the entitlement to *equity shares* representing 15% or more of the *company's* existing issued *shares* (excluding *treasury shares*), the *company* must send to its shareholders a *circular* containing the following information:

(1) a statement of the *directors'* intentions regarding future purchases of the *company's* ~~warrants~~ *warrants* and ~~options~~ *options*;

(2) the number and terms of the ~~warrants~~ *warrants* or ~~options~~ *options* acquired and to be acquired and the method of acquisition;

(3) where ~~warrants~~ *warrants* or ~~options~~ *options* have been, or are to be, acquired from specific parties, a statement of the names of those parties and all material terms of the acquisition; and

…

…

13 Contents of circulars: Premium listing

…

13.2 Approval of circulars

…

Approval procedures

…

13.2.5 R ~~Two copies~~ <u>A copy</u> of the following documents in draft form must be submitted at least 10 clear *business days* before the date on which ~~it is intended~~ <u>the *listed company* intends</u> to publish the *circular*:

(1) …

…

13.2.7 R If a *circular* submitted for approval is amended, ~~two copies~~ <u>a copy</u> of amended drafts must be resubmitted, marked to show changes made to conform with *FCA* comments and to indicate other changes.

Approval of circulars

…

13.2.9 G The *FCA* will only approve a *circular* between 9a.m. and 5.30p.m. on a *business day* (unless alternative arrangements are made in advance).

Note: ~~**LR 9.6.1 R**~~ *LR* 9.6.1R requires a *company* to forward to the *FCA* ~~two copies~~ <u>a copy</u> of all *circulars* issued (whether or not they require approval) for publication ~~on the *document viewing facility*~~<u>, by uploading it to the *national storage mechanism*</u>.

…

13.5 Financial information in Class 1 Circulars

…

Profit forecasts and profit estimates

13.5.32 R If a *listed company* includes a *profit forecast* or a *profit estimate* in a *class 1 circular* it must:

(1) …

(2) include a statement confirming that the *profit forecast* or *profit estimate* has been ~~properly~~ compiled <u>and prepared</u> on ~~the basis of assumptions stated and that the basis of accounting is~~ <u>a basis which is both:</u>

<u>(a)</u> <u>comparable with the historical financial information; and</u>

<u>(b)</u> consistent with the accounting policies of the *listed company*.

…

13.6 Related party circulars

Related party circulars

13.6.1 R A *related party circular* must also include:

(1) …

(2) …

Paragraph of Annex 1 of the *PR Regulation*:

(a) …

(b) Annex 1 item 15.2 – Shareholdings and stock ~~options~~ *options*;

…

…

…

13.7 Circulars about purchase of own equity shares

Purchase of own equity shares

13.7.1 R (1) A *circular* relating to a resolution proposing to give the *company* authority to purchase its own *equity securities* must also include:

(a) …

…

(f) the total number of ~~warrants~~ *warrants* and ~~options~~ *options* to subscribe for *equity shares* that are outstanding at the latest practicable date before the *circular* is published and both the proportion of issued share capital (excluding *treasury shares*) that they represent at that time and will represent if the full authority to buyback *shares* (existing and being sought) is used; and

…

…

…

13.8 Other circulars

…

Amendments to constitution

13.8.10 R A *circular* to shareholders about proposed amendments to the *constitution* must include:

(1) …

(2) either the full terms of the proposed amendments, or a statement that the full terms will be available for inspection:

(a) ~~from the date of sending the *circular* until the close of the relevant general meeting at a place in or near the City of London or such other place as the *FCA* may determine; and~~ [deleted]

(b) at the place of the general meeting for at least 15 minutes before and during the meeting~~.~~<u>; and</u>

<u>(c)</u> <u>on the *national storage mechanism* from the date of sending the *circular*.</u>

Employees' share scheme etc

13.8.11 R A *circular* to shareholders about the approval of an *employee's share scheme* or *long-term incentive scheme* must:

(1) …

…

(5) if the scheme is not circulated to shareholders, include a statement that it will be available for inspection:

(a) ~~from the date of sending the *circular* until the close of the relevant general meeting at a place in or near the City of London or such other place the *FCA* may determine; and~~ [deleted]

(b) at the place of the general meeting for at least 15 minutes before and during the meeting~~.~~<u>; and</u>

<u>(c)</u> <u>on the *national storage mechanism* from the date of sending the *circular*.</u>

…

Amendments to employees' share scheme etc

13.8.14 R A *circular* to shareholders about proposed amendments to an *employees' share scheme* or a *long-term incentive scheme* must include:

(1) …

(2) the full terms of the proposed amendments, or a statement that the full text of the scheme as amended will be available for inspection~~.~~<u>:</u>

(a) at the place of the general meeting for at least 15 minutes before and during the meeting; and

(b) on the *national storage mechanism* from the date of sending the *circular*.

…

13 Annex 1 **Annex 1 Class 1 circulars**

13 Annex 1 R …

LR 13 Annex 1.1			
1	The information required by this Annex must be presented as follows:		
	(1)	the information required by Annex 1 item 20.1 (material contracts), Annex 1 item 18.6.1 (legal and arbitration proceedings), ~~and~~ Annex 1 item 18.7.1 (significant changes in the issuer's financial position) and Annex 1 item 10.1(b) (trend information):	
		(a)	…
	(2)	the information required by Annex 11 item 3.1 (working capital statement) and, if relevant Annex 1 ~~section 10.1~~ items 10.1(a) and 10.2 (trend information):	
		(a)	…
		…	
	…		
…			

14 Standard listing (shares)

…

14.3 Continuing obligations

…

Copies of documents

14.3.6 R A *company* must forward to the *FCA*~~, for publication through the *document viewing facility*, two copies~~ for publication, by uploading to the *national storage mechanism*, a copy of:

(1) …

…

…

Disclosure of rights attached to shares

14.3.11A R Unless exempted in *LR* 14.3.11DR, a *company* must:

(1) …

…

…

14.3.11B R The documents in *LR* 14.3.11AR must be forwarded to the *FCA* for publication by uploading them to the ~~system identified by the *FCA* on its website as the national storage mechanism~~ *national storage mechanism*.

…

14.3.11D R A *company* is exempt from *LR* 14.3.11AR where:

(1) …

…

(3) the documents in (1) and (2) have been forwarded to the *FCA* for publication, or otherwise filed with the *FCA*, by:

(a) forwarding them for publication on ~~the *document viewing facility*~~ a location previously identified on the *FCA* website where the public can inspect documents referred to in the *listing rules* as being documents to be made available at the document viewing facility; or

(b) uploading them to the ~~system identified by the *FCA* on its website as the national storage mechanism~~ *national storage mechanism*.

…

15 Closed-Ended Investment Funds: Premium listing

…

15.2 Requirements for listing

…

Independence

…

15.2.12-A R For the purposes of *LR* 15.2.11R:

(1) the ~~chairman~~ chair of the board or equivalent body of the *applicant* must be independent; and

(2) …

…

17 Debt and debt-like securities: Standard listing

…

17.3 Requirements with continuing application

Copies of documents

17.3.1 R (1) An *issuer* must forward to the *FCA*~~, for publication through the *document viewing facility*, two copies~~ for publication a copy of any document required by *LR* 17.3 or *LR* 17.4 at the same time the document is issued, by uploading it to the *national storage mechanism*.

…

Amendments to trust deeds

17.3.10 R An *issuer* must ensure that any *circular* it issues to holders of its *listed securities* about proposed amendments to a *trust deed* includes:

(1) …

(2) either the full terms of the proposed amendments, or a statement that they will be available for inspection:

(a) ~~from the date the *circular* is sent until the close of the relevant general meeting at a place in or near the City of London or such other place as the *FCA* may determine; and~~ [deleted]

(b) at the place of the general meeting for at least 15 minutes before and during the meeting~~.~~; and

(c) on the *national storage mechanism*.

…

19 Securitised derivatives: Standard listing

…

19.5 Disclosures

19.5.1 R An *issuer* must submit to the *FCA* ~~two copies~~ a copy of any document required by *LR* 19.5.2R to *LR* 19.5.10R at the same time as the document is issued, by uploading it to the *national storage mechanism*.

…

20 Miscellaneous Securities: Standard listing

…

20.5 Disclosures

20.5.1 R An *issuer* must submit to the *FCA* ~~two copies~~ a copy of any document required by *LR* 20.5.2R to *LR* 20.5.3R at the same time as the document is issued, by uploading it to the *national storage mechanism*.

…

21 Sovereign Controlled Commercial Companies: Premium listing

…

21.8 Continuing obligations: Certificates representing shares

Compliance with LR 9 (Continuing obligations)

…

21.8.9 R In addition to complying with *LR* 9.6.2R, a *listed company* must also forward to the *FCA*~~, for publication through the *document viewing facility*, two copies~~ for publication a copy of all resolutions passed by the holders of the *listed certificates representing shares*, by uploading it to the *national storage mechanism*. It must also comply with the notification requirements set out in *LR* 9.6.3R in relation to such resolutions.

Insert the following new definitions in the appropriate alphabetical position and amend or delete the existing definitions as shown.

Appendix 1 Relevant definitions

App 1.1 Relevant definitions

App 1.1.1 …

…	
class 1 transaction	a transaction classified as a class 1 transaction under ~~LR~~ <u>*LR*</u> 10.
class 2 transaction	a transaction classified as a class 2 transaction under ~~LR~~ <u>*LR*</u> 10.
…	
designated professional body	a professional body designated by the Treasury under section 326 of the *Act* (Designation of professional bodies) for the purposes of Part XX of the ~~Act~~ <u>*Act*</u> (Provision of Financial Services by Members of the Professions); ~~as at 21 June 2001~~ the following professional bodies have been designated in the Financial Services and Markets Act 2000 (Designated Professional Bodies) Order 2001 (SI 2001/1226)<u>, the Financial Services and Markets Act 2000 (Designated Professional Bodies) (Amendment) Order 2004 (SI 2004/3352) and the Financial Services and Markets Act 2000 (Designated Professional Bodies) (Amendment) Order 2006 (SI 2006/58)</u>: (a) The Law Society <u>of</u> ~~(~~England and Wales~~)~~; (b) The Law Society of Scotland; (c) The Law Society of Northern Ireland; (d) The Institute of Chartered Accountants in England and Wales; (e) The Institute of Chartered Accountants of Scotland; (f) The Institute of Chartered Accountants in Ireland; (g) The Association of Chartered Certified Accountants; (h) The Institute of Actuaries~~.~~<u>;</u> <u>(i) The Council for Licensed Conveyancers; and</u> <u>(j) The Royal Institution of Chartered Surveyors.</u>
…	
…	
~~*document viewing facility*~~	~~a location identified on the *FCA* website where the public can inspect documents referred to in the *listing rules* as being documents to be made available at the document viewing facility.~~
…	
ESMA Prospectus Recommendations	the *ESMA* update of the ~~*CESR recommendations*~~ <u>CESR recommendations</u>: The consistent implementation of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive (ESMA/2013/319).

…		
guidance	guidance given in the *FCA Handbook*, by the *FCA* under the *Act*.	
…		
Handbook	the ~~*FCA's* Handbook of rules and guidance~~ *FCA Handbook*.	
…		
investment trust	a *company* which:	
	(a)	is approved by the Commissioners for HM Revenue and Customs under sections 1158 and 1159 of the Corporation Tax Act 2010 (or, in the case of a newly formed *company*, has declared its intention to conduct its affairs so as to obtain such approval); or
	(b)	(for the purposes of *COBS* 4.14 and the definitions of *non-mainstream pooled investment* and *packaged product* only) is resident in an *EEA State* and would qualify for such approval if resident in the *United Kingdom*.
…		
LR	the Listing Rules sourcebook ~~containing the *listing rules*~~.	
…		
member	(as defined in section 325(2) of the *Act* (FCA's general duty)) (in relation to a profession) a *person* who is entitled to practise that profession and, in practising it, is subject to the rules of the relevant *designated professional body*, whether or not he is a member of that body.	
…		
national storage mechanism	the system identified by the *FCA* on its website as the national storage mechanism for regulatory announcements and certain documents published by *issuers*.	
…		
option	the *investment*, specified in article 83 of the *Regulated Activities Order* (Options), which is in summary an option to acquire or dispose of:	
	(a)	a *designated investment* (other than a *P2P agreement*, an option or one to which (d) or (e) applies); or
	(b)	currency of the *United Kingdom* or of any other country or territory; or

	(c)	palladium, platinum, gold or silver; or
	(d)	a commodity to which article 83(2) and (4) of the *Regulated Activities Order* applies; or
	(e)	a *financial instrument* in paragraph 10 of Section C of Annex 1 to *MiFID* to which article 83(3) and (4) of the *Regulated Activities Order* applies; or
	(f)	an option to acquire or dispose of an option specified in (a), (b), ~~or~~ (c), (d) or (e),
	but so that for the purposes of calculating capital requirements for *BIPRU firms* it also includes any of the items listed in the table in *BIPRU* 7.6.18 R (Option PRR: methods for different types of option) and any cash settled option.	
…		
~~*Part 6 rules*~~	~~(in accordance with *section* 73A(1) of the *Act*) *rules* made for the purposes of Part 6 of the *Act*.~~	
…		
~~*PD regulation*~~	~~the *United Kingdom* version of the Prospectus Directive Regulation (No 2004/809/EC), which is part of *United Kingdom* law by virtue of *EUWA*.~~	
…		
public international body	the African Development ~~bank~~ Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, the Caribbean Development Bank, the Council of Europe Development Bank, the European Atomic Energy Community, the European Bank for Reconstruction and Development, the European Company for the Financing of Railroad Stock, the *EU*, the European Investment Bank, the Inter-American Development ~~bank~~ Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Monetary Fund, the Nordic Investment ~~bank~~ Bank.	
…		
rule	(in accordance with section 417(1) of the *Act* (Definitions)) a rule made by the *FCA* or the *PRA* under the *Act* (including as applied by the *Payment Services Regulations* and the *Electronic Money Regulations*), including:	
	(a)	a *Principle*; and
	(b)	an *evidential provision*.
…		

share	(in accordance with section 540(1) of the Companies Act 2006) a share in the share capital of a *company*, and includes:		
	(a)	stock (except where a distinction between shares and stock is express or implied); ~~and~~	
	(b)	*preference shares*~~.~~; and	
	(c)	in chapters 4, 5, 6 and 7 of *DTR* a convertible share.	
…			
specified investment	any of the following *investments* specified in Part III of the *Regulated Activities Order* (Specified Investments):		
	(a)	*deposit* (article 74);	
	(aa)	*electronic money* (article 74A);	
	(b)	*contract of insurance* (article 75); for the purposes of the ~~permission~~ *permission* regime, this is sub-divided into:	
		(i)	*general insurance contract*;
		(ii)	*long-term insurance contract*;
		and then further sub-divided into classes of *contract of insurance*;	
	…		
	(i)	*stakeholder pension scheme* (article 82);	
	(ia)	~~[deleted]~~ *personal pension scheme* (article 82(2));	
	(iab)	pension scheme which provides *safeguarded benefits* (article 82(3)) (but only in relation to *advising on conversion or transfer of pension benefits*));	
	…		
	(oe)	*emissions auction product* (article 82A);	
	(of)	*credit agreement* (article 88D) for the purposes of the *permission* regime with respect to the *regulated activities* of *entering into a regulated credit agreement as lender* and exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement, this is sub-divided into:	

		(i)	a *credit agreement* (excluding *high-cost short-term credit*, a *home credit loan agreement* and a *bill of sale loan agreement*);
		(ii)	*high-cost short-term credit*;
		(iii)	a *home credit loan agreement*;
		(iv)	*bill of sale loan agreement*,
		and this has effect as if the reference to a *credit agreement* includes a reference to an article 36H agreement within the meaning of article 36H (4) of the *Regulated Activities Order*;	
	(og)	*consumer hire agreement* (article 88E);	
	(p)	*rights to or interests in investments* (article 89).	
…			
summary	(in relation to a *prospectus*) the ~~*summary*~~ summary included in the *prospectus*.		
…			
trading day	~~a day included in the calendar of trading days published by the *FCA* at www.fca.org.uk.~~ any day of normal trading in a *share* on a *regulated market* or *MTF* in the *United Kingdom* for this *share*.		

Annex C

Amendments to the Prospectus Regulation Rules sourcebook (PRR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

3 Approval and publication of prospectus

…

3.1 Approval of prospectus

…

Timeframe for submission

3.1.6 R (1) The *applicant* must submit to the *FCA* by the date specified in paragraph (2):

(a) a completed Form A.

[**Note:** Article 42(2)(j) of the *PR Regulation*. This form is available on the *FCA* website, see ~~*https://www.fca.org.uk/markets/ukla/forms*~~ *https://www.fca.org.uk/markets/primary-markets/forms*.]

(b) …

…

…

…

3.2 Publication of prospectus

…

Publication by the FCA

…

3.2.6 G The *FCA* will upload documents to the ~~system identified by the *FCA* on its website as the national storage mechanism for regulatory announcements and certain documents published by *issuers*~~ *national storage mechanism*. The *FCA* will upload *prospectuses* and related documents it approves after 6 p.m. on the *working day* following the *day* on which it approved the document.

Insert the following new definitions in the appropriate alphabetical position and amend or delete the existing definitions as shown.

Appendix 1 Relevant definitions

App 1.1 Relevant definitions

App 1.1.1 …

…		
applicant	an ~~*applicant*~~ applicant for approval of a *prospectus* or *supplementary prospectus* relating to *transferable securities*.	
…		
PD Regulation	~~Regulation number 809/2004 of the European Commission~~ the Prospectus Directive Regulation (No 2004/809/EC).	
…		
rule	(in accordance with section 417(1) of the *Act* (Definitions)) a rule made by the *FCA* or the *PRA* under the *Act* (including as applied by the *Payment Services Regulations* and the *Electronic Money Regulations*), including:	
	(a)	a *Principle*; and
	(b)	an *evidential provision*.

Annex D

Amendments to the Disclosure Guidance and Transparency Rules sourcebook (DTR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Introduction

…

1.2 Modifying rules and consulting the FCA

…

Early consultation with the FCA

…

1.2.5 G Where ~~a~~ <u>the</u> *disclosure requirements* and the *disclosure guidance* ~~refers~~ <u>refer</u> to consultation with the *FCA*, submissions should be made in writing other than in circumstances of exceptional urgency.

Address for correspondence

Note: The *FCA's* address for correspondence in relation to the *disclosure requirements* and the *disclosure guidance* is:

Primary Market Monitoring
Enforcement and ~~Markets~~ <u>Market</u> Oversight Division
The Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
<u>https://www.fca.org.uk/markets/primary-markets/contact/request-individual-guidance</u>

…

1A Introduction (Transparency rules)

…

1A.2 Modifying rules and consulting the FCA

Modifying or dispensing with rules

…

1A.2.2 R (1) …

(2) The application must:

(a) …

…

(e) include copies of all documents relevant to the application.

[**Note:** the application may meet this requirement with copies of documents produced or stored using *electronic means*].

…

Early consultation with FCA

…

1A.2.5 G Where a *transparency rule* refers to consultation with the *FCA*, submissions should be made in writing other than in circumstances of exceptional urgency.

Address for correspondence

Note: The *FCA's* address for correspondence in relation to the *transparency rules* is:

Primary Market Monitoring
Enforcement and ~~Markets~~ Market Oversight Division
The Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
https://www.fca.org.uk/markets/primary-markets/contact/request-individual-guidance

…

1C Introduction (Primary information providers)

…

1C.2 Modifying rules and consulting the FCA

…

Modifying or dispensing with rules

…

1C.2.2 R (1) …

(2) The application must:

(a) …

…

(e) include copies of all documents relevant to the application.

[**Note:** the application may meet this requirement with copies of documents produced or stored using *electronic means*].

…

Early consultation with FCA

…

1C.2.5 R Where a requirement in *DTR* 8 refers to consultation with the *FCA*, submissions must be made in writing other than in circumstances of exceptional urgency.

Address for correspondence

Note: The *FCA's* address for correspondence in relation to *DTR* 8 is:

~~Primary Market Monitoring~~

~~Markets Division~~

~~The Financial Conduct Authority~~

~~12 Endeavour Square~~

~~London~~

~~E20 1JN~~

~~Fax: 0207 066 8349.~~

Primary Market Monitoring
Enforcement and Market Oversight Division

The Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
https://www.fca.org.uk/markets/primary-markets/contact/request-individual-guidance

…

4 Periodic Financial Reporting

…

4.3A Reports on payments to governments

…

Filing of reports on payments to governments

4.3A.10 R (1) …

(2) The report in (1) must be filed by uploading it to the ~~system identified by the *FCA* on its website as the national storage mechanism for regulatory announcements and certain documents published by *issuers*~~ *national storage mechanism*.

(3) …

The technical requirements in respect of the XML data schema are specified on the ~~UKLA~~ Primary Markets section of the *FCA's* website at ~~*https://www.the-fca.org.uk/markets/ukla*~~ *https://www.fca.org.uk/markets/primary-markets*.

…

5 Vote Holder and Issuer Notification Rules

…

5.8 Procedures for the notification and disclosure of major holdings

…

5.8.9 G ~~The *FCA* provides a link to a calendar of *trading days* through its website at *http://www.fca.org.uk* which applies in the *United Kingdom* for the purposes of this chapter.~~

~~**[Note: article 7 of the** *TD implementing Directive*]~~ [deleted]

…

6 Continuing obligations and access to information

…

6.3 Dissemination of information

…

6.3.5 R (1) ~~*Regulated information*, other than regulated information described in paragraph (2), must be communicated~~ Subject to (1A), an *issuer* or *person* must communicate *regulated information* to the media in unedited full text.

[**Note:** article 12(3) of the *TD implementing directive*]

(1A) An *issuer* or *person* who discloses *regulated information* is exempt from paragraph (1) if:

(a) the *regulated information* in unedited full text has been filed with the *FCA* by uploading it to the *national storage mechanism*;

(b) the *regulated information* has been communicated to the media; and

(c) the communication contains a statement that the *regulated information* is available in unedited full text on the *national storage mechanism*.

(2) (a) ~~An annual financial report that is required by *DTR* 4.1 to be made public is not required to be communicated to the media in unedited full text except for the information described in paragraph (b).~~ [deleted]

(b) ~~If information is of a type that would be required to be disseminated in a half-yearly financial report then information of such a type that is contained in an annual financial report must be communicated to the media in unedited full text.~~ [deleted]

(3) Where (1A) applies, ~~The~~ the announcement relating to the publication of the following *regulated information* must also include an indication of the website on which the relevant documents are available:

…

…

7 Corporate governance

7.1 Audit committees

Audit committees and their functions

…

7.1.2A R The ~~chairman~~ chair of the relevant body must be:

…

…

8 Primary Information Providers

…

8.4 Continuing obligations

…

Disseminating regulated information: format

…

8.4.23 R *Regulated information* disseminated to a *media operator* by a *primary information provider* must contain the following:

(1) …

…

(6) ~~the *FCA short name* of the *issuer* or organisation concerned;~~ [deleted]

…

…

Changes in ownership or company structure

8.4.33A R A *primary information provider* must notify the *FCA* as soon as practicable of any intended changes to its ownership or control.

General notifications

…

8.4.38 R (1) Notifications must be made in writing.

(2) Notifications to the *FCA* must be sent to the following address:

~~Sponsor Supervision~~ Primary Markets Specialist Supervision

Enforcement and Market Oversight Division
The Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
~~Fax: 020 7066 8349~~
Email: pmss@fca.org.uk

…

8 Annex 2 **Headline codes and categories**

8 Annex 2 R

Headline Code	**Headline Category**	**Description**
Urgent priority		
…		
NOT	Official List Notice (~~UKLA~~ FCA use only)	Submitted to indicate that a security has been admitted to/cancelled from the Official List

Pub ref: 007661

FINANCIAL
CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk