UK Listing Review Publishes Recommendations

3 March 2021

On 3 March 2021, the review of the UK listing regime chaired by Lord Jonathan Hill (the **Review**) published its **recommendations** to the Chancellor of the Exchequer, Rishi Sunak, on how the UK can enhance its position as an international destination for IPOs and improve the capital-raising process for companies seeking to list in London. This follows responses received by the Review in its **call for evidence** announced in November 2020, which invited views on how to encourage deeper capital markets in the UK (see our **briefing**). The recommendations comprise both immediate and longer-term steps, and include specific suggestions and broader areas for consideration with the aim of strengthening the UK's capital markets.

The Review has set out fifteen recommendations covering the following seven key areas:

1. **Monitoring and delivering results**: The Chancellor should present an annual report to Parliament on the state of the City, setting out the steps that have been taken or are to be taken to promote the attractiveness of the UK as a well-regulated global financial centre (*recommendation 1*). Her Majesty's Treasury (**HMT**) should consider whether the current statutory objectives of the Financial Conduct Authority (the **FCA**) provide it with sufficient scope to help build a welcoming, supportive and dynamic environment for companies seeking to list – and the FCA should be charged with the duty of expressly accounting for the UK's overall attractiveness as a place to do business (*recommendation 2*).
2. **Improving the IPO environment**: Companies with dual-class share structures should be allowed to list on the premium listing segment of the London Stock Exchange's Main Market (the **Premium List**), but on certain conditions, including a maximum duration (five years), a maximum weighted voting ratio (20:1), transfer restrictions and requiring holders of such shares to be directors of the company (*recommendation 3*). The standard listing segment of the London Stock Exchange's Main Market should be rebranded with a new, more attractive name and guidelines should be developed by investor groups on key areas that would allow companies to be index-eligible (*recommendation 4*). The free float requirement should be reassessed and the minimum level should be reduced from 25% to 15%, with more choice for companies of different sizes to use measures of liquidity other than an absolute free float percentage (*recommendation 5*). The FCA's Listing Rules, which require the suspension of trading in shares of special purpose acquisition companies (**SPACs**) on announcement of a potential acquisition, should be revised, and further shareholder protections should be provided at the time of SPAC acquisitions, such as a shareholder vote and redemption rights (*recommendation 6*).
3. **Redesigning the prospectus regime**: HMT should conduct a fundamental review of the prospectus regime, so that it better fits with both the breadth and maturity of UK capital markets and the evolution in the types of businesses coming to market as well as existing listed companies – including reconsidering prospectus requirements, exemption thresholds and the use of alternative listing documentation where appropriate (*recommendation 7*). The existing Listing Rules on secondary and dual listings should be maintained, and HMT should consider whether prospectuses drawn up under other jurisdictions' rules can be used to meet UK requirements (*recommendation 8*).
4. **Tailoring information**: The issuer and director liability regimes relating to forward-looking information should be amended, to facilitate disclosure of forward-looking financial information (*recommendation 9*). The three-year track record requirement for the Premium List should be

maintained, and revenue earning requirements for scientific and research-based companies should be reviewed to broaden their application to a wider range of high-growth and innovative companies (*recommendation 10*). The Premium List requirement for historical financial information to cover 75% of an issuer's business should be amended to apply only to the most recent financial period within the three-year track record (*recommendation 11*).

5. **Retail investors and existing issuers**: The UK Department for Business, Energy and Industrial Strategy should, with support from HMT and the FCA, consider how technology can be used to improve retail investor involvement (*recommendation 12*). A rights issue review group should be re-established to consider how to improve the efficiency of further capital-raisings by listed companies, with reference to models adopted by other jurisdictions such as Australia in light of technological advances (*recommendation 13*).
6. **Efficiency of listing process**: The FCA should, subject to consultation, review the conduct of business rules in the FCA Handbook relating to the inclusion of unconnected analysts in a UK IPO process – which, in practice, currently results in the addition of seven extra days to the public phase of the process (*recommendation 14*).
7. **Wider financial ecosystem**: Industry concerns should be considered and acted upon, regarding pension investment, a competitive taxation environment and small and medium enterprise research provision (*recommendation 15*).

Lord Hill has said that the Review's recommendations are reflective of the general consensus regarding the need for reform amongst contributors to its earlier call for evidence (including investors, advisers, regulators, banks and companies considering listing) – and that while its recommendations respond to the specific issues HMT asked it to consider, they do not comprehensively address the more fundamental question of what should be done to strengthen the UK's capital markets as a whole. Most of the recommendations are now for HMT to consider and for the FCA to progress in the first instance (which would require consultations on any changes it might make). As such, Lord Hill has said these recommendations mark the start of a conversation around changes to the UK's listing regime in order to respond to the necessity, and the opportunity, for reform.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

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