

UPDATED REFORMS TO THE UK LISTING REGIME: OPPORTUNITIES FOR SPONSORS

Overview

- In late December 2023, the FCA published a new consultation paper on its proposals for listing rule reform, including draft Listing Rules to implement the new regime.
- The primary objectives of the reforms are to (i) **attract more companies to list** and raise capital in the UK and (ii) support market integrity through **disclosure rather than regulation**.
- All aspects of the FCA consultation will run until March 2024 and the **new rules are expected to enter force in the second half of 2024**.
- The reforms mean that **exit by way of IPO should become more straightforward** and appealing for a broader range of companies.
- Significant and related party transactions will also be easier for listed companies to undertake.
- Many of the proposals are consistent with the FCA's May 2023 consultation paper (read our original briefing [here](#)), including the **single listing segment for equity shares in commercial companies** and the **removal of the various historical financial information requirements** for listing.
- The consultation paper does not deal with indexation but it is expected that FTSE Russell will consult its members shortly on changes to the FTSE UK eligibility criteria in response to the FCA's proposals.
- The table below sets out details of the proposed reforms including (i) those that have not changed since May 2023, and (ii) those that have (shaded in green) – in each case by reference to the current premium listing requirements.

	Premium listings (current)	May 2023 (proposal)	December 2023 (proposal)
Simplified eligibility requirements for IPOs			
Historical financial information / track record / working capital statement	Requirements for: <ul style="list-style-type: none"> • three years' historical financial information covering 75% of the business; • a three year revenue track record; and • a 'clean' working capital statement. 	Removal of historical financial information and track record requirements. ¹ <ul style="list-style-type: none"> • Use of 'qualified' working capital statement will be permitted (currently only permitted for standard listings). 	No change from May proposals. These relaxations will remove a key challenge for sponsors seeking to list portfolio companies that have engaged in buy and build strategies.
Controlling shareholder relationship agreement	Listed companies must have a written "relationship agreement" with any controlling (i.e. 30%+) shareholder.	The FCA had proposed that the requirement for a relationship agreement should be removed.	The requirement for a "relationship agreement" with any controlling (i.e. 30%+) shareholder will be retained, together with certain related voting controls.
Dual-class share structures	DCSS permitted subject to 5-year sunset provision; shares with enhanced voting rights may only be held by directors.	The FCA had proposed that DCSS would be permitted with a 10-year sunset provision; shares with enhanced voting rights would only be held by directors.	Removal of proposed 10-year sunset provision; shares with enhanced voting rights may be held by persons who, at the time of listing , are (i) directors, (ii) natural persons who are investors or shareholders, (iii) employees or (iv) entities established for the sole benefit of, or solely owned or controlled by, a person in (i) – (iii). This should encourage more founder-led companies to consider listings.

¹ Up to three years' audited financial information will still be required under the Prospectus Regulation Rules (but no 75% test).

	Premium listings (current)	May 2023 (proposal)	December 2023 (proposal)
Transaction opportunities with listed companies			
Related party transactions	Shareholder approval required for large RPTs ($\geq 5\%$), and notification and a sponsor fairness opinion are required for smaller RPTs (0.25%-5%).	The requirement for independent shareholder approval of larger related party transactions will be removed. <ul style="list-style-type: none"> Higher threshold to qualify as a substantial shareholder for an RPT. Financial sponsor fairness opinion and independent director approval for transactions $\geq 5\%$. 	No change from May proposals save for new FCA guidance on “ordinary course of business” exemption. These reforms should facilitate IPOs of portfolio companies with ongoing business arrangements with the retained group.
Significant (Class 1) transactions	Shareholder approval required for Class 1 transactions ($\geq 25\%$) and notification for Class 2 transactions (5%-25%).	The requirement for shareholder approval in relation to major acquisitions or disposals will be removed. <ul style="list-style-type: none"> Enhanced market notifications will be required for transactions $\geq 25\%$. 	No change from May proposals save for further details of required disclosures under enhanced notification regime and new FCA guidance on “ordinary course of business” exemption. We expect this will de-risk carve-out transactions from UK plcs for sponsors, and should also improve UK plcs’ ability to compete in auction processes.
Break fees	Break fees are treated as Class 1 transactions if the fee exceeds 1% of the issuer’s market cap.	Listed companies will now be permitted to pay substantial break fees.	No change from May proposals.
Partial carve-out	Shareholder approval required for the uncapped put options / drag rights that the sponsor typically requires on acquisition of a minority interest in a listed company’s subsidiary.	Shareholder approval no longer required for uncapped put options / drag rights when acquiring a minority equity interest in a listed company’s subsidiary.	No change from May proposals. These transactions should become more appealing both for sponsors and listed companies.

New listing categories proposed (December 2023)

Transition	<ul style="list-style-type: none"> Existing standard listed issuers will mostly be mapped to the new transition category, which will maintain the status quo for current standard listings. Issuers will be able to apply to transfer to the commercial companies category using a simplified transfer procedure.
International secondary listings	<ul style="list-style-type: none"> Non-UK incorporated companies with a secondary listing in London will be automatically mapped to this category. Will broadly replicate the current standard listing rules; draft rules due Q1 2024.
Shell and SPACs	<ul style="list-style-type: none"> Limited to shell companies / SPACs actively pursuing a strategy of acquisition. Additional eligibility requirements aimed at investor protection. Existing sponsor regime will be extended to this category.

Please speak to your usual Weil contact for further information.