UK Listings Review (2) – The Ten Most Important Recommendations to Improve UK Capital Markets.

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The recommendations to the UK Listings Review led by Lord Hill were published yesterday, 3 March 2021.

DAC Beachcroft had responded to the Call for Evidence and we are pleased to learn that a number of our recommendations have been considered and adopted.

The recommendations can be accessed here and include, most importantly:

Monitoring and delivering results

1. The Chancellor to deliver an annual report to Parliament setting out the steps that have been taken to promote the attractiveness of the UK as a global financial centre.

   The first report, expected in early 2022, should cover the issues discussed in the UK Listings Review and cover broader capital markets issues.

Improving the environment for companies to go public in London

2. Allow companies with dual class share structures to list in the premium listing segment but maintain high corporate governance standards by applying certain conditions, including: *(i.)* maximum duration of five years, *(ii.)* maximum weighted voting ratio of 20:1, and *(iii.)* a requirement that holders of B shares be directors of the company so that they can, amongst other actions, be empowered to block takeovers.

   At the end of the five year period, companies would either become subject to all of the rules of the Premium Listing Segment, or transfer to a different segment.

3. Rebrand and re-market the Standard Listing Segment (it has been suggested to change its name to the Main Segment, or simply refer to a company being admitted to the Official List either by way of a Ch. 6 or Ch. 14 listing).

4. Provide more clarity and choice for companies about how much free float they must have at IPO. This will be achieved by 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.

   The review found that existing FCA rules on free float are one of the strongest deterrents for companies, and in particular high growth and PE backed companies, seeking a listing.

5. Revise the Listing Rules requiring trading to be suspended in shares of SPACs on announcement of potential acquisitions, and provide additional protections for shareholders at the time of acquisition.

   The FCA has been asked to consider developing rules and guidance on a number of points, including: *(i.)* the information which SPACs must disclose upon announcement of a transaction, *(ii.)* the rights investors must have to vote on acquisitions prior to completion, *(iii.)* the rights investors must have to redeem their initial investment prior to completion, and *(iv.)* the size of SPAC below which the suspension of trading presumption should continue to apply.

Re-designing the prospectus regime

6. Conduct a fundamental review of the prospectus regime, and consider in particular: *(i.)* changing the prospectus requirement so that admission to a regulated market and offers to the public are treated separately, *(ii.)* changing how the prospectus exemptions thresholds function, and *(iii.)* use alternative listing documentation where appropriate (e.g. a further issuance by an existing listed issuer).

   The Treasury and the FCA are expected to launch a consultative review of the on-shored Prospectus Regulation. It was noted, in particular, that a drive towards disclosure and transparency, coupled with the liability profile attached to prospectuses, has led to a ballooning in their size and reduction in usefulness. Moreover, the additional requirements relating to the inclusion of retail investors (e.g. keeping an offer open for six working days) persuaded companies to exclude them.

Tailoring information to meet investors' needs better

7. Facilitate the provision of forward-looking information by amending the liability regime for issuers and directors.

8. Maintain the three-year historical financial information track record requirement for the premium listing segment, but review the provisions for scientific research based companies regarding revenue earning requirement to broaden their application to high growth innovative companies across a variety of sectors.

9. Amend the requirement for historical financial information covering at least 75% of an issuer's business for premium listings so that it applies only to the most recent financial period within the three-year track record.

Empowering retail investors

10. Consider how technology can improve retail investor involvement in corporate actions. In particular, it has been noted that the new generation of retail investors expects smoother processes for registering their views as shareholders.

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