Davis Polk

Capital markets reform in the UK

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Since 2021, successive governments and regulators have focused on reform of the UK's capital markets and regulatory framework to strengthen the UK's position as a leading financial centre. Whilst there are further changes to come, the publication last week of new prospectus rules is the last major piece of these reforms. This briefing sets out the key changes coming out of these reforms relevant to companies with or considering a UK listing and their investors and advisers.

1. Eligibility for listing on the regulated market

Listings review and new UKLR sourcebook

The UK Listings Review, chaired by Lord Hill, was launched in November 2020 to examine how the UK could enhance its position as an international destination for IPOs and improve the capital-raising process for companies seeking a London listing. Following his review, Lord Hill published a series of recommendations for reforms of the Listing Rules in March 2021.

The UK's Financial Conduct Authority (FCA) subsequently published CP 21/21 in July 2021 and implemented a first wave of changes to the then Listing Rules, primarily to eligibility criteria to seek to avoid the UK missing out on a wave of activity by founder-led technology companies and special purpose acquisition companies (SPACs), as set out in PS 21/22 in December 2021.

Further consultations on more fundamental changes to the regime followed with the publication of DP 22/2 in May 2022 (read our summary here), CP 23/10 in May 2023 (read our summary here), and CP 23/31 in December 2023 (read our summary here). On 11 July 2024, the FCA published PS 24/6 with its final version of the new UK Listing Rules (UKLR) sourcebook (read our summary here).

The UKLR sourcebook came into force on 29 July 2024 and represented a major overhaul of the UK's listing regime, aligned with international market standards and described by market observers as the "biggest change to the UK's listing regime in forty years".

The UKLR sourcebook now sits alongside the Disclosure Guidance and Transparency Rules (DTR) sourcebook and the Prospectus Regulation Rules (PRR) sourcebook (that, as described below, will be replaced with the Prospectus Rules: Admission to Trading on a Regulated Market (PRM) sourcebook with effect from 19 January 2026).

Listing categories

One of the key changes made to the regime was to collapse the previous premium and standard listing segments of the regulated market into a flagship single listing category for Equity Shares in Commercial Companies (ESCC), referred to as the "commercial company" category.

Whilst the intention was to introduce lighter-touch regulation for the commercial company category (compared with the previous premium listing segment) the new rules still represented a step up from the previous standard listing requirements. Accordingly, the FCA created a “transition” category for commercial companies previously listed on the standard segment, allowing them to largely maintain their existing ongoing obligations from the previous standard listing regime. The transition category is closed to new applicants and to transfers from other categories. The FCA has not yet set a specific end date for the transition category, but this will be kept under review.

The key provisions of the UKLR sourcebook for commercial companies are set out in the table below:

Key contents of the UKLR sourcebook for commercial companies		
UKLR 1	Preliminary: all securities	The FCA can dispense with certain UKLR requirements as it considers appropriate. A company must provide the FCA any information reasonably requested by the FCA as soon as possible.
UKLR 2	Listing Principles	The Listing Principles require companies to, among others, establish and maintain adequate procedures, systems and controls to enable them to comply with their obligations under the UKLR (Listing Principle 1) and deal with the FCA in an open and co-operative manner (Listing Principle 2).
UKLR 3	Requirements for listing: all securities	Shares must be freely transferable, fully paid and free from all restrictions on the right to transfer. Market capitalisation of the company must be at least £30 million. An FCA-approved prospectus is required for an IPO.
UKLR 4	Sponsors: responsibilities of issuers	A sponsor is required for an IPO and for certain other transactions involving a commercial company, including related party transactions and reverse takeovers.
UKLR 5	Equity shares (commercial companies): requirements for admission to listing	At least 10% of shares of the listed class must be distributed to the public (i.e. not held by group directors or 5%+ shareholders). A company must adopt a constitution allowing it to comply with the UKLR. A company must be able to demonstrate its board has strategic autonomy. Restrictions apply to shares carrying weighted voting rights.
UKLR 6	Equity shares (commercial companies): continuing obligations	Commercial companies are subject to continuing obligations, including: annual reporting requirements (including compliance with the UK Corporate Governance Code, or an explanation in the event of non-compliance); compliance with climate and diversity disclosure requirements; and market announcement requirements.

Key contents of the UKLR sourcebook for commercial companies		
UKLR 7	Equity shares (commercial companies): significant transactions and reverse takeovers	Companies are required to make an enhanced market announcement as soon as possible after the terms of a significant transaction (determined by certain percentage ratio calculations) are agreed. The significant transaction announcement must include specified information, including: the benefits and risks of the transaction; a statement on the effect of the transaction on the group's earnings, assets and liabilities; details of any break fee; a "best interests" statement by the board; and any other relevant information necessary to support shareholder engagement and market transparency.
UKLR 8	Equity shares (commercial companies): related party transactions	Transactions involving a related party (e.g., a 20% shareholder or current/former director) which exceed certain thresholds require board approval excluding any conflicted directors, written confirmation from a sponsor that the transaction terms are "fair and reasonable", and a market announcement as soon as possible after the transaction terms are agreed.
UKLR 9	Equity shares (commercial companies): further issuances, dealing in own securities and treasury shares	Pre-emption rights apply to the company's listed shares. Specific rules apply in relation to rights issues, open offers and placings (and a maximum 10% discount applies to open offers and placings).
UKLR 10	Equity shares (commercial companies): content of circulars	Shareholder circulars must comply with specific content requirements, and circulars in relation to certain transactions (including a reverse takeover) must be approved by the FCA.
UKLR 20	Admission to listing: processes and procedures	Specific procedural and documentary requirements are set out in relation to an application for listing of securities (including the submission timing of offering documents to the FCA).

Key contents of the UKLR sourcebook for commercial companies		
UKLR 21	Suspending, cancelling, restoring listing and transfer between listing categories: all securities	The FCA may suspend the listing of a company's securities if the smooth operation of the market is, or may be, temporarily jeopardised or it is necessary to protect investors. The FCA may cancel the listing of securities if it is satisfied there are special circumstances that preclude normal regular dealings in them.

In addition to the new commercial company category, the FCA also created new categories for international secondary listings (UKLR 14) and shell companies (UKLR 13).

For shell companies and SPACs, in the UKLR, the FCA largely maintained the rules that had applied to the previous standard listing segment, with enhanced eligibility requirements setting time limits within which initial transactions must be completed by SPACs. Shareholders are permitted to approve extensions of such time limits (on three occasions of up to 12 months each, extendable for a further 6 months in specified circumstances). In addition, the FCA reverted to a guidance-based approach permitting larger SPACs to voluntarily put in place sufficient investor protections to avoid a presumption of suspension of listing as and when an initial transaction is announced.

Eligibility requirements

Ahead of publication of the UKLR and to give effect to the recommendations coming out of Lord Hill's review, the FCA implemented certain changes to eligibility criteria set out in the then Listing Rules with effect from the end of December 2021, notably to reduce the free float requirement from 25% in "public hands" to 10% and to increase the minimum market capitalization threshold for premium and standard listing segments from £700,000 to £30 million (read our summary here).

With the UKLR, the FCA made further changes to eligibility criteria including the adoption of a single set of Listing Principles (to reflect the collapse of the previous premium and standard listing segments into a single commercial company category) and removed the previous premium listing requirements for a three-year revenue track record and "clean" working capital statement.

Likewise, whilst changes were made to the then Listing Rules to permit "dual-class share structures" with effect from the end of December 2021 (read our summary here), these were further refined with the UKLR. Dual-class share structures are now permitted for commercial companies (without sunset restrictions, other than for weighted voting rights held by pre-IPO institutional investors), but may not be exercised on certain matters that adversely impact holders of listed shares (such as certain discounted share issuances and a cancellation of listing).

Finally, the UKLR adopted the position that commercial companies must be independent from their "controlling shareholder" (a shareholder holding 30%+ voting rights) but removed the previous premium listing requirement for a company to put a written relationship agreement in place with such shareholder. A commercial company's board of directors is instead required to state its opinion in respect of any resolution proposed by a controlling shareholder at a general meeting that is considered to circumvent the proper application of the UKLR.

2. Public offer of securities in the UK and prospectus regime

Regulations to replace EU-derived law

One of the recommendations made by Lord Hill was that the government carry out a fundamental review of the UK's prospectus regime. Having published the Prospectus Regime Review consultation in July 2021, HM Treasury set out its proposed policy approach to reform in Prospectus Regime Review outcomes in March 2022 (read our summary here) along with a draft illustrative statutory instrument.

A near final version of the Public Offers and Admissions to Trading Regulations 2024 (POATRs) was published in July 2023 (read our summary here) and a final updated draft in November 2023 (read our summary here). The final POATRs (SI 2024/105) came into effect, for limited purposes on 30 January 2024 and will come into full force and effect on 19 January 2026 (when the PRM sourcebook becomes effective).

Once fully effective, the POATRs replace the EU-derived Prospectus Regulation and accompanying instruments, which have applied since 2017 and were later incorporated into UK domestic law post-Brexit (the UK Prospectus Regulation). Whilst providing a degree of continuity with the current EU-derived regime, there are some significant changes, notably:

- **Prohibition on public offers and key exceptions:** The POATRs prohibit all public offers of securities in the UK unless an exception applies. Most exemptions under the current regime (such as offers of securities to qualified investors and offers of securities to fewer than 150 persons) are carried forward in the POATRs, but there are several new exceptions. The key new exception – public offers of securities admitted to trading on a regulated market – establishes a new regime with delegated power for the FCA to prescribe what is required in connection with admission to trading on a regulated market, including when a prospectus is required and what it should contain (these new rules are set out in the PRM sourcebook as described below).
- **New liability regime for protected forward-looking statements:** The POATRs create a new liability regime for "protected forward-looking statements" included in a prospectus (the new regime is set out in detail in the PRM sourcebook as described below) to encourage companies to include forward-looking information in prospectuses for the benefit of investors.
- **Reduction in six-day rule:** The POATRs reduce the period that a prospectus published in connection with an IPO is required to be made public from six to three working days before the end of the offer.

New PRM sourcebook

Prior to finalisation of the POATRs, the FCA sought input from market participants on the rules it should make in connection with public offers of securities admitted to trading on a regulated market. During the second half of 2023 it published a series of six engagement papers on its approach to the rules to implement the POATRs framework and feedback on the same. The FCA consulted on draft rules in July 2024 (CP 24/12) and in January 2025 (CP 25/2) before publishing PS 25/9 on 15 July 2025 with its final version of the PRM sourcebook. The PRM sourcebook will come into force on 19 January 2026 (replacing the current PRR sourcebook). The contents of the PRM sourcebook are as follows:

Contents of the PRM sourcebook		
PRM 1	Introduction, application and prospectus requirement	Unless an exemption applies, transferable securities can only be admitted to trading after prior publication of a prospectus, approved by the FCA, in accordance with the PRM.
PRM 2	Drawing up the prospectus	A prospectus must contain the information required by regulation 23 of the POATRs.
PRM 3	Persons responsible for a prospectus or supplementary prospectus	Certain persons are responsible for a prospectus including, among others: the company, each of its directors as at prospectus publication, each person named as a director or future director in the prospectus, and each person who authorised the prospectus contents.
PRM 4	Minimum information requirements	Minimum information requirements are set out in a series of annexes to the PRM.
PRM 5	Incorporation by reference and use of hyperlinks	Certain prescribed information may be incorporated by reference in a prospectus, including annual and interim financial information.
PRM 6	Omission of information	The FCA may authorise the omission from a prospectus of any required information if disclosure would be contrary to the public interest, or by waiver wheredisclosure would be seriously detrimental to the issuer (provided omission would not be likely to mislead the public) or if the information is of minor importance.
PRM 7	Simplified disclosure regime for secondary issuances	Companies whose securities have been admitted to trading continuously for at least the past 18 months and who issue equity securities fungible with existing listed equity securities are eligible for a simplified disclosure regime.
PRM 8	Protected forward-looking statements	Protected forward-looking statements are subject to a reduced “recklessness” rather than a higher “negligence” standard for civil liability.

Contents of the PRM sourcebook		
PRM 9	Approval of a prospectus	The submission process, scrutiny, and time limits for approval of prospectuses by the FCA is set out in PRM 9.
PRM 10	Supplementary prospectus	A supplementary prospectus is required where there is a significant new factor, material mistake or material inaccuracy relating to information included in a prospectus.
PRM 11	Validity of a prospectus	A prospectus, whether a single document or consisting of separate documents, will be valid for 12 months after its approval by the FCA (provided it is completed by any supplementary prospectus as required).
PRM 12	Advertisements and other disclosure of information	All information disclosed in oral or written form, as an advertisement or otherwise disclosed, must be consistent with, and not contradict, information included in the prospectus or in a supplementary prospectus.
PRM 13	Rules that can be waived or modified	The FCA has the power to waive certain rules under the Financial Services and Markets Act 2000, as amended.

The requirements of the PRM are similar to the current EU-derived regime, and an FCA-approved prospectus (including a registration document) will still be required for an IPO. There are, however, some significant differences, notably:

- **Increased flexibility for secondary offerings:** For secondary offerings, the threshold triggering the requirement for a prospectus on further share issuances will be increased from 20% to 75% of shares already admitted. The threshold will apply to the further issuance of the same class of transferable securities within a 12-month period. This will allow companies to raise more capital without a full prospectus, speeding up the process and reducing costs.
- **Ability to prepare a voluntary prospectus:** Companies will have the ability to produce a prospectus on a voluntary basis (which may be approved by the FCA) on an issuance below the new 75% threshold. This recognizes that companies may need to assess on a case-by-case basis the merits of a documented versus undocumented transaction considering global shareholder bases and the need to access US investors (which may be easier on a documented transaction).
- **New protected forward-looking statement regime:** As noted above, the FCA has created a distinct liability regime for “protected forward-looking statements”, consistent with the regime for ongoing listed company disclosures (subject to a reduced “recklessness” – rather than a higher “negligence” – standard for civil liability). These statements can comprise financial or operational information that satisfies certain criteria (including profit forecasts) and must be clearly demarcated and carry certain disclaimers. In practice, these statements will need to be supported by appropriate due diligence and accounting work. The FCA intend to consult on and issue additional guidance on protected forward-looking statements in the second half of 2025.

– **Prospectus content requirements:** The prescribed content requirements for a prospectus remain largely unchanged. Content requirements will continue to be set out in detailed annexes in the PRM sourcebook. The page limit for prospectus summary sections has been increased to ten pages, from seven. The FCA has introduced additional climate-related disclosure requirements, where companies identify climate-related risks as risk factors or climate-related opportunities are material to their prospects. Whilst the FCA has retained the requirement for a working capital statement, it will increase flexibility for companies with an acquisitive (complex financial) history. The FCA intend to consult on and issue additional guidance on these topics in the second half of 2025.

3. Continuing obligations of listed companies

In connection with its review of the UK listing regime described above, the FCA made a few changes to the continuing obligations of listed companies, all of which became effective on 29 July 2024 with the adoption of the UKLR sourcebook.

Listing Principles

In connection with the collapse of the previous premium and standard listing segments into the new commercial company category, the Listing Principles (set out in UKLR 2) were simplified to require commercial companies to:

– establish and maintain adequate procedures, systems and controls to enable them to comply with their obligations under the UKLR (Principle 1);

– deal with the FCA in an open and co-operative manner (Principle 2);

– take reasonable steps to enable its directors to understand their responsibilities and obligations as directors (Principle 3);

– act with integrity towards the holders and potential holders of its listed securities (Principle 4);

– ensure that it treats all holders of the same class of its listed securities that are in the same position equally in respect of the rights attaching to those listed securities (Principle 5); and

– communicate information to holders and potential holders of its listed securities in such a way as to avoid the creation or continuation of a false market in those listed securities (Principle 6).

Sponsor regime

One of the unique elements of the UK's listing regime has been the role of the "sponsor", a financial adviser approved by the FCA to provide guidance on the listing regime to a company with or seeking a listing and to provide assurances to the FCA in certain prescribed situations.

As part of the consultation on changes to the UK listing regime, the decision was taken to retain the role of sponsor. However, because of the lighter-touch regulation of the new commercial company category (notably a relaxation of shareholder approval requirements for significant and related party transactions as described below), a sponsor is now only required to be appointed:

– in the context on an IPO, where a company is seeking admission for the first time;

– in the context of a significant or related party transaction, where a request is made to the FCA for individual guidance or modification or waiver of the rules in UKLR 7 or UKLR 8;

– in the context of a related party transaction, to confirm the transaction is "fair and reasonable";

– in the context of a reverse takeover, to provide guidance and submit a circular and prospectus;

– where required by the FCA due to a breach (or suspected breach) of the UKLR or DTR sourcebooks;

– for certain transfers between listing categories; and

– in the context of further share issuances, if a listed company is required to submit a document such as a prospectus to the FCA for approval.

Significant transactions and reverse takeovers

The FCA made major changes to the requirements that had historically applied to significant transactions by a listed company, notably:

- removing the requirements to publish a circular and obtain shareholder approval for Class 1 transactions;
- for Class 1 transactions, requiring only an announcement containing prescribed information (broadly mirroring that previously required for a Class 2 transaction);
- amending the class tests to remove the profits test (given the frequency of anomalous results the test produces), and providing a company's sponsor with discretion to apply modifications to the class tests without consulting with FCA;
- removing the requirement for sponsor "sign-off" on a transaction, with sponsor guidance needed only to the extent there is doubt about the correct application of the UKLR or the company's obligations; and
- removing any specific announcement obligations for transactions under 25% on the class tests.

Accordingly, under UKLR 7, commercial companies are required to make a market announcement as soon as possible after the terms of a significant transaction (25%+ on any one of the class tests (consideration, assets and capital), excluding transactions in the ordinary course of business) are agreed. No announcement requirements are prescribed for transactions below that threshold, but the requirements of the UK Market Abuse Regulation (UK MAR) apply.

A significant transaction announcement must include certain prescribed information, including:

- benefits and risks of the transaction;
- a statement on the effect of the transaction on the group's earnings, assets and liabilities.
- details of any break fee; and
- a "best interests" statement by the board.

In the case of a disposal, the announcement must also include certain financial information. There is also an overarching catch-all obligation to disclose any other relevant circumstances or information necessary to enable shareholders to assess the terms and impact of the transaction.

No shareholder approval or circular requirements apply to a significant transaction, nor is there any requirement to appoint a sponsor (save where guidance, waiver or modifications from the FCA are sought). Companies are, however, encouraged to seek guidance from a sponsor where needed to meet their obligations.

Under UKLR 7.5, reverse takeovers (100%+ on any one of the class tests (consideration, assets and capital)) continue to require a market announcement, an FCA-approved circular and shareholder approval. Sponsor guidance must be obtained if a company is proposing to enter into a transaction which could amount to a reverse takeover and one must be appointed in respect of the circular and any re-admission prospectus.

Related party transactions

The FCA also made major changes to the requirements that had historically applied to related party transactions by a listed company, notably:

- removing the requirements to publish a circular and obtain independent shareholder approval for any related party transaction that exceeds 5% on the class tests;
- removing the modified requirements for smaller related party transactions above 0.25% and below 5%; and
- removing "enhanced oversight" of related party transactions with controlling shareholders.

Accordingly, under UKLR 8, for transactions involving a related party (for example, a 20% shareholder or current/former director) which exceed the 5% class test threshold (excluding transactions in the ordinary course of business), the following requirements apply:

- board approval of the transaction, excluding any conflicted directors;
- written confirmation from a sponsor that the transaction terms are “fair and reasonable”; and
- a market announcement as soon as possible after the transaction terms are agreed which must include, amongst other requirements, a “fair and reasonable” statement by the board.

No announcement requirements are prescribed for related party transactions below the 5% threshold, but the requirements of UK MAR apply.

4. Secondary capital raisings

The UK Secondary Capital Raising Review, led by Mark Austin MBE, was launched in October 2021 to investigate improving further capital raising processes for listed companies in the UK (read our summary here). The findings of the review were published in July 2022 and included several recommendations to the government, the FCA and the Pre-Emption Group (PEG).

PEG responded and welcomed the recommendations, subsequently issuing an updated version of its Statement of Principles on 4 November 2022. The recommendations of the review that were reflected in the updated Statement of Principles (read our summary here) included:

- an increase in the size of a listed company’s recommended pre-emption disapplication authority to be obtained at its AGM (from 5+5% to 10+10% of existing issued share capital, where the proceeds of the second 10% should only be used for an acquisition or a specified capital investment), together with encouragement of retail investor participation through “follow-on” offerings;
- greater flexibility for “capital hungry companies” to raise significant capital on a non-pre-emptive basis, if disclosed at IPO; and
- an increase in the size of a listed company’s recommended share issuance authority for all types of pre-emptive offers from one-third to two-thirds of existing issued share capital.

Further recommendations of the review that required FCA rule changes and/or legislative changes included:

- removing the requirement to appoint a sponsor for large, ordinary course capital raisings;
- shortening the notice period for shareholder meetings (from 14 to 7 clear days) and for rights issue offer periods (from 10 business days to 7 business days); and
- raising the dilution thresholds above which a follow-on prospectus is required and introducing a framework for offering booklets and cleansing notices.

Whilst there have been no changes to company law to shorten shareholder meetings, as described above, when the new PRM sourcebook becomes effective on 19 January 2026, the dilution thresholds above which a follow-on prospectus is required will be raised from 20% to 75% (and, as a consequence of not requiring a prospectus, there will be no requirement to appoint a sponsor for such ordinary course capital raising).

5. Trading in listed securities

Admission to LSE’s main market and FTSE Russell index inclusion

As a result of the introduction of the UKLR sourcebook in July 2024, both the London Stock Exchange (LSE) and FTSE Russell made consequential changes to their rules.

In July 2024, the LSE confirmed amendments to its Admission and Disclosure Standards to reflect the collapse of the previous premium and standard listing segments into the new commercial company category. It also announced the closure of the High Growth Segment (HGS).

In March 2024, FTSE Russell confirmed that it expected commercial companies and closed-ended investment fund issuers would be eligible for the FTSE UK Index Series (see our summary here). It then issued a summary and FAQs

confirming its view when the final UKLR sourcebook was published in July 2024.

Accelerated settlement cycle

One of the measures proposed as part of the Edinburgh Reforms in December 2022 was the establishment of the Accelerated Settlement Taskforce, chaired by Charlie Geffen. The objective of the taskforce was to consider the potential benefits of the UK moving to a T+1 securities settlement cycle and outline how this change could be implemented.

The taskforce issued its Accelerated Settlement Taskforce Report in March 2024 recommending the change from the current T+2 requirement under The Central Securities Depositories Regulations 2017 (SI 2017/1064) to a T+1 requirement. On 19 February 2025, the UK government announced it accepted the recommendation and the UK market intends to move to a T+1 settlement cycle on 11 October 2027.

Digitalisation

One of the recommendations from the UK Secondary Capital Raising Review led to the establishment in July 2022 of the Digitisation Taskforce, chaired by Sir Douglas Flint.

The objective of the taskforce was to drive forward the full digitisation of the UK's shareholding framework by eliminating the use of paper share certificates, and in general seeking to improve the UK's intermediated system of share ownership.

In July 2023, the taskforce published an Interim Report (read our summary here) which made a number of recommendations, including:

- legislation should be brought forward, and company articles of association changed, as soon as practicable to stop the issuance of new paper share certificates;
- the government should bring forward legislation to require dematerialisation of all share certificates at a future date;
- the government should consult with issuer and investor representatives on the preferred disposition of "residual" paper share interests and whether a time limit should be imposed for the identification of untraced Ultimate Beneficial Owners (UBOs); and
- intermediaries should have an obligation, as a condition of participation in the clearing and settlement system, to put in place common technology that enables them to respond to UBO requests from issuers within a very short time frame.

On 15 July 2025, the Digitisation Taskforce published its Final Report recommending a three-step phased approach to digitization:

- first, replace paper-based/certificated share registers with digitised registers, temporarily replicating the current system, but without paper certificates;
- second, enhance the intermediated system to ensure UBOs can efficiently exercise their rights through intermediaries and
- third, once the improvements to the intermediated system have been made, complete the transition to a fully intermediated system, potentially making digitised registers a "one-way street" and setting a "sunset date" by which all shares need to move to the intermediated system.

Digitisation would target listed companies with a view to reducing costs and waste, and streamlining shareholder communication. The report proposes additional measures to ensure that UBOs within the intermediated securities chain would be able to exercise shareholder rights that are presently only guaranteed for registered shareholders, as well as measures to enhance communication between companies and UBOs.

The UK government welcomed the report and has stated that its recommendations will be implemented in full.

Short selling

Reform of the UK Short Selling Regulation (UK SRR) was originally announced as part of the Edinburgh Reforms in December 2022.

The key proposed changes, announced in July 2023, included:

- replacing the public disclosure regime based on individual net short positions with an aggregate net short disclosure regime such that individual short sellers will no longer be identified;
- increasing the current threshold for reporting to the FCA of net short positions in shares traded on UK trading venues from 0.1% to 0.2%; and
- removing restrictions and reporting requirements on UK sovereign debt and sovereign credit default swaps (although these would remain in scope of the FCA's emergency intervention powers).

An updated draft of the statutory instrument was published in November 2023 (read our summary here), with the final Short Selling Regulations 2025 (SI 2025/29) published on 13 January 2025, establishing a new framework for short selling regulation in line with earlier proposals and replacing assimilated law including the UK SRR.

The final regulations grant the FCA broad rulemaking powers to regulate short selling activities and intervene in exceptional circumstances. They also outline the requirement for firms to notify the FCA of net short positions above a certain threshold and empower the FCA to publish aggregated, anonymized net short position data.

6. Regulation of and access to investment research

The Investment Research Review (IRR), led by Rachel Kent, was established by the Chancellor in late 2022 to review the UK's investment research regime and its contribution to the competitiveness of UK capital markets.

The IRR's key objective was to identify solutions to reverse the decline in the availability of investment research, which was seen as a contributing factor to underinvestment in innovative UK companies. The IRR noted that this issue was an unintended consequence of implementing the EU Markets in Financial Instruments Directive II (MiFID II) requirements in 2018. Traditionally, research costs were passed on to UK asset managers through "bundled" payments, which included both the costs of research and execution fees. Seeking to increase transparency in the market, post-MiFID II regulations prohibited bundled payments unless they were made from a designated "research payment account" (RPA) and research charges were agreed in advance between buy-side firms and their clients. To reduce operational complexity, buy-side firms mostly opted to absorb the costs of research rather than establish RPAs. Consequently, firms grew more circumspect about the expenses incurred in acquiring research, resulting in less demand and more selective analyst coverage, to the detriment of smaller issuers.

Key areas of focus for the IRR were increasing research coverage of smaller cap companies, reforming the existing regulatory regime as it relates to investment research, particularly MiFID II-derived rules on paying for investment research, and increasing access to investment research for retail investors.

The IRR published its findings in July 2023 and made seven key recommendations, including:

- establishing a research platform to serve as a central facility for the promotion, sourcing and dissemination of research, with a particular emphasis on research relating to smaller cap companies;
- changing the current rules on how investment research in paid for to allow greater optionality, including by allowing UK buy-side firms to pay for research from outside the UK on a "bundled" basis where it is standard practice in that jurisdiction;
- allowing greater access to investment research for retail clients;
- involving academic institutions in supporting investment research initiatives;
- supporting issuer-sponsored research by implementing a code of conduct;
- clarifying aspects of the current complex and difficult to navigate regulatory regime relating to investment research and consider introducing a bespoke regime; and
- reviewing the rules relating to investment research in the context of IPOs.

The UK government accepted the IRR's recommendations and the FCA consulted on reforms to the investment research rules.

On 25 July 2024, the FCA published a policy statement on payment optionality for investment research (PS 24/9) which confirmed its plans to permit MiFID investment firms to make "joint payments" for research and execution services, provided certain safeguards were implemented. The final rules came into effect on 1 August 2024. The FCA noted its aim was not to reintroduce bundling, contending that MiFID II's positive impact on price transparency should be retained. Therefore, the joint payment option still requires research costs to be separately identifiable within the total charges included in the payment. Other guardrails include relatively prescriptive requirements for firms' processes with regards to budgeting for research and making client disclosures on joint payments. Given the costs and time involved in implementing these guardrails, it remains to be seen whether this option will be widely adopted by firms in the long-term.

On 9 May 2025, following a period of consultation, the FCA published its policy statement on investment research payment optionality for fund managers (PS 25/4). The rules came into force immediately. The final rules set out in PS 25/4 extended the availability of joint payments to UK managers, including UCITS management companies, full-scope UK alternative investment fund managers (AIFMs) and small authorized UK AIFMs. However, firms are required to observe certain guardrails. During the consultation phase, firms had advocated for the implementation of guardrails at the level of investment strategies rather than individual funds. The FCA accepted this notion in some respects, for example by allowing greater flexibility in allocating research budgets. However, a more restrictive approach was taken in other areas: AIFMs must, for instance, periodically assess the value and quality of research in respect of each fund they manage. As with the measures in PS 24/9, more time is needed to determine if AIFMs are willing to incur the time and cost of establishing new internal processes to take advantage of the joint payment option.

This summary of UK capital markets reforms is an update of an earlier summary published in September 2023.

Future of UK Capital Markets series

Visit our **Future of UK Capital Markets** page to read our series of client updates on the UK government's sweeping efforts to reform the capital markets and the wider regulatory system to strengthen the UK's position as a leading global financial centre.

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