

# FTSE Draft Rules Show Impact Of FCA Listing Reforms

By **Dan Hirschovits, Simon Witty and Vivek Thanki** (April 30, 2024)

In March, FTSE Russell, a subsidiary of the London Stock Exchange Group that produces, maintains, licenses and markets stock market indices, published a summary of provisional changes to the Financial Times Stock Exchange Group, or FTSE, U.K. Index Series ground rules to cater for upcoming changes to the U.K. listing regime.[1]

FTSE Russell expects companies listed on the proposed new single category for commercial companies, and a separate category for closed ended investment funds, to be eligible for FTSE indexation.

The U.K. listing regime is undergoing significant reform aimed at encouraging a more diverse range of companies to list and grow on U.K. markets.

The Financial Conduct Authority, which oversees the listing regime, has said these are the most wide-ranging and consequential reforms to the U.K.'s capital markets in over three decades.

The FCA published its consultation paper, CP 23/31, in December 2023, setting out the detail of these proposed changes that are expected to take effect early in the second half of 2024. In March, the FCA published the U.K. Listing Rules Instrument 2024, containing a complete set of draft U.K. listing rules in relation to the reformed listing regime.[2]

A cornerstone of the FCA's listing regime reforms is the creation of a new single listing. Listing regime changes will affect FTSE Russell's ground rules category for equity shares in commercial companies, or ESCC, and a separate category for closed-ended investment funds, to replace the existing premium and standard segments of the FCA's Official List — the list of publicly listed companies maintained by the FCA.[3]

This article discusses how the listing regime changes will affect FTSE Russell's ground rules and the composition of the FTSE U.K. Index Series, in light of FTSE Russell's proposed rule changes.

## Impact of FCA Changes on FTSE Russell Rules

### *Listing Categories*

Currently, for securities to be eligible for potential inclusion in the FTSE U.K. Index Series, they must be listed on the premium segment of the FCA's Official List.

When the FCA's listing regime reforms come into effect, the premium and standard listing segments will cease to exist and companies currently listed on the premium segment are expected to be mapped into the new ESCC and closed-ended investment company categories, as appropriate.



Dan Hirschovits



Simon Witty



Vivek Thanki

Companies currently on the standard segment are expected to be mapped into the FCA's new transition category, international secondary listings category or shell companies category, as appropriate.

As a result, FTSE Russell expects securities listed on the ESCC and closed-ended investment company categories to become eligible for inclusion to the FTSE U.K. Index Series.

FTSE Russell has said this approach means that the FTSE U.K. Index Series will continue to meet its objective of capturing the performance of the major capital and industry segments in the U.K., while continuing to represent the highest available governance standards and investor protections on the London Stock Exchange.

In addition, FTSE Russell has said that companies listed on the ESCC, transition and international secondary listing categories will be eligible for inclusion in the FTSE Global Equity Index Series and associated indices, subject to satisfaction of other criteria, replacing the premium and standard segments that are both currently eligible for FTSE Global Equity Index Series inclusion.

### ***Dual Class Share Structures***

The FCA's proposed reforms will permit dual class share structures with enhanced voting powers — for matters not otherwise prohibited by the FCA's listing rules — and with no maximum weighted voting ratio.

FTSE Russell currently requires more than 5% of a company's voting rights to be in public hands for it to be eligible for FTSE indexation. There is no proposed change to this requirement.

This means where a U.K. company has a share class with enhanced voting rights, the enhanced voting ratio will be used in the minimum voting rights calculation to determine whether a company satisfies FTSE Russell's eligibility requirements.

### **Relevant Updates to Rules**

The FCA's other proposed changes to the U.K. listing regime are not expected to affect FTSE index inclusion criteria, and FTSE Russell does not intend to introduce any additional inclusion criteria to replicate current premium listing requirements.

FTSE Russell previously updated its ground rules in March 2022, following the FCA's changes to its listing rules in December 2021, in relation to:

- A reduced minimum free-float requirement of 10% for U.K.-incorporated companies and 25% for non-U.K. incorporated companies; and
- A minimum investable market capitalization of £30 million (\$37.35 million) for constituents and £50 million for nonconstituents.

### **Expected Impact**

Because of the automatic mapping of companies from the existing premium and standard segments into the new listing categories, there is no expected impact on FTSE constituent companies or the composition of the FTSE U.K. Index Series on day one of the FCA's reforms being implemented.

FTSE Russell has said it is unable to speculate on the longer-term impact on composition of the FTSE U.K. Index Series, as this will depend on companies electing to transfer to the ESCC category and the longer-term effects of the FCA's listing regime reforms.

## **Conclusion and Next Steps**

This announcement by FTSE Russell represents a much-awaited indication of its response to the FCA's proposed listing regime reforms. FTSE Russell's approach has been designed to minimize any impact on FTSE composition and constituents, allowing for a smooth transition into the new listing regime when it arrives.

This provides a level of certainty that will assist issuers and professional advisers in preparing for the implementation of the new listing regime.

Pre-initial public offering companies currently in the process of considering venues for listing will also find this useful in the context of their early stage IPO-related planning and discussions.

FTSE Russell has noted, however, that its expected updates to the FTSE Russell indices and ground rules are not final, and are subject to change depending on further developments or changes announced by the FCA. The FTSE Russell will closely consider all further announcements by the FCA prior to confirming any changes to its index eligibility criteria.

In particular, FTSE Russell will continue to monitor any further developments in the context of listing regime reforms, including future consultations launched by the FCA. It will make further announcements in due course if appropriate.

The FCA's reforms are expected to come into force early in the second half of 2024, with the FCA having indicated that it will confirm its listing rule changes two weeks before their implementation.

The FTSE U.K. Index Series ground rules and inclusion criteria are expected to be updated shortly following confirmation by the FCA of its listing regime changes.

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*Dan Hirschovits and Simon Witty are partners, and Vivek Thanki is an associate, at Davis Polk & Wardwell LLP.*

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[1] [https://www.lseg.com/content/dam/ftse-russell/en\\_us/documents/policy-documents/ftse-faq-document-uk-listing-regime-and-ftse-uk-index-series.pdf](https://www.lseg.com/content/dam/ftse-russell/en_us/documents/policy-documents/ftse-faq-document-uk-listing-regime-and-ftse-uk-index-series.pdf).

[2] <https://www.fca.org.uk/publication/consultation/uk-listing-rules-instrument-2024.pdf>.

[3] <https://marketsecurities.fca.org.uk/officialist>.