

UK Government Announces Review of UK Listing Regime

20 November 2020

On 19 November 2020, the Chancellor of the Exchequer, Rishi Sunak, announced a review by HM Treasury of the UK listing regime (the **Review**). The objective of the Review, to be led by Lord Jonathan Hill, is to seek proposals for reform that will attract the most innovative and successful firms to list in London and help companies access the UK capital markets against the backdrop of the UK regaining responsibility for its financial services rulebook in connection with its exit from the European Union. As a starting point for the Review, a **call for evidence** has been issued inviting views on how to encourage deeper capital markets in the UK.

In particular, the call for evidence focuses on the following five key areas:

- **Free float requirements:** Under the Financial Conduct Authority's existing listing rules (the **Listing Rules**), 25% of a listed company's shares must be in 'public hands'. This requirement may deter controlling shareholders of some private companies from seeking a listing – for example, due to concerns around dilution, a desire for a phased exit, or missing out on post-IPO price gains. The call for evidence asks (a) whether the 25% free float requirement is calibrated at the right level, and if (and how) it should be changed, (b) for evidence to assess potential risks to liquidity from alternative levels, and (c) if other changes or alternative measures should be considered.
- **Dual class share structures:** The Listing Rules that govern admission to the premium segment of the London Stock Exchange's Main Market (the **Premium Segment**) do not allow for dual class share structures (which are permitted in other jurisdictions, and can be preferred by shareholders seeking to retain voting control or to prevent the threat of an unsolicited takeover). The call for evidence asks (a) whether dual class share structures should be permitted and if so, what limitations should apply, (b) what the demand is for dual class share structures among issuers, and what risks and benefits exist for investors (along with evidence to support this), and (c) whether there are other ways the Premium Segment can maintain its high standards of corporate governance while allowing dual class share structures.
- **Track record requirements:** The Listing Rules governing admission to the Premium Segment also require a proven track record of revenue earnings and 3 years' accounts covering 75% of the business of the company seeking a listing – as these requirements may deter companies from listing, the call for evidence asks (a) if they prove a barrier to certain types of company, and if further flexibility should be considered, and (b) what kind of extra flexibility should be offered.
- **Prospectuses:** As a single set of rules – in the form of the EU Prospectus Regulation – currently govern when a prospectus is required (both for IPOs and secondary offerings), there are questions as to whether prospectuses add value for investors when listed companies undertake follow-on share issues. The call for evidence asks (a) whether existing prospectus requirements are appropriate and if the thresholds for production of a prospectus are calibrated appropriately to the size, depth and disclosure standards of the UK capital markets, (b) how the requirements might be changed to better reflect the UK capital markets and the types of issuers listed on them, and (c) if the exemptions from the requirement to publish a prospectus were to be extended, whether the loss of disclosure or liability attached to a prospectus should be replaced by any alternative measures.

- **Dual and secondary listings:** As dual-listed companies must comply with the requirements of both markets on which they are listed, the high standards of the Premium Segment may deter companies that are already listed elsewhere from seeking a secondary listing in London – so the call for evidence asks whether the UK requirements around dual and secondary listings act as a barrier to listing in the UK, and if so, what could be changed to further encourage dual and secondary listings.

More broadly, the call for evidence welcomes comments on other immediate issues to be considered (or actions the government or regulators should take) so as to encourage listings in the UK – such as whether there are any non-regulatory, non-legislative actions that could be taken to promote the use of public equity markets. The call for evidence is open until 5 January 2021.

The Review will involve people from across the financial services sector, as well as legal and academic experts, to develop a list of recommendations which will be presented to government and the Financial Conduct Authority early next year. The Review is separate to the government's recently announced plans to introduce powers to block listings by certain issuers seeking to access the UK capital markets on the grounds of national security (see our [briefing](#)).

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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