

## Consultation Paper

CP23/31\*\*\*

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Primary Markets Effectiveness  
Review: Feedback to CP23/10  
and detailed proposals for listing  
rules reforms

December 2023

## How to respond

We are asking for comments on this Consultation Paper (CP) by

- 16 February 2024, for LR 8 proposals regarding sponsor competence, and
- 22 March 2024 for UKLR proposals regarding the replacement to the current LR sourcebook.

You can send them to us using the form on our website.

Or in writing to:

Primary Markets Policy Team  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

**Email:**

[cp23-31@fca.org.uk](mailto:cp23-31@fca.org.uk)



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## Foreword



**Nikhil Rathi**  
Chief Executive



**Sarah Pritchard**  
Executive Director  
of Markets and  
International

Thriving capital markets are crucial in delivering the investment that long-term, sustainable economic growth depends upon. That is why we are driving forward with detailed proposals for the most far-reaching reforms of the UK's listing regime in three decades.

The significance of the changes we're proposing, the breadth of views on them and the inherent transfer of the risk they entail, has meant we have engaged extensively to gain feedback from all sides of the market in a variety of settings.

Our proposed changes seek to create a simplified listing regime with a single listing category.

Companies have far more global choice on when and where to go public, and geographic borders are little, if any, barriers to investors' decisions – with a large portion of the capital they deploy beyond the UK. Through our changes, we want to make our regime more attractive to a wider range of companies, so they list and grow here.

We've kept the philosophy set out in our consultation in May of moving to a disclosure-based regime; one that puts sufficient information in the hands of investors, so they retain the ability to exercise stewardship and other shareholder rights to influence company behaviour.

We recognise these proposals would result in a rebalancing of risk. We have to recognise that this may mean more failures as part of ensuring the market overall supports the risk appetite the economy needs.

To that end, we're suggesting disclosures for significant transactions while keeping sponsor scrutiny of related party transactions, rather than the current mandatory votes. Shareholder approval for key events such as reverse takeovers and de-listing would, however, remain.

These disclosure proposals will complement those requirements that already exist within our ecosystem, including under the market abuse, disclosure and transparency and prospectus regimes; the latter is due for consultation next year.

We have listened to the feedback we received during our thorough engagement, including from current and prospective issuers, a range of institutional investors and retail investor groups, asset managers and owners, pension schemes, advisers, trade bodies, and other stakeholder representatives. We're confirming, for example, existing issuers with a 'standard' listing won't face a cliff edge under our proposals. And we're proposing rules for other categories of securities, including overseas companies with a 'secondary' listing in the UK, that best fit their risk profile.

Also, we're seeking additional feedback, for example on how we can further support a balanced and proportionate approach for sponsors, who we believe should continue to play a key role in safeguarding appropriate standards in the market, with rigorous FCA oversight. This will be particularly important as we consider these rule changes, for example where companies may have a shorter track record when coming to the market than was the case previously.

Inevitably, the listing regime is not the only element, and perhaps not the primary one, in decisions made about when and where to take companies public. Influencing other factors that drive those choices – including the macroeconomic environment, taxation, depth of capital markets, valuations, research coverage, indexation, and many other aspects besides – will require others to also act where they have the levers to do so.

In our three-year strategy we committed to seizing the opportunity to further strengthen the attractiveness of UK capital markets. This consultation on the detailed rules is the next milestone as we deliver on that promise at pace. A first tranche of the new draft UK Listing Rules accompanies this paper, a second will follow later in Q1. We will gather views until late-March. Our Board will consider all feedback, openly and constructively, before finalising the rules. We aim to publish final rules in the second half of 2024.

Ahead of that, we will continue to engage and seek feedback from all sides of the debate on reform to ensure we have got the balance right.

The markets of today have evolved and the challenges of tomorrow are ever pressing. Now is the time to turn these challenges into opportunities.

## Chapter 1

# Summary

### Overview

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- 1.1** In CP23/10, we set out proposals to reform our current Listing Rules sourcebook (LR) in order to encourage a more diverse range of companies to list and grow on UK markets, and promote more investment opportunities for investors. Our proposals sought to streamline our rules particularly for listings of equity shares by commercial companies and reduce disincentives to listing in the UK and remaining on our markets. At the same time, we sought to maintain our approach to disclosure requirements for listed companies to ensure market integrity and investor confidence. We want UK listed markets to work as effectively as possible for both issuers seeking capital, and those allocating it on behalf of investors, to promote growth and sustainable returns for all.
- 1.2** This consultation paper summarises feedback to our CP23/10 consultation and wide-ranging engagement we carried out during and following the consultation period. Based on careful consideration of feedback and evidence, we set out detailed proposals to reform our current listing regime alongside a cost benefit analysis (CBA) of these measures.
- 1.3** We have broadly maintained the approach set out in CP23/10 of removing our current 'premium' and 'standard' listing segments and designing a new 'commercial companies' category for equity share listings. We have carefully calibrated the proposed commercial companies category to balance flexibility and accessibility for issuers, with appropriate disclosure and safeguards to preserve market integrity and support investors' decision-making both at initial public offering (IPO) and once listed. The first half of this consultation paper details our approach to this category, including in key areas such as eligibility, significant and related party transactions, dual/multiple class share structures (DCSS), and sponsors.
- 1.4** The second half of this consultation paper addresses categories for other types of equity and non-equity listing, including how we propose to address existing standard listed issuers, including those with sole UK listings and those issuers that consider the UK to be their 'secondary' listing. We propose to accommodate both without creating a material up-lift or cliff edge. We also explain our intended new category for shell companies, our proposed approach to closed-ended investment funds and sovereign controlled companies, and consequential changes to other equity and non-equity listing categories. We also propose a small number of substantive changes related to overarching listing rules, such as the Listing Principles, while maintaining other general listing processes and requirements.
- 1.5** Given the nature of these reforms, we are proposing to create a completely new 'UK Listing Rules' sourcebook (UKLR). This also allows us to re-order and re-structure existing LRs with the aim of making obligations for issuers and sponsors more accessible and less complex. To expedite the consultation process, and to enable us to publish the draft UKLR setting out the major features of the new UK Listing regime with this

consultation paper and provide clarity for market participants on the key changes proposed, we have split the publication of the draft UKLR instrument into two tranches:

- A first tranche contained with this consultation paper in Appendix 1 and Appendix 2, which focuses on the UKLR underpinning new commercial companies category, and
- A second tranche for other categories and remaining provisions impacting all issuers, providing the full draft UKLR, to be published later in Q1 2024

**1.6** This consultation paper explains the entirety of our proposals and supporting CBA in Annex 2 across all areas and categories, and asks questions seeking feedback on these, including aspects where draft provisions are to follow in the second tranche of the draft UKLR instrument.

**1.7** The consultation period will be open until 22 March 2024, including for comments on the second tranche of the draft UKLR instrument. Subject to responses and final approval by the FCA Board, we will aim to publish the final UKLR via a Policy Statement at the start of the second half of 2024. We also intend to have a very short period between publication and implementation of the new UKLR, subject to feedback, as detailed below. We remain open to feedback and views on these proposals, including any further evidence on the potential impacts. We particularly want to hear from you on whether sufficient mitigations are in place to enable investors to manage risk and engage with companies through the more disclosure-based approach we set out, supported by the existing prospectus and market abuse regimes, UK company law (for UK issuers), and wider stewardship and corporate governance mechanisms.

**1.8** By way of exception, we request comments on proposals regarding sponsor competence by an earlier date of 16 February 2024. We propose to implement the proposals regarding sponsor competence in the spring of 2024 within existing LR, and then carry these over to the new UKLR. This will allow existing sponsors to remain on the list of approved sponsor firms, recognising lower transaction volumes in recent years are posing challenges for some. This will also allow prospective new sponsors to consider applying. A vibrant sponsor market will be important if we proceed with a new regime in supporting existing companies, those seeking to transfer categories, and the wider variety of issuers potentially seeking a listing.

## Why we are consulting

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**1.9** Since the publication of [CP23/10](#), we have conducted a comprehensive process of engagement with market participants – including current and prospective issuers, investors, asset managers and owners, pension schemes, advisors, trade bodies, and stakeholder representatives – in a range of different ways. We received nearly 100 formal written submissions responding to our proposals. These submissions are summarised and referred to in this consultation paper. We also conducted multiple round tables, including with senior and C-suite buy- and sell-side representatives, and sponsor firms under the Chatham House Rule to facilitate open and constructive feedback and discussion. We have also met with the Listing Authority Advisory Panel, the Markets Practitioner Panel and Consumer Panel, who provided invaluable advice and challenge as we developed our thinking.



- 1.10** This engagement has reinforced the overarching feedback that there is a need for a reset of the UK's current listing regime. The nature and needs of global markets and the companies listed on them have evolved, and the current listing rules must evolve with them. Significant parts of the current listing rules have remained unchanged since the 1980s and may no longer accommodate the needs of companies.
- 1.11** The UK Listing Review made specific recommendations for improvements to this regime. It concluded on the one hand, that our premium listing standards are regarded as overly burdensome and a deterrent for companies listing in the UK, even when allowing for the benefits of index inclusion. On the other hand, the review considered that, while standard listed segment offers much greater flexibility, it was also poorly perceived by companies and investors.
- 1.12** UK investors invest across global markets and are increasingly exercising their investment choice in markets where certain elements of the existing listing rules are not imposed by regulation. The investor base for UK listed companies is itself increasingly global with nearly 58% of shares in UK quoted issuers held by investors outside the UK in 2022, while UK pension schemes and insurers combined held only 4%, declining from around half in the early 1990s, according to recently released ONS figures.
- 1.13** We have heard from investors that the existing approach to disclosure is valued, and underpins the culture of transparency and accountability in UK capital markets reinforcing the UK's attraction as a venue for issuers and investors.
- 1.14** However, it is also clear from our engagement that the uncertainty and time costs the current premium listing regime imposes on mergers and acquisitions (M&A) create a very real disadvantage for UK premium listed companies, particularly when competing on the global stage. This disadvantage can manifest in the form of UK premium listed companies with ambitions to grow being excluded from competitive sales processes because, unlike their global peers, they are required by our rules to seek prior shareholder approval for competitive transactions. This delay and uncertainty is unattractive to vendors. It means UK premium listed companies believe they have to pay a premium, agree to high break fees or lose out on competitive opportunities. This represents an opportunity cost for UK premium listed companies as well as their investors, who miss out on potentially value-generative transactions.
- 1.15** Small- and mid-cap companies with ambitions to innovate and grow through transactions may also find our existing premium listing rules challenging to meet, while standard listing may not generate the investor interest, liquidity and reputational benefits. This may lead such companies seek to raise capital via other major markets where rules are less restrictive than our premium listing rules. Where innovative companies, many of which start up and are incubated in the UK, list elsewhere, this can have further costs to our wider capital markets ecosystem and the UK economy if further investment and growth by such companies then follows their listing destination, and reduces growth opportunities for investors on our markets.
- 1.16** The engagement process on CP23/10 has established that there is broad support for a more streamlined and effective listing regime. This consultation paper sets out our resulting detailed proposals, aimed at addressing the sources of friction and inefficiency with a new UK Listing regime for the capital markets of today and tomorrow.

## Our proposals

### The new UK Listing regime

**1.17** The table below summarises our proposals in relation to the new 'UK Listing' regime, including a main commercial company category for equity shares and other categories proposed, as well as proposals impacting all issuers and the sponsor regime.

**Table 1: overview of reform proposals, UKLR reference and consultation paper Chapter**

Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in underline</i>	UKLR Chapter	Consultation Paper Chapter
Commercial companies (Commercial companies (equity shares) category)	<p><i>Eligibility</i></p> <ul style="list-style-type: none"> <li>No listing requirements for historical financial information, revenue track record and clean working capital statements, although prospectuses will still require disclosure of financial track record up to 3-years and a working capital statement</li> <li>Sponsor requirement for new applicants and to provide declarations similar to existing declarations, including that an issuer has met its prospectus obligations and has a reasonable basis for the working capital statement within it</li> </ul>	UKLR 5	Ch 4
	<p><i>Eligibility and continuing obligations</i></p> <ul style="list-style-type: none"> <li><b>Control and independence:</b> Removing eligibility and ongoing rules requiring that a company has an independent business and has operational control over its main activities</li> <li><b>Controlling shareholders:</b> Retaining a requirement for independence from controlling shareholder <u>via written controlling shareholder agreements</u> and maintaining certain related voting controls</li> <li><b>Dual/multiple class share structures:</b> Permitting issuers to have dual/multiple class share structures at admission. Enhanced <u>voting rights only to be held by specified persons, but without mandated time-based sunset clauses</u>, while retaining voting restrictions on certain matters, including dilutive transactions, and cancellation of listing</li> </ul>	UKLR 5 and 6	Ch 5

Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in <u>underline</u></i>	UKLR Chapter	Consultation Paper Chapter
<b>Commercial companies</b> (Commercial companies (equity shares) category) (continued)	<p><i>Continuing obligations</i></p> <ul style="list-style-type: none"> <li>• <b>Significant transactions:</b> No prior shareholder vote but enhanced market notifications at <math>\geq 25\%</math>, removal of the profits test and new guidance on what constitutes 'ordinary course of business'</li> <li>• <b>Notifications:</b> <u>Enhanced market notifications regime for transactions at <math>\geq 25\%</math>, intended to provide key information including financial information, but not mandating working capital statements or re-stated historical financial information</u></li> <li>• <b>Related party transactions:</b> Maintaining a similar approach to CP23/10, with market notification, sponsor fair and reasonable opinion at <math>\geq 5\%</math>, and board approval</li> <li>• <b>Reverse takeovers:</b> Continuing to require an FCA approved circular and prior shareholder approval for transactions <math>\geq 100\%</math> or involving a fundamental change in business</li> <li>• <b>Share buy-backs, non pre-emptive discounted share issuances and cancellation:</b> Retained shareholder votes</li> <li>• <b>Annual reporting:</b> Comply or explain disclosure against the UK Corporate Governance Code, reporting on climate (TCFD) and diversity, and otherwise maintaining most premium listing annual disclosures</li> </ul>	UKLR 7-10	Ch 6-11
<b>Sovereign controlled companies</b>	<ul style="list-style-type: none"> <li>• Equity shares of sovereign controlled issuers proposed to be included in the commercial companies category subject to targeted alleviations based on current LR 21. Certificates representing shares in a sovereign controlled issuer to be in the category for certificates representing securities (UKLR 15, formerly LR 18)</li> </ul>	As above	Ch 12
<b>Transition category</b> <u>[new]</u>	<ul style="list-style-type: none"> <li>• Closed category based on current rules for standard listed shares</li> <li>• Certain standard listed issuers 'mapped' here on day 1, proportionate transfer process for issuers wishing to move to the commercial companies category</li> </ul>	UKLR 22*	Ch 13 & 16
<b>Closed-ended investment funds</b> <u>[detailed proposals now set out]</u>	<ul style="list-style-type: none"> <li>• Based on existing obligations under LR 15</li> <li>• Retention of shareholder votes on material changes to investment policies, management fee changes and certain related party transactions</li> <li>• Allows for listings of 'C shares' within this category where such shares carry voting rights prior to conversion</li> </ul>	UKLR 11*	Ch 12
<b>Open-ended investment companies</b>	<ul style="list-style-type: none"> <li>• Retained with only consequential or minor changes to existing requirements</li> </ul>	UKLR 12*	Ch 13

Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in <u>underline</u></i>	UKLR Chapter	Consultation Paper Chapter
<b>Shell and SPACs category</b> [detailed proposals now set out]	<ul style="list-style-type: none"> <li>• Largely maintains current rules for standard listed shares with tailored eligibility and continuing obligations reflecting certain features of current guidance regime for SPACs in LR 5.6</li> <li>• Supplementary requirements based on the existing conditions that enable large SPACs to avoid suspension if they have implemented certain investor protections. For example, shareholder vote required for first transaction</li> <li>• Sponsor required at admission and to support initial transaction (reverse takeover)</li> </ul>	UKLR 13*	Ch 13 & 16
<b>International secondary listing</b> [new]	<ul style="list-style-type: none"> <li>• Designed for non-UK incorporated companies with more than 1 listing where 'primary' listing is on a non-UK market</li> <li>• Replicates standard listing rules with targeted ongoing/continuing provisions tailored to 'secondary' listing</li> </ul>	UKLR 14*	Ch 13 & 16
<b>Non-equity and non-voting equity, and other categories</b>	<ul style="list-style-type: none"> <li>• Discrete categories for non-equity shares (including preference and deferred shares) and non-voting equity shares, certificates representing shares (including depositary receipts), debt securities, securitised derivatives, and warrants and miscellaneous instruments</li> <li>• Retained with only consequential or minor changes from existing requirements</li> </ul>	UKLR 15-19*	Ch 13 & 16
<b>Sponsors</b>	<ul style="list-style-type: none"> <li>• Sponsor regime to support commercial companies, SPACs other shell companies, and closed-ended investment funds at application stage and on reverse takeovers</li> <li>• Ongoing role reserved to further issuance listing applications with a prospectus, sponsor fair and reasonable opinions for related party transactions, or where issuers seek guidance, modifications or waivers to FCA rules (including on class tests)</li> <li>• Focus on value and benefits of sponsor role for issuers, FCA and wider market, re-calibrating supervisory and compliance expectations</li> <li>• Proposal to allow wider factors to demonstrate sponsor competency and extend lookback for relevant experience from 3 to 5-years (subject to shorter comment period)</li> </ul>	UKLR 4 UKLR 24	Ch 17 & 18
<b>Proposals impacting all issuers</b>	<ul style="list-style-type: none"> <li>• Revised Listing Principles</li> <li>• New provisions to strengthen our ability to access records and enable us to serve notices to issuers</li> <li>• Retained over-arching listing rule processes and procedures with minor modifications, likewise for cancellations, suspensions and transfers</li> </ul>	UKLR 1-3+ UKLR 20-21*	Ch 14
<b>Listing particulars</b>	<ul style="list-style-type: none"> <li>• Retained with only consequential changes</li> </ul>	UKLR 23*	-

\* Draft handbook provisions to follow later in Q1 2024

+ UKLR 3 included in Appendix 1, UKLR 1 and 2 to follow in the second tranche of the draft UKLR instrument

- 1.18** While this consultation paper summarises the most important aspects of our proposals, it is not an exhaustive summary of the new UKLR. The new UKLR sourcebook will be the determinative instrument and should be read in its entirety in addition to this consultation paper to understand the full detail of our proposals.

### **Moving to the new listing categories and implementation**

- 1.19** We have heard a clear desire for clarity on transition arrangements now, and a quick implementation timeline. These views have been incorporated in this consultation, and we welcome further views on our proposed arrangements.
- 1.20** We propose that existing premium listed issuers would be automatically mapped to the new commercial companies category once the new UK Listing regime goes live.
- 1.21** Certain existing standard listed commercial companies would be mapped to a new 'transition' category, which would replicate existing standard listing continuing obligations but would be closed to new entrants. This transition category would have no fixed end date. Issuers in this category would be able to apply to transfer to the commercial companies category when and if they wish to do so. A sponsor would be required to be appointed in such cases (or for transfers to the shell or closed-ended investment funds category), although we propose a targeted eligibility assessment and sponsor role for such transfers. We may seek to remove the transition category in the medium-term as issuer numbers reduce due to transfers to new listing categories or other exit events. If we do seek to do this, the proposal would be subject to consultation.
- 1.22** Mapping would also take place to move other existing standard listed issuers into the shell companies category and international secondary listing category, based on FCA analysis. We will contact issuers in advance of the prospective changes to notify them of the assumed category we propose for them if the new UKLR are adopted.
- 1.23** We detail the proposed categories and approach to implementation in Chapter 16.

### **Cost-benefit analysis**

- 1.24** We have conducted a CBA on our full set of proposals, as set out in Annex 2.
- 1.25** As above, issuers exercise a choice regarding whether or not to list their securities on any market, and investors choose the markets and issuers they decide to invest in. Our aim has been to ensure that the benefits to issuers seeking or maintaining a UK Listing are not outweighed by the costs of compliance and the opportunity cost of competitive disadvantage, while ensuring timely and appropriate disclosure for investors exercising their choice. We also wish to ensure that our proposals act with the grain of what is described as the listing ecosystem, to address obstacles currently blocking its development and to allow market participants greater freedom to shape its future.
- 1.26** Our analysis suggests that the likely scale of benefits (eg, in reducing the premium paid by UK listed companies to participate in global M&A) will exceed the costs of our proposals both in the first year of the proposals and on an ongoing basis.

**1.27** We consider that the likely costs associated with our proposals are familiarisation costs (from reading and assessing the UKLR). Whilst there may be some implementation and monitoring costs for market participants such as sponsors we consider that these will be more than offset by savings elsewhere due to our proposals. We do not consider for the purposes of the CBA that currently standard listed commercial companies, who can choose to remain under their current requirements, will have additional costs imposed by these requirements. If they choose to join the commercial companies category we assume that this is because they have conducted their own analysis and concluded that the benefits of doing so outweigh the costs. We also consider there may be indirect costs for investor stewardship, although feedback from investors suggests that they may not change their engagement activities due to our proposals. Feedback to date has indicated that investors already take the steps we consider necessary in terms of safeguards, to reflect the different balance of risk that our reforms to the listing rules entail – with investors making use of due diligence and other investor protection mechanisms to decide whether to invest.

**1.28** We consider that the main potential benefits from our proposals are:

- Benefits in reducing barriers for these companies to participate in global M&A activity and reducing a potential price premium paid to offset deal contingency risk, with corresponding reduction in opportunity cost to issuers and investors from deals (and potential resulting upside lost).
- Reduced transaction costs for previously premium listed companies.
- Indirect benefits arising from the removal of obstacles to listing, such as applicants choosing a UK Listing over other options resulting in a wider choice of issuers for investors to invest in, greater liquidity in an active market, and more efficient pricing underpinned by robust standards of disclosure and transparency.

**1.29** These benefits arise in part from withdrawing regulatory constraints to choices that issuers and investors can make. In this sense we see a wider benefit in allowing for a more natural market operation where UK listed issuers can more easily achieve an optimal capital structure and respond to changing circumstances and where investors have better information about the companies they may choose to invest in. While our analysis does suggest regulation is one factor in listing decisions by issuers, we continue to recognise that many other considerations inform companies' decision on whether and where to list. However, we are keen to ensure we remove regulation where rules create frictional costs or barriers to listing for companies that outweigh benefits for other market participants. Given investors in UK companies are increasing international, and those investors within the UK deploy capital on a global basis, this suggests to us that our enhanced premium listing rules are not a pre-requisite for investor participation in markets despite the strong views we received.

## Who this applies to

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**1.30** The following should read this document in its entirety:

- companies currently listed in or considering a listing in the UK

- existing and prospective investors in UK listed companies, including individual and institutional investors
- the advisory community that advises and supports issuers undertaking an initial public offering (IPO) and meeting ongoing obligations post admission to listing and trading, including existing and prospective sponsor firms, investment banks, law firms and accountancy firms
- UK exchanges and operators of markets for listed securities, and
- intermediaries who may facilitate, including providing execution and/or marketing of investments to issuers, whether at IPO or in secondary markets

**1.31** The following will also be interested in this consultation, among others:

- trade associations representing the various market participants above or member groups with thematic interests (eg, general capital markets, governance or stewardship etc), and
- wider financial market participants, such as research analysts and index providers, academics and other market commentators

## Next steps

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**1.32** The consultation period will remain open as follows.

- the consultation period for LR 8 proposals regarding sponsor competence closes on 16 February 2024, and
- the consultation period for UKLR proposals regarding the replacement to the current LR sourcebook closes on 22 March 2024

**1.33** We strongly encourage stakeholders to engage with us and respond as soon as possible, even in advance of these deadlines. While our aim is to seek to implement changes by the start of the second half of 2024, we remain open to views and further evidence before we determine final rules. While we have carefully reflected on the feedback received from CP23/10 in formulating these updated consultation proposals, we still want to hear from stakeholders on whether we have the balance right, or if there are other mitigations we should consider in light of the different balance of risk that the new proposed regime entails.

**1.34** As noted above, this consultation paper includes a first tranche of the draft UKLR instrument, which mainly covers the core requirements for the commercial companies category and sponsor requirements. A second tranche of the draft UKLR instrument will be published during the consultation period later in Q1 2024. We intend to publish proposed revisions to key Technical and Procedural Notes to coincide with the publication of the second tranche of the draft UKLR instrument.

**1.35** Please respond by completing the form on our website or by sending a response to [CP23-31@fca.org.uk](mailto:CP23-31@fca.org.uk).

**1.36** Subject to the extent of consultation feedback, approval of and/or and potential changes to the draft UKLR instrument, and final decisions of the FCA Board, we expect the following next steps:

- changes with regard to sponsor competency requirements by mid-Q2 2024
- publication of a Policy Statement and final UKLR at the start of the second half of 2024, and
- an implementation period of 2 weeks before the new UKLR come into force



## Chapter 2

# Context, wider effects, and objectives

## Context

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### UK Listing Review and response

- 2.1** In March 2021, the [UK Listing Review](#) made 15 recommendations in relation to how companies access and raise finance on public markets to ensure that the UK remains an attractive location for companies to list and grow. It highlighted a decline of 40% in the number of companies listed in the UK between 2008 and 2020, noting that the UK accounted for only 5% of global initial public offerings (IPOs) of companies between 2015 and 2020. This followed on from the [Kalifa Review on UK fintech](#) in February 2021, which made recommendations to empower the UK to retain and strengthen its position as a global leader in fintech.
- 2.2** It is argued that with a reduction in listed companies comes a reduction in investor and consumer choice and investment opportunity, and less incentive for corporates based in the UK to raise capital domestically. Our objective is to ensure the healthy functioning of the public markets, balancing the needs of companies wishing to raise capital in the UK while also ensuring the integrity of the UK's markets and promoting competition in the interests of consumers.
- 2.3** After the publication of the UK Listing Review in March 2021, we moved swiftly to respond. In July 2021 we published [PS21/10](#) with final rules on strengthening investor protections in SPACs, follow [CP21/10](#) in April. At the same time, in [CP21/21](#), we consulted on several further targeted reforms to the current listing rules while also opening up a broader discussion on the purpose of the listed markets within the wider ecosystem of public markets. In December 2021, we confirmed final rules that addressed several of the UK Listing Review and Kalifa Review recommendations. These reforms included:
- Allowing a targeted form of DCSS within the premium listing segment to encourage innovative, often founder-led companies onto public markets sooner.
  - Reducing the amount of shares an issuer is required to have in public hands (ie, free float) from 25% to 10%, reducing potential barriers for issuers created by current requirements.
  - Increasing the minimum market capitalisation (MMC) threshold for both the premium and standard listing segments for shares in ordinary commercial companies from £700,000 to £30 million. Raising the MMC was intended to give investors greater trust and clarity about the types of company with shares admitted to different markets.

- 2.4** Our focus was to promote broader access to listing for a wider range of companies at an earlier stage in their development, thus widening the choice for investors, while also maintaining high standards of transparency, and helping investors use data faster to improve decision-making.
- 2.5** Building on this momentum, in May 2022 through [DP22/2](#) we sought further views on how the listing regime could be adapted to ensure the value of listing is easier to understand, to promote broader access to listing for a wider range of companies, and to empower investor decision-making. The UK Listing Review had concluded that our premium listing segment rules were regarded as overly burdensome and a deterrent for companies listing in the UK, while the standard listed segment was poorly perceived by companies and investors, even though it offered greater flexibility. In [DP22/2](#), we explored the prospect of a listing regime with a single segment for equity shares in commercial companies. We also discussed the role and purpose of the sponsor regime and sought views on whether any improvements could be considered to make our existing rules more proportionate and effective.

## **CP23/10 and further developments**

- 2.6** Following our engagement on [DP22/2](#) and feedback received, we published [CP23/10](#) in May 2023. We consulted on a broad reform to the UK listing regime, including proposals to combine the premium and standard segments, alleviate frictional requirements related to transactions while retaining high standards of disclosure, and removing certain barriers for innovative and growth-led companies. In [CP23/10](#), we highlighted the UK Listing Review figures that the UK accounted for only 5% of global initial public offerings (IPOs) of companies between 2015 and 2020, which is down from 10% in [2006](#) according to [New Financial](#).
- 2.7** Since the publication of [CP23/10](#), new research released by UK Finance in May 2023 in their report '[UK capital markets: Building on strong foundations](#)' identified the current state of play for the UK's equity markets.
- While the UK nominal GDP growth was 2.2% from 2017 to 2021, UK market capitalisation from domestic companies for the same period grew at 0.8%, resulting in the UK's market-GDP ratio decreasing from 1.3 to 1.2, whereas the market-GDP ratio in the same period for the US increased from 1.6 to 2.2. Although this increase in the US was partially driven by increasing valuations, it was also supported by an increasing number of companies that became publicly traded in the US in the same period.
  - Over the past 20 years, UK defined benefit (DB) pension schemes have tended to transition away from investments in UK equities to investment in fixed income products. Furthermore, in 2021 77% of UK asset manager allocations in equity were invested in non-UK equities. At the same time, between 2017 and 2021, equity capital raising in the UK increased from £14 billion to £14.6 billion. UK equity capital raising was funded largely by non-UK investors.

- The report noted that the process of becoming a public company in the UK was seen as overly complex and costly, particularly for growth companies in non-traditional and tech sectors. The UK's technology industry reached a value of \$1 trillion in 2022, more than double that of Germany's \$467.2 billion and triple France's \$307.5 billion. In 2021 the UK's 41 unicorns (ie, private companies with a valuation of \$1 billion or more) created 40,000 jobs in the UK. Yet, in the same year, one-third (33%) of technology companies founded in the UK elected to list their securities outside the UK, with 32% choosing the US. Of the healthcare companies founded in the UK, 46% chose a non-UK exchange, with 32% again choosing the US.

**2.8** While we note that our current LRs are unlikely to be the sole or primary determinant in an issuer's decision on where to list its shares, or where investors choose to deploy capital, we also recognise the potential for regulation to impact the balance of such considerations, and the wider market sentiment. We want to ensure that our rules promote efficient and effective primary markets for companies accessing public markets for the first time and when raising further capital, and to ensure that investors have access to timely information to invest with confidence. We want to ensure regulation can better meet the needs of issuers and investors in line with our commitment to strengthening the UK's position in global wholesale markets.

## UK Secondary Capital Raising Review and our work on POATR

**2.9** The UK Listing Review also resulted in the independent UK Secondary Capital Raising Review (SCRR) and HM Treasury's further work to consult on and propose draft legislation to create the Public Offers and Admissions to Trading Regime (POATR) to replace the UK Prospectus Regulation. As part of the Government's Edinburgh reforms, HM Treasury published a draft statutory instrument setting out a new regime for public offers and admissions to trading on UK public markets.

**2.10** Some of the recommendations stemming from the SCRR and the consequences of the draft statutory instrument interact with the current listing rules, and we are also continuing to engage with the Digitisation Taskforce launched following the SCRR. The draft statutory instrument proposes to give us greater discretion on whether and how to set requirements for a prospectus for issuers seeking admission to trading, as well as issuers seeking to raise follow-on capital.

**2.11** The majority of the recommendations from the SCRR are relevant to our work to introduce rules under the new POATR. At the same time as CP23/10, between May and July 2023, we published a series of 6 Engagement Papers in relation to the POATR, to explore, amongst other things:

- Whether or how to set prospectus requirements for companies seeking admission of their securities to trading on regulated markets.
- Whether or not to set prospectus requirements on issuers raising further capital on UK regulated markets.
- How issuers may include forward-looking information in prospectuses.
- How we may approach setting prospectus requirements for issuers seeking to admit securities to junior markets.

- What rules we should set for firms that choose to operate a 'public offer platform' to allow companies to raise capital from investors without being admitted to a public market.

**2.12** Based on the responses to these Engagement Papers, we expect to consult on the POATR in summer 2024. We recognise that aspects of the POATR will be relevant to securing the full benefits of UK Listings under the new UKLR. We will consider feedback received to CP23/10 and this consultation paper in the context of that further work.

## The evolving corporate governance landscape

**2.13** In the context of our proposals, it is also worth noting that the UK's wider corporate governance and stewardship landscape continues to evolve.

**2.14** On 24 May 2023, the Financial Reporting Council (FRC) launched a consultation on proposed revisions to the current (2018) edition of the UK Corporate Governance Code (UK CGC). On 7 November 2023, the FRC published a policy update in relation to its consultation, and stated it expects to publish an updated version of the UK CGC in January 2024. The FRC's statement noted that it is keen to explore ways of ensuring reporting requirements and guidance are proportionate, and maintain effective corporate governance and stewardship in order to promote growth and competitiveness. The FRC has also noted that following its work in relation to the UK CGC, it intends to engage with stakeholders on a review of the UK Stewardship Code, as envisaged in the white paper 'Restoring Trust in Audit and Corporate Governance', including understanding how it works in practice and what changes may be required.

## Sustainability disclosures

**2.15** On 26 June 2023, the International Sustainability Standards Board (ISSB) published its first two IFRS Sustainability Disclosure Standards (ISSB standards). We consider that internationally consistent, comparable and useful sustainability disclosures will improve the transparency of the activities of issuers and give investors the information they need to make business, risk and capital allocation decisions. Along with the International Organization of Securities Commissions (IOSCO), we have supported the work of the IFRS Foundation in this area. In August, we stated our intention to consult on updating our disclosure rules for listed companies to refer to the ISSB standards, once the standards are available for use in the UK.

## International comparisons and competitiveness

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**2.16** A complex set of factors drives national differences in regulatory approaches, and investment and risk culture. In CP23/10, we considered comparative requirements to our current listing rules in other jurisdictions, in particular, in relation to significant transactions, related party transactions, and DCSS. Through the course of our engagement on CP23/10, we compared our existing and proposed requirements to

key international listing markets such as the US, Hong Kong and certain EU member states. We also received feedback on comparisons with jurisdictions such as Singapore, Australia and additional EU member states.

- 2.17** Capital markets are increasingly international. We have noted that the rules governing listed companies in the UK have largely remained the same for many years. In the meantime, the composition of the investor base of UK listed issuers has evolved and become more and more global. As noted in Chapter 1, [ONS data](#) shows the material shift in the ownership of the value of UK quoted companies since the 1990s, with 58% of this now held by investors based outside the UK. By contrast, UK pension schemes and insurers combined only hold 4% of the UK's listed capital, down from nearly 50% in the early 1990s. UK investors also have an increased choice of global markets to invest in and have deployed their capital in other markets.
- 2.18** We are committed to ensuring that unnecessary barriers to listing do not drive growth and innovation away from the UK to other markets. UK listed companies, or companies considering a UK listing should not face unduly onerous burdens that increase costs, make them less competitive on the global stage or risk reducing shareholder value through opportunity cost. At the same time, we want investors in UK listed markets to have access to timely and appropriate disclosure to inform their investment choices, as well as a range of diverse issuers to invest in, when compared with other markets.

## Wider effects of this consultation

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- 2.19** Aside from existing and prospective issuers of listed securities and sponsors directly subject to our rules, and others impacted consequentially by our proposals (such as advisors and investors), changes will also have an impact on indices and index providers. Some index providers currently set inclusion criteria for UK listed companies linked to the rules for our premium listing segment. As a result of our proposals, those index providers would need to consider what criteria they or their users consider most appropriate to determine constituents of a given index. It will remain open to index providers to set higher or different standards to the proposed UKLR should they wish to supplement standards required by the proposed UKLR, or to create alternative indices, which may be more aligned with other global indices.
- 2.20** UK exchanges will also be affected by our proposals and should benefit from the reduced regulatory barriers and disincentives to listing. Exchanges will be able to consider whether they want to set certain additional or different criteria, either as admission standards or to create their own market segments. Our proposals are aimed at encouraging a more diverse range of companies to consider a UK Listing. A healthy UK public market underpinned by strong competition and innovation by UK based exchanges should then provide a further impetus to encourage companies to do so. However, any benefits from our listing rule changes are also partly contingent on how competitive and successful UK regulated market operators are in identifying and encouraging companies to list and admit securities onto public markets.

## Alternative options considered

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- 2.21** In the prior discussions in CP21/21 and DP22/2 on prospective reform to our listing regime, we explored broad models or concepts for how our listing rules could be re-considered, which included maintaining the 'status quo' of two segments. Feedback to these papers and further analysis led us to focus on a more detailed proposition for a single UK listing category for equity shares in commercial companies. CP23/10 then outlined how we proposed calibrating rules within this context, and in particular where we proposed to take forward provisions from either our existing premium or standard listing rules, or considered a combination of the two or a novel approach.
- 2.22** This process of policy consideration has allowed us to identify and then filter down from a long list of possible policy alternatives and explore, refine and assess more deeply the likely costs and benefits of the policy proposals contained in this consultation paper.
- 2.23** In this consultation paper, we have further reflected on feedback and engagement to CP23/10. We detail in relevant chapters where we have considered alternatives at this stage of the policy process. This includes specific aspects of rules for the commercial companies category, such as shareholder votes on transactions and DCSS, which we recognise as particularly important for many stakeholders. In other areas, options relate to what other categories we create, specific requirements for those categories, and how we address current standard listed issuers. We seek views and remain open to alternative approaches or more targeted refinements in all areas.
- 2.24** Our CBA on our proposals compares our measures with the option of not acting at all in each the areas where we have made proposals and their more general effect. This CBA shows that the likely scale of benefits (that we can estimate quantitatively under reasonable assumptions) of our proposals exceeds their costs, and will be net positive compared with not acting at all. We consider that this is a cautious analysis which may underplay the potential longer-term benefits of removing barriers to listing and capital raising, as these benefits are difficult to quantify and depend to some extent on the actions of other parties. While we acknowledge concerns about the general impacts on investor engagement and stewardship from our proposals to not impose shareholder votes on key transactions for the commercial companies category and to allow DCSS, engagement has not provided evidence as to specific costs. Nor do we observe a measurable benefit to UK listed markets versus other markets from specific features of our premium listing regime.
- 2.25** For the purposes of the CBA we have assumed that commercial companies that are currently have standard listed securities will not have increased costs as a result of our proposals as they can choose to remain under their current requirements. If they choose to transfer to the commercial companies category we assume that this is because they have undertaken their own analysis and concluded that doing so will be a net benefit for them.

- 2.26** As our actions are part of a wider set of reforms it is also important to consider their impact within this process, as an important and necessary component of a wider reform. We are also working to develop clear metrics to assess the impact of our regulation in this area, both in general and on the decision of companies to list in the UK or elsewhere. We set out our CBA in Annex 2.
- 2.27** We very much welcome additional evidence and data to substantiate further the areas of potential costs and benefits we identify and also any that we have not identified. We remain open to alternative options where such evidence and analysis presents a strong case for a different approach.

## How it links to our objectives

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- 2.28** As we stated in CP23/10, the reforms we are proposing are linked to our broader vision for regulating the UK's wholesale markets and our statutory objective of making markets work well, improving their efficiency and effectiveness, and thereby helping us protect and enhance the integrity of the UK financial system as a whole.

## Consumer protection

- 2.29** Our proposals seek to balance investor protection with access to a potentially wider range of investment opportunities by focusing on ensuring sufficient, timely disclosures that allow investors to make informed investment decisions and engage as shareholders with the boards of the listed companies they have invested in. Our aim is to secure an appropriate degree of protection for investors, to ensure well-functioning markets, and that take into account international comparisons and changes in global investor behaviour and preferences.
- 2.30** The proposals, if finalised, will mean our rules will no longer impose requirements on commercial companies to seek shareholder approval for certain transactions. This may mean investors who previously invested in premium listed shares need to enhance their approach to due diligence and risk assessment. Smaller investors may in effect rely on larger institutional investors to apply effective scrutiny, although this may be similar where votes currently occur. Investors will need to understand any specific rights attaching to shares in a company, and any rights based on relevant company or corporate law to which the company is subject.
- 2.31** The proposed changes would also place an onus on companies and shareholders to find ways to engage effectively on transactions without FCA intervention. Without FCA rules requiring companies to seek shareholder approval, there may be greater reliance on engagement such as annual general meetings (AGMs) to express concerns (most likely after a transaction has concluded). We acknowledge that this may mean that corporate transactions face less direct, ex ante shareholder scrutiny, and as a result this could increase risks of transactions that erode shareholder value.



- 2.32** We would also expect that the benefits of wider access for companies, and subsequently more opportunities for investors, including the potential upside generated by transactions where issuers listed in the UK currently face a competitive disadvantage, may outweigh the benefits of such obligations.
- 2.33** Our proposals will require disclosure and transparency that empowers investors to make informed decisions and hold the boards of companies to account. We expect that investors will continue to have the information they need to make initial and ongoing investment decisions, and companies should continue to engage with shareholders to demonstrate good governance. Effective scrutiny and engagement by investors to secure better terms should have secondary benefits for all shareholders, including retail investors, while recognising that it remains for each investor to assess their own risk appetite and investment choices on an ongoing basis. Insofar as our proposals may reduce barriers to listing that may tend towards a greater number of listed companies, we would expect that they will increase the number of disclosures for investors about the companies they may choose to invest in, given that private companies are not subject to these disclosure requirements. In this respect we would consider that the balance of our proposals may increase transparency for investors and other stakeholders.
- 2.34** If certain protections no longer offered by our rules are viewed as important to certain groups of investors, then there are mechanisms by which markets can set such conditions or seek to influence behaviours. For example, asset owners could make changes to their investment mandates, index providers could review inclusion criteria, or rules set by exchanges can cater for different risk tolerances or preferences.

### **Market integrity**

- 2.35** As we stated in CP23/10, we expect that our proposed approach will promote market integrity by continuing to support high standards of disclosure and transparency by commercial companies listing equity shares. By creating the conditions that make a UK listing a more compelling option for new applicants and less burdensome for those that are already listed, we are also seeking to increase the likelihood of companies listing or remaining listed on highly transparent public markets, versus less transparent private markets. As noted previously this could act to increase transparency in the market about these companies both for investors and other stakeholders.
- 2.36** Reducing barriers and costs for companies may also encourage a more diverse range of companies to list in the UK. This may result in increased risk of failure, whether because listed commercial companies have a higher risk-profile at the point of initial admission to listing, or where companies may be encouraged to pursue riskier transactions post admission to listing if the prospect of a shareholder vote on the transaction is removed. However, overall, we consider such cases may be limited and do not offset the wider benefits if we see a more diverse range of companies listing in the new category and more investment opportunities. This should promote broader investor confidence in UK listed markets. Improving the effectiveness of primary markets helps us to protect and enhance the integrity of the UK financial system and encourage greater liquidity.



- 2.37** As noted previously, we will continue to have a robust and well tested regime around issuers including the disclosure aspects of the UKLR, and the existing DTR and MAR regimes, which intend to ensure that investors receive full and accurate information and can make their investment decisions appropriately.

## Competition

- 2.38** Our proposals are aimed at simplifying choices for companies as they consider listing in the UK by creating one category for commercial company equity shares, and reducing hurdles to remaining listed in the UK. By doing so, we aim to level the playing field between companies looking to raise capital which should allow more competition and give investors access to more diverse investment opportunities on transparent UK public markets. A simpler and more open listing regime in our regulations should also enable UK regulated market operators and advisors to compete more effectively to attract and retain listed companies.

## Secondary international competitiveness and growth objective

- 2.39** The Financial Services and Markets Act 2000 as amended by the Financial Services and Markets Act 2023 requires us to consider the international competitiveness of the UK economy (including in particular the financial services sector), and its growth in the medium to long term.
- 2.40** Alongside our operational objectives, as we set out above and in our CBA, we have carefully considered our proposals in light of other leading international listing markets. While recognising regulation is only one factor in listing decisions by companies, and may not be determinative, our proposals will remove certain aspects of our regulation which we consider may create disincentives for companies to list in the UK vis-à-vis other international markets. Given global investors allocate capital across those other markets and there is no clear evidence of a valuation premium for UK listed companies due to our additional standards, we also see no evidence to suggest the commercial companies category we propose will lead to reduced investor participation or valuations.
- 2.41** In general, we are seeking to set clearer and simpler rules across all listing categories for specific types of issuer or securities, while ensuring high levels of market transparency. We think our proposals should deliver more proportionate regulation and enable our markets to be competitive in attracting listings and promoting growth of UK listed companies. This would in turn support the wider UK economy and returns for investors. We set out further analysis as part of the CBA in Annex 2.

## Measuring success

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- 2.42** We aim to make proposals which act to achieve the following outcomes:
- A listing regime that is sufficiently flexible to enable a diverse range of companies to list and raise capital as efficiently as possible, while providing more investment opportunities for investors on UK markets.

- Listing rules and categories that are simpler to understand, while still setting standards that support efficient and effective markets for listed securities.
- High-quality disclosures that empower investors to make informed decisions when investing in listed securities in line with their investment objectives.
- Rules that provide an appropriate degree of assurance along with oversight to ensure companies meet listing and transparency obligations.

**2.43** In making these proposals, we acknowledge that regulation is not typically the sole or main driver in listing choices by issuers and there are significant impacts on listing trends due to macroeconomic and other factors. These include the size and composition of the investor base, the relative cost and requirements related to alternative sources of finance, tax, location of operations and management, customer base, research coverage, valuations, company law, and others.

**2.44** Understanding the effects and development of these different factors versus our regulatory framework can inform how best to shape our rules and what the likely impact will be. For example, whether our requirements are proportionate compared to international standards or requirements for other forms of capital raising, and the possible trade-offs associated with our interventions.

**2.45** Over time we aim to consider the impact of our proposed changes and of our requirements as a whole by monitoring:

- The number and overall market capitalisation (value) of commercial companies with UK listed equity shares (both versus historic trends and relative to other markets) and levels of capital raising on UK listed markets.
- The number of UK incorporated companies who choose to list overseas and their reasons for doing so.
- The development and experience of listing regulation in other main international jurisdictions. Trends in the participation of UK listed companies in global M&A including deal values and deal volumes.
- The development of the UK investor base compared with that of main international jurisdictions.
- The diversity in the types of commercial companies listing their equity shares in the UK (ie, more technology or earlier stage companies) and raising capital on UK markets for listed securities.
- Whether there is any increase in formal shareholder motions against the company or its board in relation to transactions that would have previously required prior shareholder approval under premium listing rules.
- Data regarding notifications of potential misconduct made to the FCA along with our own detection work.
- The number of commercial companies de-listing their equity shares, and their reasons for doing so.
- The impact of other factors on listing decisions based on intelligence gathered from our engagement with issuers, sponsors, and other stakeholders such as trade associations.

**Q1:** Based on our overall proposals for commercial companies, and taking into account the broader UK regulatory, legal and corporate governance environment, do you believe that we have struck the right balance in designing a proposed regime that enables the conditions for a stronger, more effective and competitive listed market with appropriate measures in place to support market integrity and investor protection. If not, what changes should be made?

## Equality and diversity considerations

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- 2.46** We have considered the equality and diversity issues that may arise from the proposals in this consultation paper.
- 2.47** We do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010.
- 2.48** We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them before proposing final changes. We welcome any consultation responses on our assessment.

## Chapter 3

# Overview and scope of proposed new UK Listing structure and sponsor regime

**3.1** In this section we set out an overview of the proposed approach to the listing regime structure and listing categories to replace the premium listing and standard listing segments. The purpose is to provide the context for the detailed proposals set out in subsequent chapters. We ask for feedback on the proposed UKLR sourcebook structure. Questions on proposals with those categories are addressed later in this consultation paper in the relevant chapters.

## Overview of proposed UK Listing Rules categories

**3.2** We are proposing to replace the current Listing Rules sourcebook with an entirely new sourcebook, which we propose to name 'UK Listing Rules' sourcebook (UKLR). The diagram below sets out the proposed listing categories that would form the new UKLR categories. This includes new categories and those that would be carried over from the current LR structure. This largely mirrors the initial proposed structure set out in CP23/10, but further delineates between different types of issuer, particularly those that are or would be listed under the standard listing shares category (LR 14) under the current regime.

**Diagram 1: Overview of proposed UK Listing Rules categories**

	Proposed New Listing Categories				
	Commercial company categories			Other	
Category name	Equity shares (commercial companies)	Equity shares (international commercial companies secondary listing)	Equity shares (transition)	Equity shares (shell companies)	Non-equity shares and non-voting equity shares
Notes	Including sovereign controlled commercial companies		Transitional category for commercial companies currently listed in LR 14 with a primary listing, closed to new applicants	Including special purpose acquisition companies	Non-equity shares would include preference shares and deferred shares

Category name	Proposed Retained Categories					
	Equity shares		Other			
	Closed-ended investment funds	Open-ended investment companies	Debt & debt-like securities	Certificates representing certain securities (depository receipts)	Securitised derivatives	Warrants, options, and other miscellaneous securities
Notes				Renamed from 'Certificates Representing Certain Securities'		Renamed from 'Miscellaneous Securities'

### The commercial company category

- 3.3** The key proposed reform is to create a single category for UK listings of equity shares in commercial companies (for ease we refer to this as the 'commercial companies' category in this document). This would replace the current premium and standard listed share categories for commercial companies with or seeking a new 'primary' equity share listing in the UK. We propose a single rule set for commercial companies as part of this approach, which we describe in detail in Chapters 4 to 11 below.

### Other categories

- 3.4** Proposals for the other categories are set out in Chapters 12 and 13. This includes our proposed arrangements for a transition category, designed to maintain the status quo for commercial companies that have an existing standard listing of equity shares which is a primary listing (ie, that are not shell companies or secondary listed issuers), to allow time for them to adapt and move to the commercial companies category at a time when they are ready to do so.

### Implementation and transition

- 3.5** Proposals regarding implementation and the transition from the current regime to the proposed UKLR regime are detailed in Chapter 16. This includes a proposed proportionate transfer application process for existing standard listed issuers transferred to the transition category or the international commercial companies secondary listing category (referred to as the 'secondary listing' category in this document for ease) at implementation wishing to move to the commercial companies category.
- 3.6** Chapter 16 also covers proposed transitional provisions for the proposals that would impact all issuers with listed securities (as set out in Chapter 14).

## Proposed UK Listing Rules sourcebook structure

### CP23/10 approach and feedback

- 3.7** In CP23/10 we explained that our proposed reforms would involve replacing the current LR sourcebook with a new sourcebook and provided an indication of what we thought the structure of the new sourcebook might look like.
- 3.8** We received a small number of responses on this subject, most of which supported our proposed new sourcebook structure (in Annex 4 of CP23/10). A couple of responses suggested placing the chapter relating to contents of circulars directly after the chapter relating to dealing in own securities and treasury shares.

### Our proposed approach to a new sourcebook

- 3.9** We reflect the suggested change and have provided more detail on our proposed UKLR sourcebook structure below. Table 2 sets out each proposed UKLR chapter and the LR chapter (or chapters) it would replace. While the content of the UKLR chapters would correspond to the general content of the LR chapter(s) indicated, in some cases provisions have been significantly amended or removed.
- 3.10** While our draft legal instrument is presented as new rules for the proposed new sourcebook, a more detailed cross reference of how current rules map to the below structure (and proposed new rules) can found in the table provided in Appendix 3.

**Table 2: Summary of proposed UKLR sourcebook structure**

New UKLR Chapter	Current LR Chapter	Type	Application
UKLR 1 – Preliminary	LR 1	Overarching requirements	All issuers including applicants Sponsor firms Firms applying to be sponsors
UKLR 2 – Listing Principles	LR 7	Overarching requirements	All issuers including applicants
UKLR 3 – Requirements for listing: all securities	LR 2	All – Eligibility requirements	All applicants for admission to listing (unless rule disapplied for certain applicant or security type)

New UKLR Chapter	Current LR Chapter	Type	Application
<b>UKLR 4 – Sponsors: responsibilities of issuers</b>	LR 8 (part)	Shares – Rules for issuers appointing a sponsor	Issuers including applicants in: <ul style="list-style-type: none"> <li>• Equity Shares (commercial companies) category</li> <li>• Closed-ended investment funds category</li> <li>• Shell companies category</li> </ul>
<b>UKLR 5 – Equity shares (commercial companies): requirements for admission to listing</b>	LR 6 LR 14 (part) LR 21 (part)	Shares – Eligibility requirements	Applicants for: <ul style="list-style-type: none"> <li>• Equity Shares (commercial companies) category</li> </ul>
<b>UKLR 6 – Equity shares (commercial companies): continuing obligations</b>	LR 9 (part) LR 14 (part) LR 21 (part)	Shares – Continuing Obligations	Listed companies in: <ul style="list-style-type: none"> <li>• Equity shares (commercial companies) category</li> </ul>
<b>UKLR 7 – Equity shares (commercial companies): significant transactions and reverse takeovers</b>	LR 10 LR 5 (part)	Shares – Continuing Obligations	Listed companies in: <ul style="list-style-type: none"> <li>• Equity shares in (commercial companies) category</li> </ul>
<b>UKLR 8 – Equity shares (commercial companies): related party transactions</b>	LR 11 LR 21 (part)	Shares – Continuing Obligations	Listed companies in: <ul style="list-style-type: none"> <li>• Equity shares (commercial companies) category</li> </ul>
<b>UKLR 9 – Equity shares (commercial companies): further issuances, dealing in own securities and treasury shares</b>	LR 12 LR 9 (part)	Shares – Continuing Obligations	Listed companies in: <ul style="list-style-type: none"> <li>• Equity shares (commercial companies) category</li> </ul>
<b>UKLR 10 – Equity shares (commercial companies): content of circulars</b>	LR 13	Shares – Continuing Obligations	Listed companies in: <ul style="list-style-type: none"> <li>• Equity shares (commercial companies) category</li> </ul>
<b>UKLR 11 – Closed-ended investment funds category</b>	LR 15	Shares – Eligibility & Continuing Obligations	Issuers including applicants in: <ul style="list-style-type: none"> <li>• Closed-ended investment funds category</li> </ul>
<b>UKLR 12 – Open-ended investment companies category</b>	LR 16A	Shares – Eligibility & Continuing Obligations	Issuers including applicants in: <ul style="list-style-type: none"> <li>• Open-ended investment companies category</li> </ul>
<b>UKLR 13 – Equity shares (shell companies) category</b>	LR 14 LR 5 (part)	Shares – Eligibility & Continuing Obligations	Issuers including applicants in: <ul style="list-style-type: none"> <li>• Shell companies category</li> </ul>

<b>New UKLR Chapter</b>	<b>Current LR Chapter</b>	<b>Type</b>	<b>Application</b>
<b>UKLR 14 – Equity shares (international commercial companies secondary listing) Category</b>	LR 14	Shares – Eligibility and Continuing Obligations	Issuers including applicants in: <ul style="list-style-type: none"> <li>• International (commercial companies) secondary listings category</li> </ul>
<b>UKLR 15 – Certificates representing certain securities (depository receipts) category</b>	LR 18	Non-shares – Eligibility & Continuing Obligations	Issuers in and applicants for: <ul style="list-style-type: none"> <li>• Certificates representing certain securities (depository receipts) category</li> </ul>
<b>Sovereign controlled commercial companies category</b>	LR 21	Shares – Eligibility & Continuing Obligations	DELETE (relevant provisions included in equity shares (commercial companies) category)
<b>UKLR 16 – Non-equity shares and non-voting equity shares category</b>	LR 14 (part)	Shares – Eligibility and Continuing Obligations	Issuers in and applicants for: <ul style="list-style-type: none"> <li>• Non-equity shares and non-voting equity shares category</li> </ul>
<b>UKLR 17 – Debt and debt-like securities category</b>	LR 17	Non-shares – Eligibility & Continuing Obligations	As per current application
<b>UKLR 18 – Securitised derivatives category</b>	LR 19	Non-shares – Eligibility & Continuing Obligations	As per current application
<b>UKLR 19 – Warrants, options and other miscellaneous securities category</b>	LR 20	Non-shares – Eligibility & Continuing Obligations	As per current application
<b>UKLR 20 – Admission to listing: Processes and procedures</b>	LR 3	Regulatory process	All applicants for the admission of securities
<b>UKLR 21 – Suspending, cancelling, restoring listing, and transfer between listing categories</b>	LR 5 (part)	Regulatory process	All issuers



New UKLR Chapter	Current LR Chapter	Type	Application
<b>UKLR 22 – Transition category</b> (Closed to new applications)	LR 14	Shares – Continuing Obligations	Existing LR 14 standard listed issuers that would be mapped to: <ul style="list-style-type: none"> <li>• Transition category (ie, existing LR 14 standard listed issuers, which would not be mapped to:</li> <li>• Shell companies category</li> <li>• Non-equity shares and non-voting equity shares category</li> <li>• International commercial companies secondary listing category</li> </ul>
<b>UKLR 23 – Listing particulars for professional securities market and certain other securities</b>	LR 4	Listing particulars requirements	As per current application
<b>UKLR 24 – Sponsors</b>	LR 8 (part)	Rules for Sponsor firms	Sponsor firms Firms applying to be sponsors
<b>Relevant Definitions</b>	LR App 1	Glossary extract	DELETE

**Q2: Do you agree with our proposed approach to structuring the UKLR Sourcebook chapters?**

## Proposed application of the sponsor regime

**3.11** Consistent with our proposed approach in CP23/10, we propose that the sponsor regime be applied to admission to and certain actions within the following categories:

- the proposed commercial companies category (see Chapters 4-11)
- the closed-ended investment funds category (see Chapter 12); and
- the proposed shell companies category (see Chapter 13)

**3.12** We continue to believe that the role of sponsors to be important and beneficial to the FCA, issuers and investors, and we see sponsors as an integral component of our reforms. We discuss this in more detail in Chapters 17 and 18. The Sponsor regime helps to ensure that a company is supported and receives high-quality expert advice during the preparation and submission of an application to list, or at targeted key points once listed. The role and the service they provide help to safeguard market integrity and to protect investors. The role of sponsors becomes even more important in the context of the wide variety of issuers that would be able to list under the proposed commercial

companies category. The Sponsor regime is not intended to result in zero failure of the underlying business model but rather to ensure issuers are able to meet their listing obligations especially around governance and disclosure which allows investors to make well-informed investment decisions.

**3.13** Post initial listing, as set out in CP23/10, we propose that the instances requiring sponsor involvement in terms of a formal sponsor service appointment, are targeted at circumstances where an issuer is facing fundamental change and in certain other narrow circumstances where it offers the most benefit to the FCA, the company, and its shareholders – ie, where sponsor expertise can add most value. This would inevitably reduce the number of instances when listed companies would be required to appoint a sponsor. However, we anticipate issuers will continue to seek guidance or legal advice on any aspect of the UKLR, DTR, MAR or PRR, which may be from a sponsor firm (in a non-sponsor capacity) or from other sources. Overall, our approach should reduce burdens on companies when carrying out transactions.

**3.14** Further details are set out in following chapters:

- proposed issuer obligations for commercial companies in relation to post-IPO transactions and the related sponsor role are discussed in Chapters 6 to 11
- the proposed role of sponsors in relation to the shell companies and closed-ended investment funds is set out in Chapter 12, and
- clarification of our expectation of sponsors at the gateway and as part of the proposed transitional arrangements under the proposed UKLRs are included in Chapters 16 and 17

**3.15** We also propose to introduce changes to the sponsor competence requirements, which recognise that levels of market activity can fluctuate and the changing scope of the sponsor regime under the proposed reforms. We propose to introduce these changes quickly and ahead of the wider reforms. This is to help to ensure the sponsor community is able to support existing and prospective issuers prepare should we proceed to implement the proposals in this consultation. These proposals are also detailed in Chapter 18, and the draft instrument for the proposed changes to LR 8 Sponsors: Premium Listing is in Appendix 2.

## Chapter 4

# Commercial companies category – eligibility requirements

- 4.1** This chapter, along with Chapter 5, sets our proposed approach to specific eligibility requirements for the commercial companies category. This chapter and the subsequent Chapters 6 to 11 set out the proposals for the commercial companies category, as compared to the current premium listing requirements. We explain where current premium listed requirements would either be carried over (with no change or with modifications) or not carried over to the commercial companies category.
- 4.2** Overall, as compared to premium listing, the proposals for in this section would be a reduction in eligibility requirements, but an increase as compared for standard listing requirements. For details of our proposed implementation and transitional approach, should we proceed to finalise our proposals, please see Chapter 16.
- 4.3** Proposals for eligibility requirements that would also be continuing obligations for the commercial companies category are explained in Chapters 6 to 11. The role of the sponsor at the gateway more generally is discussed in Chapter 17.
- 4.4** In addition, to category specific eligibility requirements, there are certain requirements that all applicants to listing need to be able to meet, and details of these can be found in Chapter 14.

## Eligibility requirements for commercial companies – existing financial information requirements

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### Existing approach and CP23/10 proposals

- 4.5** In the current listing rules there are no specific eligibility requirements related to financial information for applicants to standard listing. These applicants, are however, required to disclose in any prospectus the financial information specified by the Prospectus Regulation. By contrast, premium listing applicants are required to meet specific provisions in the listing rules to demonstrate their financial position and performance over time, as set out in LR 6.2 and LR 6.3, and satisfy the FCA that they have sufficient working capital (LR 6.7).
- 4.6** Following responses to DP22/2, where we had sought views on whether or not to retain financial information requirements for premium listed companies, in CP23/10 we proposed that the following would not be included in the requirements that would apply for eligibility to list in the commercial companies category:
- the historical financial information (HFI) requirements set out in LR 6.2
  - the revenue earning track record requirements set out in LR 6.3

- the related 'specialist companies exemptions' to these sections contained in LR 6.10, LR 6.11 and LR 6.12, since these 'concessions' will no longer be necessary
- the requirement that an applicant has to satisfy the FCA that they have sufficient working capital as set out in LR 6.7

## Feedback to our proposals on financial information requirements

- 4.7** Overall, there was broad support for this approach to eligibility for commercial companies, with nearly three quarters of responses agreeing with our proposals. Those in favour of not requiring HFI and track record requirements felt this will allow high growth companies to list at an earlier stage. However, most of the respondents who supported removing HFI and clean working capital requirements also indicated that their support for removing these requirements was dependent upon retaining HFI requirements and the necessary information test in the context of a prospectus.
- 4.8** Those who opposed us removing these requirements expressed concerns about the quality of information available to investors if we did so and that our regime may then have lower requirements than that of other listing venues.
- 4.9** Other points raised included the links between our proposals and FRC's corporate governance reforms and other aspects of our work on the new public offers and admission to trading regime such as protected forward looking statements.

## Proposals

- 4.10** Our proposed eligibility requirements for the commercial companies category (which can be found in UKLR 5) would not include requirements for historical financial information, a minimum track record, or a working capital statement. As a result, this also means we would not need to carry forward the provisions in LR 6.10, LR 6.11 and LR 6.12 that provide alternative approaches to some of these rules for specialist companies.
- 4.11** As set out in CP23/10 and recognising that the support above was contingent on ensuring that this information was made available in the prospectus, the Prospectus Regulation will still require a prospectus to be produced for an issuer seeking admission of its equity shares to a regulated market, which would include disclosures of historical financial information and a working capital statement. As such, investors would continue to have access to detailed information regarding a company seeking a UK equity listing on a regulated market, based on which they can make an informed investment decision.
- 4.12** Our proposals would mean that a 'clean' working capital statement is no longer a requirement for determining a company's eligibility to list. However, we would expect sponsors to consider whether an issuer has a reasonable basis for making any working capital statement within a prospectus as part of the sponsor assurance provided. The FCA would still assess the consistency of disclosures within the prospectus and if any financial information therein gives rise to concerns over potential detriment to investors as part of its work in scrutinising draft prospectuses.

- 4.13** These proposals align with the broader policy intent to encourage a more diverse range of issuers to list and to do so at an earlier stage, and allowing investors greater flexibility to make choices.

## Warrants and options to subscribe

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### Existing approach and CP23/10 proposals

- 4.14** We did not set out proposals in CP23/10 on this topic, but we have subsequently considered whether or not we should change our current requirements in relation to warrants and options to subscribe for equity shares.
- 4.15** Premium listing rules in LR 6.8 set the following eligibility requirements regarding warrants and options to subscribe:
- LR 6.8.1R-The total of all issued warrants to subscribe for equity shares or options to subscribe for equity shares must not exceed 20% of the issued equity share capital (excluding treasury shares) of the applicant as at the time of issue of the warrants or options.
  - LR 6.8.2R-For the purpose of the 20% limit in LR 6.8.1R, rights under employees' share schemes are not included.
- 4.16** These requirements were introduced to provide transparency for investors on warrants attached to the listed shares. We consulted on removing them in [CP21/25](#) but there were mixed views and, as stated in [CP13/15](#) published November 2013, we decided to retain them at that time.

### Proposals

- 4.17** Given the wider changes in market conditions for listed shares, and consistent with our approach towards risk in the proposed UKLR, we have not included specific eligibility requirements or restrictions on number of warrants in the commercial companies category. We consider this change (versus current premium listing) would give issuers more choice in their capital raising and allow investors more flexibility in how they choose to invest.
- 4.18** Investors would still be able to rely on the disclosures about warrants under DTR 5.3, in certain circumstances. If we were to apply such requirements to the commercial companies category, they may also act as barriers for current standard listed companies whose ownership structure may include more warrants if they were to consider transferring to the commercial companies category.

## Proposals for other eligibility requirements

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- 4.19** We did not seek or receive significant feedback on retaining other premium listing eligibility requirements as a basis for the new commercial companies category.

Therefore, we have not received detailed feedback for these areas, but we summarise below our proposed approach on residual areas currently addressed by LR 6.

## Pre-emption rights

- 4.20** We propose to carry over the existing premium listing eligibility requirements concerning pre-emption rights to the commercial companies category (as per LR 6.9.2R). To comply with this, an overseas incorporated company must ensure its constitution provides for shareholder rights which are at least equivalent to the rights provided in LR 9.3.11R currently (if the law of the country of its incorporation does not do so) and be satisfied that conferring such rights would not be incompatible with the law of the country of its incorporation.

## Externally managed companies

- 4.21** While this is discussed in more detail in the following chapter, we propose to carry over the existing premium listing requirement in LR 6.13 to the commercial companies category, which requires the applicant to satisfy the FCA that the discretion of its board to make strategic decisions has not been limited or transferred to a person outside the applicant's group, and that the board has the capability to act on key strategic matters in the absence of a recommendation from a person outside the applicant's group.

## Shares in public hands

- 4.22** We propose to carry over the existing premium and standard listing requirements and associated guidance for a 10% free-float (shares in public hands) threshold (currently LR 6.14) to the commercial companies category.

## Shares of a third country company

- 4.23** We are proposing to carry over the substance of the existing premium listing (LR 6.15.1R) and standard listing (LR 14.2.4R) requirements, which provide that the FCA will not admit shares of an applicant incorporated in a third country that are not listed in the applicant's country of incorporation or in the country in which a majority of its share are held, unless we are satisfied that the absence of the listing is not due to the need to protect investors. If there is no listing in either the place the applicant is incorporated or in the place where the majority of its shares are held, we need to be satisfied that it is not because of the need to protect investors. However, we are considering how we might clarify the wording of this provision to make this intention and purpose clearer. Any changes we propose will be included in the second tranche of the draft UKLR instrument.

**Q3: Do you agree with our proposed approach to eligibility requirements for commercial companies and the proposed draft provisions in UKLR 5 in Appendix 1?**

## Chapter 5

# Commercial companies category – eligibility and continuing obligations

**5.1** In this chapter, we set out proposed commercial companies provisions that would be applied both as eligibility and ongoing requirements, including:

- independence of business
- control of business
- controlling shareholders, and
- DCSS (shares with enhanced voting rights)

## Independence of business and control of business

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### Current rules and CP23/10 approach

**5.2** For commercial companies, CP23/10 proposed a modified approach to current premium listing eligibility rules around control and independence of business. We proposed that the commercial companies category should be sufficiently flexible to accommodate issuers that have operational businesses that generate, or have the prospect of generating, revenue from their own activities while being clear that we are open to diverse business models and, potentially, more complex corporate structures. We also welcomed views on how we could mitigate potential risks to investors and explore whether, for example, assurance by sponsors could be considered in certain cases.

### Feedback to CP23/10

**5.3** We received 31 responses to this question. 27 respondents, which included several trade associations, were generally supportive. One respondent was generally not supportive. Three respondents provided mixed feedback.

**5.4** Most of the feedback we received was supportive of moving towards a more permissive, disclosure-based approach provided applicants can still comply with the FCA's listing, disclosure and transparency requirements on an ongoing basis. Most also argued against imposing additional due diligence obligations on sponsors.

**5.5** Some argued that the rules should allow for structures without employees that leverage outsourced services to be admitted to listing in the commercial companies category, with others noting that increased flexibility could benefit royalty streaming businesses in the mineral and natural resources sectors as well as other royalty streaming businesses, including, for example, music royalties owners and others that may prefer to list as operating businesses rather than as closed-ended investment funds.

**5.6** Others saw risks in a more flexible approach given the potential lack of clarity about ownership and governance, scope for influence by parties whose identity and

connections could be unclear and the inability of shareholders to hold to account those responsible for setting and delivering the company's strategy and business model. Some respondents asked for us to create a definition of commercial company.

## Proposals

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- 5.7** Based on feedback to CP23/10 and further considerations, we propose to not mandate eligibility requirements and continuing obligations around independence of business (other than where a controlling shareholder is present) and control of business in the commercial companies category. We intend, however, to retain rules and guidance in relation to externally managed companies (currently in LR 6.13 and mirrored in LR 9.2.20R) that require an applicant to satisfy the FCA that the discretion of its board to make strategic decisions has not been limited or transferred to a person outside the applicant's group and that its board has the capability to act on key strategic matters in the absence of a recommendation from a person outside the applicant's group.
- 5.8** We are not proposing to provide a definition of what constitutes a 'commercial company'. We have proposed to set the scope of the commercial companies category such that it is open to issuers that are able to meet the commercial companies eligibility requirements and continuing obligations, and are not a type of issuer for which there exists a separate listing category (for example a shell company or a closed-ended investment fund). Where such a separate listing category exists, the issuer would have to meet the eligibility requirements of that category in order to be eligible for a listing. This would mean that the FCA could refuse a listing of equity shares in the commercial companies category if it is not satisfied that the eligibility requirements for the category are met or there is another listing category for the relevant type of entity.
- 5.9** The FCA will continue to carry out its assessment of eligibility for listing on a case-by-case basis and will retain the power to refuse an application for listing as set out in s75(5) FSMA if, for a reason relating to the issuer, it considers that granting it would be detrimental to the interests of investors.
- 5.10** In line with the spirit of these reforms, we do not propose to restrict admission to the commercial companies category to issuers with specific business models ((unless we also propose to introduce specific categories for them), as long as their characteristics are fairly communicated to allow investors to conduct their own assessment and due diligence.

**Q4: Do you agree with our proposed approach to independence and control of business for the commercial companies category eligibility and continuing obligations? If not, please explain why and any alternative approach.**



## Controlling shareholder regime

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### Current rules and CP23/10 proposals

- 5.11** CP23/10 sought views on whether the FCA should consider a comply or explain approach for controlling shareholder agreements (CSAs). We queried their effectiveness in the absence of a requirement for a shareholder vote to approve a related party transaction (and the related incentives set out in LR 11), but otherwise largely proposed to keep the status quo on the approach to voting for the election or re-election of independent directors and cancellation or transfer of listing when an issuer has a controlling shareholder.

### Feedback to CP23/10

- 5.12** We received 31 responses to this question. Fourteen respondents, which included several trade associations, were generally supportive. Ten respondents, including one trade association, were generally not supportive. Seven respondents provided mixed feedback.
- 5.13** Submissions in favour of the more flexible approach outlined in CP23/10 argued that a comply or explain approach to CSAs would be consistent with a more disclosure-based framework, noted that relationship agreements are not mandatory on other major international stock exchanges and that CSAs tend to be difficult to enforce. Some also said that a number of standard listed companies do not have in place CSAs and making them mandatory would require standard listed companies seeking to transfer to the commercial companies category to negotiate CSAs with a controlling shareholder post-IPO when issuers will have less leverage.
- 5.14** Conversely, we received responses discussing the importance of a relationship agreement as a shareholder management tool and its usefulness as it gives the board and independent directors leverage through binding contractual agreements. Others noted that several standard listed companies have a CSA in place without there being specific requirements in place because CSAs are considered to signal higher standards of corporate governance.
- 5.15** More generally, there was concern from some stakeholders that weakening the controlling shareholder regime is not warranted and that there is no rationale for reversing the changes made in May 2014 (PS14/8) that introduced the current approach. Some of the feedback framed the issue of the role and importance of CSAs in the broader context of other changes proposed for the commercial companies category, highlighting the potential risks arising from a combination of related party transactions no longer being subject to shareholder approval and the potential increase in listing of companies with multiple class share structures.

## Proposals

- 5.16** On the basis of the feedback received and given the other changes we are proposing, we consider that the current controlling shareholder regime for premium listed companies continues to serve an important function and therefore have decided to retain it. Accordingly, we propose to retain a requirement that an applicant with a controlling shareholder must demonstrate that, despite having a controlling shareholder, the applicant is able to carry on its main business activity independently from such controlling shareholder.
- 5.17** We considered how applicants to listing could demonstrate their independence from a controlling shareholder. We believe that the current requirements in LR 6.5.4R, which entail a written and legally binding agreement with the controlling shareholder which is intended to ensure that the controlling shareholder complies with specified undertakings, remain the most appropriate way for a company to demonstrate compliance.
- 5.18** We propose therefore to carry over the current eligibility requirements and continuing obligations in relation to controlling shareholders largely unchanged. However, we welcome views on whether feasible 'alternative arrangements' exist which are acceptable, likely to be used, and could be objectively assessed, as well as that sufficiently demonstrate independence in lieu of a controlling shareholder agreement.
- 5.19** We also propose to carry over the existing premium listing approach within the new commercial companies category for approving cancellation of listing and the election or re-election of independent directors when the company has a controlling shareholder.
- 5.20** We will consider whether changes to the prospectus regime requirements are warranted to strengthen transparency on controlling shareholders in the context of parallel work to introduce rules for the new POATR.
- 5.21** We discuss specific proposals relevant to companies with sovereign controlling shareholders separately in Chapter 12.

**Q5: Do you agree with our proposed approach to requirements relating to controlling shareholders for the commercial companies category eligibility and continuing obligations? If not, please explain why and provide any alternative approach.**

## Companies with dual (or multiple) class share structures

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### Current rules and CP23/10 proposals

- 5.22** CP23/10 sought views on proposals to allow companies with multiple class share structures (DCSS) to be listed in the commercial companies category. We also proposed modifying or retaining certain restrictions under the current premium listing rules intended to protect shareholders from some of the potential risks of harm arising from the inherent disconnect between economic interest and the ability to exert influence that characterises these voting structures. Specifically, the two main restrictions we proposed were:
- a.** a time-based sunset clause of no more than 10-years from admission to listing in relation to any class of shares with enhanced voting rights, and
  - b.** restricting who is eligible to hold such shares to directors of the listed company
- 5.23** In general terms, we indicated our preference to be more flexible in relation to DCSS than the current premium listing rules and noted that negotiations between an issuer and prospective institutional investors at initial listing may be sufficient to ensure any DCSS terms reflect market dynamics and risk appetite.

### Feedback

- 5.24** We received 42 total responses to this question. Twenty respondents, which included several trade associations, were generally supportive. Fourteen respondents, including 1 trade association, were generally not supportive. Whilst 8 respondents provided mixed feedback.
- 5.25** While most of the buy-side voiced general support for the one-share-one-vote principle, feedback received was quite nuanced overall and pointed to a degree of consensus that DCSS should not be the reason a new applicant is ineligible for the commercial companies category. Respondents, however, were split on the level of flexibility that should be afforded to new applicants, typically along buy-side/sell-side lines.
- 5.26** Some submissions favoured retaining the current targeted and time limited form of DCSS within our premium listing rules, arguing that a 5-year sunset clause (or 7 at most) was sufficient. There were strong views particularly from buy-side respondents that encouraging more permissive DCSS models could be detrimental to investors' ability to engage with an issuer's management and may reduce company value in the long term.
- 5.27** Others, mostly in the sell-side, advocated a disclosure-based regime, arguing that current limits were seen as the biggest stumbling block for a UK listing in the minds of many founders, especially in high growth sectors such as technology and biosciences. These views therefore suggested no restrictions at all. Some supported the approach we had proposed or suggested slight adjustments, such as broadening out prospective holders beyond just directors. In bilateral engagements and workshops, several argued that it should not be for regulation to constrain choice by seeking to calibrate risk levels.

- 5.28** We undertook further discussion and engagement during and after the consultation period. This largely followed the same buy-side and sell-side split of views.
- 5.29** We heard that investors would be unlikely to simply exclude companies with DCSS from their investible universe. Some said that they would need to become comfortable with these issuers. Others said they would seek to take a view on valuations to reflect idiosyncratic risks.
- 5.30** A number of investors also stated they had invested on a case-by-case basis either in companies on the UK standard list or in overseas markets (mainly the US) that had DCSS. In such cases, investors either felt comfortable with a specific business model and justification for a specific form of DCSS or sought other ways to engage a company while still investing (eg, where the scale of the company made it hard to overlook as part of a portfolio).
- 5.31** No further examples of how DCSS-related risks were mitigated were provided by participants for non-UK investments.
- 5.32** This suggests that market-wide regulation precluding companies with DCSS or setting 'one-size-fits-all' restrictions, where considerations can be quite specific both for investors and companies, may not be appropriate.

## Proposals

- 5.33** On balance, we were convinced by the arguments put forward by those who advocated for a more flexible approach to DCSS for the purposes of a single equity category for commercial companies. Specifically, we agree that the maximum 10-year sunset period we proposed in CP23/10 may still be arbitrary, and risks both deterring some companies that may have case-specific reasons to consider longer periods or conversely could imply 10-years is an appropriate period when, for certain companies, investors may prefer and seek to negotiate a shorter period (eg, 3 or 5-years).
- 5.34** We also recognise that, although taken into consideration when setting our current rules, academic evidence is not conclusive in this area. We also accept views in favour of allowing a slightly broader set of individuals beyond directors to hold specified weighted voting rights shares, provided they have some involvement or stake in the company at the point of listing. This reflects a balance between different structures of DCSS observed in the market that are not limited to directors, while still seeking to align the interests of holders of enhanced voting shares to the prospects of the company.
- 5.35** We recognise that imposing restrictions on DCSS could risk undermining the more open and flexible approach that we are intending to achieve. It may imply a negative view on such structures or that the FCA considers certain terms to be positive or preferable, where the market is better placed to set such terms in light of each specific issuer's circumstances and investment case. It also remains a legitimate choice for investors as to whether they wish to invest at all where a company has a DCSS in place, which would be disclosed at the point of IPO, if they have concerns as to the impact this may have on the overall governance of a company, shareholder engagement or index inclusion.

- 5.36** Moving away from our CP23/10 proposals, rather than an arbitrary 10-year limit, we consider instead that market practice and industry norms can help determine what is appropriate and are therefore not intending to introduce any time-related sunset requirement to limit the exercisability of enhanced voting rights. Instead, shareholders and prospective shareholders would need to rely on their assessment of the quality and track record of those who can exercise influence on the company on the basis of their preferences and risk appetite. We expect the process of negotiation at initial admission may still often result in time-based sunset clauses where DCSS is used, and that any period set will reflect investors' views on the individual(s) benefiting from enhanced voting rights and the strategic intent of the DCSS.
- 5.37** We are also proposing that enhanced voting rights shares would only be able to be issued to persons falling into certain categories (see below) at first admission to listing and no further weighted voting rights shares would be able to be issued after listing.
- 5.38** Consistent with this approach, in order to offer transparency regarding ownership of specified weighted voting rights shares, we propose to require that the constitutional arrangements of a company seeking admission to the commercial companies category with a DCSS provide that specified weighted voting rights shares can only be issued to:
- i.** directors of the applicant
  - ii.** natural persons who are investors in, or shareholders, of the applicant
  - iii.** employees of the applicant, or
  - iv.** persons established for the sole benefit of, or solely owned and controlled by a person in (i), (ii) or (iii) above
- 5.39** The company's constitutional arrangements should further provide that a holder to whom specified weighted voting rights shares have been issued would not be permitted to transfer the voting rights associated with such shares except to a person established for the sole benefit of, or solely owned and controlled by, that holder.
- 5.40** These proposed rules, which are set out in UKLR 5.4.2R (see Appendix 1) are intended to achieve 2 outcomes:
- 1.** ensure that specified weighted voting rights shares can be issued or transferred to a legal person to obtain or maintain favourable treatment including to take account of local tax, exchange control or securities laws in overseas territories; and
  - 2.** enable the transferability of any economic value of the specified weighted voting rights shares while ensuring that the enhanced voting rights can only be exercised by the natural person to whom the shares were issued on the first occasion the applicant made an application for the admission of equity shares to the commercial companies category.
- 5.41** By restricting the transfer of enhanced voting rights as described above, our intention is that investors have visibility and certainty on the identity of those who will be able to exercise influence on the strategic direction of the company via specified weighted voting rights shares and prevent transfer of such influence to any third party whose identity, skills and track-record are unknown at the time of admission. A consequence of the proposed rules would be that the ability to exercise enhanced voting rights attached to a company's specified weighted voting rights shares will be limited to the lifespan of

one of the types of natural persons to whom the enhanced voting rights are issued at admission (or for whose benefit or under whose control a person of the type described in paragraph 5.38(iv) above was established at admission).

### **Matters on which enhanced voting rights will not be exercisable**

- 5.42** Being listed in the commercial companies category and admitted to trading brings important protections and other advantages, including liquidity, price transparency, market discipline, etc which are fundamental to the rights of a shareholder in public markets and are not available to shareholders in private companies. We consider it would be inappropriate to allow holders of specified weighted voting rights to be able to influence a vote that might have a negative impact on the rights and benefits enjoyed by the holders of shares of the listed class.
- 5.43** Therefore, as is the case now, we propose that where the UKLR require a shareholder vote to be taken, that vote would continue in most cases to be decided by a resolution of the holders of the listed company's equity shares, ie, holders of specified weighted voting rights shares will not be able to vote. However, founders and other shareholders who hold specified weighted voting rights shares would be able to exercise influence on the most strategic transactions that we propose would require shareholder approval, ie, reverse takeovers. Please see the table below for further detail.
- 5.44** In line with the above, we propose that votes to approve employee share schemes and long-term incentive plans, discounted option arrangements and share offers or placings at a discount of more than 10% without a pre-existing authority should also be reserved to the holders of shares in the listed class. We consider that these types of transactions have the potential to be economically damaging to ordinary/minority shareholders. As such, these decisions warrant requiring their approval by the shareholders of the commercial companies category listed class themselves and nobody else.
- 5.45** For similar reasons, we propose that purchases of 15% or more of any class of its own equity shares may be made by a listed company, other than by way of a tender offer, provided that the full terms of the share buy-back have been specifically approved by shareholders of the listed class.
- 5.46** Likewise, we propose that votes to approve cancellation of listing at the request of an issuer or transfer of listing to another category should be reserved to the shareholders of the listed class.
- 5.47** As mentioned above, an important proposed exception to this approach would be in relation to the approval of a reverse takeover. The other exceptions we are proposing would be in relation to the election and re-election of independent directors when there is a controlling shareholder. Holders of enhanced voting rights shares would be able to vote on these matters because the proposed controlling shareholder regime would already provide sufficient protection to holders of shares of the listed class by requiring a double majority (i.e., a majority of the shareholders of the listed company and of the independent shareholders of the listed company) to elect or re-elect independent directors.

**5.48** We consider that the outcome of our proposed package of rules is that founders and other shareholders who hold specified weighted voting rights shares would be able to exercise influence on most strategic matters affecting the future of an issuer.

**Table 3: Summary of proposals for use of enhanced voting right shares in commercial companies category**

Matters that are proposed to be subject to a shareholder vote under the UKLR	Are holders of specified weighted voting rights shares proposed to be able to exercise enhanced voting rights on this matter?
Approving the cancellation of listing of shares listed in the commercial companies category	No – reserved to a vote of the commercial companies listed class
Approving the transfer of shares listed in the commercial companies category to another category	No – reserved to a vote of the commercial companies listed class
Approving a reverse takeover	Yes, holders of specified weighted voting rights shares would be able to vote on the approval of a reverse takeover
Where a listed company has a controlling shareholder, the election or re-election of any independent director by shareholders	Yes, holders of specified weighted voting rights shares would be able to vote in line with current LR requirements, i.e., the election or re-election of any independent director by shareholders must be approved by both <ol style="list-style-type: none"> <li>1. the shareholders of the listed company; and</li> <li>2. the independent shareholders of the listed company</li> </ol>
Approval of employee share schemes, long-term incentive plans and discounted option arrangements	No – reserved to a vote of the commercial companies category listed class
Approval of open offers, placing, etc at a discount in excess of 10% to the middle market price of the shares	No – reserved to a vote of the commercial companies category listed class
Dealing in own securities and shares	No – reserved to a vote of the commercial companies category listed class

**5.49** Holders of specified weighted voting rights shares who are controlling shareholders would also be subject to the proposed requirements in relation to controlling shareholders (see paragraphs 5.11-5.21).

**Q6:** Do you agree with our proposals for allowing DCSS for companies listing shares in the commercial companies category and our approach to matters on which enhanced voting rights can be used? If you disagree, please explain or suggest alternative approaches?



## Chapter 6

# Commercial companies category – significant transactions

**6.1** This chapter discusses our approach in CP23/10 to significant transactions including the sponsor role and key feedback. We also set out our further proposals that would be contained in UKLR Chapter 7 as per the draft Handbook instrument in Appendix 1.

### Current approach and CP23/10 proposals

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**6.2** As discussed in CP23/10, our current rules for premium listing and standard listing categories for shares apply a very different approach in that we have a significant transactions regime in premium listing only. Issuers with a standard listing do not need to comply with these requirements, but they should still have regard to other areas of our rules that may apply such as under the DTR and MAR.

**6.3** For the new commercial companies category, in CP23/10 we proposed a significant transactions regime that carried over key aspects from premium listing for class 1 transactions (generally, transactions meeting the 25% threshold on the class tests).

**6.4** We proposed:

- to require notification of a class 1 transaction using the content currently required for the notification in premium listing
- where the class tests produce an anomalous result, to allow sponsors discretion to set alternative class tests without FCA involvement
- to retain the general scope of concepts such as non-ordinary course transactions and aggregation of transactions

**6.5** In contrast to current premium listing rules, we proposed removing the class 2 notification requirement for transactions between 5% and 25%.

**6.6** Our proposals also departed from the current premium listing requirements for class 1 transactions by not carrying forward the following key aspects:

- Requiring issuers to seek prior shareholder approval for a class 1 significant transaction.
- The associated obligations to produce an FCA-approved shareholder circular and to appoint a sponsor on the circular.
- Requiring issuers to seek sponsor guidance where they are proposing to enter into a potential class 1 significant transaction.



- 6.7** We asked whether stakeholders agreed with our proposed approach for the commercial companies category on significant transactions (Q7) and sought views on possible additional or alternative measures (to shareholder votes), such as further disclosure to support transparency or a mandatory delay between exchange and completion of a transaction to support shareholder engagement (Q8-9).
- 6.8** We also sought views on giving sponsors discretion to modify class tests without having to consult the FCA (Q10), and whether the sponsor's role should be expanded (Q11).

## Summary of feedback

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- 6.9** We received 76 formal responses on our significant transactions proposals which were from a diverse range of stakeholders.
- 6.10** Among those, we received a mix of high-level feedback on whether they agreed with our general position on the relevance of the shareholder vote to the attractiveness of UK listing and our proposal to remove it, and very detailed responses on either some or all of the specific questions that we asked. Many responses discussed the current regime and made alternative suggestions to our proposals. Responses were also quite nuanced in places rather than clear cut 'yes/no' answers. Some stakeholders responded directly as well as through their trade bodies.
- 6.11** In general, responses indicated support for our overarching objectives for the commercial companies category and, within that, our intention to modernise the significant transactions regime drew support from the sell-side and some on the buy-side.
- 6.12** However, there were still strongly divergent views on the impact (if any) the current significant transactions regime has on the attractiveness of a UK listing and the documented decline in UK listings, and whether (and, if so,) how to recalibrate the regime. This was particularly the case for the potential removal of the prior shareholder approval requirements for class 1 transactions and the protection that this approval is perceived to offer shareholders. Yet there was also recognition from a range of stakeholders of the need to reduce regulatory burdens for premium listed issuers, balanced by a proportionate focus on high quality and timely disclosure.
- 6.13** Noting the strength and divergence of views, this was an area (along with DCSS and related party transactions) where we also carried out extensive additional engagement through trade associations, investor groups, bilateral meetings (including with issuers and with advisors in the legal, accounting and sponsor communities) and discussions with groups of senior executives of buy and sell-side firms.
- 6.14** We highly valued these in-depth and open discussions with stakeholders. They allowed us to explore the substance and extent of concerns held by investors and asset managers on potentially losing a shareholder vote on significant transactions (versus premium listing rules), and how they addressed similar concerns when investing in markets where regulation does not impose such voting (whether for UK standard listed shares or shares listed in overseas markets). They also helped us understand advisors'

and issuers' experiences of these rules and the nature of the financial and opportunity costs to them, to weigh up all perspectives.

**6.15** Given the extent of feedback and these further discussions relating to significant transactions, we present this by 'sub-topic' below.

### **Feedback on proposed removal of shareholder vote and approval of a significant transaction (vs premium listing)**

**6.16** Those who invest in companies with a premium listing (including pension schemes and asset managers, plus their trade bodies) were strongly against the proposal to not require shareholder voting on a class 1 significant transaction under the new commercial companies category. Such views were also echoed by certain groups focused on corporate governance or stewardship matters in general on behalf of institutional investors. There were around 31 formal responses from these stakeholders, although some of those responding directly were also represented in trade body responses.

**6.17** Key points consistently expressed across nearly all of these responses included:

- Challenging whether the shareholder vote reduced the attractiveness of the UK as a listing venue, versus the potential benefit of having high standards that support investors.
- Concerns that, without the prospect of a shareholder vote, boards might commit UK listed companies to large deals that shareholders disagreed with.
- Concerns that shareholder voting offered all shareholders, including minority shareholders (institutional and retail), the opportunity to voice their concerns and ultimately block a transaction to preserve value and, without it, institutional shareholders would lose a vital stewardship tool.

**6.18** There was a general concern underlying such responses that this also denoted a 'race to the bottom' in regulatory standards and may reduce investor confidence, and that UK regulation should, in principle, preserve higher standards supporting investors. Some also noted that cross-jurisdictional comparisons of UK rules versus other markets were not necessarily useful given different legal and cultural factors may influence corporate behaviour or the ability and ease with which shareholders could seek redress against companies.

**6.19** Premium listed companies, most legal advisors and a sponsor firm, the sell-side trade bodies and UK market operators by contrast agreed with our CP23/10 proposals and the underlying rationale. Similar concerns were voiced by advisory panels to the FCA and academics. Twenty-one formal responses agreed with removing the shareholder vote.

**6.20** Many in the legal and broader advisory community (including sponsor firms) told us in the responses and our stakeholder engagement that they had direct experience of the significant transaction rules' impact on issuers, particularly on the ability of UK listed companies to compete in international merger and acquisition (M&A) activity. They considered that, without urgent reform, the current premium listing regime for significant transactions would contribute to a continued downwards trend in UK listings.

- 6.21** Other respondents (including some sponsor firms, reporting accountants and accountancy trade bodies) preferred to keep a shareholder vote at some threshold, focussing mainly on the shareholder protection it offered. There were 10 responses from this community.
- 6.22** Of those opposed to the removal of the shareholder vote, alternative ideas for reform were offered, including:
- Increasing the threshold at which the mandatory shareholder vote is required, although there was no consensus and where a specific figure was offered, it was either generally modest, such as moving from 25% to 33% or so high (50% or 75%) as to risk overlapping with the 'fundamental change' definition of a reverse takeover (discussed below).
  - Limiting disclosure to the matters most valued by investors (paring back class 1 circular requirements).
  - Giving more discretion to companies on how to present financial information and the wider impacts of the class 1 transaction on the company and removing the related third-party reporting and assurance requirements.
  - Reducing the roles played by the FCA and the sponsor.
- 6.23** In more technical feedback from a few law firms, who supported not requiring a shareholder vote, it was suggested that we should amend guidance in DTR 2.5.7G to ensure directors of listed companies could 'wall-cross' investors to seek their views on proposed transactions.
- 6.24** However, some on the buy-side objected in principle to large shareholders receiving information in advance of other shareholders and the prospect of this becoming more widespread if the shareholder vote were removed. They saw the shareholder vote as a fairer stewardship and engagement tool.

### ***Further engagement discussions***

- 6.25** As noted above, we undertook further discussion and engagement during and after the consultation period for CP23/10. This largely exposed the same buy-side and sell-side split of views.
- 6.26** UK buy-side firms and pension schemes reiterated their strong preference to have a vote on significant transactions under new rules, even if circular content requirements were reduced and sponsor or FCA involvement in approving a circular were no longer required. Some anecdotal examples were provided (including high profile aborted transactions by public companies) where it was felt that the prospect of a shareholder vote had (or may have) encouraged a company to walk away from a deal that shareholders disagreed with. There were also concerns company boards might be too insulated from shareholder views or have slightly different (personal) incentives that may not fully align with shareholders, so it could not be assumed boards would always act in shareholders' best interests.
- 6.27** However, sell-side views were equally strong in expressing the negative impacts for UK listed issuers. Many pointed to their experience of UK listed issuers being screened out from being short-listed on competitive M&A auction processes due to the contingency

risk of requiring prior shareholder approval. This was despite the fact the vote is usually carried. To address this contingency, companies were having to pay a material premium over other bidders to be considered and also pressured to agree high break-fees. These impacts would be felt no matter what transaction size-threshold was set for requiring a shareholder vote.

- 6.28** We sought to explore further with investors how the strong desire to include a shareholder vote in the listing rules reconciled with the fact they also allocate significant assets to overseas equity markets, where market regulations do not mandate such votes. Investors recognised that they do already accept this risk when investing in overseas-listed companies.
- 6.29** When we asked how they gain comfort making investments without these voting requirements, responses varied. Some noted they would consider the overall business strategy, corporate governance, and relationship with an issuer's management, by way of assessing the risk of a company undertaking a transaction without consulting shareholders that may put value at risk.
- 6.30** Furthermore, in the case of the US market, the threat of post-event litigation was viewed as deterring boards entering into poor value deals. While it offered an avenue to retrieve lost shareholder value, some noted that suing an issuer would be a last resort and they may be more likely to disinvest. Litigation is uncommon in the UK market, by contrast, partly due to cultural and legal differences.
- 6.31** No further examples of how this risk is mitigated were provided. We did not hear evidence to suggest that, by providing for a shareholder vote, investors were more willing to invest in or pay a premium for UK premium listed companies. Instead, we typically heard that the markets regulation in a specific jurisdiction was unlikely to impact investors' active investment decisions versus a fundamental view of a company and its prospects.
- 6.32** We also sought to explore other mechanisms by which shareholders could engage issuers in lieu of a shareholder vote.
- 6.33** While buy-side views remained sceptical that this would be as effective as a vote, there was acknowledgement that large investors, in particular, would already expect to have regular engagement with an issuer's management and may also be wall-crossed in advance of a major transaction. These larger investors were therefore of the view that the votes were less important as they felt that the issuer's management would seek their approval through this route.
- 6.34** Many of the buy-side participants agreed that effective board engagement was a key piece in stewardship, and there would be levers for ex post sanction by removing board members or disinvesting, albeit if a transaction had resulted in share price depreciation post-event, this risked crystallising poorer returns on capital.
- 6.35** Engagement with senior buy-side representatives in roundtables indicated that some – but not all – felt that these levers provided sufficient safeguards and mechanisms for ensuring that investors can exercise influence in relation to transactions and that company boards had an incentive to keep (particularly larger) shareholders informed.

- 6.36** Some felt key disclosure on transactions would still support market integrity and ensure boards were accountable (since investors and markets would analyse and react to such information), provided the level of disclosure did not reintroduce significant delay and burden on issuers pre-transaction (see below).

## Feedback on other elements of the significant transaction proposals

### *A 'class 1' notification regime for significant transactions*

- 6.37** This aspect of our proposals drew most comments from those that supported removing the shareholder vote. These respondents generally supported a disclosure framework for providing information to the market at the current 'class 1' threshold for the commercial companies category.
- 6.38** However, some felt it was unnecessary as they viewed disclosures under the DTR and MAR as sufficient. This view was shared among advisors to both premium listed companies and standard-listed companies who were concerned about the additional regulatory burden and associated complexity and costs for those who are not currently premium listed.
- 6.39** There was some agreement between respondents that the current premium listing content for a class 2 notification may be insufficient for a class 1 transaction.
- 6.40** There was very little focus on whether to keep the current premium listing notification requirements for class 2 transactions (those between 5% and 25% in size) although a small number preferred to keep them.
- 6.41** In terms of the nature of the information to be disclosed to the market in notifications, there was support for requiring issuers to continue to disclose, on a timely basis, financial information on a transaction, including forward looking and pro forma financial information. This would enable market participants to understand the anticipated impact of the transaction on the listed company.
- 6.42** Respondents addressing this point felt that the rules should, however, permit more flexibility to issuers on how they present that information. There was agreement from some buy-side and sell-side respondents that the current prescriptive requirements in LRs about historical financial information, pro forma financial information and working capital statements went too far. They typically created difficult, time-consuming and costly workstreams that necessitated extensive (and duplicative) advisory work by reporting accountants and sponsors, without a commensurate benefit for shareholders or wider market transparency.
- 6.43** From our broader stakeholder engagement, there were also different views as to whether disclosure of specific financial information should be prescribed in our rules, or whether it should be left for market practice to develop. Some stakeholders shared a view that companies would not tend to 'under-disclose', even without specific requirements in the listing rules, due to market expectations and scrutiny of the board. Others preferred clear rules to provide certainty and standardisation.

### ***Mandatory period of delay between announcement and completion***

- 6.44** There was little support for imposing a mandatory period of delay between the notification and completion of a significant transaction. Many noted it would be unworkable in practice.

### ***Sponsor role on significant transactions***

- 6.45** Those who responded on our questions about the sponsor role had different views on whether the issuer should have discretion on when to seek sponsor guidance. The sell-side including some legal advisors and a sponsor firm generally supported allowing issuers more discretion. The buy-side, some other sponsor firms and the accounting community preferred the appointment to be mandatory. (The weight of opinion was that the same approach should be taken for significant transactions and related party transactions.)
- 6.46** However, they all generally disagreed with our proposal for expanding the sponsor's role or giving sponsors discretion to modify the class tests, including substituting class tests, as it would result in divergent outcomes and encourage issuers to 'shop around' until they got their preferred answer. These respondents felt that the FCA should remain the arbiter on whether and how the class tests should be modified to ensure consistent outcomes and a level playing field among sponsors (and in some cases to avoid conflicts of interest). Even those who agreed with our proposal felt that it would require the FCA to issue more guidance and sponsors might prefer to consult with the FCA in any event.

## **Proposals**

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### **Our response to feedback and preferred approach**

- 6.47** Having carefully considered the range of feedback on our CP23/10 proposals and further engagement discussions, our proposed approach to significant transactions for commercial companies remains a disclosure-based regime for transactions at the current class 1 threshold (25%), broadly as we consulted on in CP23/10, with some further refinements.
- 6.48** In chapter 7 of the draft UKLR text in Appendix 1 we refer to these transactions as 'significant transactions' although we continue to use the familiar 'class 1' terminology in this chapter to help stakeholders consider our proposals against current premium listing requirements.
- 6.49** In particular, to support engagement between the company and its shareholders and to enhance market transparency, we are proposing to include as part of notification requirements for these transactions some of the more detailed information included in current class 1 circular disclosures.

- 6.50** We continue to consider, on balance, that the proposed commercial companies category rules should not require prior shareholder approval for significant transactions (except for reverse takeovers, which we discuss separately below). We are also not proposing to carry forward specific notifications for class 2 transactions.
- 6.51** In developing these proposals, we reflected carefully on the different views offered. In particular on the strength of objections and concerns among the investor community on removing a mandatory shareholder vote on class 1 transactions, versus the counterview that it is disproportionate, adds costs and impediments to deal making by UK listed issuers, and impacts the attractiveness of listing in the UK.
- 6.52** While we recognise the importance some investors ascribe to the vote, we were not persuaded that, in the absence of a vote mandated by our rules, UK listed company boards would routinely pursue significant size transactions without seeking to engage their shareholders. Nor was it apparent that boards' assessments of such deals, without the scrutiny of a shareholder vote, would necessarily lead to more loss-making transactions versus value-adding ones.
- 6.53** At the same time, we are conscious that large transactions do have commensurate risks attached and we have noted some anecdotal examples of companies ceasing to pursue deals due to shareholder feedback.
- 6.54** We have sought to design an enhanced notification proposal that would ensure companies have to be transparent on the key information that has informed their assessment of a deal, which will incentivise boards to make robust assessments and give shareholders (and the broader market) information to inform their ongoing investment decisions and engagement with a company's management.
- 6.55** We have also taken into account the fact that, despite investors and asset managers citing a strong desire for large transactions to require prior shareholder approval in our rules, they continue to invest in companies in other markets without such 'safeguards'. Higher standards in the UK are not manifested in any observable benefit in terms of valuation or 'overweight' investment into UK equities.
- 6.56** By contrast, based on submissions and examples received, we were more convinced that the contingency created by a shareholder vote does result in UK companies paying a premium when participating in competitive M&A and, in some cases, precludes UK listed issuers even being considered as bidders. We also consider that shareholders have various other tools available to them to challenge and influence boards. This includes shareholder meetings required by law and, for UK incorporated companies, the ability for shareholders with cumulative holdings of 5% or more to requisition a general meeting. Shareholders can also ultimately remove directors or disinvest.
- 6.57** Our proposed changes do not reduce the standards we expect of companies and their boards as set out in our UKLR Listing Principles.



- 6.58** The general high standards of corporate governance in the UK, whereby premium listed companies apply the Principles of the UK CGC (and disclose in their annual financial report where and why they depart from any UK CGC Provisions) should promote effective boards that are focused on shareholder value and engaging with shareholders and wider stakeholders.
- 6.59** We also consider that existing initiatives such as the Stewardship Code or further market-based initiatives could be harnessed to ensure good practice in company engagement with shareholders in relation to prospective large transactions, without mandating votes in our listing rules.
- 6.60** By focusing on disclosure via notifications, company boards would have more latitude to execute their strategy – including M&A activity – and enable UK listed issuers to be more competitive and agile in exploring such opportunities. It would remove both the burden and time cost involved in the circular and shareholder vote, and the contingency it creates for a significant transaction, which has a demonstrable opportunity and deal cost for UK companies (and by extension, shareholders).
- 6.61** Overall, we consider that our proposed disclosure requirements for the commercial companies category should still ensure company boards carry out due diligence and are accountable to shareholders for large transactions, and seek professional advice where appropriate, without imposing a vote (to obtain prior shareholder approval) that has a number of adverse effects for an issuer's ability to pursue transactions and the wider attractiveness of a UK Listing.

## Detailed proposals for a disclosure-based regime

### *Enhanced disclosure in the class 1 transaction notification*

- 6.62** We are proposing a disclosure-based regime that includes the information that we consulted on in CP23/10 but with some further refinements and enhanced disclosures. In developing this approach, we have considered which information from a class 1 circular (as currently prescribed in LR 13) should be retained and moved across to the UKLR requirements for a notification on a significant transaction. We considered views expressed on the usefulness of the existing information from the CP23/10 responses and our wider engagement.
- 6.63** In general, we have sought to ensure that the most useful information is carried over from our current premium listing disclosure requirements for class 1 circulars, which a company's board would inevitably consider in deciding whether to agree to a transaction. Such disclosure should ensure an investor has clear understanding of why the board has decided to proceed with a transaction.
- 6.64** We have sought to remove disclosure elements that indirectly dictate how companies conduct due diligence and/or result in information being compiled purely to meet our rules, rather than reflecting information both boards and investors would naturally consider in assessing the merits of a transaction. These proposed enhanced disclosure requirements don't override an issuer's disclosure obligations under MAR. At the same time, we do not intend for enhanced notifications to create additional material costs or



significant delays to issuers providing the additional information to shareholders once a transaction has been agreed. We welcome feedback on whether content proposed below will create any timing concerns.

**6.65** Based on the above rationale, we propose class 1 transaction notifications to contain:

- An enhanced form of the basic information required in premium listing rules for the notification of class 2 transactions (LR 10.4.1R) setting out, among other things, details of any break fee arrangements, the effect of the transaction on the listed company including any benefits which are expected to accrue to the company, and any risks to the company, as a result of the transaction and a statement by the board that the transaction is, in the board's opinion, in the best interests of security holders as a whole.
- Certain elements of the financial information required for class 1 circulars (LR 13.5) and a subset of the items included in the Table in LR 13 Annex 1. This includes the historical financial information on the target and the rules governing minimum standards around it. When financial information is not available, or is not available to the standard required, we propose that the issuer should provide an explanation of how they have arrived at the price agreed for the acquisition or disposal and a statement by the board that it considers the consideration to be fair as far as the security holders of the company are concerned.
- Some aspects of the class 1 circular requirements from LR 13.4, including a statement of the effect of the transaction on the group's earnings and assets and liabilities (LR13.4.1R(5)).

**6.66** These disclosure requirements would be supported by an overarching obligation on the issuer to include any other relevant circumstances or information necessary to provide an understanding of, or enable the shareholders to assess, the terms of the transaction and its impact on the listed company.

**6.67** Our proposed approach differs materially from the disclosures currently required in a class 1 circular:

- a.** If available, audited financial information would have to cover a period of 2-years (instead of 3) up to the end of the latest financial period for which the target or its parent has prepared audited accounts.
- b.** For an acquisition, the listed company would not be required to present relevant financial information in a form that is consistent with the accounting policies adopted in its own latest annual consolidated accounts, or, if the target is a publicly traded company (or to be accounted for using the equity method), provide a reconciliation of the financial information. Currently, reporting accountants must be engaged to provide an opinion, on that financial information. We propose to no longer require these third-party opinions in any scenario.
- c.** We would not require a working capital statement.
- d.** We would not require pro forma financial information to be published to prospectus standards. But clear disclosures would be required explaining:
  - i.** the sources of any unadjusted financial information that it discloses in the notification, and
  - ii.** the basis upon which the pro forma financial information is prepared

- 6.68** These changes would mean that financial information published in connection with notifications will no longer be subject to mandatory third-party scrutiny. Accordingly, the role of advisers in the preparation of financial information for a notification for a significant transaction (or a circular for reverse takeovers) would be at the discretion of the issuer.
- 6.69** We are not proposing to include requirements relating to profit forecasts and profit estimates (currently LR 13.5.32R to LR 13.5.34G). Currently, the issuer's advisors will often have to track statements made by the directors of the company or by representatives of the target or one of its large subsidiaries. We consider that requiring this would not help markets evaluate the terms of a transaction. However, we do propose to include the current synergy benefits requirements in LR 13.5.9AR in the enhanced announcement requirements, where such information is included.

### ***Clarifying the scope of transactions subject to significant transaction rules and other consequential changes***

- 6.70** To ensure that our rules are clearer and proportionate in line with a disclosure-based regime, we are also proposing the following approach in the commercial companies category significant transactions chapter:
- New guidance on whether a transaction is to be assessed as within or outside of the issuer's ordinary course of business – we are proposing to clarify that, for example, transactions that are undertaken to support the existing business may be ordinary course even if not regularly undertaken as part of the day-to-day business activities (see further below).
  - Simplification of the 'aggregation' rules (see further below).
  - Removal of provisions that become less meaningful (or even redundant) in a disclosure-based regime without a shareholder vote – this would include the current process in LR10.8 for class 1 disposals by companies in severe financial difficulty', whereby the FCA may agree to waive the shareholder circular and voting requirements where the company has no alternative but to dispose of a substantial part of its business within a short time frame.
  - Relocation of certain Technical Note guidance into the Handbook (on class testing joint venture arrangements for example).
  - Organisational and other drafting improvements versus current premium listing rules to remove complexities caused by rules having evolved over many years.
- 6.71** In developing our proposed new guidance on 'ordinary course of business' we considered whether the examples provided could be better aligned with accounting concepts, to be clearer and to ensure consistent outcomes. For example, whether a limited range of specific accounting treatments should have been applied to the item being disposed or will be applied to the item being acquired to evidence the transaction being within the ordinary course of business. We have not included this in the draft UKLR instrument as we would first be interested in stakeholders' views on this and, if supported, whether it would be better addressed via further rules or guidance.

**6.72** We are proposing amendments to the existing 'aggregation' requirements as a consequence of the proposal to remove the shareholder vote in favour of a new notification regime, and in order to support transparency but in a proportionate manner with clear rules. These changes aim to promote consistency in disclosure, for example where a series of smaller transactions have enlarged an acquisition over time, comprise a significant transaction in their own right (taken together) or created a significant new business activity for the issuer.

### **Role of sponsors on significant transactions**

**6.73** We are proposing to remove the mandatory sponsor appointment more broadly from the transaction process. Based on the proposed approach of enhanced notification requirements for transactions, but no longer requiring circulars and a shareholder vote to obtain approval, we do not propose to require sponsor involvement in producing such disclosures nor to generally require issuers to appoint a sponsor to provide guidance on UKLR, DTR or MAR where a transaction may be a significant transaction.

**6.74** This is consistent with our existing approach to transactions that require notification but do not require shareholder approval in the current premium listing regime nor for the FCA to approve a related document (class 2 transactions).

**6.75** As a consequential change, we would not carry over the 'sponsor declaration on the production of a circular' in relation to significant transactions as it will no longer be relevant. We discuss sponsor declarations more broadly in Chapter 17.

**6.76** Nonetheless, issuers may still choose to seek guidance from a sponsor firm (in a non-sponsor service capacity) and we encourage issuers to consider this where the firm's expertise may support them in meeting our rules. From a sponsor perspective, such advisory roles may also contribute to relevant experience we would consider as part of our proposed sponsor competency changes (see Chapter 18).

**6.77** However, we are proposing that an issuer must appoint a sponsor when it seeks individual guidance under SUP 9 in relation to a significant transaction or requests an FCA waiver or modification of the UKLR requirements for significant transactions, including on the class tests.

**6.78** This maintains current practice when a sponsor writes to us on behalf of a premium-listed issuer undertaking a class 1 transaction. It ensures the FCA is liaising with an expert on our rules and any guidance, or waiver or modification, that we issue.

**6.79** The proposed approach would also carry over the FCA's ability to require an issuer to appoint a sponsor, where there is or may be a breach of the UKLR, consistent with the current premium listing rules.

**6.80** We expect that the proposed changes will result in fewer occasions where a sponsor is appointed after the issuer has been admitted to listing. They focus the sponsor involvement where it offers most value to the issuer on significant transactions and produces consistent outcomes supporting transparency.

- Q7:** Do you agree with our proposed approach towards a significant transactions regime for the commercial companies category? Please provide any alternative views.
- Q8:** Do you agree with our proposed enhanced disclosures regime for significant transactions? If you disagree, what changes do you consider we should make and why?
- Q9:** Do you agree with changes we are proposing to clarify the scope of significant transactions and simplify our requirements, including our proposed 'ordinary course of business' guidance and revised aggregation rules? If not, please explain the areas you disagree with.
- Q10:** Do you consider that the meaning of 'ordinary course of business' can be evidenced by the existing or proposed accounting treatment of the matters that are the subject of the transaction? Please provide your reasons, if applicable.
- Q11:** Do you agree with our proposed approach to when companies should be required to appoint a sponsor on significant transactions (ie, limited to where issuers apply to the FCA to seek individual guidance, waivers or modifications)?

## Chapter 7

# Commercial companies category – transactions undertaken by companies facing financial difficulty

- 7.1** In CP23/10 we said that we would include our proposals for transactions undertaken by a company facing financial difficulty, whether a reconstruction or refinancing, or a class 1 significant transaction, in this consultation paper. This chapter discusses those proposals in the context of a reconstruction or refinancing, or a significant transaction. The rules for related party transactions may also be relevant – we discuss related party transactions in Chapter 9.
- 7.2** Where the transaction would be a significant transaction (that is based on the current class 1 threshold) under UKLR commercial companies category rules, these proposals would be contained in UKLR 7 as per the draft Handbook instrument in Appendix 1. There are no specific provisions for reconstructions and refinancings in the draft instrument as we are proposing not to carry over the requirements in current LR 9.5.12R.

## Current approach

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- 7.3** Under current premium listing requirements, a company undertaking a transaction because of existing or anticipated financial difficulty would need to have regard to our rules for:
- a reconstruction or refinancing transaction (LR 9.5.12R) where the proposals to be put to shareholders in a general meeting have been included in a shareholder circular; and
  - a significant transaction (LR 10), which might include a large disposal for example, and could also include a reconstruction or refinancing, and requires prior shareholder approval with a circular under the listing rules if class 1.
- 7.4** In both scenarios our rules require that the shareholder circular includes a working capital statement. This is a binary statement, following the approach in the Prospectus Regulation, confirming whether in the company's opinion it has sufficient working capital for its present requirements (usually stated to be for at least the next 12 months) taking the transaction into account or, if not, how it proposes to provide the additional working capital needed.
- 7.5** Currently the FCA will vet the circular and require a sponsor to be appointed on it and to provide a sponsor declaration to us.

## Summary of feedback

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- 7.6** Although we did not ask specific questions on this area in CP23/10, we did receive some important feedback on our working capital statement requirements from advisors including law firms and sponsor firms during our stakeholder engagement.
- 7.7** These advisors provided some strong views that these requirements are disproportionate, have unintended consequences, and may have limited utility even in the context of a company undertaking a transaction in financial distress.
- 7.8** Given the backdrop of UK insolvency and companies legislation, which places certain restraints on issuers and their directors (as well as director fiduciary duties), they questioned the incremental value of the working capital exercise necessitated by the listing rules but not otherwise required for the circular at law.
- 7.9** They noted the significant amounts of additional work that must be carried out behind the scenes by the company and by its advisors to support the working capital statement in the circular. Further third-party workstreams flow from our obligation on the issuer to appoint a sponsor and the range of confirmations the sponsor must provide to the FCA, on working capital and other matters, before the FCA will approve the circular. This adds costs and delay to often time critical transactions but may not offer corresponding value.
- 7.10** Advisors also questioned the usefulness of the binary working capital statement. While transparency on cash flow concerns, for example, is highly relevant in the context of a transaction undertaken in financial distress, some considered that the binary statement does not necessarily, of itself, provide the level of contextual detail that shareholders and other market participants find useful in this scenario. In particular, the assumptions that support the confirmation of sufficiency of working capital are not disclosed. They told us the concession offered by the FCA to companies raising funds during the height of the COVID pandemic in 2020-21, which allowed them to provide fuller information, was welcomed by investors who found it helpful.
- 7.11** They also pointed to what they considered might be an unintended consequence of our working capital statement requirements. Extensive and conservative third-party analysis and testing of the board's assumptions underpinning the working capital statement can create a situation where almost any transaction for the purposes of working capital planning can force financially healthy companies to be required by their advisors to consider including a 'qualified' working capital statement in their shareholder circular that they disagreed with, where the transaction wasn't being undertaken to address a shortfall. This may be the case particularly for our working capital statement requirements for 'reconstructions or refinancings' under LR 9.5.12R.
- 7.12** This tension between the company and its advisors was highlighted in a response from a reporting accountant firm, who told us its experience was that issuers rarely identify themselves as being financially distressed until a working capital diligence exercise has commenced, and that issuers would not (without the involvement of a sponsor) consistently identify when a rescue or distressed acquisition or disposal was taking place. This firm also considered that the requirement for a working capital statement in

a circular would make companies more likely to adopt governance processes regarding their working capital position in advance of significant transactions, which could materially reduce the risk of corporate collapse.

## Proposals and response to feedback

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- 7.13** For significant transactions undertaken by a company facing financial difficulty, including a reconstruction or refinancing, we are proposing to apply the significant transaction regime set out in Chapter 6 with additional, enhanced disclosure requirements for the notification where it meets the specified size threshold (based on current class 1). Our proposed rules set out that such transactions would not be within the ordinary course of business. These additional disclosures are set out in the draft instrument for UKLR 7 in Appendix 1.
- 7.14** This is to ensure that the issuer is transparent about the company's financial position, including the nature and extent of the financial distress it is experiencing or anticipating, and the expected impact of the transaction on its prospects.
- 7.15** Prior shareholder approval of the transaction would not be required under the UKLR although it may still be required under applicable legislation, depending on the nature of the proposed transaction.

### Working capital statement

- 7.16** Having considered the feedback, we are not proposing to carry forward from premium listing an obligation to disclose a 'working capital statement' either within a class 1 significant transaction notification or a shareholder circular relating to a reconstruction or refinancing (where the circular is required otherwise than under the UKLR, such as under legislation).
- 7.17** We carefully considered whether to retain it but concluded that our proposed enhanced disclosures for companies facing financial difficulty should provide the relevant information to support transparency and shareholder engagement. If the company is undertaking the transaction because of an actual or anticipated working capital shortfall, the directors will know that to be the case and should disclose the relevant information under our proposed new rules.
- 7.18** We agree that requiring the company to incorporate within its transactional due diligence a separate 'working capital exercise' to meet disclosure obligations (which are based on requirements that serve a different purpose under the Prospectus Regulation) may in practice offer little incremental benefit.
- 7.19** The company and its directors would remain liable to meet its related obligations under legislation (such as UK insolvency legislation and section 90A FSMA, which creates liability for issuers in relation to publishing misleading statements), MAR and fiduciary duties. We also propose to carry forward the overarching obligation on the company (currently in LR1.3.3R) to take reasonable care to ensure that any information it notifies to a RIS or makes available through the FCA is not misleading, false or deceptive and does not omit

anything likely to affect the import of the information (this is in the draft instrument for UKLR 1 in Appendix 1). We consider these to be mitigating factors to potential disclosure risks that might arise from removing the mandatory working capital statement.

- 7.20** If the transaction continues to require prior shareholder approval other than under the listing rules (eg, under relevant legislation such as under the UK Companies Act 2006) and a circular is sent to shareholders, our broader requirements on the content of all shareholder circulars in LR 13.3.1R, which we are proposing to carry over into the commercial companies category, would still apply.

### **Related FCA vetting and approval processes, and sponsor role**

- 7.21** In light of our proposed changes and rationale, we also consider it unnecessary for the FCA to vet and approve a reconstruction and refinancing circular. We would propose not to carry over the requirements of LR 13.2.1R(4). Similarly, we propose to remove the requirement for the issuer to appoint a sponsor on the shareholder circular under LR 8.2.1R(3).

**Q12: Do you agree with our approach to transactions undertaken by companies facing financial difficulty for the commercial companies category and the amendments proposed versus current premium listing requirements? If not, please explain and suggest any alternative approach, as relevant.**



## Chapter 8

# Commercial companies category – reverse takeovers

- 8.1** This chapter describes our approach in CP23/10 to reverse takeover transactions, including the sponsor role, key feedback, and our detailed proposals for the new commercial companies category.

### Current approach and CP23/10 proposals

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- 8.2** A reverse takeover is a transaction where the listed company is acquiring a business of the same size or larger based on class tests or that in substance results in a fundamental change in the company's business or in a change in board or voting control of the company.
- 8.3** Under current standard and premium listing rules (LR 5.2.3G), the FCA will generally seek to cancel the issuer's listing on completion of the reverse takeover. Where the issuer (as enlarged by the acquisition) wants to apply for re-admission to listing, it will submit an eligibility letter and prospectus as a new applicant. If the FCA grants the application, the re-admission usually takes place immediately after the cancellation.
- 8.4** In CP23/10, we proposed to retain a similar approach to reverse takeovers as set out in the existing LR 5.6 requirements, including additional obligations as applied to premium listed issuers. This would retain a requirement to make a market notification, seek shareholder approval and prepare a circular that is approved by the FCA based on current class 1 circular content requirements. We also propose to retain the requirement for issuers to seek a sponsor's guidance where a transaction could be a reverse takeover, to guide the issuer on its obligations under the UKLR, DTR and MAR, and to appoint a sponsor to provide a declaration on the circular and any related prospectus produced to support the admission to listing of a new entity.
- 8.5** We considered it appropriate to retain these enhanced shareholder protections for reverse takeovers, in contrast to significant transactions below this level, given the relative size of the transaction and/or the fundamental change it would have on the company that shareholders had originally invested in. As is currently the case, following cancellation the company may apply to list the enlarged group, as part of which the FCA would carry out an eligibility review. This prevents so-called 'back door' listings that may otherwise avoid scrutiny, thus supporting market integrity.

### Summary of feedback

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- 8.6** While we did not ask an explicit question on reverse takeovers, overall, we received positive feedback on the high-level approach we set out. Five responses (two from law firms, two advisors and one trade body) specifically stated that they agreed with

retaining a shareholder vote and circulars for such transactions (which will often also require a prospectus) for the commercial companies category and the proposed sponsor role, while none explicitly opposed the approach.

- 8.7** It was also implicit in feedback from those (mainly buy-side) respondents that disagreed with removing a shareholder vote for significant transactions that they support requiring votes on reverse takeovers.

## **Response to feedback and proposals**

- 8.8** We are proposing that rules for the commercial companies category carry over the premium listing approach to reverse takeovers, broadly consistent with our CP23/10 proposals.
- 8.9** We set out the proposed key requirements below and indicate where we are proposing to depart from the current approach in premium listing. These departures either reflect our proposed change in approach to the range of information to be disclosed on the transaction (other than in any related prospectus) via the notification or shareholder circular, consistent with our approach to significant transactions (discussed above). Other proposed changes are broadly consequential or clarificatory.

## ***Notification and prior shareholder approval of the reverse takeover***

- 8.10** For an issuer undertaking a reverse takeover under the new commercial companies category rules, we are proposing that the company must:
- make a notification via a RIS as soon as possible after the terms of the reverse takeover are agreed (in addition to applicable DTR or MAR obligations) including some of the information required for a significant transaction notification, as set out in UKLR 7.5.1R
  - send an explanatory circular to its shareholders in accordance with the requirements in UKLR 10, which largely reflects the content required for notifications of significant transactions proposed in UKLR 7 which must be approved by the FCA subject to relevant sponsor declarations prior to circulation
  - where the reverse takeover also constitutes a related party transaction, we would require the notification and circular to also include the information required to be disclosed in the draft UKLR 8
  - obtain shareholder approval in general meeting for the transaction prior to completion
- 8.11** The specific circular content we are proposing aims to ensure consistency between the content of the notification and that of the circular. This is designed to allow more time to ensure the reliability and completeness of the disclosures in the circular to support voting decisions at a later stage. In effect, it takes a modular approach by combining the requirements for a significant transaction notification with additional general circular content requirements in the current LR13.3, and certain disclosure currently required by LR13.4 and LR13 Annex 1.

### ***Cancellation of listing and re-admission with a prospectus***

- 8.12** We are proposing to carry over a presumption that the FCA will seek to cancel the listing of a company's shares in the commercial companies category when it completes a reverse takeover. The issuer will need to make a new application for admission to listing, with an FCA-approved prospectus, if it wants to list the enlarged group. This effectively prevents the larger, non-listed target company gaining a listing 'by the back door' without having undergone an FCA eligibility review. Re-admission will also trigger a requirement for a new prospectus for the newly enlarged group.
- 8.13** We would also carry over the modified approach whereby if the listed company is acquiring a company that is itself already listed in the same category (the commercial companies category in this case), we would not generally seek to cancel the listing.

### ***Role of sponsor on reverse takeovers***

- 8.14** We are proposing to carry over the existing premium listing sponsor roles on a reverse takeover transaction and re-admission to listing (if applicable) substantially unchanged. This is consistent with our continued application of the sponsor regime at the gateway for new commercial companies category applicants.
- 8.15** Under these proposals the company would be required to:
- obtain the guidance of a sponsor on the application of the UKLR, DTR and MAR to the proposed reverse takeover
  - appoint a sponsor in relation to the production of the shareholder circular and, if applicable, the prospectus, and the eligibility submission for the admission of the shares of the enlarged group to the commercial companies category (similar to LR8.2.1R), and
  - engage with the sponsor in relation to the assurances that the sponsor would be required to provide to the FCA before the FCA will approve the shareholder circular and, as applicable the prospectus, eligibility submission and listing application
- 8.16** Given the significance of a reverse takeover to the issuer and its shareholders, we consider it proportionate that the sponsor continues to guide the issuer on its obligations. The sponsor also provides important assurances to the FCA on a range of matters that we take into account in deciding whether to approve the circular and, if applicable, the prospectus and new admission of the enlarged group to listing.

**Q13:** Do you agree with our proposed approach to reverse takeovers in the commercial companies category, including requiring a sponsor and FCA approval of a circular? If not, please explain what you disagree with and why, if relevant.

**Q14:** Do you agree with our proposed changes to the information to be included in the reverse takeover shareholder circular? Please explain your views and suggest an alternative approach if you disagree.

## Chapter 9

# Commercial companies category – related party transactions

- 9.1** This chapter discusses our approach in CP23/10 to related party transactions, key feedback and sets out our further proposals. These would be set out in UKLR 8 chapter as per the draft Handbook instrument in Appendix 1.

## Current approach and CP23/10 proposals

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- 9.2** For the commercial companies category we proposed an approach to related party transactions in CP23/10 that took some but not all elements from our current premium listing rules. Specifically, we proposed for related party transactions with a percentage ratio of 5% or more based on class tests, excluding transactions in the ordinary course of business:
- A board process that excluded a conflicted director from board discussions and approval of a transaction.
  - Market notification of key details of the transaction.
  - A public statement from the board that they have concluded that the transaction is 'fair and reasonable' with public confirmation from a sponsor.
  - An issuer should seek sponsor guidance when proposing to enter into a transaction which is or may be an related party transaction.
- 9.3** As with significant transactions, we did not propose to carry forward current premium listing requirements for related party transactions  $\geq 5\%$  to be subject to shareholder approval (for related party transactions, in premium listing there are also restrictions on the related party or its associate taking part in the shareholder vote that would not be carried forward). Again, this also removed the circular and sponsor requirements which support the shareholder vote. We also proposed to remove market notification and a sponsor fair and reasonable opinion for smaller related party transactions ( $\geq 0.25\%$  but  $< 5\%$  based on class tests).
- 9.4** We asked the same questions on related party transactions as for significant transactions (Q12 to Q16), with an additional question on whether we should consider any broader, alternative mechanisms to support shareholders (Q16).

## Summary of feedback

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- 9.5** We received around 64 formal responses on our related party transaction proposals, mainly from the same stakeholders who responded on significant transactions. Again, there was particular overlap on the buy-side responses as many in the pensions industry, and other asset managers, replied directly and through their trade bodies. Some discussed the proposals more broadly than provide specific responses to our questions.

- 9.6** The proposed removal of the requirement for shareholder approval for related party transactions was again the most contentious issue for some investors in premium-listed companies, even with the proposed retention of an independent assessment of the transaction being 'fair and reasonable' by a sponsor firm answerable to the FCA. These objections were typically based on the same arguments as made around significant transactions but noting the additional conflict of interest risk inherent in related party transactions. A trade body expressed a lack of faith in the sponsor role as the firm was being paid by the company undertaking the transaction.
- 9.7** However, there were some dissenting views on the buy-side, from an asset manager and a trade body, who felt the shareholder vote offered minimal incremental value over and above the sponsor's fair and reasonable confirmation (which was valued), or that the threshold for a vote was set too low.
- 9.8** More nuanced views emerged from our stakeholder engagement with the investor community (as discussed further below). Some were less concerned about related party transactions than they were about a significant transaction that they disagreed with or was unanticipated. This was because related party transactions were noted as being less common, generally of lower value, and investors would likely know the identity of the main related parties already e.g., companies with well-known controlling shareholders or links to other entities.
- 9.9** The responses offered different views on the impact our rules had on a company's decision to even pursue or enter into a related party transaction, and whether they were taken into account in a company's listing decision. While some on the buy-side considered the prospect of a shareholder vote filtered out bad deals, other stakeholders said that overly burdensome regulation simply deterred deal making and was off-putting to companies.
- 9.10** There was a concern raised by some on both the buy-side and the sell-side that the removal of the shareholder vote on related party transactions in conjunction with a proposed relaxation in our current premium listing restrictions on controlling shareholders and DCSS might pose new risks to shareholders. They suggested a shareholder vote may still be warranted in narrow circumstances.
- 9.11** There was a broader consensus that too many related party transactions are caught by the current LR requirements, mainly because the threshold for a notification or shareholder approval is set too low. It was also noted that the current LR definition of a 'substantial shareholder' made it difficult for listed companies to transact on an arm's length basis with unconnected counterparties where an institutional investor holds a (significant) stake in multiple issuers, even where that investor does not seek to actively influence the day-to-day running of the investee companies.
- 9.12** It was also noted that the current rules were born in an era of less complex corporate structures and had not kept pace, thus catching more transactions where there was no real conflict of interest or risk of transacting on terms that were not on an arm's length basis.

- 9.13** Similar comments were also made, as per the feedback on significant transactions, that the 'ordinary course of business' exemption was unclear and too narrow and brought too many transactions within scope.
- 9.14** Other feedback focussed on the existence of two related party transaction regimes, in the listing rules and DTR 7.3, covering broadly the same transactions but with different disclosures and governance requirements around 'fair and reasonable' considerations. Some considered DTR 7.3 sufficient and more aligned with other European jurisdictions, and that having two regimes was unhelpful and unnecessarily complex and onerous. It was also noted that, if the new commercial companies category attracted more smaller issuers, those companies may be both more likely to enter into related party transactions and hit a 5% class test threshold due to a lower market capitalisation, so proportionality should be considered.
- 9.15** Others who valued the LR approach to 'fair and reasonable' including some sponsors and others in the professional advisory community, suggested we simplify our rules by replacing the LR definition of a related party transaction with the IFRS definition used in DTR 7.3, or in other equivalent accounting standards used by overseas issuers.
- 9.16** Different views were offered on whether it should be mandatory to seek a sponsor's guidance on the application of the LR, DTR and MAR on any transaction that may be a related party transaction under the listing rules.
- 9.17** There was a similar split between the buy-side and the sell-side, with investors preferring a more cautious approach (albeit some felt this should only apply at the 5% threshold or in borderline cases). Others on the sell-side considered that issuers should have the discretion in line with the proposals for significant transactions. Law firms and sponsors didn't generally consider that the risk profiles of related party transactions and significant transactions warranted a different approach to the sponsor guidance role.
- 9.18** Those who supported a more radical scaling back of the current premium listing requirements reiterated that the sponsor role is most valued at the gateway (new applicants and reverse takeovers) and there shouldn't be a formal sponsor service on related party transactions, including the delivery of a fair and reasonable opinion.
- 9.19** Others suggested that robust internal governance standards could be sufficient, relying on audit committee oversight of any proposed related party transactions. Other FCA-approved financial advisors would also have the expertise to provide an independent, third-party fair and reasonable confirmation.

### **Wider engagement feedback**

- 9.20** In engagement alongside CP23/10, both buy-side and sell-side views became more moderated and nuanced on related party transactions.
- 9.21** Some sell-side perspectives felt a shareholder vote on related party transactions, at a slightly higher threshold and focused on situations involving a controlling shareholder, might be a reasonable protection while not unduly constraining issuers. Related party transactions are infrequent and, due to the related party link, likely less time-sensitive versus a significant transaction undertaken in a genuinely competitive process.

- 9.22** Likewise, some buy-side investors felt a shareholder vote may be less imperative in a related party situation, partly due to the 'fair and reasonable' opinion from a sponsor and also because, in general, it was more 'visible' to prospective investors where a controlling shareholder was present and so related party transactions may be more likely.
- 9.23** There was also a view that, in the UK, corporate structures with related parties creating controlling stakes via complex subsidiary structures were perhaps less common than in some other jurisdictions and, as such, so were instances of related party transactions. This differed to some of the views provided in written responses.
- 9.24** Market expectations, combined with companies having to report annually on their compliance with the FRC's UK CGC, also place an onus on high standards in corporate governance arrangements and the internal management of conflicts of interest. This reflected feedback in the responses (discussing the role of the audit committee).

## Proposals and response to feedback

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### Response to feedback

- 9.25** Taking into account the range of feedback on our CP23/10 proposals, our proposed approach to the inclusion of a related party transactions regime in the commercial companies category remains a disclosure-based regime with additional governance requirements and a sponsor's 'fair and reasonable' confirmation as we consulted on in CP23/10. We are not proposing to require a shareholder vote.
- 9.26** We consider these proposals offer the right balance, to continue to support engagement between the company and its shareholders and to enhance market transparency. As with current premium listing, our proposed rules are also intended to be safeguards that prevent a related party taking advantage of its position or a perception of it having done so.
- 9.27** We reflected carefully on the feedback from the investor and asset management community who, as with significant transactions, were mainly against removing the (premium listing) obligation on companies to obtain prior shareholder approval of related party transactions at the 5% threshold. However, while some saw risks to shareholder value if the vote were removed, many recognised these were relatively rare events and may be more readily anticipated eg, where company has a controlling shareholder.
- 9.28** In addition, a few within the investor community were not as concerned about the removal of the votes on a similar basis as for significant transactions. As a large shareholder they would expect to have engagement with the company ahead of any major transaction and their views would be incorporated into the final decision. Within these groups, the retention of the sponsor's 'fair and reasonable' opinion was supported as the appropriate level of shareholder protection.



**9.29** While we received strong feedback from some investors on the potential risks of our proposals, we noted a spectrum of views about the significance of these risks. We did carefully consider whether, for example, it would be proportionate to include a shareholder vote in the very narrow circumstances where the counterparty or beneficiary is a controlling shareholder and only for higher value transactions (eg, such as 10% or aligning to the 25% class 1 threshold).

**9.30** On balance, we decided not to propose this alternative since votes would be highly infrequent at this level, limiting any benefit to investors, while adding complex rules that may be perceived as a friction by issuers even if highly unlikely to occur. Instead, we continue to consider that disclosure, accompanied by the sponsor role in assessing whether a transaction is fair and reasonable, with appropriate scrutiny by a company's board, could sufficiently inform investors and mitigate risks from related party transactions.

### **Detailed proposals for related party transactions in the commercial companies category**

**9.31** We are proposing for issuers in the commercial companies category that the following requirements apply where a transaction involves a related party and meets the 5% threshold on the class tests (excluding transactions in the ordinary course of business):

- The board is required to approve a transaction, excluding any conflicted directors from taking part.
- The company is required to make a timely notification on the transaction (as soon as possible once terms are agreed) based on content set out in our rules.
- The board is required to state publicly (in the notification rather than a shareholder circular) that the transaction is 'fair and reasonable' as far as its security holders are concerned, and that it has obtained written confirmation from a sponsor that the transaction is 'fair and reasonable'.

**9.32** We detail these requirements, including content of notifications, in the draft new UKLR 8 chapter (see Appendix 1). We also propose that the related party requirements in DTR 7.3 will not apply to companies listed in the commercial companies category, addressing feedback that requiring issuers to be subject to two separate related party regimes in the LR and DTR is overly complex.

**9.33** The key differences we are proposing to the current premium listing related party transaction rules are to:

- a.** remove the mandatory shareholder vote (and related FCA-approved shareholder circular) for related party transactions at the 5% threshold, and
- b.** not require any specific notification or a fair and reasonable opinion from a sponsor for proposed related party transactions below the 5% threshold (although companies should still continue to consider their MAR or other disclosure obligations in relation to these transactions).

**9.34** We are also proposing to depart from the proposal that we consulted on in CP23/10, that an issuer must obtain the guidance of a sponsor on its LR, DTR or MAR obligations



when it proposes to enter into a transaction that 'may be a related party transaction' (as per LR 8.2.3R). We agreed with the feedback that the issuer should be afforded the same discretion to seek expert advice as per our proposals for significant transactions and that this approach is proportionate.

- 9.35** We are therefore proposing that the appointment of a sponsor by an issuer, other than for a fair and reasonable opinion, should only be required if the issuer wants to seek individual guidance from the FCA on our requirements in UKLR, DTR or MAR for related party transactions or to seek a waiver, modification or substitution of the provisions of UKLR that apply to related party transactions, including the class tests (following the same approach as for significant transactions discussed above). (As a consequence, in the draft UKLR instrument, we have removed the sponsor's opinion in the 'joint investment arrangements' exemption which is carried over from premium listing.)

### **Other clarifications, ancillary changes and consequential amendments to related party transaction rules**

- 9.36** We are also proposing clarifications of certain key provisions and terms related to related party transaction rules, responding to feedback on existing premium listing rules that unclear or problematic because they lead to unintended consequences.
- 9.37** As with significant transactions, we are proposing new guidance on the exemption for transactions within the ordinary course of business.
- 9.38** We have also proposed minor consequential changes to clarify when a further related party transaction needs to be aggregated with earlier transactions, or the issuer is required to comply afresh with the related party rules. We've proposed a new requirement for a supplementary notification in specified circumstances.
- 9.39** We propose to increase the threshold at which a substantial shareholder becomes a related party from 10% to 20%. This is to address feedback that the current 10% threshold is too low (in terms of ability to influence) and turns otherwise unconnected parties into related parties because they happen to have the same institutional investor.
- 9.40** We also welcome further views on whether, in the alternative, to consider moving away from a bespoke definition of a related party in our listing rules in favour of a definition used in accounting standards as per DTR 7.3, which uses the UK-adopted IFRS definition of a related party. This would be a more substantive change and may slightly extend the range of transactions to which the UKLR would apply. However, it might simplify our requirements and better align related party transaction disclosures under the UKLR with similar disclosures made in annual financial reports based on UK-adopted IFRS.
- 9.41** For overseas incorporated companies with listed equity shares who under current rules are not directly subject to DTR 7.3 but we require them to comply via existing LR 9.2.6BR (premium listing) or LR 14.2.24R (standard listing), we have built in flexibility for disclosure of related party transactions against different accounting standards. We would need to consider if this flexibility would also be appropriate in UKLR 8, if we were to change the listing rules definition of a related party in this way.

- Q15:** Do you agree with our proposed approach towards a related party transactions regime for the commercial companies category and the specific disclosure proposals for notifications? Please provide any alternative views as relevant.
- Q16:** Do you agree with how we have framed the sponsor role for related party transactions in the commercial companies category?
- Q17:** Do you agree with the other clarifications, ancillary changes and consequential amendments we are proposing for the related party transaction requirements in the UKLR (compared with current premium listing)? If not, please explain any areas you disagree with.
- Q18:** What are your views on retaining our specific listing rule definition of a related party, versus a definition based on IFRS (or other) accounting standards?

## Chapter 10

# Commercial companies category – further share issuances, share buy-backs, other matters requiring a shareholder vote and circular content

- 10.1** This chapter discusses our approach in CP23/10 to further share issuances and purchases of own shares, the feedback we received and sets out our further proposals. We also include our proposed approach for employee share schemes, long-term incentive plans and discounted share option arrangements, which we did not cover in CP23/10.
- 10.2** We also set out our proposed approach in relation to the transfer and cancellation of listing at the request of the issuer and requirements for certain circulars (ie, those currently set out in LR 13.8).

## Pre-emption rights and discounted share issuances

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### Current approach and CP23/10 proposals

- 10.3** For the commercial companies category, we proposed to carry over the current premium listing shareholder approval requirements that serve to protect shareholders from the potential dilution in the value of their shares (against the prevailing market value) when a company issues further shares at a discount or buys back its own shares at a premium. (Further rules also currently apply where the transaction impacts the company's capital structure, in LR 9.4, LR 9.5 and LR9.6 for example).
- 10.4** We also indicated that we proposed to apply the existing premium listing requirements on pre-emption rights (currently LR 9.3.11R and LR 9.3.12R).

### Summary of feedback

- 10.5** Feedback from those that responded on this area was generally supportive of applying a similar approach to further share issuances for commercial companies category rules as currently applies for premium listed issuers across parts of LR 9.17 respondents agreed across a range of market participants, with explanations supporting the approach of having consistent protections for pre-emption rights and protection against discounted share issuances that would impact existing shareholders' economic interest in a company.
- 10.6** Only a few disagreed, all from the sell-side, mainly noting that pre-emption rights are not always common features for overseas incorporate issuers, so retaining such provisions may be viewed as a constraint for some issuers. There were, separately, one or two detailed suggestions on potential amendments to how the 10% discount is determined versus an issuer's existing share price.

## Proposals and response to feedback

- 10.7** We propose to carry forward the following premium listing requirements broadly unchanged as new requirements for the commercial companies category:
- Pre-emption rights (currently LR 9.3.11R to LR 9.3.12R).
  - Discounts to market price not to exceed 10% without prior shareholder approval (currently LR 9.5.10R).
  - Matters relating to the conduct of rights issues, open offers, vendor consideration placings, offers for sale or subscription (currently within LR9.5).
  - Ancillary matters relating to fractional entitlements to shares (currently LR 9.5.13) and ownership documentation (currently, in premium listing this is LR9.5.15R and LR 9.5.16R and in standard listing it is LR 14.3.9R and LR 14.3.10R).
- 10.8** We are proposing to carry over the current position in LR9.2.21R (1) that the vote on a share issuance at a discount of more than 10% must be decided by a resolution of the holders of the listed shares, which is an important anti-dilution mechanism. It prevents other share classes (such as non-listed shares with weighted voting rights, if applicable) being able to carry a vote that would dilute the market value (see also our summary in Chapter 5, Table 3 in relation to DCSS and certain voting matters).
- 10.9** We have consolidated these requirements as part of the draft UKLR 9, which can be seen in Appendix 1.

**Q19: Do you agree with our proposed approach to matters relating to further share issuances for the commercial companies category? If not, please explain what you disagree with and why.**

## Role of sponsor on further share issuance with a prospectus

- 10.10** We are proposing to carry over the existing premium listing obligation for the issuer to appoint a sponsor where the further share issuance would require the issuer to submit a document such as a prospectus for FCA approval in connection with the application for listing of those further shares (per current LR 8.2.1R). We continue to value the sponsor's expertise in this area, including in relation to any working capital statement within the prospectus, which supports transparency and market integrity.

**Q20: Do you agree that an issuer in the commercial companies category should be required to appoint a sponsor in connection with its further share issuance prospectus and related application for listing?**

## Share buy-backs

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### CP23/10 approach

- 10.11** We proposed to carry over the current premium listing shareholder approval requirements that serve to protect shareholders from the potential dilution in the value of their shares (against the prevailing market value) when a company buys back its own shares at a premium (as per LR 12).

### Feedback

- 10.12** Responses to this area were combined with a question on discounted share issuance and pre-emption rights, so the same set of 17 respondents agree with the general approach. There were no responses that directly disagreed with the approach to share buy-backs. One or two law firms queried consistency of approach in relation to other aspects. For example, if working capital statements fell away for significant transactions, a few stated that it may be disproportionate to retain a requirement for working capital statements as part of share buy-back circulars where the company is buying back 25% or more of a class of issued shares.

### Our response and proposals

- 10.13** We are proposing to retain the substance of the current LR 12 requirements for premium listed shares. These rules offer shareholder protections against dilution and transactions with related parties. We are also proposing to carry forward the anti-dilution mechanism in LR 9.2.21R(1) which provides that a resolution on a share buyback required by the listing rules must be approved by the holders of the listed equity shares.
- 10.14** While we propose to generally retain current requirements in LR 13.7 on the content of a circular to support the vote on an issuer's purchase of own shares, we are proposing to remove the requirement to produce a working capital statement when the transaction would result in the purchase of 25% or more of the company's issued equity shares (LR 13.7.1R(2)).
- 10.15** This will remove the burden of producing a working capital statement and is consistent with our proposals for class 1 significant transactions. We consider that the impact of this change on shareholders should be mitigated by their ability to vote on the transaction under applicable legal requirements (such as the UK Companies Act 2006 for UK incorporated issuers) and under the UKLR in certain circumstances.
- 10.16** We propose other minor consequential, clarificatory or non-substantive changes to parts of LR 12 consistent with moving to the new UKLR structure. Finally, we will also retain the current approach where a listed company is proposing a purchase of its own equity securities or preference shares from a related party which is a sovereign controlling shareholder or an associate of a sovereign controlling shareholder (LR 12.3.2R). The specific drafting proposals will follow later in Q1 2024.

## ***FCA vetting and approval processes and sponsor role on share buy-backs***

**10.17** Since we are proposing not to require a working capital statement in the shareholder circular for share buy-backs, we do not consider it necessary for the FCA to continue to vet and approve such a circular. For similar reasons, we therefore propose not to carry forward the current premium listing requirement for an issuer to appoint a sponsor on a share buy-back circular (LR 8.2.1R(4)).

**Q21: Do you agree with our approach to share buy-backs for the commercial companies category and the amendments proposed versus current premium listing requirements? If not, please explain and suggest any alternative approach.**

## **Employee share schemes, long-term incentive plans and discounted options arrangements**

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### **CP23/10 approach**

**10.18** CP23/10 did not discuss employee share schemes, long-term incentive plans and discounted option arrangements in detail, but in general terms we indicated we intended to retain current premium listing rules. This was in line with a general principle of retaining protections for shareholders where a transaction may dilute their holding.

### **Feedback**

**10.19** Feedback received on these matters was limited. One respondent suggested that the requirements for discounted option arrangements (LR 9.4.4R and LR 9.4.5R) should not apply in the commercial companies category, arguing that these provisions, that address specific aspects of share plan design, are obsolete and could raise doubts on their application. The same respondent suggested that shareholders' interests would be adequately protected by the (general) requirements applicable to all employee share schemes and long-term incentive plans in LR 9.4.1R to LR 9.4.3R.

### **Proposals**

**10.20** We are consulting on the basis that approval of matters set out in LR 9.4 (employee share schemes, long-term incentive plans and discounted options arrangements) would still be subject to a shareholder vote under the UKLR applicable to the commercial companies category. As indicated in the section discussing DCSS in Chapter 5, we propose that holders of specified weighted voting rights would not be able to exercise enhanced voting rights on these matters. This is on the basis that these types of transactions have the potential to reduce the value of the shares held by existing ordinary/minority shareholders.

- 10.21** We also propose to retain the specific requirements for circulars for the approval of employee's share schemes or long-term incentive schemes set out in LR 13.8.11R to LR 13.8.14R, as well as for the approval of discounted option arrangements in LR 13.8.15R.
- 10.22** Given the limited but detailed nature of the feedback received so far, however, we would welcome further input on the value of retaining specific provisions in these areas.

**Q22: Do you have any comments on our proposals? Do you have any views on requiring shareholder approval to grant to a director or employee options, warrants or other similar rights to subscribe for shares in the commercial companies category?**

## Transfer and cancellation of listing at the request of the issuer

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- 10.23** We discuss our proposed approach to transfer of listing and de-listing at the request of the issuer in the commercial companies category in Chapter 15.

## Election and re-election of independent directors

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### CP23/10 approach

- 10.24** CP23/10 proposed to carry over requirements on the election of independent board members as per existing premium listing rules (LR 9.2.2ER and LR 9.2.2FR) where a listed company has a controlling shareholder.

### Feedback

- 10.25** We received limited but generally positive feedback on our proposal to retain the current shareholder approval requirements for the election and re-election of independent directors when there is a controlling shareholder. One respondent recommended not retaining the current requirements arguing that independence should be considered as a factual matter that is assessed (or explained against) under the UK CGC.

### Proposals

- 10.26** As set out in Chapter 5, where a listed company has a controlling shareholder, we propose that the election or re-election of any independent director by shareholders would be subject to a shareholder vote under UKLR and that holders of specified weighted voting rights shares would be able to exercise enhanced voting rights on these matters.
- 10.27** We consider that retaining these protections around the election of independent directors should give appropriate leverage to independent voices in board discussions when there is a controlling shareholder, especially when control is achieved through enhanced voting rights.

**10.28** We also propose to retain the current requirements in LR 13.8.17R and LR 13.8.18R for circulars to shareholders relating to the election or re-election of an independent director.

## Requirements for other circulars

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**10.29** Existing rules in LR 13.8 set out requirements for circulars related to other matters, on which we did not seek views in CP23/10, which address:

- authority to allot shares
- disapplying pre-emption rights
- reduction of capital
- capitalisation or bonus issue
- scrip dividend alternative
- scrip dividend mandate schemes/dividend reinvestment plans
- notices of meetings
- amendments to constitution, and
- reminders of conversion rights

**10.30** These provisions focus on disclosures in various circumstances when a circular is sent to shareholders, including pursuant to UK Companies Act 2006 requirements.

**10.31** We consider these rules remain helpful in ensuring transparency to shareholders. We propose therefore to retain these requirements with minimal consequential amendments as necessary within the new UKLR for the commercial companies category (see draft UKLR 10).

**Q23: Do you have any comments on our proposals with regard to requirements for other circulars? If you disagree, please explain why, and include suggestions for alternative approaches.**



## Chapter 11

# Commercial companies category – annual reporting and governance

**11.1** This chapter summarises proposals for annual reporting and disclosure requirements that would form part of continuing obligations for the commercial companies category.

## Current approach and CP23/10 proposals

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### Corporate governance reporting

**11.2** In CP23/10 we set out proposals for continuing obligations on issuers within the commercial companies category, as follows:

- To apply the existing premium listing provisions relating to the UK Corporate Governance Code (UK CGC) (LR 9.8.6R(3), (5) and (6), LR 9.8.7R and LR 9.8.10R), which include requiring a company to include additional items in its annual financial report.
- This would require the annual financial report to include, among other things:
  - a statement of how the listed company has applied the Principles set out in the UK CGC, and
  - a statement as to whether the listed company has complied throughout the accounting period with all relevant provisions set out in the UK CGC, or details of those provisions it has not complied with and why

**11.3** We invited views on whether there may be any potential barriers or frictions for overseas companies that also follow corporate governance codes set in their own jurisdictions.

### Other annual report disclosures

**11.4** We also proposed to carry over in the commercial companies category other key disclosure and comply or explain requirements, which are currently applicable to both standard listed and premium listed commercial companies. For example, disclosures related to diversity and the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) (LR 9.8.6R, LR 14.3.27R and LR 14.3.33R). We also proposed to maintain other annual reporting requirements contained in LR 9.8 for the commercial companies category where they remain relevant.

## Feedback to proposed approach to annual reporting for the commercial companies category

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### Corporate governance reporting

- 11.5** Just under half of respondents to the consultation responded to these proposals, with around 35 of those in support. Themes arising from feedback included:
- Some views that there may be challenges for overseas issuers having to comply with the UK CGC or potentially needing to comply with more than one code (eg, both the UK CGC and that of another jurisdiction where the issuer was incorporated or had another listing), resulting in costs associated with a more detailed 'explain' approach. One respondent argued that we should consider an equivalence regime. Another suggested adopting the DTR 7.2 approach, which is more permissive.
  - A small number suggested that we should seek to ensure 'explain' is seen as an acceptable option.
  - Some concerns about the proportionality of our proposals for small and medium enterprises and standard listed issuers. There were suggestions that other codes should also be referenced, such as the Quoted Companies Alliance code, and that a quantitative threshold could be applied below which an alternative code could be used (eg, companies with a market capitalisation below £250m).
- 11.6** In addition, engagement with several international companies that have UK standard listed shares as a 'secondary' listing indicated that detailed explanations required by current premium listing rules were perceived as a material burden where they already complied with an overseas code or detailed corporate governance requirements in another jurisdiction. They also supported the less prescriptive approach in DTR 7.2, the flexibility of which still gave investors sufficient information as to an issuer's approach, while detailed explanations of differences between a robust overseas code or rules and the UK CGC had limited value for investors.

### Other annual report disclosures

- 11.7** Most agreed with the proposed approach, recognising that key disclosure such as those on climate-related and diversity matters were already applied across both premium and standard listed segments for commercial companies.

## Proposals

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### UK Corporate Governance Code disclosures

- 11.8** Good standards of corporate governance are a strength of the UK and promote confidence in markets. Good corporate governance is important to enable companies to build trust and engage effectively with shareholders and other market participants. Transparency on corporate governance matters can therefore help, among other things, inform investment decisions and support market integrity.

- 11.9** Having considered the feedback received, we confirm that our proposals in this area remain as consulted on in CP23/10. But we agree with feedback that it is important that all issuers within the commercial companies category feel able to use the flexibility offered through the UK CGC Principles, the 'comply or explain' approach to the Provisions and supporting guidance, and so we provide further clarification below.
- 11.10** Under our proposals, an issuer with shares admitted to the commercial companies category would be required to include in their annual financial report a statement of how they have applied the Principles set out in the UK CGC, and whether they have complied throughout the accounting period with all relevant Provisions set out in the UK CGC. If an issuer has departed from any of the Provisions they should provide an explanation, setting out their reasons.
- 11.11** The UK CGC recognises that an alternative to complying with a Provision may be justified in circumstances based on a range of factors, including the size, complexity, stage of development and ownership structure along with current issues (such as a take-over) of a company. This alternative is available to all companies, not just smaller or newer listed companies, provided that a meaningful explanation is provided. Whilst not limited to these examples, we recognise that some smaller or newer issuers may face challenges in complying in full with all of the UK CGC Provisions, at least in the first instance. The more an issuer departs from the UK CGC Provisions, the more explanation would be required. Companies should be transparent when they depart from the Provisions, acknowledging the reasons why and explaining how good governance is nonetheless achieved in line with the UK CGC Principles. Demonstrating good governance through high-quality explanations can provide companies with the opportunity to display how their unique governance arrangements support the delivery of continued shareholder value.
- 11.12** We are not proposing to introduce a company size threshold below which more flexibility is explicitly provided for, as some suggested in feedback. This is because factors such as size of issuer and their stage of development are already relevant to the degree to which an issuer may depart from certain UK CGC Provisions. This approach recognises that an alternative to complying with a Provision may be beneficial or necessary for the company in particular circumstances based on a range of factors.
- 11.13** Issuers may also apply or be subject to another corporate governance code that includes provisions which the issuer feels is better suited to its circumstances while achieving a similar outcome. It may be, for example, that a newly admitted company plans to comply fully with the UK CGC Provisions in due course, but uses an alternative corporate governance code to meet the Principles initially as a steppingstone as it adjusts to being a listed company. In circumstances where issuers do choose to explain against the UK CGC Provisions with reference to an alternative code, we would expect an alternative code to be credible and still achieve the same principles of good corporate governance as set out in the UK CGC. For example, credible alternatives may include codes established by UK trade bodies, or corporate governance codes in other jurisdictions that are either required by law or regulation, or are widely adopted as a credible standard in market practice.

**11.14** In relation to overseas issuers, the proposed secondary listing category would address concerns raised regarding non-UK incorporated issuers that follow the corporate governance code of another jurisdiction, if they are mapped to this category. For this category, we would propose to carry over the existing requirement to comply with DTR 7.2, where the obligation is to include a corporate governance statement in its director's report which must include, among other things, a reference to:

- the corporate governance code to which the issuer is subject
- the corporate governance code which the issuer may have voluntarily decided to apply; and
- all relevant information about the corporate governance practices applied over and above the requirements of national law.

**11.15** See Chapter 13 for more details of our proposals for the secondary listing category.

### **Climate related financial disclosures and diversity disclosures**

**11.16** As set out in CP23/10, we propose to carry over for the commercial companies category key comply or explain annual disclosure requirements related to diversity of boards and climate-related financial disclosures consistent with TCFD.

**11.17** This is consistent with our intention to have a highly transparent, disclosure-based approach to ensure investors have the information they need.

### **Other annual report disclosure requirements**

**11.18** As indicated in CP23/10, we propose to apply other annual financial reporting requirements contained in LR 9.8 for the commercial companies category where they remain relevant. Some of these relate to reporting linked to other ongoing Listing Rule requirements in LR 9 or derive from aspects of the UK Companies Act 2006 or UK CGC.

**Q24:** Do you agree with our overall approach to annual disclosures and reporting requirements for the commercial companies, category broadly based on current premium listing requirements, including on corporate governance (see Appendix 1, UKLR 6)? If not, please explain why.

**Q25:** Would formal guidance clarifying the use of 'explain' when reporting against the UK CGC be necessary?

## Chapter 12

# Approach to current premium listed categories: sovereign controlled commercial companies and closed ended investment funds

- 12.1** This Chapter explains our proposed approach to addressing the two other premium listing categories under the current listing rules, closed-ended investment funds (current LR 15) and sovereign controlled commercial companies (LR 21).
- 12.2** Both sets of rules cross-refer extensively to existing premium listing requirements for commercial companies. As such, given our proposals for the new commercial companies category, these would necessarily require changes. We have taken the opportunity to consider whether to retain discrete categories in each case and propose appropriate rules for the specific features of these issuers and securities.

## Sovereign controlled commercial companies

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### Current approach and CP23/10 proposals

- 12.3** In 2018, we introduced a new regime (LR 21) for sovereign controlled commercial companies (including for depositary receipts issued by such companies). It modified existing premium listing rules to address practical obstacles sovereign controlled commercial company applicants may face in relation to controlling shareholder agreements and related party transactions with the sovereign. Specifically, sovereign controlled commercial companies are not currently required to seek prior shareholder approval for related party transactions nor obtain a sponsor fair and reasonable opinion, and they are not required to have a shareholder agreement in place for a sovereign controlling shareholder.
- 12.4** In CP23/10, we suggested we would look to discontinue the sovereign controlled commercial companies category and combine within the commercial companies category, with modifications if required. We did not, however, provide details on a proposed approach at that stage.

### Proposals

- 12.5** In the proposed UKLR, we do not propose to carry forward a category for sovereign controlled commercial companies. Instead, we propose to provide certain modifications for sovereign-controlled commercial companies within the commercial companies category. Since there are no companies currently listed in this category, there would be no material practical implications of this approach.

- 12.6** While we are proposing to not require prior shareholder approval of related party transactions under the commercial companies category, there are elements of the LR 21 framework that we consider appropriate to replicate in the commercial companies category when an applicant has a sovereign controlling shareholder. Specifically, we propose to disapply the following commercial companies category requirements:
- Eligibility and ongoing requirements for a sovereign controlled company to be able to carry on the business it carries on as its main activity independently from its sovereign controlling shareholder (the rules will still apply if the company has other types of controlling shareholders).
  - The requirement to have in place a controlling shareholder agreement at admission to listing and the related continuing obligations in current LR 9 (new UKLR 6), including rules around the production of statements in relation to the agreement and compliance with the undertakings set out therein.
  - Requirements for disclosure in annual financial reports detailing any contract for the provision of services to the listed company or any of its subsidiary undertakings by a sovereign controlling shareholder.
  - Requirements for sponsor fair and reasonable opinions where a related party transaction is contemplated and the sovereign controlling shareholder is the related party, and requirements to prevent a director who is, or an associate of whom is, the related party from taking part in the board's consideration of the transaction or arrangement or voting on the relevant board resolution.
- 12.7** In what would be a departure from our current approach, we propose that commercial companies with a sovereign controlling shareholder should be able to benefit from the more flexible approach to multiple class share structures that this consultation is proposing (see Chapter 5). Sovereign controlled companies may be governed by specific arrangements that give sovereign controllers veto rights or 'golden shares' that, in practice, provide levels of influence not dissimilar to those achieved through DCSS. We welcome stakeholders' views on this aspect of the proposal.
- 12.8** We propose that the appropriate category for certificates representing shares in a sovereign controlled commercial company would be the category for certificates representing securities (UKLR 15, formerly LR 18). Considering the overall proposed framework, the original rationale for enabling the premium listing of certificates representing shares in a sovereign controlled company is no longer relevant.
- 12.9** Overall, we consider this approach balances applying high standards to sovereign controlled commercial company issuers while recognising that prospective investors are likely to be well aware of the presence of a sovereign controlling shareholder. Investors can therefore factor this into their valuation and investment decisions prior to becoming shareholders.
- 12.10** Existing premium listed issuers mapped into the commercial companies category at implementation that have a sovereign controlled shareholder would not automatically benefit from these alleviations. Instead, we propose that issuers intending to avail themselves of those targeted dispensations would need to make a notification to inform the market of the changes that the dispensations would entail for shareholders.

**12.11** The draft rules to introduce these dispensations will be included with the second tranche of the draft UKLR instrument later in Q1 2024.

**Q26: Do you agree with our proposed approach to incorporating sovereign controlled companies into the commercial companies category, with certain alleviations on matters related to the sovereign controlling shareholder, while not taking forward a bespoke approach to depositary receipts on shares in such issuers? If you disagree, please explain why.**

## Equity shares of closed-ended investment funds

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### Current approach and CP23/10 proposals

**12.12** We are proposing to carry forward a separate category for equity shares of closed-ended investment funds in the new UKLR sourcebook. The draft rules relating to this category (UKLR 11) will be published in the second tranche of the draft UKLR instrument later in Q1 2024.

**12.13** In CP23/10, we stated that we would expect our approach to closed-ended investment funds, which are currently within the premium segment under LR 15, to remain largely unchanged. We also stated that where changes to premium listing rules for commercial companies (under LR 6) are proposed, we would consider if similar changes were also needed for closed-ended investment funds.

### Responses to CP23/10

**12.14** Responses to CP23/10, and feedback during our engagement across the board, reinforced the view that given the specific nature of closed-ended investment funds, as distinct from commercial companies, and their relationship with any investment manager, there is a continued benefit from retaining provisions for:

- a. significant transactions, and
- b. related party transactions involving an investment manager

in each case where such transactions are outside the investment policy of the closed-ended investment fund.

**12.15** Some feedback suggested that we should consider merging the closed-ended investment funds category and the new commercial companies category. However, overall there was little support for such a move from the majority and a strong consensus from respondents in favour of retaining a separate UK listing category for closed-ended investment funds.

**12.16** We received a suggestion that closed-ended investment funds should be allowed to reissue shares held in treasury at a discount to net asset value (NAV), without

those shares first being offered to shareholders pre-emptively and without requiring shareholder approval for the issue on that basis, provided the reissuance was at a price above that at which the shares were bought back or at a lower discount to NAV than the discount at which they were bought back. However, there was limited support for this proposal from most other stakeholders during our engagement.

- 12.17** There was another suggestion that the category should be renamed as 'closed-ended investment companies'. However, there was no appetite to change the substance of the existing rules, which permit the listing under LR 15 of not just companies as defined in law, but also limited partnerships, limited liability partnerships, and other bodies corporate with limited liability, including those constituted outside the UK. Since we are not proposing to change the substance of these rules, we have not proposed to amend the name of the corresponding UKLR category.

## Proposals

- 12.18** Under the key proposals for the closed-ended investment funds category in UKLR 11, we propose to broadly retain the current LR 15 eligibility and continuing obligations provisions, with certain changes as set out below.

### *Approach to significant and related party transactions*

- 12.19** We propose to retain the requirement for any transactions outside the investment policy of the closed-ended investment fund that engage a percentage ratio  $\geq 25\%$  to be subject to prior shareholder approval and an FCA-approved circular. This reflects the specific nature of closed-ended investment funds and the purpose of investment policies. In practice, we would expect that if a closed-ended investment fund proposed to enter into such transactions other than by way of exception, this would necessitate a material change to its investment policy.
- 12.20** As with commercial companies, we are not proposing to carry forward specific notifications for 'class 2'-size transactions.
- 12.21** We propose that, as is the case presently under LR 15.5.4R, transactions with the investment manager and/or any member of such investment manager's group would be subject to the related party transactions regime. Such transactions would require a sponsor fair and reasonable opinion if any percentage ratio is  $\geq 0.25\%$ , and prior shareholder approval with an FCA-approved circular along with a sponsor fair and reasonable opinion where any percentage ratio is  $\geq 5\%$ . Aggregation principles would continue to apply.
- 12.22** The existing additional exemption in LR 15.5.5R would continue to apply for certain related party transactions.
- 12.23** However, we propose an alleviation for transactions or arrangements with a related party that are within the scope of the closed-ended investment fund's published investment policy. Before entering into such a transaction or arrangement, an issuer would need to obtain a sponsor fair and reasonable opinion where a percentage ratio is  $\geq 0.25\%$ . However, unlike transactions that fall outside the scope of a closed-ended



investment fund's published investment policy, prior shareholder approval would not be required even where a percentage ratio is  $\geq 5\%$ .

### ***Other provisions***

- 12.24** In response to specific feedback on the role of Alternative Investment Fund Managers (AIFMs) which are independent of any investment manager, and to enable new applicants to have a wide a pool of experienced directors from whom to choose, we propose that the rules on board independence would clarify that notwithstanding an appointment to the board of more than one listed closed-ended investment fund that has engaged the same independent AIFM, a director can be considered independent where the AIFM is independent of the closed-ended investment fund's investment manager. The broader existing LR 15 rules on board independence would be retained in UKLR 11.
- 12.25** As a closed-ended investment fund can list more than one class of shares, we propose to retain the requirements of Premium Listing Principles 3 and 4 as new rules under UKLR 11 applicable to closed-ended investment funds, as more fully explained at paragraph 14.7.
- 12.26** Where a new class of shares (usually designated as C shares) is issued that is ultimately intended to convert into an existing class of shares where such shares carry voting rights prior to conversion, they will be listed in the closed-ended investment funds category, and where they do not carry voting rights, they will be listed in the non-equity and non-voting equity shares category.
- 12.27** It is proposed that notification and periodic financial information provisions as set out in LR 15.6 would be retained in UKLR 11.

### ***Sponsor role in relation to closed-ended investment funds***

- 12.28** The sponsor role in relation to closed-ended investment funds would be retained in the UKLR and broadly remain unchanged. As with commercial companies, a sponsor appointment would be required for any requests for individual guidance from the FCA, or for the waiver or modification of the significant transactions regime, including the class tests, or the related party transactions regime. The sponsor role would also be retained for any other aspect of the significant transactions regime and the related party transactions regime as applied to closed-ended investment funds.
- 12.29** As above, the draft UKLR 11 will be published in the second tranche of the draft UKLR instrument later in Q1 2024.

**Q27:** Do you agree to our proposed approach for the closed-ended investment funds category as part of the new UKLR? If not, please explain why.

## Chapter 13

# Approach to current standard listing categories

- 13.1** This chapter outlines our proposed approach to the requirements for listings of other issuer or instrument types that are currently listed under our standard listed shares category (LR 14), and the further open-ended investment companies and non-equity categories (LR 16A and LR 17-20). It also explains how the new categories will aid the transition of existing standard listed issuers to the proposed new listing structure.

## Current approach and CP23/10 proposals

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- 13.2** In CP23/10, Chapter 7, we explained that removing the concept of premium and standard listing would have a wider impact on the structure of the listing regime. We stated we wanted to retain or create categories that allowed us to set proportionate and effective requirements for specific types of issuer or security, in line with our market integrity and consumer protection objectives.
- 13.3** In CP23/10, we proposed the following two new categories, which would seek to accommodate shares currently listed in our standard listing segment (LR 14):
- **Other shares category** (equity and non-equity) – to accommodate those standard listed issuers not eligible to transfer to either the proposed commercial companies category or the proposed category for SPACS and other shell companies. This category would also include secondary listings, preference and deferred shares.
  - **SPACs and other cash shell category (equity shares)** – this would allow us to consider more bespoke rules for such companies and avoid applying rules designed for companies with commercial operations. We also indicated that we may apply the sponsor regime to this category.

## Feedback

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### Other shares category

- 13.4** Feedback on the other shares category broadly supported the idea of a category of this kind, but the main concern raised was that such a category would not allow for sufficient delineation and clarity between the different equity and non-equity issuers that it would encompass. As such, it could be perceived to be unattractive to some commercial companies to be in a category badged as 'other'. Respondents suggested we should instead consider separate listing categories, such as:
- A category for overseas companies with a secondary listing in the UK
  - A 'legacy' category for existing standard listed issuers

- 13.5** Those supporting a specific category for overseas issuers with a secondary listing in the UK also highlighted that such issuers may find it difficult or undesirable to meet certain requirements of the commercial companies category. Specifically, some referred to the premium listing approach to pre-emption rights and disclosure against the UK Corporate Governance Code as posing frictions for some issuers. Engagement also highlighted identifying 'genuine' secondary listings may not be straight forward for some companies.

### **SPACs and shell companies category**

- 13.6** In relation to SPACs, a small number of respondents said they were concerned about imposing additional burdens on SPACs or asked for clarity between the proposed approach for SPACs versus other investment companies.

## **Proposals**

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### **Approach to other shares**

- 13.7** Having considered feedback, we are no-longer proposing an 'other shares' category. Instead, in addition to the commercial companies category, and a shell companies category which we discuss from paragraph 13.32, we propose 3 new categories to better reflect the different issuer and share types currently listed under the standard listing shares category (LR 14):
- a.** Transition category, for current standard 'primary' listings of commercial company shares (excluding SPACs and other shell companies)
  - b.** Secondary listing category for commercial company shares in overseas companies, and
  - c.** Non-equity shares and non-voting equity shares category (such as preference shares and deferred shares)
- 13.8** Our intention is to create a smooth transition to the proposed new UKLR categories detailed in this chapter for existing issuers with standard listed shares, with transitional arrangements discussed further in Chapter 16.

### **Transition category for existing standard listed issuers of equity shares in commercial companies**

- 13.9** We propose creating a new 'transition category' to maintain the status quo for existing commercial companies that are issuers of standard listed shares for whom it is their only or 'primary' equity listing (see proposals for a secondary listing category below). The category would carry forward current continuing obligations under LR 14 to the proposed transition category. Issuers would be 'mapped' into it from an existing standard listing under LR14 at implementation (see Chapter 16).
- 13.10** This category would be closed to new applicants and to transfers from other categories, so it would not have any eligibility requirements. As per current LR14, there would also

be no sponsor role in relation to any continuing obligations. A sponsor would be required if an issuer wished to transfer its equity shares to another UK Listing category where the category requires a sponsor to be appointed in certain circumstances, i.e. the commercial companies category, the closed-ended investment funds category, or the shell companies category (see below).

- 13.11** The proposed transition category would have no end date at the point of implementation and so there will be no deadline for issuers to transfer out of the category. Instead, they can apply to transfer to the commercial companies category when and if they are ready and eligible to do so. We also propose a modified transfer process to encourage issuers within the transition category that are eligible to utilise the modified transfer process to move to the commercial companies category, the shell companies category or the secondary listing category as relevant (see Chapter 16). As such, we expect the numbers of issuers in this category to decline over time.
- 13.12** We also propose to require that, if a transition category issuer seeks to undertake a reverse takeover, and wishes to retain a UK listing, then upon completion the enlarged entity would need to request cancellation and re-apply to list. This application would have to be to an open listing category, such as the commercial companies category, subject to meeting the relevant eligibility requirements.
- 13.13** Post any implementation of proposed UKLR reforms, if an issuer in the transition category falls within scope of the closed-ended investment funds category or the open-ended investment companies category, we are proposing that it must apply to transfer to that category. In such cases, the process that currently applies for transfers from standard listing (shares) (LR 14) to these categories would be retained in the proposals (as per LR 5.4A).
- 13.14** We will keep the transition category under review and may seek to wind it down in the medium term if few issuers remain and we consider it is no longer necessary. We will consult if and when we consider removing this category. We would also provide sufficient time for any remaining issuers to consider their options.
- 13.15** The detailed drafting for this category will be set out in the second tranche of the draft UKLR instrument later in Q1 2024.

**Q28: Do you agree with our proposals for the transition category? If not, please explain why.**

### **Proposed new category for issuers with a secondary listing in the UK**

- 13.16** As noted above, based on feedback to CP23/10 we are now proposing a specific secondary listings category for the equity shares of non-UK incorporated companies with a secondary listing in the UK. This seeks to accommodate non-UK incorporated companies where either domestic company law or rules flowing from their 'primary' listing venue may make it more difficult to meet certain requirements proposed for our commercial companies category (although we want the latter to be the 'main' standard for UK primary equity listings). This should ensure our listing regime remains flexible and accessible to allow such issuers to remain or choose to list in the UK.

- 13.17** We think a separate category will be clearer for investors and wider market participants, including index providers, rather than including issuers with a 'primary' listing outside the UK within the commercial companies category subject to certain alleviations, or relying on issuers seeking individual waivers or modifications. It gives greater transparency that such issuers are subject to a combination of home jurisdiction and FCA rules.
- 13.18** We propose to map 'secondary' standard listed shares currently listed under LR 14 into this new category upon implementation (see Chapter 16). Mapped issuers of secondary listed shares could apply to transfer to the commercial companies category at any stage after implementation, potentially using the modified transfer process (again, see Chapter 15 below).
- 13.19** Unlike the transition category, we propose to make the secondary listing category open to new applicants. Eligibility and continuing obligations for the secondary listing category would largely replicate LR 14, subject to targeted additional requirements discussed below. We do not propose to apply the sponsor regime to this category.

### ***Eligibility requirements for the secondary listing category***

- 13.20** In addition to replicating provisions in LR 14, we are proposing a few additional, targeted eligibility requirements to reflect the intended scope of the category as being for 'genuine' secondary listings only. For admission, we propose that:
- the applicant must not be a UK incorporated company
  - the applicant must have equity shares admitted to trading on an overseas regulated, regularly operating, recognised open public market, although this does not necessarily need to be in the same country as the company's place of incorporation
  - those securities must be capable of being traded on the overseas public market
  - the applicant's overseas listing must relate to the same class of shares proposed to be listed in the UK
  - the applicant must be subject to the rules of the market applicable in that overseas jurisdiction without exceptions or carveouts applying to a foreign issuer, and
  - the applicant's place of central management and control must be located in either its country of incorporation or place of its primary place of listing (if they are different) ie, an applicant could not have its central management and control, place of incorporation and primary listing in 3 separate jurisdictions
  - the overseas market on which the applicant's shares are admitted should be subject to oversight by a regulator that is a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) and / or the applicant should be subject to direct oversight as an issuer of securities in that jurisdiction by a regulator that is an IOSCO MMoU signatory
- 13.21** An issuer in this category would need to maintain these eligibility requirements to remain eligible following listing ie, these will also be continuing obligations.
- 13.22** We also propose to carry over the substance of the existing listing requirement currently in LR 14.2.4R, which effectively indicates that we will refuse listing if we have investor protections concerns due to an applicant not having a listing either in its place of

incorporation or where its main shareholder base resides. However, we are considering how we might amend the rule to reflect the proposed eligibility criteria for the secondary listing category and fact that the applicant must be non-UK incorporated and must have a primary listing elsewhere. Any changes we propose will be included in the second tranche of the draft UKLR instrument.

**13.23** In addition, we propose to add guidance to clarify that we may ask applicants to provide the following:

- If an applicant does not have a primary listing in its country of incorporation, an explanation of why that is the case.
- Board confirmation of compliance, and of no historic issues, with the applicable rules of the overseas main market to which they are subject.

### ***Continuing obligations***

**13.24** Proposed additional continuing obligations for issuers in the secondary listing category, aside from carrying over the existing LR 14 requirements, are an obligation to:

- continue to comply with the applicable rules of the overseas main market (their primary listing) to which they are subject, and
- contact the FCA as early as possible to discuss whether suspension or cancellation under the UKLR is appropriate if an issuer's listing has been suspended or cancelled by an overseas exchange or overseas authority – this is similar to the existing obligation under LR 5.5.2R to inform the FCA in these circumstances, but makes the purpose of doing so clearer.

### ***Other considerations***

**13.25** At this stage, we are not proposing a specific list of 'accepted' overseas markets or 'equivalence' criteria, which would require the FCA to make (and update) judgements on the legal and regulatory frameworks of other jurisdictions and markets. Nor are we proposing to further refine current LR 14 or DTR rules with further consideration to the nature of 'secondary' listings.

**13.26** We also recognise that limiting the category to non-UK incorporated issuers would preclude some UK incorporated issuers who have a 'primary' listing on an overseas market from utilising this category. However, we are keen to avoid the secondary listing category being an open choice for commercial company issuers simply seeking to avoid certain rules for commercial companies that they are capable of meeting. This is more likely to be the case for UK-incorporated issuers given they will be subject to UK company law.

**13.27** The detailed drafting for this category will be set out in the second tranche of the draft UKLR instrument later in Q1 2024.

**13.28** We welcome views, particularly on the above aspects, and may consider further tailoring of rules for this category subject to responses.

- Q29:** Do you agree to our proposals for a secondary listing category and the related requirements, including basing rules on current LR 14 with certain additional elements, and the maintained application of DTR 7.2? If not, please explain which aspects you disagree with and why.
- Q30:** Do the proposed eligibility requirements for the secondary listing category sufficiently identify commercial companies with a 'primary' listing in another jurisdiction and mitigate potential risk that it be used to avoid the commercial companies category? Please suggest improvements to provisions, or additions or alternatives, as relevant.

## Proposed new category for non-equity shares and non-voting equity shares

- 13.29** We propose creating a new listing category for non-equity shares, such as retail denomination preference shares and deferred shares (as defined in the FCA Handbook Glossary) and non-voting equity shares, that are currently eligible to list under the standard listing (shares) category (LR 14). This category would be open to new applicants. The status quo for these issuers would be maintained based on current LR 14 eligibility requirements and continuing obligations. We do not propose to apply the sponsor regime to this category.
- 13.30** Relevant existing standard listed securities would be identified and mapped into this category at implementation (see Chapter 16 for more details).
- 13.31** The detailed draft rules for this category will follow in the second tranche of the draft UKLR instrument to be published later in Q1 2024.

- Q31:** Do you agree to our proposals for the non-equity shares and non-voting equity shares category? If not, please explain why.

## Proposed new category for equity shares in SPACs and other shell companies

### *Overview and scope of the shell companies category*

- 13.32** In line with our proposed approach in CP23/10, we propose to create a new listing category for equity shares for SPACs and other shell companies, which we plan to call the 'shell companies category'. We also propose to extend the sponsor regime to it. This category would be broadly based on the current standard listing (LR 14) requirements, but with tailored modifications and additions.
- 13.33** The scope of this category would be limited to shell companies actively pursuing a strategy of acquisition or whose assets consist solely or predominantly of cash or short-



dated securities. This could be a SPAC that has listed for this specific purpose, or a listed company that becomes a shell company following divestment of assets. The proposal is to retain the current definition of 'shell company' in LR 5.6.5AR.

- 13.34** Having a separate listing category for these issuers is designed to ensure clarity for both the issuers and investors and where appropriate, to allow the proposal of targeted rules, and potential further development in the future.

### ***Proposals***

- 13.35** Our proposals retain the current SPAC provisions introduced in 2021 (see [PS21/10](#)), which allow bigger SPACs with certain specified investor protections in place to avoid the presumption that their listing would be suspended when a potential acquisition target is announced, or if details of the proposed acquisition have leaked. However, we propose to make some of the investor protection provisions within that guidance (in LR 5.6.18AG) eligibility requirements for the new category. This is to ensure consistency of requirements for all companies in this category and an appropriate level of investor protection. We provide further details in the sections below.
- 13.36** We propose that warrants relating to a SPAC or other shell company would, as now, be able to be listed in the warrants, options and other miscellaneous securities category (UKLR 19, the new version of LR 20).
- 13.37** The draft instrument text for UKLR 13 will be published later in Q1 2024.

### ***Eligibility and continuing obligation requirements for the shell companies category***

- 13.38** Our proposals for the eligibility requirements for the shell companies category are largely based on the existing requirements in LR 14.2. We are also proposing the new category would have additional eligibility requirements (compared to current LR 14) that would require a company to have at admission and thereafter the following:
- A constitution that provides that a reverse takeover transaction, which we will refer to as a 'initial transaction', needs to be completed within 24 months from the date of admission, otherwise the issuer should cease operations and wind up the company. This timeframe could be extended by 12 months with shareholder approval, and by an additional 6 months without the need to get shareholder approval where a deal has been announced or is very near to being completed. Our understanding is that these time limits reflect market practice. This would mean the current LR 5.6.18AG(3) would become a requirement in the proposed category.
  - Adequate binding arrangements that monies raised from public shareholders be ring-fenced, via an independent third party, so they are preserved to either provide the consideration for an acquisition or be returned to shareholders, less any amounts specifically agreed to be used for a shell company's or SPAC's running costs and disclosed in the prospectus relating to admission. The independent third party should be, for example, a separate legal entity not under the shell company's or SPAC's control or influence and have relevant experience. This would not necessarily exclude banks or other companies with which the SPAC has an existing



affiliation or service relationship. We are of the view that this protects investors from misappropriation or excessive running costs being incurred by management teams. This would mean the current LR 5.6.18G(2) would become a requirement in the proposed category.

### ***Reverse takeovers (initial transactions) by a SPAC or other shell company***

- 13.39** Given the purpose of a SPAC is, and the purpose of a shell company may be, to identify acquisition opportunities, the current listing rules around reverse takeovers are of particular relevance and importance for such entities. These rules were discussed in the Primary Market Bulletin 42, article 'Cash shells and special purpose acquisition companies (SPACs) on reverse takeovers' (December 2022), in response to evidence of non-compliance with these requirements.
- 13.40** We are proposing that the shell companies category has a standalone definition of 'initial transaction' to apply to this category instead of 'reverse takeover'. The substance of the existing definition would remain the same. However, the reference to 'initial transaction' will assist in conveying that, given the nature of shell companies and the wide scope of our rules, the first transaction that a shell company enters into constitutes an 'initial transaction'. The concept of 'transaction' in this context is broad and is likely to include any transaction of an acquisitive nature. This could include the issuance of a loan, a purchase of a minority stake or entering into a joint venture arrangement. We do not propose any restrictions on the size of an initial transaction.
- 13.41** For such initial transactions, we then propose to require for all companies in the shell companies category:
- a notification, which should include the same information as proposed for a significant transaction announcement for the commercial companies category, as discussed above (see Chapter 6)
  - public shareholder approval of an initial transaction before it is entered into, in line with proposals for the commercial companies category for reverse takeovers, with any founding shareholder, SPAC sponsor or director excluded from voting
  - a sponsor to be appointed and shareholders sent an FCA approved circular
  - the content of that circular to have the same content requirements as a circular for a reverse takeover (see paragraphs 8.10-11)
  - that where a director of a cash shell has a conflict of interest, the circular should also contain a board statement that, having been advised by a sponsor, the proposed initial transaction is fair and reasonable as far as the public shareholders of the shell company are concerned, and
  - board approval for the initial transaction before it is entered into
- 13.42** We are of the view that the above would provide important shareholder protections and help manage any inherent conflicts of interest.
- 13.43** We also propose that upon completion of an initial transaction, there would be an obligation on the shell company to contact the FCA given the expectation that an issuer cannot remain in the shell companies category and must apply for cancellation of its existing listing and, where relevant, seek re-admission to listing of the enlarged

group to a different category. We propose to retain the existing guidance that the FCA will generally seek to cancel the listing of an issuer's equity shares when the issuer completes an initial transaction.

- 13.44** We propose that if an issuer completes an initial transaction complying fully with the shell companies category requirements, this would be taken into account when considering the eligibility of the enlarged group for admission to listing.

### ***Existing provisions relating to suspension that we propose to carry over***

- 13.45** For SPACs and other shell companies there is currently a general presumption that we will suspend listing when a potential acquisition target is announced, or if details of the proposed transaction have leaked, unless they have certain specified investor protections in place. We propose to carry this approach over into the UKLR. These protections are set out in LR 5.6.18AG and are considered by the FCA as part of vetting the prospectus and assessing eligibility for listing. These provisions protect investors from disorderly markets as a result of insufficient information being publicly available, which could impair price formation. However, given the proposals to make certain of the measures in LR 5.6.18AG eligibility requirements for all new applicants to the shell companies category, the list of specified investor protections that an issuer would need to put in place to avoid the presumption of suspension is proposed to be as follows:

- A minimum size threshold of £100m raised when a SPAC's shares are initially listed. (Currently LR 5.6.18AG(1))
- At admission and thereafter, the company's constitution provides for board approval of an initial transaction, shareholder approval of an initial transaction and for the board to publishes a 'fair and reasonable' statement if any of its directors have a conflict of interest. (Currently LR 5.6.18AG(4), (5) and (6))
- Provides a 'redemption' option allowing investors to exit their shareholding before any acquisition is completed for a pre-determined amount. (Currently LR 5.6.18AG(7)).
- Disclosure of the above in the company's prospectus. (Currently LR 5.6.18AG(8))

- 13.46** Furthermore, we propose to carry over to the shell companies category the obligation for an issuer in this category to contact the FCA as early as possible to discuss if suspension of listing is appropriate, before announcing an initial transaction which has been agreed or is in contemplation, or where details of the transaction have leaked. This obligation is being supplemented by a proposal to appoint a sponsor in these circumstances and the contact with the FCA would be via a sponsor.

### ***Additional continuing obligations***

- 13.47** The proposed continuing obligations for companies listed in the shell companies category would be substantially carried over from the existing requirements set out in LR 14.3, except where they do not currently apply to shell companies (for example, the annual report disclosure requirements on climate-related financial disclosures and diversity (LR 14.3.27R and LR 14.3.33R)).

### ***Role of the Sponsor***

**13.48** We propose to extend the sponsor regime to this category because we want to ensure that the benefits of the sponsor regime are realised for a wider range of companies. This is particularly the case for SPACs and other shell companies which can have complex structures and inherent conflicts of interest between the various parties.

**13.49** We propose to require the appointment of a sponsor in the following circumstances:

- At the admission to listing gateway (see Chapter 17).
- When an issuer is proposing to enter into a transaction that could be an initial transaction a sponsor would:
  - give guidance and assist with identification and treatment of an initial transactions under our rules
  - provide comfort to the FCA where an issuer is seeking to avoid suspension
  - guide the issuer on their regulatory obligations and act as a contact with the FCA.
- For a further issue application (see Chapter 17).
- When shareholder approval is being sought for an initial transaction, where a sponsor would provide:
  - assurance regarding the circular requesting shareholder approval of the initial transaction
  - an eligibility assessment and letter, where the new combined company is seeking re-admission to listing.
- For an application to transfer from another category to the shell companies category.

### ***Redemption rights to shares in SPACs***

**13.50** Under LR 5.6.18AG, SPACs and other shell companies can avoid the presumption of suspension of their listing when their target is announced or leaked if certain specified investor protections are in place, including that shareholders have a redemption right. However, we are aware of market developments, primarily in the US, where concerns are being raised about attaching redemption rights to shares in SPACs and other shell companies where shareholders also holds warrants. This is because the combination of redemption rights and warrants held by shareholders who bought into the SPAC at IPO disincentivises them to vote against merger deals that the shareholders may regard as being value dilutive. There is no financial risk to these shareholders in approving any merger proposal, since they can redeem their shares and can expect their warrants to have at least some value, even after a value dilutive merger. For the issuer, there's also uncertainty about financing any acquisition if redemption rates are high.

- 13.51** We considered whether to amend the current guidance so that the ability of shareholders to exercise their right to redeem was conditional on a vote against an acquisition, or against an extension to the deadline for acquisition. Further, we considered the introduction of an eligibility requirement for all SPACs and other shell companies to include a redemption option for shareholders. We have not proposed to make these changes at this time. We do, however, welcome comments on this approach and will keep this matter under review, particularly to consider the associated risks to investors.
- 13.52** We have observed significant levels of redemptions by shareholders in shell companies resulting in these issuers at risk of being in breach of the requirement to have sufficient shares in public hands. Our expectation continues to be that shell companies that experience high rates of redemption which compromise their ability to meet their continuing obligations will apply for cancellation of their listing.

**Q32:** Do you agree to our approach for the shell companies category and the detailed drafting in UKLR, including the proposed approach to redemption rights? If not, please explain why and suggest any alternative approach or transitional provisions.

**Q33:** Do you agree with the proposed approach that issuers in commercial companies category and the transition category should transfer to the shell companies category if they become eligible for the shell companies category? Do you foresee any problems with this proposed approach?

### Retained standard listing categories

- 13.53** We propose to retain the remaining standard listing categories addressing open-ended investment companies (current LR 16A) and other non-equity categories (current LR17-20) in the new UKLR. We have proposed some minor proposed consequential changes and category name changes to better describe the type of issuer or security a chapter and listing category applies to. We will also amend cross-references as appropriate to the new categories for commercial company shares.
- 13.54** In relation to the current listing category for certificates representing certain securities (LR 18), we propose not to include certificates representing debt securities and remove those provisions that relate to an issuer of debt securities. In practice, we do not receive applications to admit such certificates to listing and consider it unlikely that we will do so. In addition, we are proposing that we would not list depositary receipts which represent equity shares issued by UK-incorporated companies. We have not identified a reason or demand for a UK incorporated company to need to raise capital in the UK by issuing depositary receipts.
- 13.55** Draft rules for these categories will be set out in the second publication of handbook provisions in Q1 2024. The table below indicates how these categories would be numbered within the UKLR structure.

**Table 4: Retained categories within the new UKLR structure**

Existing category and LR chapter	New category name (where relevant) and new UKLR chapter
Open-ended Investment Companies (LR 16A)	Open-ended investment companies (UKLR 12)
Debt and Debt Like Securities (LR 17)	Debt and debt-like securities (UKLR 17)
Certificates Representing Certain Securities (LR 18)	Certificates representing certain securities (depository receipts) (UKLR 15)
Securitised Derivatives (LR 19)	Securitised derivatives (UKLR 18)
Miscellaneous Securities (LR 20)	Warrants, options and other miscellaneous securities (LR 19)

**Q34:** Do you agree to our proposal for retaining the remaining standard listing categories and minor drafting amendments proposed? If not, please explain why.

## Chapter 14

# Proposals impacting all listing categories – eligibility and ongoing

- 14.1** This chapter sets out proposals that would impact all issuers of listed instruments, and is not limited to specific categories (such as commercial companies). This includes proposed new Listing Principles and proposed changes to enhance existing provisions designed to ensure co-operation and FCA access to the information and records of an issuer. These were originally discussed in Chapter 6 of CP23/10.

## Single set of Listing Principles

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### Current approach and CP23/10 proposals

- 14.2** In CP23/10, Chapter 6, we proposed having one set of Listing Principles to underpin a reformed listing regime, by combining the current Listing Principles and Premium Listing Principles (current LR 7). We intended to create a clear and consistent set of principles for listed companies that are easy for both issuers and investors to understand.
- 14.3** We also proposed to convert Premium Listing Principles 3 and 4 into rules (to apply as eligibility requirements and as well as continuing obligations), applicable to issuers of equity shares. We also noted that further modifications to reflect our proposed approach to DCSS may also be necessary.
- 14.4** We also proposed some modifications to clarify the role that the board of directors should play in relation to ensuring a listed company meets its regulatory obligations. Our proposals aimed to set a common baseline for issuers. We explained we were also considering applying the single set of Listing Principles as eligibility requirements, to make it clear that we consider an applicant's willingness and readiness to comply with the Listing Principles from the point of admission and thereafter. We considered this would help to improve compliance, maintain high standards of market integrity and deter misconduct.

### Feedback

- 14.5** Around a third of the respondents to CP23/10 provided feedback on these proposals. There was considerable support from most for our proposed approach. Some queried the practical challenge of evidencing or ensuring consistency and clarity of approach across issuers in terms of their preparedness to comply with conduct-based principles at the point of listing, including the role of the sponsor in assessing this. A small number said that clarity regarding the role of directors would be welcome.

## Proposed UKLR Listing Principles and guidance

- 14.6** We have proceeded to draft proposals consistent with our position in CP23/10. In addition, we now set out our proposed clarification of the role of directors, which is an important part of a listed company's compliance with the Listing Principles. We summarise the proposed clarification in Table 5 below.
- 14.7** We also consider that the current Premium Listing Principles 3 and 4 would continue to be relevant in the context of the wider proposed reforms. The policy intent behind these principles remains unchanged, and we do not consider that these two principles constrain our ability to introduce a more flexible form of DCSS for the commercial companies category. However, in line with our position in CP23/10, we think that these two principles would be clearer as specific requirements in rules applicable to issuers of equity shares. We therefore propose to apply them as rules in the commercial companies category and the closed-ended investment funds category (reflecting the current application of these principles).
- 14.8** In addition, in CP23/10 we said we were considering additional requirements for an applicant/listed company to have in place appropriate arrangements for storage of information, to support existing information gathering requirements (LR 1.3.1R and LR 9.2.13AR). We consider that such an obligation already exists under Listing Principle 1, and as such we have instead proposed to issue guidance to clarify what adequate arrangements for the purposes of record keeping requirements would include.
- 14.9** The draft handbook text for the proposed Listing Principles and additional guidance, and the draft rules to replace Premium Listing Principles 3 and 4 will follow in the second tranche of the draft UKLR instrument.

**Table 5: Proposed single set of Listing Principles and additional guidance**

Proposed single set of Listing Principles		Proposed additional scope and clarification
Listing Principle 1	A listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations.	<p>Would continue to apply to all listed companies</p> <p>We propose to clarify in guidance that directors should take reasonable steps to ensure that the listed company is governed in a way that enables the listed company to comply with Listing Principle 1</p> <p>We also propose to make it clear that adequate procedures, systems and controls includes the applicant or issuer being able to:</p> <ul style="list-style-type: none"> <li>• Explain where information is held and how it can be accessed (regardless of whether the information is held in the UK or elsewhere).</li> <li>• Easily access from the UK information that may be held outside the UK</li> </ul>

Proposed single set of Listing Principles		Proposed additional scope and clarification
Listing Principle 2	A listed company must deal with the FCA in an open and co-operative manner.	Would continue to apply to all listed companies  We propose to clarify in guidance that a listed company should take reasonable steps to ensure that its directors deal with the FCA in an open and co-operative manner.  In addition, that the FCA would expect directors to deal with the FCA in an open and co-operative manner, including when responding to information requests and attending interviews with the FCA.
Listing Principle 3	A listed company must take reasonable steps to enable its directors to understand their responsibilities and obligations as directors.	Extend to all listed companies in respect of all their listed securities, both equity and non-equity
Listing Principle 4	A listed company must act with integrity towards the holders and potential holders of its listed securities.	Extend to all listed companies in respect of all their listed securities, both equity and non-equity
Listing Principle 5	A listed company must 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.	Extend to all listed companies in respect of all their listed securities, both equity and non-equity
Listing Principle 6	A listed company must 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.	Extend to all listed companies in respect of all their listed securities, both equity and non-equity

**14.10** We consider that the proposed additional guidance does not negatively impact or conflict with UK company law and directors' fiduciary duties. Instead, it reflects existing responsibilities and expectations of directors on a board but sets it within the context of the Listing Principles.

**Q35: Do you agree that the current Premium Listing Principles 3 and 4 should be reframed as rules for the commercial companies category and the closed ended investment funds category? If not, explain why.**



- Q36:** Do you agree with our proposed single set of Listing Principles and supporting guidance, which would be applicable to all listing categories? If not, please explain why.
- Q37:** In relation to the proposed Listing Principles 5 and 6, are there any practical implications for issuers of debt securities that need to be considered?
- Q38:** Do you agree with our proposed guidance to support the Listing Principles, regarding the importance of the role of directors and on the arrangements for accessibility of information? If not, please explain what you disagree with and why.

### Consideration of Listing Principles at the listings gateway

- 14.11** We accept feedback in 14.5 that applicants would not be able to evidence future compliance in relation to an issuer's or individual director's conduct or behaviour after admission. However, we do think it is reasonable that in assessing an applicant's understanding of, and readiness and willingness to comply with, their listing obligations, the conduct of the issuer and its directors during the application process is relevant to that assessment.
- 14.12** An applicant's understanding of and readiness to comply with the Listing Principles and Premium Listing Principles (if relevant) are currently considered as part of the assessment of an applicant's eligibility for listing. We propose to make it clearer that under the UKLR we would consider an applicant's readiness to comply with the Listing Principles. We propose to require, as part of the application process, that a company's board provide confirmation that the applicant has appropriate systems and controls in place to ensure it can comply with its ongoing listing obligations and Listing Principles once admitted.
- 14.13** A board declaration form, similar to the declaration provided by sponsors as part of the IPO prospectus approach, would be created for this purpose. The board declaration form would have standard wording, which would include confirmation, for example, that it is satisfied that the company's record keeping arrangements enable the company, once admitted, to comply with any requests made by the FCA (currently under LR 1.3.1R).
- 14.14** The proposed board declaration would be a point in time confirmation. However, the obligation to comply with relevant continuing obligations and the Listing Principles would be ongoing. If an issuer was unable to provide the proposed required board confirmation or in response to queries that we may raise in relation to a board confirmation provided where we have concerns that the applicant has not satisfactorily demonstrated its readiness, we may choose not to admit its securities.

**14.15** If a sponsor's declaration is required on an application for listing, we do not consider our proposal in relation to the Listing Principles would change the due diligence a sponsor would already undertake.

**Q39: Do you agree with our proposed board confirmation that the applicant has appropriate systems and controls in place to ensure it can comply with its ongoing listing obligations and Listing Principles once admitted? If not, please explain what you disagree with and why.**

## Proposals for strengthening co-operation and information gathering

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**14.16** Our detailed proposals for all issuers in this area remain in line with those initially described in CP23/10 (Chapter 6), with some minor modifications, as set out below. We also note and respond to some of the points raised in feedback.

### Storage and access of information

**14.17** In CP23/10 we proposed new eligibility and continuing obligations requirements for issuers to have in place appropriate arrangements for storage of relevant information, to ensure it is able to comply with existing information gathering obligations (LR 1.3.1R and, in relation to premium listing currently, LR 9.2.13AR). For arrangements to be appropriate the issuer would need to be able to explain where information is held and how it can be accessed, and if held outside the UK it must be easily accessible from the UK.

**14.18** We considered the feedback received in response to our proposals in CP23/10 to reinforce and clarify existing obligations for issuers to co-operate with the FCA and retain records in an appropriate accessible way. We note that some respondents raised concerns that any detailed proposals in this area could be too prescriptive and unduly burdensome.

**14.19** It is not our intention to impose prescriptive and onerous record keeping requirements on issuers. Instead, we are seeking assurance from issuers that they have the systems and controls in place to be able to comply with their existing obligations to respond to information requests from the FCA. Our focus is on accessibility but, as part of that, where information is held will be relevant.

**14.20** We no longer propose a new eligibility and continuing obligation. Instead, we propose to provide clarification in guidance under Listing Principle 1 (see Table 5). In addition, the proposed board confirmation as described in paragraph 14.13, seeks to ensure that applicants are clear what is expected of them at the outset, and seeks to obtain assurance from a company's board that appropriate systems and controls are in place.

**Q40: Do you agree with our proposal to issue guidance to support Listing Principle 1, to clarify that adequate procedures, systems and controls includes the applicant or issuer being able to explain where information is held and how it can be accessed (regardless of whether the information is held in the UK or elsewhere), and that information should be easily accessible from the UK? If not, please explain why?**

### Key persons contacts

- 14.21** Our preliminary proposals, in CP23/10, included a requirement for applicants and issuers to provide the FCA with contact details of key senior individuals within the company, such as the CEO, CFO and COO, and to keep that information up to date. The purpose of this requirement is to ensure that we can contact a senior person should we need to do so regarding serious matters of importance, or where we require an urgent response or action from an issuer.
- 14.22** In response to CP23/10, we received feedback that it is not necessary to specify the precise role of the senior key contacts and that this may unduly restrict issuers from providing details of other, appropriately senior management.
- 14.23** We are now proposing that an issuer must notify and provide us with contact details of at least 2 executive directors (or equivalent). This will be in addition to the existing provisions (currently in LR 9.2.11R and LR 14.3.8R), a form of which would be carried forward for equity shares categories. These existing provisions require contact details to the FCA of appropriate persons that can act as a first point of contact.
- 14.24** We also propose to make clear that these contact details should also be provided by applicants, as currently the provisions only apply as a continuing obligations post admission.

**Q41: Do you agree with our detailed proposals for all applicants and issuers to notify the FCA, and keep up to date, the contact details of 2 executive directors? If not, please explain what you disagree with and why.**

### Arrangements for service of documents

- 14.25** Our preliminary proposals in CP23/10 included requirements for an issuer to notify the FCA of the arrangements it has put in place for service of documents under The Financial Services and Markets Act 2000 (Service of Notices) Regulations 2001. Feedback received supported this proposal.

**14.26** Given support expressed in responses, we propose include a requirement for all applicants and issuers to provide and keep up to date details of the following:

- a nominated person, including their address, for the purposes of receiving service of relevant documents.
- an email address where the company provides written consent to receive service of relevant documents by email, or
- a postal address in the UK where written consent to email service of relevant documents is not given

**Q42: Do you agree with our detailed proposals for all applicants and issuers to provide the FCA, and to keep up to date, a nominated contact and address for service of relevant documents? If not, please explain what you disagree with and why.**

## Chapter 15

# Suspensions, cancellations, and transfers

- 15.1** This chapter sets out our proposed changes to current LR 5 which includes rules and guidance on suspending, cancelling, and restoring listing and reverse takeovers, for all securities. Requirements for reverse takeovers circulars and notifications for the commercial companies category are discussed in Chapter 8. Tailored proposals for the shell companies category are also discussed in Chapter 13.

## Suspensions

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- 15.2** We propose to carry over the suspension provisions in LR 5.1.1R to LR 5.1.4G, to the proposed UKLR sourcebook, with consequential changes only.
- 15.3** Existing provisions relevant only to shell companies (LR 5.6.5A to LR 5.6.18FR) would be relocated to UKLR 13, the proposed chapter for the shell companies category. Chapter 13 explains where we are proposing changes to these rules for the purposes of the proposed shell companies category.

## Cancellations

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- 15.4** We propose to carry over the cancellation provisions in LR 5.2.1R to LR 5.2.13G, to the proposed UKLR sourcebook, with minor modifications. As set out in the DCSS section of Chapter 5, cancellation and transfer of listing at the request of the issuer are proposed to remain matters requiring prior shareholder approval by the holders of the shares of the listed commercial companies category. Enhanced voting rights would not be exercisable.

## Cancellations and reverse takeovers

- 15.5** In general, we propose to re-locate requirements concerning reverse takeovers into each of the relevant equity shares categories, as proposed above. We discuss above specific provisions relating to reverse takeovers or initial transactions in more detail for the commercial companies and shell companies categories respectively, including cancellation implications.
- 15.6** For the transition and international secondary listing categories, we propose to largely replicate the current approach to reverse takeovers in LR 5.6 as applied to issuers of standard listed shares. For certificates representing shares, we would maintain a similar approach, most likely by cross-reference to provisions in one of these categories.
- 15.7** More generally, we propose making changes to language in LR 5.6.19G regarding our approach to cancellation of listing. LR 5.6.19G currently provides that: "The FCA

will generally seek to cancel the listing of an issuer's equity shares or certificates representing equity securities when the issuer completes a reverse takeover."

- 15.8** We propose amending this provision to make it clearer that when an issuer completes a reverse takeover or initial transaction, the FCA will seek to cancel the listing of an issuer's equity shares or certificates representing equity securities, unless the FCA is satisfied that circumstances exist such that cancellation is not required. The FCA will have regard to LR 5.2.1R ie, that the FCA may cancel the listing of securities if it is satisfied that there are special circumstances that preclude normal regular dealings in them, and the individual circumstances of the case. This change would be reflected across provisions related to reverse takeovers or initial transactions in each category.
- 15.9** We are not proposing to make a blanket policy that would fetter or limit the FCA's discretion on a case-by-case basis and exceptions would be available for certain issuers. Current guidance provisions (currently LR 5.6.20G and LR 5.6.23G to 5.6.29G) set out circumstances in which the FCA will generally be satisfied that a cancellation is not required. We propose to clarify these examples are not an exhaustive list and will not be available to shell companies.
- 15.10** We also propose adding further examples to what is currently LR 5.2.2G, of when the FCA may cancel the listing of securities to reference:
- completion of a reverse takeover or initial transaction, and
  - failure to comply with the announcement, circular and vote requirements

### **Cancellations of securities suspended for more than six months**

- 15.11** LR 5.2.2G(3) sets out that one of the examples where the FCA may cancel the listing of securities is where the securities' listing has been suspended for more than six months. Cancellation after this period is not automatic, as the reasons for a suspension and an issuer's efforts to address those to seek a restoration of listing, will differ from one case to another.
- 15.12** We propose to carry this approach over to the UKLR and to introduce a new requirement for all issuers to contact the FCA immediately prior to any of its securities having been suspended for more than six months to discuss whether a cancellation of listing is appropriate or whether the securities can remain suspended for a further period to be agreed with the FCA. This would ensure that a company's securities are not suspended 'indefinitely' in the absence of the company taking steps to work towards a restoration of listing and prevent investors from having their holdings locked up in securities that in certain situations have no prospects of being restored. In addition, it would avoid scenarios where a company has undergone significant transformational change to its business or board directors during the period of suspension subsequently seeking a restoration of listing.

## Transfers between categories under UKLR

- 15.13** In this section we explain the proposed approach for general transfers between categories, excluding certain transitional provisions. Transfers between categories as part of the implementation and transition to the UKLR are set out in Chapter 16.
- 15.14** We propose to retain the current approach to transfers between listing categories set out in LR 5.4A but update the requirements to reflect the proposed new listing categories. Transfers which would be permitted between the new listing categories are set out in the table below, along with the applicable requirements. These proposals are not intended to make material changes to the existing process.

**Table 6: Transfers permitted between categories subject to FCA approval**

From Category	To Category	Shareholder vote & announcement	Announcement only	Appointment of sponsor
Commercial companies	Closed-ended investment funds	Yes	-	Yes
	Shell companies	Yes	-	Yes
	Secondary listing	Yes	-	No
	Open-ended investment companies	Yes	-	No
Closed-ended investment funds (in the event they became a commercial company)	Commercial companies	Yes	-	Yes
	Secondary listing	Yes	-	No
Transition	Commercial companies	-	Yes	Yes
	Closed-ended investment funds	-	Yes	Yes
	Shell companies	-	Yes	Yes
	Secondary listing	-	Yes	No
	Open-ended investment companies	-	Yes	No

From Category	To Category	Shareholder vote & announcement	Announcement only	Appointment of sponsor
Secondary listing	Commercial companies	-	Yes	Yes
	Closed-ended investment companies	-	Yes	Yes
	Shell companies	-	Yes	Yes
	Open-ended investment companies	-	Yes	No
Open-ended investment companies	Commercial companies	-	Yes	Yes
	Secondary listing	-	Yes	No

**Q43:** Do you agree with the proposed approach for the permitted transfers between the new UKLR categories? If not, please explain why.



## Chapter 16

# Implementation and transition arrangements

- 16.1** This chapter explains our proposed approach to implementation and transition should we proceed with the new UKLR structure, including:
- how existing issuers would be mapped to their relevant listing category at implementation
  - our approach for dealing with applications for premium listing (commercial companies) and for standard listing (shares) that are in-flight at the date of implementation
  - our approach for dealing with applications to transfer between listing categories that that are in-flight at the date of implementation
  - how we propose to create a proportionate transfer process to facilitate, post implementation, the transition for certain existing issuers of standard listed shares to the proposed commercial companies category, the proposed shell companies category or the proposed secondary listing category
  - transitional arrangements that would be specific to the proposed shell companies category
  - how we would treat mid-flight transactions that may be occurring at the date of implementation, in particular focusing on current premium listing rules for significant and related party transactions
  - an indicative implementation timeframe for the overall reform

## CP23/10 proposals

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- 16.2** In CP23/10 (Chapter 8) we asked for views on what transitional arrangements may be required and how long issuers may need to prepare and to implement the proposals we had set out.

## Feedback

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- 16.3** Approximately 25 respondents provided views in this area, with the key themes as follows:
- Just under half the respondents said the move to the commercial companies category should be quick and simple for existing premium listed issuers.
  - A similar number noted that standard listed issuers would need more time to move to the commercial companies category given the additional requirements it would impose, with suggestions for a transitional period ranging from one to 4-years (with most suggesting around 2-years). There was an implied presumption in some

cases that we would require standard listed issuers to converge into the single category on a fixed timescale which could create the risk of de-listings.

- Some also said more consideration was needed of how overseas incorporated issuers or those with a secondary listing in the UK (ie, where their 'main' listing is in another jurisdiction) would be catered for in the new listing structure.

**16.4** We set out detailed proposals for transition and implementation under the new regime below, however our proposed approach to share categories is also relevant in terms of current standard listed issuers, as described in Chapter 15.

## Our intended approach to implementation and transitional arrangements

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**16.5** In designing our approach to implementation of and transition to the proposed UKLR regime, we have sought to achieve a smooth process that would:

- allow premium listed issuers to benefit quickly from the alleviations that our proposals would introduce
- provide sufficient time for existing standard listed issuers to adapt to any additional requirements and to mitigate the risk of de-listings
- minimise the need for transitional provisions that would complicate the UKLR post implementation or defer the benefits that it would bring
- facilitate, and avoid disruption to, applications and transactions underway, that span the implementation period

## Mapping to new listing categories for existing issuers

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**16.6** As explained in Chapters 12 and 13 (and summarised in Diagram 1, Chapter 3), we are proposing five new categories to replace the current scope of premium listing (LR 6) and standard listing (LR 14) categories for equity shares in commercial companies, non-equity shares and non-voting equity shares. Among the new categories is the transition category which would provide a destination for existing standard listed issuers and preserves the obligations of standard listing. It will be closed to new listings. Issuers in the transition category will be able to apply to transfer to the commercial companies category when they are ready to do so.

**16.7** As part of the implementation of the new regime, we propose to map existing issuers' existing listings to the new categories in the UKLR on the implementation date of the UKLR, as shown in Table 7 below. This means that on the implementation date the Listing Category field of an issuer's entries on the Official List will be updated to display the new category relevant to the line of securities in question.

**16.8** Issuers in the six listing categories that we plan to retain as they currently exist post implementation (also summarised in Diagram 1, in Chapter 3) would remain in their existing category. Where we propose to modify the name of the category, this would be reflected on the Official List at implementation. We have not included these in Table

7 below, as the securities would not require mapping. This would include securities of closed-ended investment funds and open-ended investment companies that are currently in LR 15 and LR 16A respectively.

- 16.9** The mapping process would be based on FCA analysis of the Official List. The proposed mapping would be communicated to issuers prior to the new rules coming into force. Issuers who think they have been incorrectly allocated would have a period of four weeks to respond and discuss with the FCA. Where an error is identified we will revise the proposed mapping.
- 16.10** Currently, listed closed-ended investment funds can have additional classes of equity shares listed under LR 14. Where this is the case, these listings would map automatically at implementation to the transition category, after which the issuer could apply using the standard transfer process to transfer these classes of equity shares to the closed-ended investment funds category.
- 16.11** Currently LR 14 also includes legacy open-ended investment companies (ie, those not listed currently under LR 16A). These issuers would also map automatically at implementation to the transition category and could apply using the standard transfer process if they wish to transfer to the open-ended investment company category thereafter.
- 16.12** The table below summarises how issuers would be mapped to new categories. Existing categories that we propose to retain are not shown.

**Table 7: Proposed mapping to the proposed five new listing categories for existing issuers**

Existing issuer type		Automatic mapping to new listing category	
Premium listed commercial companies	LR 6	Commercial companies category	UKLR 5
Premium listed shell companies	LR 6	Shell companies category	UKLR 13
Premium listed sovereign commercial companies (currently no issuers listed under this chapter)	LR 21	Commercial companies category (no existing issuers)	UKLR 5
Standard listed equity shares in commercial companies	LR 14	Transition category	UKLR 22
Standard listed SPACs and other shell companies	LR 14	Shell companies category (only if in our view they meet the specified definition of a shell company for the purposes of this category, otherwise they move to Transition category)	UKLR 13
Standard listed Secondary listing (of equity shares in commercial companies)	LR 14	Secondary listing category (only if in our view they meet the specified scope of this category, otherwise they move to Transition category)	UKLR 14
Standard listed Non-equity shares and non-voting equity shares	LR 14	Non-equity shares and non-voting equity shares category	UKLR 16

## Our approach to in-flight listing applications

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### Proposed definition of an in-flight listing application

**16.13** We recognise there may be cases where existing applications for listing span the period before any rule changes are made, and, if we proceed, the point at which the new UKLR commence. For the purposes of the approach outlined in this section below, we propose to define an 'in-flight' application as:

- A complete submission to the FCA for an eligibility review by an applicant for admission of securities received by 4:00 pm on the date the Policy Statement is published, where admission to listing is expected to be after the commencement date.

**16.14** Incomplete submissions at by 4:00 pm on the date the Policy Statement is published would not be treated as in-flight and would either need to be considered under eligibility requirements for a new UKLR category (which would exclude the 'closed' transition category) or lapse. The submission itself would need to be substantially complete. Any submission submitted after the specified deadline would need to be submitted according to the proposed new UKLR.

### Approach to in-flight applications

**16.15** We propose that in-flight applications would be treated, at the point the UKLR comes into force, as being an application for the corresponding new UKLR listing category as shown in Table 7.

**16.16** Therefore, in-flight listing applications for the premium-listing commercial company equity shares category would be treated as an application for the new commercial companies category. In this scenario, the eligibility requirements of the commercial companies category would be similar or less onerous for the applicant.

**16.17** For in-flight applications to the standard listing shares category, the intention is to maintain, for these applicants, the status quo regarding the eligibility requirements they are assessed against. The intention is to avoid such applicants potentially delaying their float plans while they re-assess their ability to comply with additional eligibility requirements required by a new UKLR category.

**16.18** In-flight applications to the standard listing shares category would have the option to revise their eligibility submissions to explain how they would comply with the new UKLR eligibility requirements for a different category if they wish.

**16.19** We propose in-flight applications to standard listing that correspond to either the transition category, the shell companies category or the secondary listings category have a period of 1-year to complete the admission process from the date of implementation of the UKLR, after which time the application would lapse. The proposed 1-year period would also lapse if there were a material change to the applicant's overall business proposition during the transitional period. If such a change

has occurred, it would be treated as a new submission, so the transitional arrangements will not apply.

- 16.20** Furthermore, we would continue with our existing approach of lapsing cases where there has been no substantive activity for a period of three months. Where a case subject to the transitional provision has been lapsed in this way, any further submissions would be treated as new.
- 16.21** All in-flight applicants would need to consider the proposed new requirements that would apply to all issuers, as detailed in Chapter 14.

## In-flight transfers between categories at implementation

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- 16.22** The existing regime contains provisions, set out in LR 5.4A 'Transfer between listing categories', which enable an issuer to convert between listing categories. In the event an issuer is in the process of transferring between listing categories at the point of implementation we propose that it be considered in the same way as in-flight applications.

**Q44:** Do you agree with our proposed approach for dealing with in-flight transfers between listing categories at the time the UKLR is implemented? If not, please explain why.

## Post implementation transfer of issuers from the transition or secondary listing categories

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- 16.23** We are proposing that, from the implementation date, current standard listed commercial company issuers mapped to either the transition category or the secondary listing category would be able to apply to the FCA to transfer to the commercial companies category. As part of the application process, they will need to satisfy the proposed additional obligations of the commercial companies category.
- 16.24** To streamline such transfers, where appropriate, we are proposing a modified form of the current LR 5.4A 'Transfer between listing categories' process. The modified transfer process would include an eligibility assessment focused on additional requirements and require the appointment of a sponsor to undertake a targeted sponsor service.

### Modified transfer process

- 16.25** To be eligible to use the modified transfer process, standard listed issuers mapped to the transition or secondary listing categories would need to demonstrate that they have complied and are able to comply with their listing obligations under the LR and UKLR, respectively.

**16.26** To achieve this, we propose to set criteria that they must:

- Have had their shares admitted to the Official List for at least 18-months on a continuous basis (with the intention that this period would include publication of at least one annual financial report following admission).
- Not have any securities (whether or not the subject of the proposed transfer) currently or in the last 18 months, suspended from listing.
- Not be undergoing or recently undergoing, ie, in the last 18 months a significant change to their business. For example, an issuer that has a reverse takeover in contemplation would not be able to use this transfer process.

**16.27** The transfer process would not require an assessment of an issuer's ability to comply with all the commercial companies category eligibility requirements, as would be the case for a new listing application, given many would overlap with the requirements already satisfied by an issuer at the point they were initially listed. Instead, the transfer process would only involve an assessment of the limited number of eligibility requirements that are additional to the existing eligibility requirements in LR 14.

**16.28** Specifically, this assessment would focus on an issuer's ability to comply with:

- Controlling shareholder rules (currently LR 6.5, see paragraphs 5.16-5.21 on the commercial companies proposals); and
- Constitutional arrangements (currently LR 6.9, see paragraph 5.33 onwards on the commercial companies category proposals)
- Externally managed company requirement (currently LR 6.13, see paragraph 4.21 on the commercial companies category proposals).

**16.29** In addition, the targeted assessment will consider if the directors of the issuer have established procedures that enable the issuer to comply with the additional continuing obligations (versus current LR 14) that would apply if the transfer is granted and require a sponsor's declaration to this effect. This would include the issuer having procedures in place to:

- Identify potential transactions that may amount to significant or related party transactions and understand the relevant disclosure or other obligations that would apply in such situations.
- Comply with additional annual reporting obligations (eg, comply or explain against the UK Corporate Governance Code).

**16.30** In considering whether to approve an application to transfer to the commercial companies category, the FCA will consider several factors and may conclude that the standard rather than modified transfer process is appropriate.

**16.31** The modified transfer process would not be time-limited. However, it would be kept under review alongside the transition category, as discussed in Chapter 13.

## **Communications with shareholders**

**16.32** We do not propose to require a shareholder vote for transfers from the transition category or the secondary listing category to commercial companies category under

the modified transfer approach. This is because the effect of the transfer would be an increase in issuer obligations to the benefit of shareholders. However, we are proposing an announcement of a transfer be required via a regulatory information service (RIS), as part of this process.

### The sponsor's role

- 16.33** We propose the appointment of a sponsor would be required when an issuer applies to use this transfer process. The sponsor would be required to take reasonable steps to satisfy themselves that the directors of the listed company concerned understand their additional responsibilities and obligations under the UKLR in relation to the commercial companies category. Sponsors would confirm the listed company has in place adequate associated procedures.
- 16.34** Sponsors would not be required under this transfer process to undertake a broader assessment, given the focus on additional obligations only. For example, sponsors would not be required to make a declaration against whether the directors of the issuer concerned have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the issuer and its group (LR 8.4.15(4)R). Instead, there would be a presumption that issuers have appropriate systems and controls in place on these areas given they are already subject to relevant LR, DTR and MAR.
- 16.35** However, a sponsor would have an obligation to confirm, within the context of the targeted assessment undertaken, that it has not identified any adverse information that would lead it to conclude the issuer would not be able comply with the commercial companies category listing requirements.
- 16.36** A new sponsor declaration form covering the transfer process would be created for the modified transfer process.

### Other transfer scenarios

- 16.37** If an issuer mapped to the transition category becomes eligible to transfer to either the shell company category or the secondary listing category that issuer could, if it wished, apply to transfer to either of those categories and the modified transfer process would also be applied if the issuer meets the criteria. The modified transfer process in these instances would assess the additional obligations in the context of those categories, eg:
- In the case of the shell company category, the additional obligations are those requirements set out in Chapter 13, paras 13.34 to 13.48, and would include a requirement to appoint a sponsor.
  - In the case of the secondary listing category the additional obligations would be those set out in Chapter 13, paras 13.20 to 13.27. A sponsor would not be required to be appointed in this case.

**Q45: Do you agree with our proposed modified transfer process for standard listed issuers automatically transferred into the transition category or secondary listing category that may wish to transfer to the commercial companies category (or the shell companies category or the secondary listing category) post implementation?**

## Transitional provisions for specific listing categories

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**16.38** There are no category specific transitional provisions proposed for the:

- commercial companies category
- transition category
- secondary listing category
- non-equity shares and non-voting equity shares category, or
- any of the retained categories, including the closed-ended investment fund category or the open-ended investment companies category

**16.39** However, there are specific transitional provisions proposed for the shell companies category and we explain those below.

### Shell companies category transitional provisions

**16.40** In the case of both existing issuers and in-flight applications mapped or converted to an application to the shell companies category, we propose a transitional period of 3-years to allow time for SPACs or other shells companies to either complete their operations or make the necessary changes to comply with the proposed additional requirements, as set out in Chapter 13. The 3-year transitional period would start from the date the UKLR comes into force. Therefore, for in-flight applicants admitted to the new category at a point in time post-implementation of the UKLR (which must occur within one year of the UKLR implementation date), the transitional period would be less than 3-years.

**16.41** An exception to requirements that would apply when the 3-year transition period expires, is the proposed new requirement for the monies raised from public markets to be ring-fenced, via an appropriate independent third party. As this is a point in time requirement, it could not be retrospectively applied and so this will be generally dis-applied for existing issuers mapped to the new category or in-flight applications to list for the new shell company category.

**16.42** Issuers in the shell companies category relying on the transitional period would be identifiable by a list on the FCA website.

**16.43** We consider a 3-year transitional period to be a practical and reasonable approach for these issuers. A significant majority of existing listed shell companies are SPACs. Our analysis indicates that at the point of listing many have communicated to investors a time limit on their operations that would be within the proposed 3-year period. A 3-year time limit on operations is also current market practice. As a result, many existing issuers



mapped to this category would be able to rely on the transitional provisions prior to completing an acquisition or ceasing their operations.

**16.44** Given this, we expect there may only be a small number of existing shell companies at the end of the 3-year transitional period that would need to comply with the proposed new requirements for this category. In order to comply with the proposed requirements at the end of this period, it may be that an existing issuer would need to make changes to its constitution. An existing issuer that remains in the shell company category and is unable to comply with requirements at the end of the 3-year period would need to contact us to request a cancellation of listing, as it would no longer meet its ongoing conditions for listing.

**Q46: Do you agree with our proposed transitional arrangements and specific transitional provisions for 'mapped' existing issuers and conversion of 'in-flight' applications at the time the UKLR is implemented? If not, please explain why.**

### **Transitional provision for proposals impacting all categories**

**16.45** We are proposing new requirements for all issuers, that would apply in addition to category specific requirements. For these proposals (set out in Chapter 14), we propose a transitional provision allowing all existing issuers (across all categories) and those in-flight applications that meet the definition as set out in para 16.13, 6-months from implementation of the UKLR to prepare and put in place appropriate systems and controls to comply.

**Q47: Do you agree with our proposed transitional provisions to allow existing issuers and 'in-flight' applicants sufficient time to prepare for implementation of the proposed provisions that would impact all issuers?**

### **Impacts on 'mid-flight' transactions undertaken by existing premium listed issuers and related sponsor role, and approach to transitional provisions**

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**16.46** We are proposing to apply the new transaction requirements (replacing premium listing requirements) and related sponsor services with immediate effect on the implementation day, when the new UKLR come into force. We set out below how this will impact mid-flight transactions for issuers with a premium listing, how it will impact existing 'sponsor services', and relevant transitional provisions.

#### **Impact on mid-flight transactions**

**16.47** Issuers with a premium listing who are part way through a transaction that has not yet completed, at the point the UKLR reforms come into force, would no longer be required

to comply with premium listing obligations that have not been carried forward into the UKLR.

- 16.48** These companies should be able to consider the particular circumstances of the transaction, what has been communicated so far to their shareholders, and inform shareholders how they intend to proceed.
- 16.49** We are proposing some minor, transitional provisions that are intended to remove unintended consequences of switching to the UKLR from premium listing, and to remove uncertainty of how the UKLR impact mid-flight transactions that would have been subject to premium listing requirements immediately before the implementation day.
- 16.50** For the commercial companies and closed-ended investment funds categories, their key purpose will be to remove possible information gaps that might arise where the transaction has already been notified under premium listing requirements but not completed. For example, where disclosure requirements for a significant transaction or a related party transaction have been moved from the circular in premium listing to the notification in UKLR. They will also clarify how the aggregation rules, and the supplementary notification rules in the UKLR will apply to transactions undertaken or notified when premium listing requirements applied.
- 16.51** These transitional provisions will be included in the second tranche of the draft UKLR instrument and will cover these matters and any other minor consequential changes.

### **Impact on sponsor services**

- 16.52** A further consequence for a premium-listed issuer is that an existing sponsor service will terminate on implementation day where the sponsor service does not exist under the new UKLR.
- 16.53** In this situation, issuers will need to decide whether to continue with the sponsor firm's engagement (on a 'non-sponsor service' basis) or end their appointment. It is likely that issuers and sponsors will need to revisit their terms of engagement, along with other experts who have been retained in connection with the sponsor service.
- 16.54** Where the sponsor service is retained under the new UKLR, but its scope is changed from premium listing (the changes to take effect on implementation day) issuers and sponsors will also need to consider the impact on their terms of engagement and the nature of the sponsor's role on the transaction.
- 16.55** Confirmations already provided by the sponsor to the FCA under earlier sponsor declarations will remain valid, however the obligation on the sponsor to provide information to the FCA 'for so long as it is providing a sponsor service' would automatically terminate on the implementation day where the sponsor service also terminates.
- 16.56** Where a sponsor service has started under premium listing rules and is retained under the new UKLR in a modified form, the sponsor service continues, and the sponsor should adjust the provision of its service to take account of the new rules.

**Q48: Do you agree with these impacts at implementation day and our approach to transitional arrangements for post IPO mid-flight transactions (when commenced in premium listing) and related sponsor services?**

## Implementation timings

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**16.57** As set out in Chapter 1, it is our intention to publish our final rules in summer 2024, with a proposed short period of 2 weeks before the rules come into force subject to consultation feedback and FCA Board approval of the final UKLR.

**16.58** The short period between publishing final rules and when they come into force is designed to allow premium listed issuers to benefit quickly from the changes the reforms would bring. All new listing submissions for eligibility review received on or after the implementation date would be required to be submitted in accordance with the new UKLR process and requirements.

**Q49: Is the proposed period of 2 weeks between publication of the final UKLR instrument and those UKLR coming into force reasonable, assuming we proceed broadly as proposed?**

## Wider implementation considerations – investors and index inclusion

**16.59** We recognise that our proposal to achieve a smooth implementation of the proposed UK Listing regime may also be impacted by other factors. While final rules may differ from the draft rules we are consulting on, investors should start considering whether they would make any potential change to their investment processes or strategies should we proceed, particularly for existing investors in premium listed companies.

**16.60** We are also aware that key index providers currently set inclusion criteria for UK listed companies linked to our premium listing rules. Our proposals would mean those providers would need to re-consider what criteria they or their users consider most appropriate to determine constituents of a given index. It will remain open to index providers to set higher or different standards to our proposed UKLR, or create alternative indices reflecting different users' investment preferences. Index providers may choose to consult on any changes that they propose. The timing of such considerations may further impact the implementation of our proposed reforms.

**16.61** Passive funds that seek to track the performance of indices for UK-listed shares may also need to consider changes to their investment mandates or strategies in response to changes made by index providers. Issuers of listed equity shares may also want to understand their eligibility for index inclusion if new criteria are applied.

**Q50: Are there wider practical issues or impacts for market participants from the proposed implementation timing that we should consider?**

## Chapter 17

# Role of sponsors in the new UK Listing regime

- 17.1** This chapter sets out our proposals to carry over a modified sponsor regime as part of the proposed UKLR. This reflects the importance and value we see in the UK sponsor model, which we believe has significant benefits for issuers, investors and the FCA by ensuring a strong gateway for initial listing. We also recognise the need to ensure that sponsors think their role and our expectations of them are proportionate, and that our competence requirements are not unduly restrictive. Our aim is to ensure that a vibrant sponsor community can support our reforms to UK listed markets and continue to play a key role which supports market integrity and investor protection. We welcome further views on future technical standards and guidance, which will also inform our ongoing supervisory approach.
- 17.2** We have set out our sponsor competence proposals separately in Chapter 18, as these changes are proposed to be made to LR 8, ahead of the wider implementation of the proposed UK Listing regime.
- 17.3** Please also see details of our sponsor proposals set out in:
- Chapters 6, 8, 9 and 10, regarding the circumstances post initial admission to listing where a sponsor would be required to be appointed by issuers in the commercial companies category
  - Chapter 12, regarding the circumstances post initial admission to listing where a sponsor would be required to be appointed by issuers in the closed ended investment funds category
  - Chapter 143, regarding the circumstances post initial admission to listing where a sponsor would be required to be appointments by issuers in the shell companies category
  - Chapter 154, regarding the Listing Principles
  - Chapter 16, regarding transitional arrangements

## Current approach and CP23/10 proposals

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- 17.4** In CP23/10, we proposed applying the sponsor regime to:
- The proposed commercial companies category
  - Issuers transitioning to the commercial companies category from another category
  - The closed-ended investment fund category, to maintain the current application
  - And potentially to SPACs and other shell companies
- 17.5** We also proposed amending the requirements that set out sponsor competence, and that is discussed in Chapter 18.

## Feedback

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**17.6** Around 30 respondents to CP23/10 commented on the general proposals for sponsors. There was a good level of support for our proposed approach, but some of the concerns raised included the following:

- Additional guidance for sponsors would be welcomed by some (around 10), to clarify the role and expectations of sponsors eg, in relation to record keeping requirements, or more specifically to help sponsors understand how their role would change under the reforms in assessing new eligibility criteria or continuing obligations.
- Around 10 respondents queried the availability or willingness of sponsors to provide services required under the reforms.
- A small number raised proportionality concerns, especially regarding the impact of the proposals on smaller companies.
- The possible simplification of the sponsor declaration to reduce regulatory risk to which sponsors are exposed was also raised.

**17.7** Sponsor firms had particularly strong views in relation to the first and second points outlined in paragraph 17.6, in terms of the perceived impact of existing rules and guidance in conjunction with supervisory reviews we have conducted. For some, the combined effect of our rules and supervisory approach over time has been to ratchet up compliance burdens to what they felt were disproportionate levels, and potentially beyond that which the FCA actually expects. This has led to a negative view on the sponsor role and undermining the intended benefits of the regime for the FCA, issuers, investors and sponsors. Please also see feedback from follow-up engagement (paragraph 17.9).

### Feedback from further engagement

**17.8** Following the end of the CP23/10 consultation period, we have had roundtable discussions with a number of sponsor firms to better understand their concerns, and how best to address these as we transition to a potential UK Listing regime.

**17.9** The feedback from this engagement focussed on a number of areas as follows:

- The sponsor's role in coordinating a due diligence package, in particular the level of expertise expected of sponsors in specialist areas and expectations when relying on a third party.
- A mismatch between our expectations regarding record keeping and market practice in this area.
- The extent to which the sponsor role is fully understood by companies seeking to IPO.
- The potential for there to be misunderstanding within firms over the intention of our supervisory approach and follow up communications.
- The nature and extent of the due diligence expected on a transfer of ex-standard listed issuers to the commercial companies category.

## Proposals for applying the sponsor regime in the UKLR

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### Benefits of the sponsor regime and proposed application

- 17.10** The sponsor regime supports well-functioning markets, through ensuring that a company is supported and receives high-quality expert advice during the preparation and submission of an application to list, or at other key points once listed. The support and high-quality advice provided by sponsors to issuers helps to safeguard market integrity and to protect investors.
- 17.11** Our previous related publications DP22/2 and CP23/10 set out in detail the importance and value that we see the sponsor regime brings, and explained that we were minded to retain a role for the sponsor regime in the reform of the listing rules, and to apply it to the proposed single commercial companies category. This approach would bring the markets for listed securities more in line, although there would still be differences, with other UK markets such as AIM and AQSE, that require a Nominated Adviser (NOMAD) or corporate advisor (on an ongoing basis). We believe that the involvement of a sponsor at key events in an issuer's life will improve the quality of applications we receive and issuer readiness and ongoing compliance with listing and transparency rules.
- 17.12** The sponsor regime is also designed to be a cost effective and proportionate way for the FCA to obtain assurance on the ability of an issuer to meet required standards. The sponsor plays an important role in supporting the FCA's decision making. The gateway role at admission to listing will increase in importance if, as intended, we see a wider variety of issuers seeking to list in the UK. Whilst we would not expect sponsors to remove investment risks for investors, they have an important role to play in the FCA's consideration of whether a listing would be detrimental to investors (see 75(5) FSMA). They would continue to assist the FCA in providing scrutiny to transactions, providing assurances to the FCA and helping the FCA to use its powers where there may be investor detriment.

### Scope of application of the sponsor regime

- 17.13** We propose to apply the sponsor regime, as outlined in CP23/10, to the listing categories set out in paragraph 17.4

### Sponsor role at the listings gateway

- 17.14** Prior to admission, a sponsor assesses and provides assurance to the FCA that an issuer has met the listing and prospectus requirements and has established procedures to be able to comply with applicable listing obligations going forward. This sponsor service improves the quality of listing applications at the gateway, which has the effect of generally reducing application times versus what we might expect if the sponsor role was removed. The provision of a sponsor service means the FCA is often able to take a less intrusive role when assessing an application to list. Based on experience from our standard listed segment, applicants without sponsor advice are also likely to receive more comments and 'turns' of documents before a completed listing application and prospectus is approved, increasing time and execution risk.

- 17.15** Without the sponsor regime, the FCA would need to consider alternative means of obtaining the necessary comfort that an applicant or listed issuer meets the relevant listing requirements, which could involve the FCA having to obtain additional resources to perform some of the roles performed by a sponsor, which could have a detrimental impact on application process times and fees.
- 17.16** We consider that the appointment of a sponsor should give comfort to issuers and boards seeking to list in the UK and reduce perceived risks. For example, the sponsor plays an important role in supporting boards of new applicants to understand and meet the requirements of the rules and the regulatory duties they will assume.
- 17.17** The sponsor's role at the listing gateway would remain largely unchanged, except they would no longer have to assess whether an applicant meets the historical financial information, 3-year financial track record or clean working capital statement eligibility requirements that currently apply under the premium listing rules. As proposed in Chapter 4, these eligibility requirements are not proposed to form part of the requirements for listing in the commercial companies category. Sponsors' due diligence could therefore adjust to no longer take these into account when assessing eligibility. But, as noted below, companies would still need to have a prospectus, the content of which would contain historical financial information, including revenue track record, for up to 3 years, and a working capital statement.
- 17.18** Under the reforms set out above, where we are proposing to remove eligibility requirements as compared to premium listing, sponsors would not be required to continue to assess against the removed criteria. Our reforms would pass greater investment risk to investors and greater responsibility on to shareholders. We would not expect sponsors to mitigate or compensate for those additional risks or 'back fill' where eligibility requirements would be removed compared to premium listing.
- 17.19** The sponsor would still have a role in undertaking reasonable enquiries on an applicant's prospectus, including considering whether an issuer has a reasonable basis for any working capital statement within a prospectus and that its historical financial information is complete and accurate as part of the sponsor assurance provided. The requirement for a sponsor to take reasonable steps to ensure any communication or information it provides to the FCA in carrying out the sponsor service is accurate and complete in all material respects, is proposed to be retained (LR 8.3.1AR refers). As such, we expect the overall due diligence process at initial listing to remain similar. Should a company seek to list that has a more limited track record, due and careful enquiry by a sponsor is still expected.
- 17.20** Sponsors, where one is required, would have to consider as part of their due diligence the new requirements and systems and controls that issuers would need to have in place to be able to comply with the new continuing obligations proposed for all issuers, as set out in Chapter 14.
- 17.21** Sponsors would still be required to submit a sponsor declaration for an applicant (LR 8.4.3R). We propose to amend the Sponsor's Declaration on an application for listing form to take account of the proposed changes to eligibility requirements for admission of shares as set out in this consultation.



**17.22** We also propose to maintain the current requirement for a sponsor to be appointed (LR 8.2.1AR) for certain transfers between listing categories, eg, an issuer would need to appoint a sponsor to transfer into the commercial companies category from other categories for equity shares such as the closed-ended investment funds category. The transfer scenarios where a sponsor would need to be appointed in the context of the proposed listing categories are set out in Table 7 in Chapter 15.

**17.23** In addition, in Chapter 15 regarding proposed implementation and transitional arrangements, we explain the role that we envisage sponsors would have in assisting issuers that apply to transfer from the transition category or the secondary listing category to the commercial companies category under the modified transfer process available for existing standard listed issuers.

**Q51: Do you agree with our proposed approach and clarification around sponsors' role at the listings gateway for the relevant categories?**

### **Sponsor role post IPO – commercial companies category**

**17.24** For transactions undertaken after the issuer has been admitted to listing, the work that the sponsor undertakes, and the confirmations that it provides to the FCA help us to establish that the issuer is in compliance with its obligations and has procedures in place to maintain this compliance going forward. This supports our decision making in approving circulars and prospectuses, and in admitting shares to listing.

**17.25** Under the proposed reforms set out above, post-IPO, the role of sponsors in supporting issuers listed in the commercial companies category would be more targeted under our proposed approach, to focus on:

- Significant further increases in the issuer's listed share capital involving an FCA-approved prospectus (although the FCA will further explore when prospectuses are required for further issuances involving admissions to regulated markets as part of consulting on the POATR in during 2024).
- Related party transaction fair and reasonable opinions
- Where the issuer is proposing to enter into a reverse takeover.

**17.26** We see sponsors continuing to play an important role throughout these processes which we discuss further in Chapters 5 to 12.

**17.27** Where the FCA is asked to grant a listing application for a further issue of shares in the commercial companies category, or approve a circular or prospectus, we would continue to seek the range of sponsor confirmations that we currently require in premium listing, and for certain other matters connected with reverse takeovers. These are also set out in our online 'Sponsor Declarations' and other forms (which would be appropriately amended to remain aligned with our requirements in the UKLR):

- Sponsor's declaration on the production of a circular form
- Sponsor's declaration on an application for listing form
- Sponsor's declaration on a reverse takeover announcement form



- Application for admission of securities form
- Pricing statement form

**17.28** We intend to publish the revised forms, for use with the UKLR, later in Q1 2024.

**17.29** We recognise that the mandatory sponsor oversight and assurance is a substantial role, and the sponsor assurances are not given lightly to the FCA. We would be interested in any further views from stakeholders at this stage on whether and how our approach to sponsors could be more proportionate in the commercial companies category.

**Q52: Do you agree with our approach to the retained sponsor confirmations to the FCA on post-IPO transactions? If not, please explain your preferred alternative approach and the reasons for it.**

## Proposals to support a proportionate and effective compliance approach for sponsors

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### Our intended approach

- 17.30** Given the value we place on the sponsor regime and the critical work of sponsors in providing expert guidance to issuers and providing assurance to the FCA so that it can fulfil its own functions efficiently, it is important that the regime is clearly understood and capable of being properly supervised by the FCA.
- 17.31** We recognise that some disproportionate market practices may have evolved in response to the risk of regulatory action, and we acknowledge feedback that suggests that sponsors have felt an undue burden to, for example, maintain records. We also recognise that the role presents significant risks to firms and individuals undertaking it, particularly where its function is not well understood by other parties. We have also heard concerns that sponsor firms may be less well placed than other experts to provide assurances in relation to, for example, accounting or ESG matters.
- 17.32** We expect sponsors to act proportionately but to also uphold the standards that we are expecting. Alongside the publication of the second tranche of the draft UKLR instrument, we plan to consult on detailed guidance to clarify our supervisory approach and expectations of sponsors through revisions to Technical Notes. We will also continue our engagement with sponsor firms.

### Sponsor declaration

- 17.33** Our competence rules require that sponsors retain staff that understand the importance of the sponsor declarations and the reliance placed on them by the FCA; however it is the sponsor firm that provides the declaration and not an individual. Existing guidance makes this clear (UKLA/TN/715.1), but we are considering how we can provide further reassurance on this point. In this context, we also propose to issue guidance to cover how we supervise sponsors, including how and why we perform

sponsor reviews, as we are aware that our letters to sponsors following these reviews require careful consideration by sponsors, and can involve considerations around the performance of individual sponsor staff members.

## Technical Notes

- 17.34** We propose to review Technical Notes which provide guidance to sponsors to ensure they reflect the UKLR proposals and support sponsors in making proper judgements. Revisions to the approach we take to our supervisory reviews may also be necessary.
- 17.35** Under the UKLR proposals, sponsor services could potentially be provided to a wider variety of industry sectors and companies of different sizes and types. Therefore, it is even more important that sponsors appropriately adjust or tailor their approaches for different cases and scenarios to ensure proportionality. As experts in the regime, we want to encourage a wider range of firms to perform this role and for those sponsors to use their knowledge and experience to make sensible judgments and adopt a proportionate approach to the due diligence they undertake.

## Use of third-party experts

- 17.36** With regard to the feedback to CP23/10 and subsequently via our roundtable discussions with a number of sponsor firms that sponsors may not be experts in matters such as accounting or ESG, the current rules acknowledge that the use of third-party experts is sometimes a necessary part of the package of due diligence undertaken. We do not expect sponsors to be experts in all areas/professions eg, accountancy, law, climate change etc, or to re-do the work of such experts. We recognise that sponsors will need to place reliance on those third party experts. However, we do expect sponsors to be experts in the listing regime and within that context to use their knowledge, judgment, and expertise to review and appropriately challenge third party information. We would encourage sponsors to challenge themselves as to whether they are taking a proportionate approach and we will consider how we can further support sponsors to achieve the right balance and exercise appropriate judgement. (LR 8.3.1BG refers).

## Record keeping

- 17.37** Feedback and sponsor engagement suggests that a combination of sponsor record keeping requirements, risk of regulatory action and established market practice may be driving an overly cautious and disproportionate approach to record keeping by some sponsors. A small number of respondents highlighted that without further clarity on record keeping requirements within the context of the proposed reforms, the cost of being a sponsor may impact the appetite of some firms to perform this role going forward. It was suggested that sponsors should be able to take a risk-based approach to record keeping on transactions as long as they can demonstrate a reasonable basis for the decisions taken.
- 17.38** As noted in CP23/10, DP22/2 feedback generally considered the Handbook record keeping rules and requirements to be sufficiently flexible to accommodate proportionality

depending on the transaction being overseen, but there were some calls for more clarity of the FCA's expectations in practice.

- 17.39** Having considered feedback, we are not proposing to make any changes to our rules and guidance in relation to sponsor record keeping requirements. However, we do want to ensure the policy intention of flexibility and proportionality is something sponsor firms feel able to apply in practice. We are keen to strike the right balance between safeguarding our ability to consider a sponsor's actions ex post and preventing the creation of a disproportionate administrative burden for sponsors. This will be something we take forward with sponsors as part of our supervisory approach and ongoing engagement, with the intention of seeking to ensure that sponsors feel able to exercise their judgement and take a proportionate approach as permitted by our rules.

**Q53: Do you agree with our proposals to clarify the role of sponsors under the UKLR?**

## Principles for sponsors

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- 17.40** We propose to make some minor clarifications to the principles for sponsors (currently LR 8.3.3R to LR 8.3.15G).
- 17.41** A sponsor must, in relation to a sponsor service, act with honesty and integrity. Currently this principle sits under the principles that relate to a sponsor's relations with the FCA (LR 8.3.2BR). To make it clear that this requirement is not limited to a sponsor's engagement with FCA, but more broadly to the undertaking of a sponsor service (recognising the sponsor service is provided to applicants and issuers), we propose to make this a standalone principle (UKLR 24.2.7R).

**Q54: Do you agree with our proposed modifications to the principles for sponsors? If not, please explain why.**

## Chapter 18

# Proposed changes to current sponsor competence rules for the premium listing segment

- 18.1** This chapter sets out proposals to amend the current LR 8 (Sponsors: Premium listing) sponsor competence requirements, in light of the current low levels of market activity. The changes proposed, if implemented, would come into force ahead of the proposed wider reforms, but would also subsequently roll over into the proposed UKLR 24 Sponsor chapter, which would set out the rules applicable to sponsor firms and firms applying to be sponsors.

### Current approach and CP23/10 proposals

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- 18.2** In CP23/10, we set out preliminary proposals to amend the requirements that set out sponsor competence, to widen the range of experience that could be taken into account. The intention being to ensure we have sufficient number of sponsor firms available to provide services to existing issuers and a potentially wider range of issuers under the proposed reforms. We said we would provide more details in our follow-up consultation.

### Feedback

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- 18.3** There was general support among the respondents (around 30) that provided comments on this topic. Most generally supported the idea of widening the criteria for demonstrating sponsor competence to introduce more flexibility.

### Proposals to amend sponsor competence requirements

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- 18.4** We recognise that fluctuating levels of primary market activity can mean that at certain times some sponsors may struggle to meet the current competence requirement under LR 8.6.7R(1) to have submitted a sponsor declaration in the prior 3-years.
- 18.5** Given this, and the fact that sponsors could provide services to a wider variety of issuers that could seek admission to the proposed commercial companies category, it is important that we make changes to our sponsor competence requirements to adapt to both the proposed UKLR approach and fluctuating levels of market activity.
- 18.6** We are proposing modifications to how a sponsor, or a person applying for approval as a sponsor, demonstrates their competence to perform sponsor services.

- 18.7** Currently, a key element of competence is for sponsors to have submitted a sponsor declaration to the FCA within the previous 3-year period (LR 8.6.7R(1)(b)). We propose to extend the time period from 3-years to 5-years.
- 18.8** We also propose to recognise that a firm may be able to demonstrate competence through experience gained from providing certain corporate finance advisory services to issuers with securities admitted (or proposed to be admitted) to a UK recognised investment exchange and a market capitalisation of at least the amount specified in LR 2.2.7R (currently greater than £30 million), in the previous 5-years. We would still expect sponsors to be sufficiently experienced and comply with their obligations under our rules, but we consider that experience of advising on a wider range of transactions and different issuer types could be taken into account when assessing sponsor competence.
- 18.9** In considering whether an applicant has provided sufficient relevant corporate finance advisory services the FCA would consider a variety of factors including available evidence of:
- advising on the rules and guidance issued by a regulator or exchange
  - undertaking due diligence to support assurances of information delivered to a regulator or exchange
- 18.10** Please see guidance in the draft instrument for further examples.
- 18.11** Sponsors are also required to have a sufficient number of employees with the requisite skills and knowledge to provide sponsor services and to meet our key contact requirements (LR 8.6.7R(2)). We propose to also take employee experience providing relevant corporate finance advisory services into account when considering whether an applicant has provided sufficient relevant corporate finance advisory services.
- 18.12** Currently within the listing rules, the type of sponsor service to be performed will also be considered when assessing competence, noting that not all sponsors provide all sponsor services to all types of issuer. We consider a variety of factors, for example, the volume and size of the transactions a sponsor has provided services for or anticipates providing services for. We propose to continue this approach under the UKLR. Please see guidance in the draft instrument for further examples.
- 18.13** The FCA would also consider other factors on a case-by-case basis, including any matters that a sponsor may have been required to notify to the FCA. In the case of firms applying to be a sponsor, we propose to consider matters that would have been required to be notified in the previous 5-years had the firm been a sponsor.
- 18.14** In addition to the draft rules in Appendix 1 and Appendix 2, we include proposed consequential amendments to related Technical Notes in Appendices 4, 5 and 6.

## **Short consultation period to expedite implementation of the changes to sponsor competence requirements**

- 18.15** We propose to implement the proposals regarding sponsor competence in the spring of 2024, ahead of the proposed timeline for the wider UKLR reforms to come into force, to help position the sponsor community to continue to support existing and prospective issuers. Early implementation is also necessary to respond to the impact of recent low levels of market activity and the ability of sponsors to meet the current competence requirement based on sponsor declarations submitted in the preceding 3-years.
- 18.16** Our Primary Market Specialist Supervision Team can be contacted to discuss the process of applying to be a sponsor, in anticipation of the proposed changes to our rules. Any views provided during the consultation period in relation to the operation of the proposed rules would not constitute guidance given the related rules will remain proposals at that time.

**Q55: Do you agree with our proposed changes to sponsor competence requirements?**

## Chapter 19

# Consequential Handbook changes needed as a result of the proposed reforms

- 19.1** In this chapter we explain our approach to making changes to the other sourcebooks within the FCA Handbook that would be impacted by our proposed changes to the listing rules. These changes would be consequential in nature.
- 19.2** The draft instrument text for the sourcebooks impacted by these consequential changes will follow in second tranche of the draft UKLR instrument later in Q1 2024.

### Fees sourcebook

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- 19.3** We propose making consequential changes to the Fees Manual (FEES 3 Annex 12 and FEES 4 Annex 14) to reflect the proposed UKLR categories and other changes to the listing rules, including in relation to significant transactions. We propose to adjust transaction and periodic fees such that current fees applying to premium listed issuers will apply to issuers in the commercial companies category and fees currently applying to standard listed issuers will apply to the transition, shell companies, secondary listing and non-equity shares categories. Further, we propose to apply the current class 1 circular fee structure to circulars in relation to reverse takeovers by issuers within the commercial companies category, and initial transactions within the shell companies category. For closed-ended investment funds, we propose that the current fee structure will continue to apply.

### Other sourcebooks

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- 19.4** We have also identified consequential changes to the following sourcebooks (in Table 8), which consist of changes to reflect the proposed change from the following terms:
- Listing Rules sourcebook to UK Listing Rules (UKLR) sourcebook
  - general cross references to specific LR chapters or specific listing rules to the relevant UKLR references, and
  - premium listing to referencing the commercial companies and closed-ended investment funds categories
- 19.5** There would be other consequential changes, such as the removal of the term 'Premium Listing Principles' (in DEPP 6.2.16G through DEPP 6.2.18G) and any changes needed to update the application of DTR 7.3 (in DTR 1B1.10R and 1B1.11G), should we proceed to introduce the proposed changes set out in the consultation paper.

**Table 8: Other sourcebooks where consequential changes may be required**

Sourcebook
Code of Conduct
Statements of Principle and Code of Practice for Approved Persons
Conduct of Business
Environmental, Social and Governance
Decision Procedures and Penalties Manual
PRR Prospectus Regulation Rules
Disclosure Guidance and Transparency Rules
The Enforcement Guide

## Removing non-inclusive language

- 19.6** As part of the UKLR, and consistent with our efforts to remove non-inclusive language from our rules, we are incorporating small updates to terminology currently in use, including moving away from the default use of 'he', and replacing the term 'Chinese Walls' with 'information barriers'.



## Annex 1

### Questions in this paper

- Q1:** Based on our overall proposals for commercial companies, and taking into account the broader UK regulatory, legal and corporate governance environment, do you believe that we have struck the right balance in designing a proposed regime that enables the conditions for a stronger, more effective and competitive listed market with appropriate measures in place to support market integrity and investor protection. If not, what changes should be made?
- Q2:** Do you agree with our proposed approach to structuring the UKLR Sourcebook chapters?
- Q3:** Do you agree with our proposed approach to eligibility requirements for commercial companies and the proposed draft provisions in UKLR 5 in Appendix 1?
- Q4:** Do you agree with our proposed approach to independence and control of business for the commercial companies category eligibility and continuing obligations? If not, please explain why and any alternative approach.
- Q5:** Do you agree with our proposed approach to requirements relating to controlling shareholders for the commercial companies category eligibility and continuing obligations? If not, please explain why and provide any alternative approach.
- Q6:** Do you agree with our proposals for allowing DCSS for companies listing shares in the commercial companies category and our approach to matters on which enhanced voting rights can be used? If you disagree, please explain or suggest alternative approaches?
- Q7:** Do you agree with our proposed approach towards a significant transactions regime for the commercial companies category? Please provide any alternative views.
- Q8:** Do you agree with our proposed enhanced disclosures regime for significant transactions? If you disagree, what changes do you consider we should make and why?

- Q9:** Do you agree with changes we are proposing to clarify the scope of significant transactions and simplify our requirements, including our proposed 'ordinary course of business' guidance and revised aggregation rules? If not, please explain the areas you disagree with.
- Q10:** Do you consider that the meaning of 'ordinary course of business' can be evidenced by the existing or proposed accounting treatment of the matters that are the subject of the transaction? Please provide your reasons, if applicable.
- Q11:** Do you agree with our proposed approach to when companies should be required to appoint a sponsor on significant transactions (ie, limited to where issuers apply to the FCA to seek individual guidance, waivers or modifications)?
- Q12:** Do you agree with our approach to transactions undertaken by companies facing financial difficulty for the commercial companies category and the amendments proposed versus current premium listing requirements? If not, please explain and suggest any alternative approach, as relevant.
- Q13:** Do you agree with our proposed approach to reverse takeovers in the commercial companies category, including requiring a sponsor and FCA approval of a circular? If not, please explain what you disagree with and why, if relevant.
- Q14:** Do you agree with our proposed changes to the information to be included in the reverse takeover shareholder circular? Please explain your views and suggest an alternative approach if you disagree.
- Q15:** Do you agree with our proposed approach towards a related party transactions regime for the commercial companies category and the specific disclosure proposals for notifications? Please provide any alternative views as relevant.
- Q16:** Do you agree with how we have framed the sponsor role for related party transactions in the commercial companies category?
- Q17:** Do you agree with the other clarifications, ancillary changes and consequential amendments we are proposing for the related party transaction requirements in the UKLR(compared with current premium listing)? If not, please explain any areas you disagree with.

- Q18:** What are your views on retaining our specific listing rule definition of a related party, versus a definition based on IFRS (or other) accounting standards?
- Q19:** Do you agree with our proposed approach to matters relating to further share issuances for the commercial companies category? If not, please explain what you disagree with and why.
- Q20:** Do you agree that an issuer in the commercial companies category should be required to appoint a sponsor in connection with its further share issuance prospectus and related application for listing?
- Q21:** Do you agree with our approach to share buy-backs for the commercial companies category and the amendments proposed versus current premium listing requirements? If not, please explain and suggest any alternative approach.
- Q22:** Do you have any comments on our proposals? Do you have any views on requiring shareholder approval to grant to a director or employee options, warrants or other similar rights to subscribe for shares in the commercial companies category?
- Q23:** Do you have any comments on our proposals with regard to requirements for other circulars? If you disagree, please explain why, and include suggestions for alternative approaches.
- Q24:** Do you agree with our overall approach to annual disclosures and reporting requirements for the commercial companies category, broadly based on current premium listing requirements, including on corporate governance (see Appendix 1, UKLR 6)? If not, please explain why.
- Q25:** Would formal guidance clarifying the use of 'explain' when reporting against the UK CGC be necessary?
- Q26:** Do you agree with our proposed approach to incorporating sovereign controlled companies into the commercial companies category, with certain alleviations on matters related to the sovereign controlling shareholder, while not taking forward a bespoke approach to depositary receipts on shares in such issuers? If you disagree, please explain why.
- Q27:** Do you agree to our proposed approach for the closed-ended investment funds category as part of the new UKLR? If not, please explain why.

- Q28:** Do you agree with our proposals for the transition category? If not, please explain why.
- Q29:** Do you agree to our proposals for a secondary listing category and the related requirements, including basing rules on current LR 14 with certain additional elements, and the maintained application of DTR 7.2? If not, please explain which aspects you disagree with and why.
- Q30:** Do the proposed eligibility requirements for the secondary listing category sufficiently identify commercial companies with a 'primary' listing in another jurisdiction and mitigate potential risk that it be used to avoid the commercial companies category? Please suggest improvements to provisions, or additions or alternatives, as relevant.
- Q31:** Do you agree to our proposals for the non-equity shares and non-voting equity shares category? If not, please explain why.
- Q32:** Do you agree to our approach for the shell companies category and the detailed drafting in UKLR, including the proposed approach to redemption rights? If not, please explain why and suggest any alternative approach or transitional provisions.
- Q33:** Do you agree with the proposed approach that issuers in commercial companies category and the transition category should transfer to the shell companies category if they become eligible for the shell companies category? Do you foresee any problems with this proposed approach?
- Q34:** Do you agree to our proposal for retaining the remaining standard listing categories and minor drafting amendments proposed? If not, please explain why.
- Q35:** Do you agree that the current Premium Listing Principles 3 and 4 should be reframed as rules for the commercial companies category and the closed ended investment funds category? If not, explain why.
- Q36:** Do you agree with our proposed single set of Listing Principles and supporting guidance, which would be applicable to all listing categories? If not, please explain why.
- Q37:** In relation to the proposed Listing Principles 5 and 6, are there any practical implications for issuers of debt securities that need to be considered?

- Q38:** Do you agree with our proposed guidance to support the Listing Principles, regarding the importance of the role of directors and on the arrangements for accessibility of information? If not, please explain what you disagree with and why.
- Q39:** Do you agree with our proposed board confirmation that the applicant has appropriate systems and controls in place to ensure it can comply with its ongoing listing obligations and Listing Principles once admitted? If not, please explain what you disagree with and why.
- Q40:** Do you agree with our proposal to issue guidance to support Listing Principle 1, to clarify that adequate procedures, systems and controls includes the applicant or issuer being able to explain where information is held and how it can be accessed (regardless of whether the information is held in the UK or elsewhere), and that information should be easily accessible from the UK? If not, please explain why?
- Q41:** Do you agree with our detailed proposals for all applicants and issuers to notify the FCA, and keep up to date, the contact details of 2 executive directors? If not, please explain what you disagree with and why.
- Q42:** Do you agree with our detailed proposals for all applicants and issuers to provide the FCA, and to keep up to date, a nominated contact and address for service of relevant documents? If not, please explain what you disagree with and why.
- Q43:** Do you agree with the proposed approach for the permitted transfers between the new UKLR categories? If not, please explain why.
- Q44:** Do you agree with our proposed approach for dealing with in-flight transfers between listing categories at the time the UKLR is implemented? If not, please explain why.
- Q45:** Do you agree with our proposed modified transfer process for standard listed issuers automatically transferred into the transition category or secondary listing category that may wish to transfer to the commercial companies category (or the shell companies category or the secondary listing category) post implementation?
- Q46:** Do you agree with our proposed transitional arrangements and specific transitional provisions for 'mapped' existing issuers and conversion of 'in-flight' applications at the time the UKLR is implemented? If not, please explain why.

- Q47:** Do you agree with our proposed transitional provisions to allow existing issuers and 'in-flight' applicants sufficient time to prepare for implementation of the proposed provisions that would impact all issuers?
- Q48:** Do you agree with these impacts at implementation day and our approach to transitional arrangements for post IPO mid-flight transactions (when commenced in premium listing) and related sponsor services?
- Q49:** Is the proposed period of 2 weeks between publication of the final UKLR instrument and those UKLR coming into force reasonable, assuming we proceed broadly as proposed?
- Q50:** Are there wider practical issues or impacts for market participants from the proposed implementation timing that we should consider?
- Q51:** Do you agree with our proposed approach and clarification around sponsors' role at the listings gateway for the relevant categories?
- Q52:** Do you agree with our approach to the retained sponsor confirmations to the FCA on post-IPO transactions? If not, please explain your preferred alternative approach and the reasons for it.
- Q53:** Do you agree with our proposals to clarify the role of sponsors under the UKLR?
- Q54:** Do you agree with our proposed modifications to the principles for sponsors? If not, please explain why.
- Q55:** Do you agree with our proposed changes to sponsor competence requirements?
- Q56:** Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.
- Q57:** Do you hold any information or data that would allow assessing the costs and benefits considered (or those not considered) here? If so, please provide them to us.
- Q58:** Do you agree with our conclusion that the proposals don't significantly reduce the investment in UK listed companies compared to current levels, but might increase investment if larger number of companies list in the UK? We welcome comment, in particular, if supported with evidence on the likely impact on investment levels.

## Annex 2

# Cost Benefit Analysis

## Introduction

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1. The Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012, the Financial Services and Markets Act 2023 and other relevant legislation (FSMA), requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative assessment of the outcomes. Our proposals are based on carefully weighing up these multiple impacts and reaching a judgement about the appropriate level of investor protection and market integrity.
3. Since CP23/10, our Secondary International Competitiveness and Growth Objective (SICGO) has come into force. This objective is that we facilitate the international competitiveness of the UK economy (including, in particular, the financial services sector), and its medium to long-term growth, subject to aligning with relevant international standards. We set out our consideration on how these proposals impact on competitiveness later in this Annex.
4. We recognise that there are trade-offs inherent in these proposals and that some stakeholders have raised concerns about potential unintended consequences. For example, it could be the case that, as a result of our proposals, investors in UK listed companies reconsider their UK investments or even divest and invest elsewhere. We have considered carefully our policy design to take account of these concerns and sought to balance such trade-offs between the interests of companies considering listing and their investors, with a view to improving the overall functioning of the UK listed market. This is explained in detail in the main part of this consultation paper. We use terms such as (UK) initial public offering (IPO) market and UK listed market loosely, noting that UK listing venues are part of a global market for primary market services.
5. This Annex also summarises the initial CBA considerations included in CP23/10 and the feedback from stakeholders on those. They are reflected in the sections on costs and benefits as relevant. As explained later in this section, respondents were generally not able to give detailed costs or benefits for the proposals at the granular level described in CP23/10, but offered qualitative views, which we summarise in the following sections on costs and benefits. Where possible eg for estimates for individual costs, such as for a circular, we have relied upon data provided by stakeholders. Other firms (sponsors and investors) suggested that there may be limitations to the extent to which it is feasible or realistic to estimate costs at a very granular level, where doing so does not reflect

the way in which firms concerned approach their business. We did not receive any information on how our proposals may change investment decisions and decisions to invest in UK listed equity compared to that listed in other jurisdictions from investors, including asset managers and retail investors.

## High-level description of the issues

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### Trends in the UK IPO market – declines in listing

6. In CP23/10 we provided background on the nature of the UK IPO market and identified negative trends in our listed market which may have necessitated regulatory change.
7. These trends were essentially:
  - That the number of UK listed companies was in decline due to fewer firms choosing to list in the UK and existing listed firms delisting.
  - That UK listed markets were becoming less important internationally as the global share of UK listed market cap and global IPOs were also shrinking.
  - That UK-listed companies tended to be valued lower than companies listed in other jurisdictions, with no discernible valuation benefit to UK premium listed issuers from complying with higher regulatory standards.
  - That more than half of UK-quoted company shares (56%) are now held by non-UK institutional investors, while UK pension schemes and insurers combined hold only 4%, declining from around half in the early 1990s (ONS data).
8. Following publication of CP23/10, we have refreshed aspects of this analysis. From this, we can see in the data a continuation of these earlier trends:
  - As of 23 November 2023, there were 1,067 companies listed on the Main Market falling from over 1,100 in 2022.
  - Market capitalisation of UK listed companies has continued to decline, at £3.5tn in the second quarter of 2023, compared to over £4tn in 2020.
  - Meanwhile, the combined market cap of NYSE and NASDAQ rose to over \$47tn in July 2023.
  - The number of IPOs in the UK in the first half of 2023 has continued to be low, with only 7 IPOs and only £0.6bn raised at IPO, and the UK being third versus other European exchanges for IPOs.
  - EU IPOs have also remained low with €15.6bn raised from 102 IPOs in 2022. In the first half of 2023 European exchanges (excluding UK) raised only €3.8bn from 45 IPOs.
  - None of the top ten IPOs by value took place in the UK in the first half of 2023 and the UK's £0.6bn in capital raised by IPOs is a small fraction of the total raised in global IPOs of \$63.1bn, with \$42 billion of this raised in the Asia Pacific area. The UK was not in the top ten countries of IPO proceeds in the first half of 2023.<sup>1</sup>

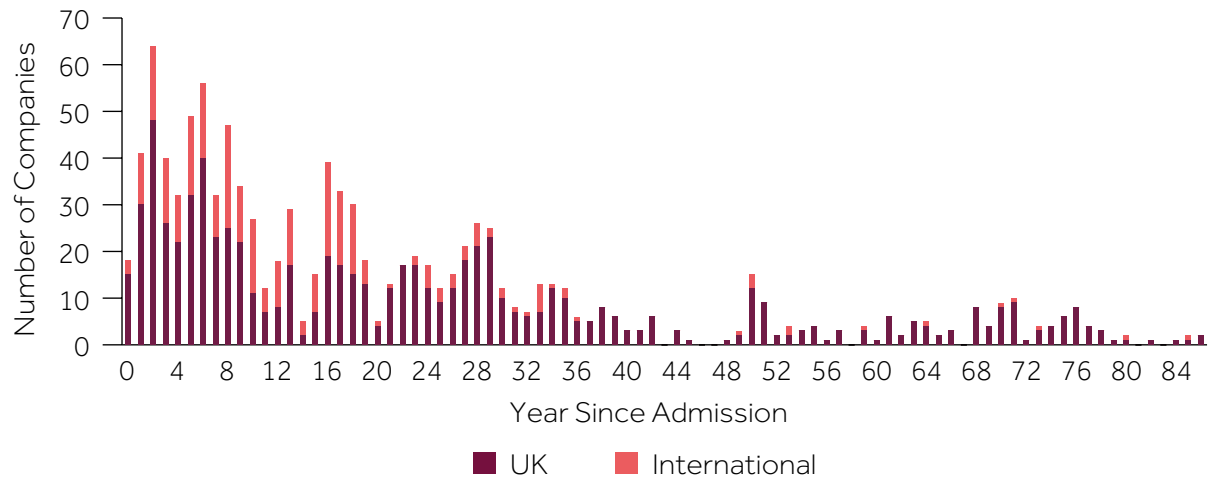
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<sup>1</sup> The figures are drawn from PWC's reviews of global IPOs which measure IPOs greater than £5m].



9. However, it is important not to overstate these negative trends or lose sight of the underlying strengths of the UK IPO market. Looking at the dynamics of the listed market, we also see evidence that underneath the decline in listings numbers there remains some underlying residual vitality as shown in Figure 1 below, which shows that most UK listed companies have listed over the last 30 years.

**Figure 1: Companies listed on the LSE Main Market by year (from 2022)**

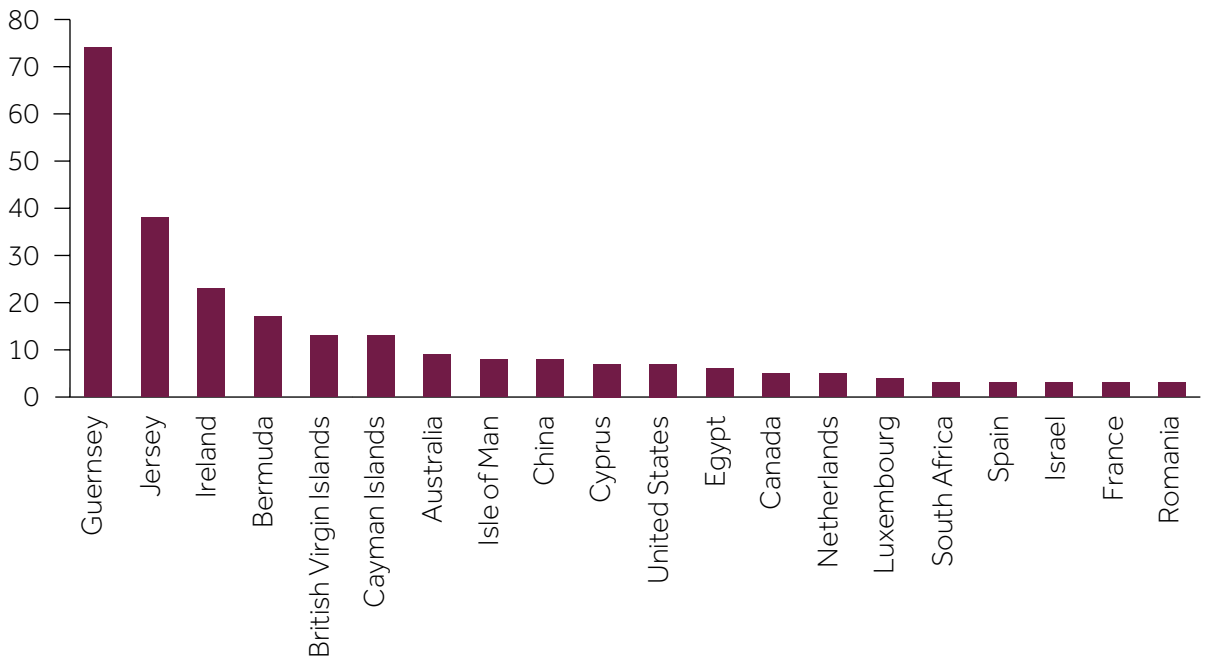


Source FCA analysis of LSE data

10. This fits broadly with the findings of a study undertaken by EY for UK Finance<sup>2</sup> which, while making the case for change, also found that some of the perceptions about the relative problems of UK listed markets may have been overstated and that there was some enduring strength in these markets. It also may suggest that the decline in overall numbers of listed companies may be caused in part by consolidation and de-listing. We consider the likely impact of these factors later in this analysis.
11. Further, we can also see that UK listings markets continue to have international reach. Dispersion of overseas companies listed on UK markets across 20 countries is shown in Figure 2 below:

<sup>2</sup> This study does not include information on the number or representativeness of respondents.

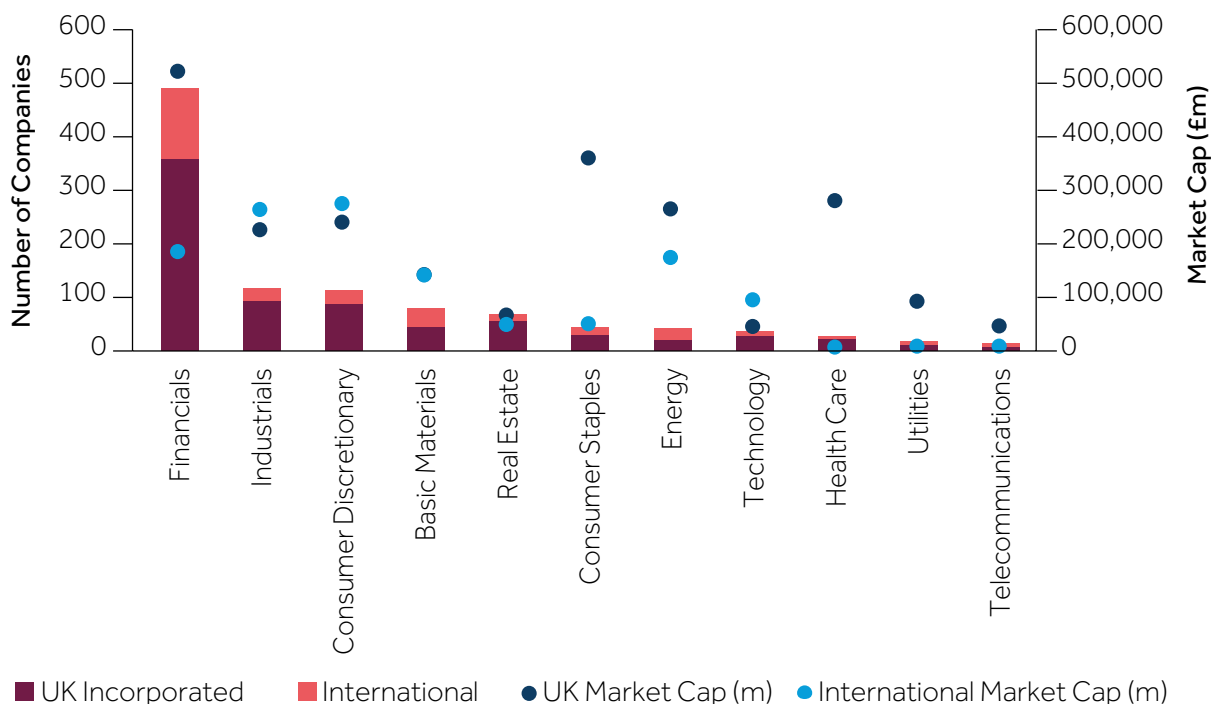
**Figure 2: Main countries where overseas UK listed companies are based:**



Source: FCA analysis of LSE data

- 12. This shows that there is a wide geographic dispersion of overseas based companies listed on UK markets, showing the wide historic international appeal of these markets.
- 13. Nonetheless, analysis of the sectoral composition of UK listed companies does reveal that there is over-representation of financial services and energy sectors compared to new technology sectors, whose companies may be a more likely source of new listings than companies from other sectors. This is shown in Figure 3 below:

**Figure 3: Sectoral composition of UK listed companies**



- 14. Our analysis of data of UK companies that listed overseas confirms that many of these companies are technology or pharmaceutical sector companies who may have been attracted by the deep investor base in the US for such companies and the broader US cluster of such companies.
- 15. Taking account of this data, we conclude that while there are strengths in the UK IPO market, the main negative trends in UK listings markets identified in CP23/10 appear to persist.

### Trends in the UK IPO market – reasons for the decline in listings

- 16. According to the above-mentioned EY study for UK Finance, firms surveyed identified the following factors as the top five influencing criteria when choosing an exchange or location for listing:
  1. Access to a strong investor base: Access to sophisticated investors with a sector and business model understanding.
  2. Valuation and research coverage: Research analysts with appropriate depth of knowledge to be able to provide insights for investors.
  3. Liquidity: Sufficient market volume in the aftermarket, index eligibility and volume of trading in indices.
  4. Comparable companies: Presence of comparable companies on the relevant market.
  5. Ease and cost of being publicly traded: Cost and complexity of the process, driven by regulatory, accounting and disclosure requirements, and the availability of support during the process
- 17. The study further found the following reasons for listing split across different types of UK incorporated and international companies

**Figure 4 Listing Decision by company type**

		UK-incorporated companies			International companies			
		A	B	C	D	E	F	G
		Small domestic-focused UK companies	Medium high-growth UK companies	Large international focused UK - companies	(Small) European companies	(Traditional) Non-European companies	Companies that are secondary listed international	Small high-growth US/international companies
Preferred market		UK	UK/US	US	Europe	UK/HK/US	US/UK (Secondary)	UK – AIM
What are the Top 5 decision criteria for company type when assessing the strength of a stock market?	Rank 1	Access to a strong investor base	Access to a strong investor base	Governance matters	Valuation/ research coverage	Liquidity	Liquidity	Ease and cost of being publicly traded
	Rank 2	Valuation/ research coverage		Access to a strong investor base	Access to a strong investor base	Stability	Reputational considerations	Access to a strong investor base
	Rank 3	Ease of process	Ease of process	Valuation/ research coverage	Liquidity	Access to a strong investor base		Liquidity
	Rank 4	Geographical relevance	Liquidity	Reputational considerations	Governance matters	Diversity of ecosystem		Reputational considerations
	Rank 5	Liquidity	Comparable companies	Comparable companies	Geographical relevance	Comparable companies		Valuation/ research coverage

Source EY

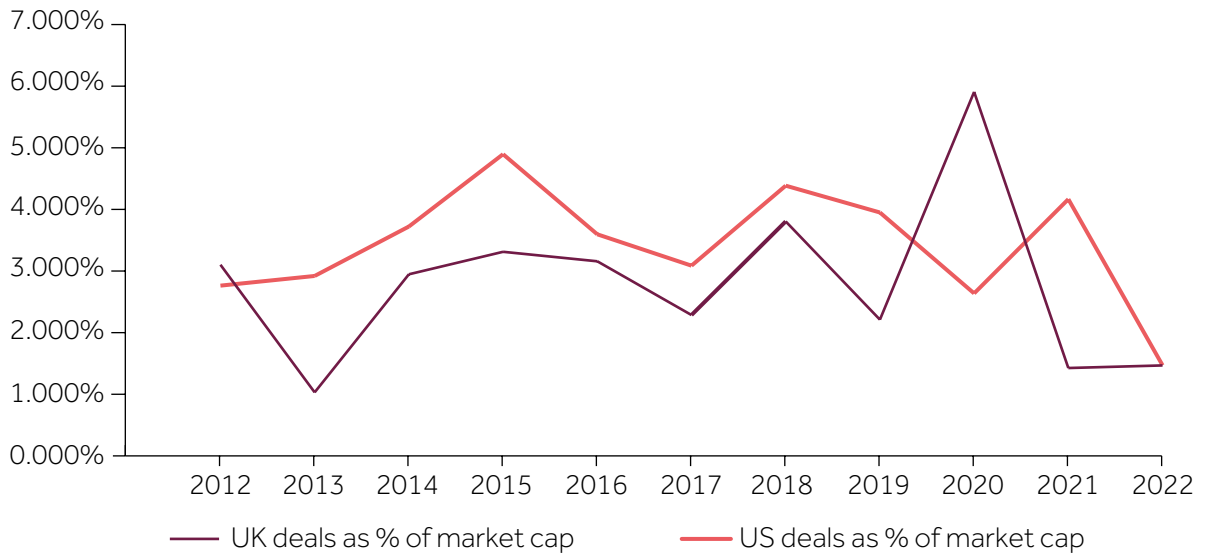
- 18.** Similarly, a survey<sup>3</sup> undertaken by the Investor Relations Society on the drivers of listing found that respondents identified the following key drivers<sup>4</sup>:
- Liquidity – 83% of respondents
  - Depth of markets 80% of respondents
  - Comparable peers- 78% of respondents
  - Regulatory barriers- 80% of respondents
  - Regulation – ca. 68% of respondents
  - Valuations – ca. 65% of respondents
- 19.** Other factors may also include intangibles, such as the desire or not of the founder(s) not to be forced to cash out of their equity and their desire to retain control of the company and broader need to raise capital to finance the next stage of the business development. 'Home bias' also continues to mean companies are more likely to list in their country of incorporation, although the EY study for UK Finance indicated that companies with larger market capitalisation are more likely to list outside the UK versus smaller cap issuers.
- 20.** The overall decision could also, amongst other things, depend on the availability of alternative sources of capital and the relative ease of raising capital through listing as well as the applicable tax regime.
- 21.** Stakeholders have also informed us that UK listed firms are not undertaking as much M&A activity as one would expect, all things considered. This 'deals gap' between the participation of UK listed companies in global M&A and that of companies listed in other jurisdictions is argued to be a reflection of the UK regulatory eco-system creating barriers.
- 22.** While it is difficult to quantify such a gap, our analysis of data provided to us suggests that there is currently a "deals gap" between the global M&A involvement of UK listed issuers compared to that of UK listed companies in that the US has a higher value of deals in proportion to total (US) market capitalisation in most years. This is shown in Figure 5 below.

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<sup>3</sup> <https://irsociety.org.uk/resources/news/item/findings-from-iro-survey-on-listing-rules-and-investment-research>

<sup>4</sup> 56 IR member firms responded to the survey. Not all of them answered every question.

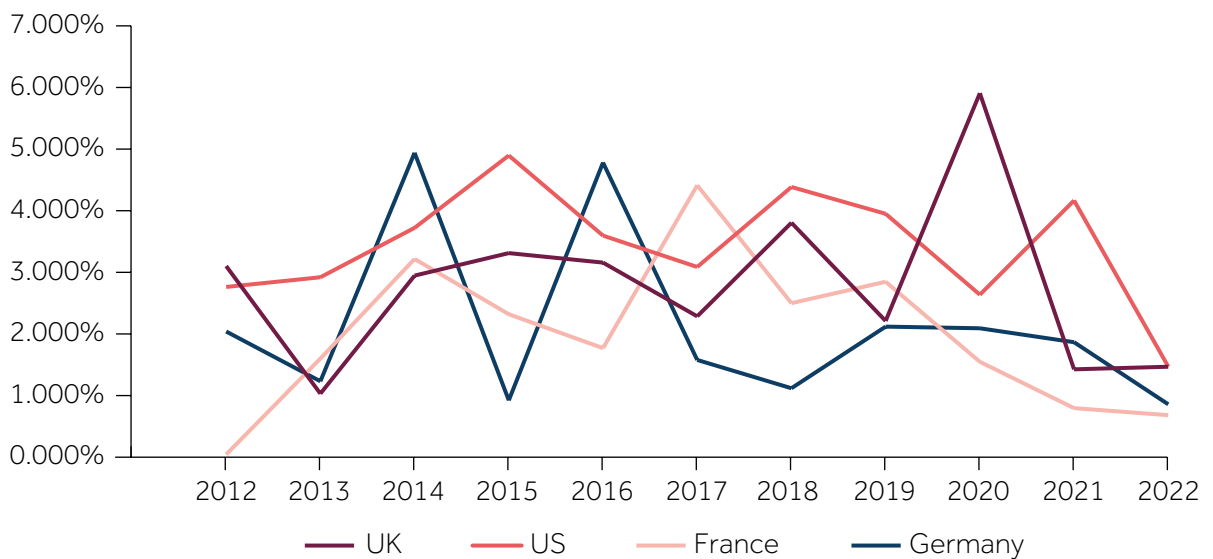
**Figure 5 The 'Deals Gap' between UK and US listed issuers 2012-2021**



Source FCA analysis

- 23.** The data does though suggest that this apparent 'deals gap' with the US is less evident compared to other countries, where other advantages in the UK market may outweigh potential regulatory factors and where these countries may also have a 'deals gap' relative to the US. There may be multiple reasons for this pattern and it is also worth noting that there were specific factors in 2020 due in part to UK market and Government/regulatory responses to the COVID pandemic from March 2020. This is shown in Figure 6 below.

**Figure 6: Listed issuers deal as a proportion of market cap 2012-2021**



Source: FCA analysis

## Trends in the UK IPO market – the wider eco-system

- 24.** Stakeholders have encouraged us to see the UK listed market within the framework of what has been characterised as the UK capital markets ecosystem. It shares services with other parts of this market including the broader UK financial services sector based particularly in London, Edinburgh, Leeds and Manchester.
- 25.** According to the report published by EY for UK Finance, UK financial services employs 1.2m people. The Law Society estimates that there are around 9,500 law firms in the UK (although clearly most will not be involved materially in financial services work) and IBIS world estimates that there are 116 investment banks. There are 2 main equity exchanges, including LSE (Main Market and AIM) and Acquis, and 24 multilateral trading facilities (MTFs).
- 26.** Whilst we would not consider the listings market as encompassing this broader cluster, it is important to understand effects of any changes on this broader community resulting from regulatory change, and this is reflected in this CBA. Particularly in light of the high-profile that the IPO market has and how its performance is used as proxy for measuring the UK's attractiveness by the media. This narrative on attractiveness of UK listing markets can feed into the perception of other markets and could have wider impacts on the eco-system. We set out initial thinking on the impacts of our main proposed changes in Table 2 in this CBA.

## Problem and rationale for intervention

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### The harm

- 27.** The negative trends in falling listings (particularly in new economy sectors) discussed above in the UK listings market can result in negative impacts (harms) to UK financial markets and the real economy.
- 28.** We reference this harm to market effectiveness in this consultation paper.
- 29.** Put most broadly, excess costs and other burdens imposed by our regulation are acting against companies listing (or remaining listed). This can have harms for issuers and investors as summarised below.
- Issuers who may be unable to list under our current rules may be prevented from raising capital in the most effective way for them. This may in turn impose additional costs on them.
  - Issuers who are currently listed or will list in the future currently face higher regulatory costs than under our proposals, which we believe will appropriately balance the interests of issuers and investors. Some companies may list later, or may list outside the UK.
  - Investors may have a reduced number of UK listed companies to invest in, with investors potentially losing the greater transparency or the ability to access such investments cost-effectively compared to private companies.

30. We explain in the section “Trade-offs considered” below how we balanced the interests of issuers and investors to achieve reformed listing rules that make the UK attractive for both types of companies.
31. We consider the effect of our proposals on international competitiveness and growth at some length later in this analysis. Disproportionate costs and burdens relative to those in other jurisdictions reduce the relative international competitiveness of UK listing.
32. A reduction in the number of companies listed on UK markets can also have knock-on costs (and growth impacts) as such companies may be less likely to be or remain located in the UK and less strategically focused in their activities on UK markets. This may in turn reduce employment in the UK and could also (for example if these companies are technology companies) act against wider investment and innovation in the economy and the development of clusters of similar companies located in the UK.

### Drivers of harm

33. There is a degree of consensus in the survey data cited above that regulatory requirements can play an important, if not decisive, role in shaping companies' choice of listing venue. The precise impact will depend on the specific conditions associated with the company making the decision (eg, where it is on the path to listing and what its specific needs are, for example, with respect to raising capital), as well as the commercial terms and liquidity achievable in certain markets.
34. Taking this, as well as stakeholder feedback into account that the market is not working as well as it should be, we believe there is sufficient evidence to suggest that the cumulative effect of our existing rules may be impacting the relative attractiveness and competitiveness of UK listed markets. That is why we are proposing changes to re-balance of regulatory costs between investors and issuers to improve the overall attractiveness of UK listed markets.
35. Of course, change to regulation in of itself may not necessarily produce an immediate rise in the number of companies seeking to list in the UK given the multiplicity of factors affecting decision making, but we think it is a contributing factor. That is why we have pursued a review of the regulatory regime for listing in line with our objective to ensure markets work well, and that our regulation is appropriate for the modern UK market.

## Our intervention

### The proposed rules

36. Our proposals are summarised in Table 1 below:

**Table 1: Key features of our proposals**

Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in <u>underline</u></i>	UKLR Chapter	Consultation Paper Chapter
<b>Commercial companies</b> (Commercial companies (equity shares) category)	<i>Eligibility</i> <ul style="list-style-type: none"> <li>No listing requirements for historical financial information, revenue track record and clean working capital statements, although prospectuses will still require disclosure of financial track record up to 3-years and a working capital statement</li> <li>Sponsor requirement for new applicants and to provide declarations similar to existing declarations, including that an issuer has met its prospectus obligations and has a reasonable basis for the working capital statement within it</li> </ul>	UKLR 5	Ch 4
	<i>Eligibility and continuing obligations</i> <ul style="list-style-type: none"> <li><b>Control and independence:</b> Removing eligibility and ongoing rules requiring that a company has an independent business and has operational control over its main activities</li> <li><b>Controlling shareholders:</b> Retaining a requirement for independence from controlling shareholder <u>via written controlling shareholder agreements</u> and maintaining certain related voting controls</li> <li><b>Dual/multiple class share structures:</b> Permitting issuers to have dual/multiple class share structures at admission. Enhanced voting rights only to be held by specified persons, <u>but without mandated time-based sunset clauses</u>, while retaining voting restrictions on certain matters, including dilutive transactions, and cancellation of listing</li> </ul>	UKLR 5 and 6	Ch 5



Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in <u>underline</u></i>	UKLR Chapter	Consultation Paper Chapter
<p><b>Commercial companies</b> (Commercial companies (equity shares) category) (continued)</p>	<p><i>Continuing obligations</i></p> <ul style="list-style-type: none"> <li>• <b>Significant transactions:</b> No prior shareholder vote but enhanced market notifications at ≥25%, removal of the profits test and new guidance on what constitutes 'ordinary course of business'</li> <li>• <b>Notifications:</b> <u>Enhanced market notifications regime for transactions at ≥25%, intended to provide key information including financial information, but not mandating working capital statements or re-stated historical financial information</u></li> <li>• <b>Related party transactions:</b> Maintaining a similar approach to CP23/10, with market notification, sponsor fair and reasonable opinion at ≥5%, and board approval</li> <li>• <b>Reverse takeovers:</b> Continuing to require an FCA approved circular and prior shareholder approval for transactions ≥100% or involving a fundamental change in business</li> <li>• <b>Share buy-backs, non pre-emptive discounted share issuances and cancellation:</b> Retained shareholder votes</li> <li>• <b>Annual reporting:</b> Comply or explain disclosure against the UK Corporate Governance Code, reporting on climate (TCFD) and diversity, and otherwise maintaining most premium listing annual disclosures</li> </ul>	UKLR 7-10	Ch 6-11
<p><b>Sovereign controlled companies</b></p>	<ul style="list-style-type: none"> <li>• Equity shares of sovereign controlled issuers proposed to be included in the commercial companies category subject to targeted alleviations based on current LR 21. Certificates representing shares in a sovereign controlled issuer to be in the category for certificates representing securities (UKLR 15, formerly LR 18)</li> </ul>	As above	Ch 12
<p><b>Transition category</b> <u>[new]</u></p>	<ul style="list-style-type: none"> <li>• Closed category based on current rules for standard listed shares</li> <li>• Certain standard listed issuers 'mapped' here on day 1, proportionate transfer process for issuers wishing to move to the commercial companies category</li> </ul>	UKLR 22*	Ch 13 & 16

Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in <u>underline</u></i>	UKLR Chapter	Consultation Paper Chapter
<b>Closed-ended investment funds</b> <u>[detailed proposals now set out]</u>	<ul style="list-style-type: none"> <li>• Based on existing obligations under LR 15</li> <li>• Retention of shareholder votes on material changes to investment policies, management fee changes and certain related party transactions</li> <li>• Allows for listings of 'C shares' within this category where such shares carry voting rights prior to conversion</li> </ul>	UKLR 11*	Ch 12
<b>Open-ended investment companies</b>	<ul style="list-style-type: none"> <li>• Retained with only consequential or minor changes to existing requirements</li> </ul>	UKLR 12*	Ch 13
<b>Shell and SPACs category</b> <u>[detailed proposals now set out]</u>	<ul style="list-style-type: none"> <li>• Largely maintains current rules for standard listed shares with tailored eligibility and continuing obligations reflecting certain features of current guidance regime for SPACs in LR 5.6</li> <li>• Supplementary requirements based on the existing conditions that enable large SPACs to avoid suspension if they have implemented certain investor protections. For example, shareholder vote required for first transaction</li> <li>• Sponsor required at admission and to support initial transaction (reverse takeover)</li> </ul>	UKLR 13*	Ch 13 & 16
<b>International secondary listing</b> <u>[new]</u>	<ul style="list-style-type: none"> <li>• Designed for non-UK incorporated companies with more than 1 listing where 'primary' listing is on a non-UK market</li> <li>• Replicates standard listing rules with targeted ongoing/continuing provisions tailored to 'secondary' listing</li> </ul>	UKLR 14*	Ch 13 & 16
<b>Non-equity and non-voting equity, and other categories</b>	<ul style="list-style-type: none"> <li>• Discrete categories for non-equity shares (including preference and deferred shares) and non-voting equity shares, certificates representing shares (including depositary receipts), debt securities, securitised derivatives, and warrants and miscellaneous instruments</li> <li>• Retained with only consequential or minor changes from existing requirements</li> </ul>	UKLR 15-19*	Ch 13 & 16

Listing Category or topic	Key features of proposals (Non-exhaustive – see consultation paper Chapters for fuller detail) <i>Additions or changes since CP23/10 are shown in <u>underline</u></i>	UKLR Chapter	Consultation Paper Chapter
<b>Sponsors</b>	<ul style="list-style-type: none"> <li>• Sponsor regime to support commercial companies, SPACs other shell companies, and closed-ended investment funds at application stage and on reverse takeovers</li> <li>• Ongoing role reserved to further issuance listing applications with a prospectus, sponsor fair and reasonable opinions for related party transactions, or where issuers seek guidance, modifications or waivers to FCA rules (including on class tests)</li> <li>• Focus on value and benefits of sponsor role for issuers, FCA and wider market, re-calibrating supervisory and compliance expectations</li> <li>• Proposal to allow wider factors to demonstrate sponsor competency and extend lookback for relevant experience from 3 to 5-years (subject to shorter comment period)</li> </ul>	UKLR 4 UKLR 24	Ch 17 & 18
<b>Proposals impacting all issuers</b>	<ul style="list-style-type: none"> <li>• Revised Listing Principles</li> <li>• New provisions to strengthen our ability to access records and enable us to serve notices to issuers</li> <li>• Retained over-arching listing rule processes and procedures with minor modifications, likewise for cancellations, suspensions and transfers</li> </ul>	UKLR 1-3+ UKLR 20-21*	Ch 14
<b>Listing particulars</b>	<ul style="list-style-type: none"> <li>• Retained with only consequential changes</li> </ul>	UKLR 23*	-

\*Draft handbook provisions to follow later in Q1 2024

+ UKLR 3 included in Appendix 1, UKLR 1 and 2 to follow in the second tranche of the draft UKLR instrument

**37.** Our proposals for the commercial company category have been shaped in a way that is intended to address the costs and complexities which create burden and barriers to issuers as described above and taking into account how other regimes operate internationally. For example, our removal of the historical financial information (HFI) and clean working capital statement requirements is intended to allow newer companies to list and to reduce costs for companies seeking listing. Further, our proposal in relation to dual/multiple class share structure (DCSS) is also intended to make it easier for companies to list with DCSS share structures.

**38.** Our proposals in relation to significant transactions and related party transactions could reduce costs for listed issuers and make it easier for such issuers to participate in mergers and acquisitions. This is by reducing the perceived costs of involving UK issuers (compared to issuers from jurisdictions who do not have, for example, shareholder voting requirements on such transactions) and taking away any delays or uncertainty associated with such requirements.

- 39.** In particular, through discussion with firms, we identified specifically where the costs and complexities of the listing rules are perceived to be creating material barriers to companies considering a UK listing:
- Requirements at the premium listing gateway for 3-year track record financial information and barriers to listing of companies with DCSS.
  - Current premium listing requirements for a sponsor in relation to transactions.
  - General costs associated with meeting continuing premium listing obligations.
  - Costs and frictions for companies undertaking transactions including significant transactions and related party transactions. These may include costs for premium listed issuers associated with preparing a Class 1 Circular and organising a shareholder vote for such transactions where consultation with shareholders could take place in a more proportionate way.
  - Costs for UK listed issuers seeking to participate in global mergers and acquisitions. We have also had feedback that UK listed issuers have to pay a price premium for involvement in global M&A to reflect their additional burden of time-delays, costs and uncertainties in relation to the shareholder vote requirements compared to those from other jurisdictions.

### Trade-offs considered

- 40.** In considering our intervention we have aimed to navigate potential trade-offs between different policy proposals in a way that strikes an appropriate policy balance between our different preferred outcomes and is consistent with our aim to have a greater risk appetite in this area. We have set out in the consultation document the fact that this involves a different balance of risk, which it is important to openly acknowledge and accept.
- 41.** Most broadly we are aiming to set a balance of requirements which sets positive incentives for issuers to choose to list in the UK (including due to relatively low regulatory costs) and for investors to choose to invest in UK listed companies with confidence in the regulatory standards of the listing rules. Our aim is to set requirements which promote maximum UK listed companies and investment in such companies.
- 42.** We consider what influences companies' decision whether or not to list in the UK above. We understand that removal of regulatory barriers to them listing is likely to give them stronger incentives to list in the UK.
- 43.** We understand also that many investors indicate that they value the high standards of corporate governance and disclosure of UK listed companies.
- 44.** We aim therefore to strike an appropriate balance in these proposals, removing what we consider to be excess costs and unnecessary regulatory barriers whilst at the same time moving towards a disclosure-based regime based on sound corporate governance, which should continue to give investors the confidence to invest in UK listed securities.
- 45.** Potential policy trade-offs considered include those:
- between the costs our requirements may impose for issuers, for example in relation to requirements for historical financial information, and the quality of information investors have before deciding whether or not to invest (or what price

at which to invest). We believe the right balance is found by requirements for those publishing a prospectus to include all necessary information in the prospectus.

- between the cost savings available for issuers from a change in our requirements on transactions re shareholder voting and the costs and effectiveness of investor engagement and stewardship. We have discussed this issue with investors and they have fed back that in general they consider that our proposals will not mean additional costs of engagement but that they may create additional risks for investors in relation to these transactions. As set out previously our broader policy approach in this area is to focus more on disclosure and other existing forms of stewardship.
- between our policy to make it easier for UK listed companies to participate in global mergers and acquisitions and potential effects on de-listing of UK based companies which may be acquired. Data suggests that such M&A activity has led to de-listing of over 50 UK companies. We recognise this trade-off, but consider that we should take into account also the greater opportunities that might become available for UK listed companies to acquire overseas companies and continue to grow on UK markets (the reverse effect). We also consider that such an effect would be more than offset by the wider competitiveness and growth benefits of this proposal.
- between increasing the attractiveness of the UK as a listing destination whilst maintaining and promoting market integrity, including providing an appropriate degree of investor protections.

## **Our approach to managing these trade-offs**

- 46.** We consider our proposals ensure that the balance of our listings requirements remains supportive of investor stewardship. We have also taken into account and will remain sensitive to wider developments in corporate governance such as the FRC's review of the UK Corporate Governance Code, and the intended review of the FRC's Stewardship Code.

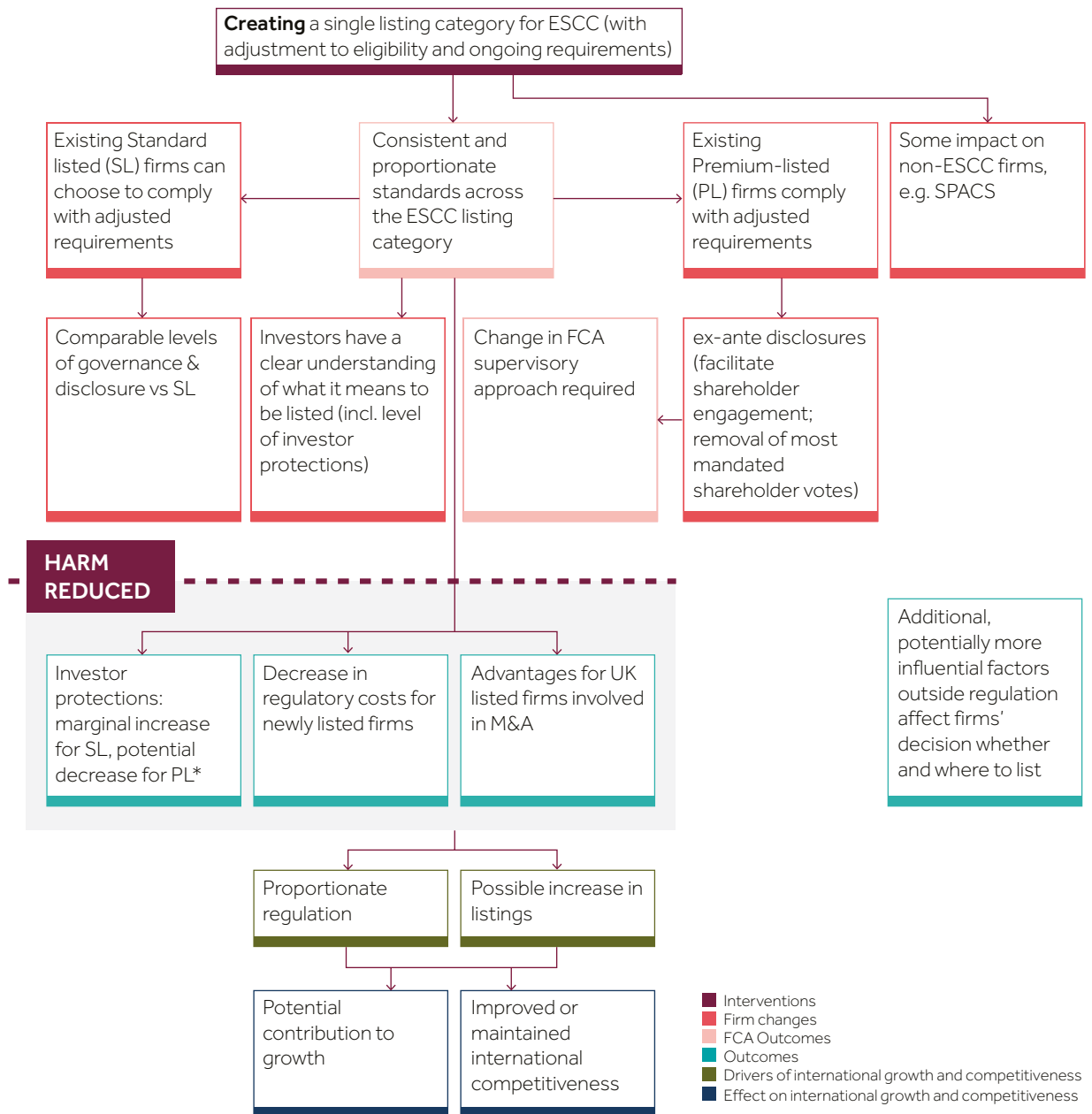
## **Causal chain and intended benefits**

### ***Causal chain***

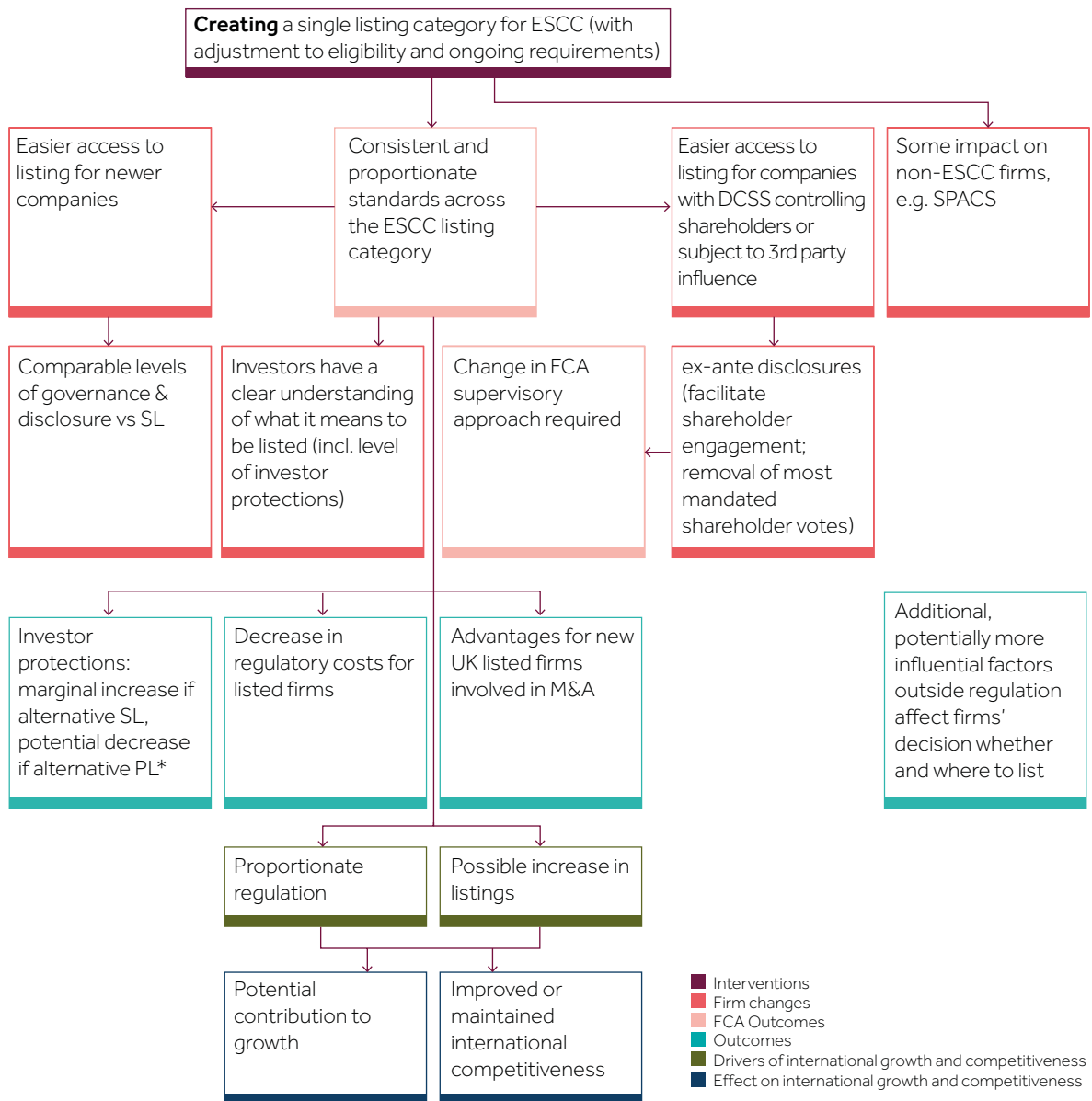
- 47.** We consider that the proposed reforms to our listing rules would reduce actual or perceived regulatory barriers or costs for companies, while continuing to give investors the information they need to make informed decisions.
- 48.** Whilst we recognise that this may result in investors bearing some increased risk, we believe this is comparable risk to other markets where investors are already comfortable investing. Therefore we do not expect for our proposal to significantly impact investor impact for investment in UK listed equities from current levels. If a wider population of issuers are attracted to the UK listed market as a result, we may even see an increase in investment. We therefore believe our proposals will, overall, make the UK main market work better. However, we would welcome comment on the assumptions above especially if supported with evidence around likely impact on investment appetite.

49. What we see as the effects of our proposals are summarised in the causal chains below. Figure 7 shows the causal chain for the single listing category for existing equity shares in commercial companies. Figure 8 below shows the causal chain for companies applying to list.

**Figure 7: Causal chain for standard listed (SL) and premium listed (PL) issuers**



**Figure 8: causal chain for new issuers:**



Note: \*Hence harm is potentially reduced less than without this impact.

50. We have sought to address the harms set out above through the following change to our current requirements for premium listed companies.

**Eligibility for commercial companies**

51. Removal of current premium listing rules for eligibility for commercial companies and changes to current rules for companies with a DCSS should act to reduce barriers to listing for these companies. This should in turn act towards an increase in listing. (We consider drivers of listing separately in this CBA.)
52. These proposals should also remove unnecessary costs and frictions for those companies who decide to list, and more generally simplify the UK regime for equity listings by removing the current two-segment model for shares in commercial companies.

53. In doing the above, these proposals will also act to improve the relative competitiveness of UK listing markets.

### ***Continuing obligations for commercial companies***

54. Proposals to remove requirements for a shareholder vote for certain significant transaction and related party transactions should act to reduce unnecessary costs incurred by listed issuers.
55. These proposals may also make it easier for UK listed companies seeking to participate in global mergers and acquisitions, reducing the associated costs, time delays and uncertainties for these companies. This may allow them to compete in global M&A without paying a 'premium' for being a UK listed company.
56. In light of the above, these proposed changes may also act towards making the UK listing market more attractive and towards increased listing.

### ***Sponsors***

57. The proposals to change sponsor requirements should better target where companies may most need sponsor support (at the gateway) whilst reducing requirements to appoint a sponsor when undertaking a significant or related party transaction. This should act to reduce overall costs for issuers and sponsors and make it easier for companies to list.
58. We consider the sponsor role, where retained, provides a clear value to both issuers and the FCA, reducing risk for issuers by having an intermediary with experience in our rules and authorised by the FCA supporting their application, preparation and due diligence, with the sponsor engaging with us on the issuer's behalf. Without this role, the FCA would have to take a more intrusive role in 'vetting' an issuer directly, which would likely require more resources and higher fees for applicants. Based on experience from our standard listed segment, applicants without sponsor advice are also likely to receive more comments and 'turns' of documents before a completed listing application and prospectus is approved, increasing time and execution risk.

### ***Impact on listing***

59. A plausible consequence of harm reduction from our proposals is an increase in future numbers of UK listed companies. While we recognise that in general we cannot predict precisely the impact of our proposed changes on the future numbers of UK listed companies, we believe there could be a positive impact.
60. There are certain cases where we can see that looking at past data on companies who have listed elsewhere who could now list in the UK (eg, as we are removing restrictions on listing of companies such as newer companies without a 3-year track record) could give us some data.
61. As a proxy for assessing the overall for likelihood of the package of measures delivering the benefits we intend, we considered the result from the IR society survey which asked if respondents thought the proposal in CP23/10 would be likely to reduce the regulatory



barriers and costs previously identified and therefore, overall, would be likely to increase the attractiveness of the UK.

- 80% thought that they would remove actual or perceived regulatory barriers
- over half (57%) believed that addressing these would bolster UK competitiveness,
- 45% believed that this would help attract a diverse range of applicants and
- 37% believed they would reduce actual and perceived costs for companies;<sup>5</sup>

- 62.** While there are limitations to such surveys (for example, here it is not clear how representative such as survey is or the number of respondents answering each question), they do indicatively point to a potentially significant benefit from proposed changes.
- 63.** An increase in the number of IPOs in the UK could lead to more business for advisory firms and therefore increased profits and contribution to overall GDP by the financial services sector). In addition, a thriving IPO market may increase the growth opportunities for UK companies which are dependent on being able raise capital cost effectively. A further benefit would be for investors who would be able to profit from this growth and which would also contribute to overall UK economic growth.

### Impacts on different market participants

- 64.** We set out the likely effects of our main proposed changes on different groups in Table 2 below. As far as possible these are also considered quantitatively later in this CBA:

**Table 2: Impacts on different market participants of our main proposed changes**

Proposal	Issuers	Investors	Advisors	Sponsors
<b>1) Eligibility</b>				
Removal of HFI/ Track record	Cost savings for all listing issuers. Most effect on issuers with acquisitive business model Allows new companies to list	Potential to increase search costs- but can still use prospectus which should give them all necessary information	Reduced fees and costs for accountancy firms.	Should act to reduce costs and fees for sponsors.
Changes to Clean working capital statement	Allows companies with a qualified working capital statement to list Reduces potential costs of having to get a clean working capital statement early in the process of applying to list.	Could increase risks to investors but can see if there is a qualification from prospectus- can take an informed view.	Reduced costs and associated fees for accountancy firms.	May act to reduce costs and fees/

<sup>5</sup> see "Listing Rules Reform Survey" published in July 2023

Proposal	Issuers	Investors	Advisors	Sponsors
Changes to Dual Class Shares Structures	Makes it easier for these companies to list and reduces costs for listed companies.	Reduces some existing protections for investors May increase alternative investor engagement	Potentially reduced fees and costs for advisors	n/a
<b>2) Transactions</b>				
Changes to significant transactions and related party transactions	Reduces costs and uncertainties in relation to shareholder vote. May make it easier for issuers to participate in global mergers and acquisition and reduce any perceived price premium they have to pay.	May increase alternative investor engagement Could increase risks for investors associated with transactions	Reduced fees and costs for advisors	Reduced fees and costs
<b>3) Sponsors</b>				
Changes to the sponsor regime	Reduces costs for transactions.	May increase investor engagement on transactions	Reduced fees and costs for advisor	Overall reduced fees and costs.

## Other options considered

- 65.** In relation to each of these areas of regulatory change we considered different policy options as described below, including analysis of comparative international requirements in these areas.
- 66.** A key consideration in this assessment was the likely effects of options on currently premium listed companies (where the effect of proposed changes was likely to give them scope to reduce costs) and on currently standard listed companies (where the effect of proposed changes may be to increase costs if such companies were required to change their current listing) and on the impact on investor protections.
- 67.** A wide range of options were assessed in light of the likely impact on our preferred listings market outcomes, as set out in CP23/10 We also considered the distributional impact of options across different stakeholders including retail investors when considering these options. Some examples, though not exhaustive, of the different options considered are:
- In relation to eligibility requirements, we considered the options of whether or not to remove HFI track record requirements and that for a 'clean' working capital statement. Initially we had asked questions in DP 22/2 on a proposal to leave

HFI track record requirements unchanged but received feedback that these requirements were costly and acted against listing. This feedback did not include detailed costings as these would vary depending on the company's history and business model, with the requirements being particularly costly mainly for companies with an acquisitive business model prior to listing. We also considered the potential effects of removing these requirements on investors' ability to assess and price the securities. As we were leaving in place existing prospectus disclosure requirements, we did not consider that this would affect investors negatively.

- Requirements for companies with DCSS were considered against the counterfactual of leaving the current premium listing rules unchanged, or retaining, but extending the sunset-clause time limit. Different models for relaxing requirements were considered, for example in relation to who could hold such shares and what voting matters might be reserved for only the listed class of shares to vote on, such as cancellation of listing. These were weight against whether such limitations may offset the intended benefit that allowing such models may enable or make it more likely that certain companies choose to list.
- Different ways in which the requirements for significant and related party transactions could be changed were discussed, ranging from: leaving these requirements unchanged; changing thresholds as to the size (value) of transaction at which shareholder approval is required; removal of shareholder voting requirements without any other adjustment to the arrangements (akin to current standard listing rules); and to the proposals contained in this consultation paper to remove the requirements for a shareholder vote but enhance the required announcement (for significant transactions) and retain a sponsor fair and reasonable opinion (for related party transactions). Different options were considered against their likely impacts on our preferred outcomes for the listings market as described above. In looking at these different options we considered also their potential impact on investor protection and engagement in relation to these transactions.
- In relation to the requirements for sponsors, different options were considered including that of leaving sponsor's role unchanged or not having the concept of sponsors at all. Key considerations included ensuring that companies would get the support they need, that sponsors would have a role that was sufficient to provide an incentive for firms to wish to provide sponsor services, and, alternatively, that unnecessary costs were reduced. We also considered again the impact of changing the role of sponsors on investor protections.

## Baseline and key assumptions

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### Baseline

- 68.** We assess the impacts of our proposal against a baseline scenario, the counterfactual, ie, the future situation in absence of this intervention. The reform of the prospectus regime and regime for public offers and admissions to trading are still under consideration. We cannot consider these as part of our counterfactual because we have not yet formulated proposals in this area or consulted upon them.

- 69.** As we make our proposals before discussions in the EU in relation to the proposed EU Listing Act are completed, we also do not include any assumptions about where these discussions will land here. Instead, we consider that absent our proposal the present listing rules and related rules would apply unchanged and assess costs and benefits against this counterfactual. We do not attempt to predict the future development of broader trends in UK listings or valuations of UK firms compared to those in other jurisdictions like the US, except insofar as they may be changed if the proposals contained in this consultation paper are implemented.
- 70.** We have also not included any changes to the FRC's UK Corporate Governance Code or the Stewardship Code in this analysis because both are still under consideration at this time, and may change further in future.
- 71.** We considered that the scope of listed companies and securities affected by our proposals were as follows:
- 72.** All issuers on regulated markets – as of 23 November, 1,067 issuers, including:
- 412 premium listed commercial companies (none with DCSS),
  - 3 premium listed non-commercial companies
  - 167 standard listed commercial companies
  - 368 close ended investment funds
  - 117 other standard listed (not commercial companies) issuers of shares and
  - 5 standard listed issuers using a form of DCSS (these are included in the 167 and 117 above).
- 73.** In addition, we consider that our proposals will affect 37 sponsors, an estimated 40 institutional investors investing in IPOs (based on our supervisory knowledge) and ca. 200 advisory firms, which will read this consultation paper and possibly the instrument. Investors in secondary markets may follow the developments through the trade press, or information from industry bodies.

## Key assumptions

- 74.** Our key assumptions in our analysis are as follows:
- Calculating costs: The familiarisation costs for sponsors, listed firms, institutional investors and advisors have been calculated using our standardised cost model (SCM) and its underlying assumptions as well as the numbers of firms given above.
  - Calculating benefits: We consider that issuers who would have listed as premium listing issuers will have lower costs due to the removal of HFI and track record requirements. Conservatively any such cost saving for companies seeking to list is assumed to amount to ca. £50K for each issuer considering that most of the information still has to be included in the prospectus (based on discussions with issuers). This cost saving is the difference between costs of HFI and track record requirements and costs related to the prospectus. As there are an average of around 58 IPOs each year in the UK we have illustratively estimated that 58 companies each year will benefit from these costs savings. We recognise that the actual number of firms listing in future years cannot be reliably estimated.

- We consider that there are likely cost savings from issuers involved in significant transactions and related party transactions not publishing a circular amounting to ca. £1m to £2m per circular (based on discussions with sponsors/advisors).
- Based on submissions to our National Storage Mechanism (NSM) we estimate that an average of 15 circulars is published per year for Class 1 significant transactions and 2 per year for related party transactions for transactions which don't also require a prospectus (which would negate most of the cost savings).
- We consider that UK listed issuers may pay a premium of up to 2% in the price they pay for their participation in global M&A due to our requirements on significant transactions and related party transactions.

## Data gathering for this CBA

- 75.** In light of the responses to the responses regarding the initial CBA considerations in CP23/10 we have continued to follow the approach outlined there. In preparation of this CBA we have looked to gather further data, including from firms in scope of the proposals.
- 76.** As part of this data gathering, we conducted a detailed pilot survey of 8 sponsors, we then reworked this survey into a short set of questions sent to all 37 sponsors with the offer of a call to discuss them. Overall, 15 sponsors replied to these questions by email or gave their views about them in a call. We conducted a pilot survey of 5 asset managers (investors) and then followed up with a short set of questions sent to a sample of 15 with an offer of a call to discuss them. Overall 5 of these either replied by email or discussed the questions in a call.
- 77.** We also held discussions with 5 advisors to issuers such as law firms and investment banks and have organised a series of meetings for discussions with issuers, investors and advisors at senior level, often with CEOs.
- 78.** Respondents were generally not able to give detailed costs or benefits for the proposals at the granular level described in CP23/10, but offered qualitative views, which we summarise in the following sections on costs and benefits. Some firms have provided estimates for individual costs, such as for a circular, which we use below. Other firms (sponsors and investors) suggested that there may be limitations to the extent to which it is feasible or realistic to estimate costs at a very granular level, where doing so does not reflect the way in which firms concerned approach their business. We did not receive any information on how our proposals may change investment decisions and decisions to invest in UK listed equity compared to that listed in other jurisdictions [from investors, including asset managers and retail investors.]

## Summary of costs and benefits

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- 79.** In light of the above, we consider that our proposals are likely to have the following costs and benefits set out in Table 3.

**Table 3: Costs per firm, £000**

	Number of firms (actual)	CP review	Legal review	Total cost, per firm	Total, all firms of the given size
Large issuers	1,067	1.4	20.0	21.4	22,877.5
Large sponsors	10	1.4	20.0	21.4	214.4
Medium sponsors	10	0.6	7.0	7.6	76.4
Small sponsors	17	0.4	2.2	2.6	43.6
Large investors	10	1.4	0	1.4	13.9
Medium investors	17	0.6	0	0.6	11.0
Small investors	13	0.4	0	0.4	4.6
Large advisory	20	1.4	20.0	21.4	428.8
Medium advisory	30	0.6	7.0	7.6	229.3
Small advisory	150	0.4	2.2	2.6	385.1
<b>Total</b>	<b>1,344</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>24,284</b>

- 80.** Illustrative total costs and benefits of our proposals for year 1 are summarised in Table 4 below. We have illustratively estimated the total benefits based on the average number of firms that would have been affected by each proposal in recent years. Since we cannot reliably estimate the number of future listing firms or future transactions affected by our proposals, these figures are illustrative. Further details on these estimations are included in the section on benefits.
- 81.** Since the number of future transactions in the different categories is uncertain, these illustrative totals should not be used to extrapolate the quantifiable costs and benefits for future years.

**Table 4: Illustrative costs and benefits (£m)**

Cost/benefit	Eligibility	Significant transaction	Related party transaction	Sponsors changes	Other Consultation Paper content	Total
One off Familiarisation and legal costs (for all firms)	(1.1)	(2.0)	(1.9)	(1.4)	(17.9)	(24.3)
<b>Total costs</b>	<b>(1.1)</b>	<b>(2.0)</b>	<b>(1.9)</b>	<b>(1.4)</b>	<b>(17.9)</b>	<b>(24.2)</b>
Saved accounting costs on eligibility	2.9	n/a	n/a	n/a	n/a	2.9
Saved accounting costs on significant transactions	n/a	15 – 30	n/a	n/a	n/a	15 – 30

Cost/benefit	Eligibility	Significant transaction	Related party transaction	Sponsors changes	Other Consultation Paper content	Total
Saved costs on related party transactions	n/a	n/a	2 – 4	n/a	n/a	2 – 4
Assumed 'premium' for UK listed issuers engaged in mergers (required for breakeven analysis)	n/a	4.39	n/a	n/a	n/a	n/a
<b>Total benefits</b>	<b>2.9</b>	<b>19.4 – 34.4</b>	<b>2.0 – 4.0</b>	<b>n/a</b>	<b>n/a</b>	<b>24.3 – 41.3</b>
<b>Total net benefit in year 1</b>	<b>1.8</b>	<b>17.4 – 32.4</b>	<b>0.1 – 2.1</b>	<b>(1.4)</b>	<b>(17.9)</b>	<b>0.0 – 17.0</b>

Notes: \* We illustratively include the total quantifiable costs and benefits based on the number of five yearly average of transactions between 2018-2022 where a Class 1 Circular was posted on our National Storage mechanism, excluding those where a prospectus was also published as many of the costs savings would not then be available, or where a Circular was issued to update shareholders on an issue not connected with a transaction.

**82.** Non quantifiable costs and benefits have been recognised in our analysis for the following:

- Implementation costs for issuers, investors, sponsors and other advisors for each of the proposals, for example for changes systems and reporting.
- additional search or engagement costs for investors due to changes in shareholder voting requirements and possible reduced attractiveness of investing in UK listed companies.
- any cost associated with changes that index providers may make as a result of these proposals.
- costs associated with our changes to rules for special purpose acquisition companies (SPACs) or shell companies
- costs associated with the perception of reduced standards in the UK impacting the attractiveness of a listing
- any benefits associated with additional companies listing as a result of these proposals (compared to the counterfactual) and resulting benefits for these companies and investors
- further benefits for the different elements of the listings ecosystem as identified in this CBA, see section a) on SICGO below.

**83.** As we discuss in detail in paragraphs 101 onwards below, the current rules on ST and RPT put UK listed firms at a disadvantage when they compete to participate in transactions, in particular in mergers and acquisitions (M&A). Those organising these transactions may be reluctant to involve UK listed companies due to the additional costs, time delay and uncertainties imposed by our rules compared to those in companies in other jurisdictions. This additional cost to UK listed firms is sometimes referred to as 'the merger premium'. Our estimations suggest that this premium could amount to up to £24.1m per transaction.

- 84.** To assess whether our proposal is likely to be net beneficial, we have used a breakeven analysis. Based on the illustrative estimates for costs and benefits in table 4 above, our proposal implies (one-off) costs of £24.3m and benefits net of the merger premium of £19.9m (lower bound). Given this, a saved merger premium of only £4.39m would imply that the proposals break even. This figure of £4.39m is lower than the estimated average merger premium of up to £24.1m per deal. This even more so, considering that UK listed firms were involved in ca. 50 M&A transactions per year between 2018 and H1/2023.
- 85.** Based on the available information, and noting the data limitations discussed below, we believe that the quantifiable benefits from our proposals, in particular the advantages in mergers and acquisitions, are likely to outweigh the quantifiable costs in the first year of our proposals. This because the actual avoided merger premium is much larger than the breakeven figure used in table 4 above. Further, as the familiarisation costs are one-off costs, but the benefits, such as the saved merger premium, will continue to arise, that will also apply beyond year 1.
- 86.** Given these ongoing benefits, we consider that the proposals are still likely to be of net benefit when the non-quantifiable impacts are taken into account. Ongoing benefits from additional listings will also outweigh the likely low to moderate implementation cost and other non-quantifiable costs. Hence the proposal will contribute towards our broader objectives.
- 87.** We discuss our analysis and underlying data below. We welcome additional evidence and data to substantiate further the potential costs and benefits we have identified and also any that we have not identified.

## Costs

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- a.** All proposals
- b.** Familiarisation costs

- 88.** All of the proposals will lead to one-off familiarisation costs for market participants. We quantified those using our standardised cost model (SCM) The main assumptions that we have used for this analysis are as follows:
- The proposals section of this consultation paper is 137 pages.
  - The draft legal instrument included in this CBA is 137 pages. This instrument contains likely changes to listing rules as proposed in this consultation paper. We assume that the full instrument will have 454 pages and that the proportion of pages per aspect of the proposal (eligibility, significant transactions etc.) will be the same as for the draft legal instrument included in this CP.
  - In respect of each of these proposals the pages break down as follows:
    - For eligibility – total pages in this consultation paper is 9 pages legal instrument is 6 pages
    - For significant transactions this consultation paper is 13 pages, legal instrument is 11 pages
    - For related party transactions this consultation paper has 7 pages (part of above for transactions – legal instrument is 11 pages



- For sponsors this consultation paper is 10 pages legal instrument is 8 pages
- Figures for the legal instrument refer to the part of the instrument published with this consultation paper.

89. For the purposes of the SCM we assume that

- the 1,067 listed companies are large companies.
- there are 10 large sponsor firms, 10 medium and 17 small companies (based on our supervisory knowledge of sponsor firms).
- there are 20 large other advisory firms, 30 medium and 150 small other advisory firms (based on assumptions that this follows broadly the pattern of 20 large advisors include investment banks and large law firms and accountancy firms, then 30 or so medium companies and the larger tail of 150 small such companies).
- there are around 40 investment management companies which invest at IPO and may be interested in our proposals, splitting into around 10 large companies, 17 medium and 13 small companies.<sup>6</sup> We have assumed that this figure reflects the number of investment companies who are likely to read this consultation paper as opposed to following the development of our proposals via industry bodies.

90. We assume that all issuers, sponsors and advisors will read all this consultation paper but that investors may only read the sections of particular interest to them which we consider to be those on HFI/track record, significant transactions, related party transactions and the UK CGC. Altogether these sections add up to 39 pages. The calculation for investors below assumes that they will read this complete consultation paper and is likely to yield an upper bound. Key assumptions are and total familiarisation costs for this consultation paper and for each type of firm are included in table 5 below.

**Table 5: Familiarisation costs from reading the proposals, £000**

Category	Number of firms	Number of staff required to read the CP	Hourly compliance staff salary	Familiarisation costs from reading the proposals £000s
Issuers	1,067	3	68	1,484.8
Sponsors	37 (10 large, 10 medium, 17 small)	large: 3 medium: 1.5 small: 1	large: 68 medium: 63 small: 52	26.5
Other advisory firms	200 (20 large, 30 medium, 150 small)	As for sponsors	As for sponsors	100.8
Investors	40 (10 large, 17 medium, 13 small)	As for sponsors	As for sponsors	29.6
<b>Total</b>				<b>1,641.6</b>

Note: \*The totals are the sum over the costs for large, medium and small firms.

6 <https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/financial-services/deloitte-nl-fs-asset-management-industry-insight-report.pdf>

- 91.** We then allocate these total familiarisation costs across each of the proposals in proportion to the sections (number of pages) in the consultation paper. For example, for eligibility reading costs we do as follows: eligibility requirements are covered on 9 pages out of the 137 pages in this consultation paper. Therefore, they represent 9/137 of the total reading familiarisations costs of £1.64m, which is £108,000. "Other" doesn't only include remaining proposals, eg, on the governance code or independence of business, but also the background and explanations why we are intervening. Our estimate of familiarisation costs relating to this consultation paper split across the proposals is set out in table 6 below.
- 92.** We include a part of the draft legal instrument in this consultation paper. We assume that all listed issuers will conduct a legal review of the complete instrument as would advisors and sponsors. We would not expect that investors would typically undertake a legal review of the instrument in this consultation paper. Key assumptions are and total costs for each type of firm are included in table 6 below.

**Table 6: Familiarisation costs from the legal review**

Category	Number of firms	Legal review days estimation	Hourly compliance Staff time £	Cost of legal review (£000s)
Issuers	1067	2	79	21,392.7
Sponsors	37 (10 large, 10 medium, 17 small)	large: 2 medium: 1 small: 0.5	large: 79 medium: 73 small: 70	308.0
Advisors	200 (20 large, 30 medium, 150 small)	As for sponsors	As for sponsors	942.5
Investors	40 (10 large, 17 medium, 13 small)	n/a	n/a	0
<b>Total</b>				<b>22,643.3</b>

Note: \*The totals are the sum over the costs for large, medium and small firms.

- 93.** We have broken these down (again in proportion) across our proposals depending on the pages taken in the legal instrument for the proposal. We have proxied the proportion by the number of pages in the part of the instrument included in this consultation paper of 137 pages. A second part of the instrument will be published in Spring and we have proxied the total legal instrument to be 454 pages. The resulting costs for the legal review are shown in table 7 below.

### Total Familiarisation costs

94. In total we estimate familiarisation costs for each of our proposals then as follows in Table 7 below:

**Table 7 Total familiarisation costs across the proposals, £m**

	Eligibility (including DCSS and HFI changes)	Signifi- cant Trans- actions	Related Party trans- actions	Changes to sponsors regime	Other text	total
Number of legal instrument pages	6	11	11	8	101	137
Familiarisation reading costs	0.1	0.2	0.1	0.1	1.2	1.6
Familiarisation Legal costs	1.0	1.8	1.8	1.3	16.7	22.6
<b>Total familiarisation costs</b>	<b>1.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.4</b>	<b>17.9</b>	<b>24.3</b>

Notes: \* Eligibility includes DCSS and HFI changes.

**Table 8 CP pages and proposed instrument across proposals**

Document	Eligibility	Significant transactions	Related party transactions	Changes to sponsor regime	Other	Total
CP	9	13	7	10	98	137
Instrument	6	11	11	8	101	137

### c. Implementation costs

95. We have not received sufficient information from firms to reliably estimate the extent of any implementation costs. Firms contacted told us that they would absorb implementing changes into their business-as-usual and/or assess such impacts once the proposals are final. Moreover, our proposals mainly reduce requirements. Hence, we believe such implementation costs are likely to be at most modest.
96. The remaining costs discussed below are due to possible unintended consequences.

### ***Eligibility changes***

97. However, as stated earlier, under the counterfactual we assume that current requirements for a prospectus, which include financial information requirements, including for a Working Capital Statement and for proforma information (for companies with complex financial histories) will not change. Under these requirements issuers are required to include all 'necessary information', in the prospectus. Given this we do not consider that there will be additional costs for investors in relation to these proposals as they should still be able to find the information they need from the prospectus.
98. Our proposals in relation to DCSS will only affect a very few companies and therefore any additional investor search costs will be very limited. Additionally, unintended consequences of the more permissive DCSS rules may include that management may not be as effectively disciplined if they face a reduce risk of removal over an unlimited period, i.e. likely longer. Similarly, a listed company with DCSS has less pressure to perform if there is less prospect of a takeover for a longer time. This could arguably lead to poorer decisions/poorer performance of the company. DCSS was already possible in the standard segment without restriction and since 2021 with a time limit of 5-years in premium segment. The proposed rule change hence only affects companies which adopt DCSS with a time limit of more than 5-years or without a time limit, which would have listed in the Premium segment absent the proposed changes. Considering that none of the companies listed in the premium segment and only 5 issuers listed in the standard segment currently use a form of DCSS (most of which voluntarily had sunset clauses of 3-5 years), the number of companies doing so will likely be low. Any negative unintended consequences will hence also be low. Again, current figures are illustrative because this trend could change in the future.
99. There could also be additional costs for companies from FCA monitoring and enforcement oversight of the new rules. However, the disclosures in companies' prospectus documents and constitutional arrangements (i.e. arrangements that allow firms to comply with our listing rules, [LR 6.9](#)) will likely mean that such costs are minimal (considering also that changes in 2021 already allowed for DCSS in premium with a time limit). We consider these are unlikely to materially increase the compliance costs linked to our proposed DCSS rules.
100. Overall, we do not consider that there would be material additional costs from the proposals on eligibility requirements.

### ***Changes to the requirements on significant transactions and related party transactions***

101. We recognise that it is possible that issuers may have some additional costs due to the increased disclosure requirements from these proposals. We do not consider that sponsors will face additional costs (beyond familiarisation costs) related to these proposals given that they reduce requirements.
102. For investors it is also possible that there could be additional due diligence and monitoring costs for example due to removal of shareholder voting requirements. Some investors we have spoken to have suggested that in practice they would continue to engage with UK listed companies as they do now. Other investors have told us that our

proposals could lead to an increase in the costs associated with investor engagement or a reduction in the quality of stewardship and, over time, a reduction in the value that was placed by investors on UK listed companies. In turn this could also, over time reduce the level of the investments that investors made in UK securities.

- 103.** We note that some academic studies were referred to by respondents to CP23/10 (such as Marco Becht et al., 'Does Mandatory Shareholder Voting Prevent Bad Acquisitions?', 29 Rev. Fin. Stud. 3035, 3037 (2016)), which have sought to assess whether markets where companies provide shareholder votes on transactions result in better outcomes versus markets where companies do not typically offer a shareholder vote.
- 104.** However, we consider that the data and findings of these studies are not reliable as a predictor of what may happen to the value of UK listed companies as a result of our proposals. For example, there are material causation difficulties due to the use of cross-jurisdictional comparisons of cohorts of companies undertaking transactions where these markets are significantly different from UK listed markets. This for example in respect of their regulation, types and size of companies (and transactions), types of investor or investor behaviours corporate governance norms. Such studies also cannot consider impacts from costs if UK-listed issuers missed out on bids as a seller would not consider them due to the need for shareholder approval or the potential price premium effect that may have reduce benefits from deals that may have happened even without a vote.
- 105.** We have also sought to add features in our proposed reforms that seek to mitigate perceived risks to shareholders from the removal of shareholder votes on certain transactions, such as enhanced disclosures for significant transactions and a requirement for sponsors to provide a fair and reasonable opinion on related party transactions. We do not consider it practicable to therefore predict future outcomes of transactions based on our proposals, although if we proceeded, we would seek to monitor for potential adverse impacts. The success or otherwise of corporate transactions also reflects market risk, versus direct costs of regulation to investors, and other existing or means of engaging companies or further market-based initiatives on may also emerge.
- 106.** As is explained above we engaged with investors following CP23/10 and received mixed views about whether our proposals would increase costs for investors, but did not receive any data on such costs (see also the section on SICGO below). Investors we contacted have not put any number on additional costs that this may impose on them compared to slight readjustments in their engagement with issuers or the potential impact on this investment decisions. Some of them indicated that investor engagement would likely continue largely as now but that there may be a negative impact of our proposals on investor stewardship and therefore performance by issuers. Investors also said that they may make them less likely to invest in UK listed equity, which could reduce the liquidity of shares in UK listed companies and might increase their cost of capital. However, we did not receive any information on how our proposals may change investment decisions and decisions to invest in UK listed equity compared to that listed in other jurisdictions. We can therefore not assess how important these unintended consequences are. An additional possible unintended consequence is an increase in delistings due to mergers. Our proposals will reduce the merger premium and will hence

make participation in mergers and acquisitions more attractive. Companies from other jurisdictions might hence acquire more UK listed companies than they do presently and delist them in the UK.

- 107.** As described above in relation to significant transactions, we do not consider that there will be additional implementation costs for market participants in relation to related party transaction requirements. This is because they reduce the requirements.
- 108.** As NSM data suggests that there are few related party transactions that don't also require a prospectus (2 per year on average for the years 2018 – 2022), we also do not consider that investors will increase their engagement with companies as a result of these proposals compared to current due diligence, nor do we consider that investors will invest less in UK listed securities. These figures are illustrative because the number of related-party transactions could increase in the future.

### ***Changes to the sponsor regime***

- 109.** The changes in the sponsor regime may create some additional costs for sponsors in readjusting their processes and adjusting their service provision in line with the new requirements. These may include new training manuals and new guidance for companies. There also may be costs for investors in companies that are listing who may now have to undertake additional engagement with these companies and due diligence on them. Where sponsors charge for sponsor services, they may lose some revenue and hence also profit. However sponsors have commented also that in some cases they do not charge issuers for sponsor services, for example where they may be advising the issuer more widely on a transaction.
- 110.** However, sponsors who responded to our survey gave mixed views about these impacts and overall stated that there would not be additional net costs from our proposed changes to the sponsor regime.

### ***Other changes***

- 111.** We note a potentially slightly higher degree of risk for investors around corporate governance structures of listed issuers because the option for issuers to 'explain' in relation to UK Corporate Governance Code (UK CGC). Additionally, the independence of business was subject to less scrutiny at the gateway notwithstanding disclosures in prospectuses. The extent of such risk may also depend on the FRC's future approach to the UK CGC and any further review of this code. This might lead to somewhat more cases where corporate governance issues result in negative corporate performance or have a negative impact on a firm's share price. This will more likely apply to future listings and is less likely to impact existing issuers already complying with our rules and the UK CGC.
- 112.** We also propose additional requirements for SPACs and shell companies (around 30 currently) which may mean that smaller SPACs are not in the scope of these requirements. However, as the transition period for these requirements is set at 3-years (which is usually the market standard for a SPAC to have made a transaction or decided to wind down), we expect that this will only affect a small number of companies.

However, we would be interested in views about these costs and the potential effects of our proposals.

- 113.** We noted in CP23/10 that a small number of firms with specific business models may be unable to list (causing a marginal risk of reduced investment opportunities for investors). We have not heard in responses or during our engagement with firms that this would be a material impact of our proposals.

### ***Costs of the changes overall***

- 114.** There is a certain risk that some issuers who may consider listing in the UK due to the reputation of UK listed markets for high standards of corporate governance and disclosure feel this reputation is called into question and seek to list elsewhere. This wasn't an impact advanced in our data gathering for this CBA.
- 115.** A related risk is that investors 'price in' what they may consider to be the additional risks of investing in UK listed companies by reducing what they are prepared to pay for UK listed securities. In this sense issuers could have to give up more of their equity to raise additional capital.
- 116.** Alternatively they may decide not to invest in UK listed securities or to disinvest. As stated earlier we do not consider this to be significant risk as investors already invest in other jurisdictions which do not have our requirements.

### **Costs and benefits to the FCA**

- 117.** Whilst we expect that changes to FCA supervisory practice as a result of these proposals may create some initial transitional costs for the FCA these will be considered to be BAU costs and are not estimated here. As these proposals act to reduce current requirements, we expect that they will have ongoing benefits in reducing the scope of rules that the FCA will need to enforce against.

## **Benefits**

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### **Eligibility changes**

- 118.** Removing requirements for a 3-year track record should allow some companies to list in the UK who previously would not have been able to do so and who may have chosen instead to list overseas. In this sense removing this requirement could lead to companies listing earlier in the UK and more companies listing in the UK. This in turn could lead to investors having a wider base of companies to invest in and having the choice to invest in newer companies earlier.
- 119.** Feedback to DP 22/2 from large accountancy firms strongly suggested that potential issuers who had an acquisitive business model were finding it difficult and costly to meet the combination of the 3-year track record requirement and the requirement that such a track record should cover 75% of the business. Removing these requirements should therefore save costs for these companies who seek to list, taking account (as described

earlier) of prospectus requirements including requirements for companies with a complex financial history.

- 120.** We consider that new issuers who would have listed as premium listing issuers will have lower costs due to the removal of HFI track record requirements. Feedback to DP 22/2 suggested that this would particularly apply for companies who had a business model based on acquisition where there would be significant costs associated with producing financial information representing at least 75% of the business for a 3-year period.
- 121.** As stated earlier the counterfactual to this CBA analysis assumes that we are retaining the financial information requirements for the prospectus. These include requirements for historical financial information and, where a company has a complex financial history pro forma financial information. To some extent the retention of these requirements means that issuers seeking to list with an acquisitive business model may continue to incur more accounting related costs than other issuers.
- 122.** Given this, we fairly conservatively assumed an estimated cost saving of £50K for each issuer following discussions with issuers. There were 292 UK IPOs over £50m between 2018-2022, a 5-year average of 58 companies per year. This would lead to illustrative costs savings for issuers seeking to IPO of £2.9m per year. This estimate is illustrative because we don't actually know the number of IPOs in future years.
- 123.** We also consider that a number of UK incorporated companies, which may have been prevented from listing in the UK, could now list as a result of the changes to eligibility requirements.
- 124.** Our changes to DCSS may make it easier for such companies to list on UK markets. This could increase the numbers of such companies listing in the UK and in turn give investors a wider base of companies to invest in. However, as stated earlier in relation to costs we would expect that the number of such companies may be low given that there are only 5 such companies listed in the UK at present.

### **Changes to the requirements on significant transactions and related-party transactions**

- 125.** The changes to shareholder voting requirements could save currently premium listed issuers costs related to preparation of the Circular and costs associated with organising and running a meeting of shareholders, a view the sponsors/advisors and investors we contacted agreed with. Some sponsors suggested not having to organise a shareholder vote and not having to get a sponsor's declaration would lead to savings due to avoided legal fees, accountancy fees and sponsor fees.
- 126.** Sponsors gave cost estimations of these savings ranging £3m per transactions to around £1m, although there was some consensus around a range of £1m to £2m. However, issuers who have to publish a prospectus to raise funds for their transaction will continue to incur advisor and accountancy fees and so will not be able to achieve these cost savings.
- 127.** The removal of our requirements for shareholder voting will mean that issuers will no longer on certain occasions have to publish a Class 1 Circular. We calculate potential



saved costs on having to publish a Class 1 Circular by looking first at the Class 1 Circulars where issuers are likely to save costs due to our proposals based on our analysis of data from the National Storage Mechanism. Given that issuers who are publishing a prospectus in addition to a Circular will still have to provide a working capital statement we have then screened out these further issuances from this data.

- 128.** Calculated as a 5-year average this gives an average number of issuers publishing class 1 Circulars of 15 per year. Considering the more conservative range of £1m to £2m per transaction suggested by sponsors, this suggests that there could be saved costs of between £15m to £30m per year. These are gain illustrative only because the number of such transactions in future years is not known.
- 129.** Issuers who are undertaking related party transactions will also benefit from these saved costs. Based on NSM data (and screening out transactions where a prospectus was published) we estimate that there are around 2 related party transactions requiring a circular but no prospectus per year. This means that we estimate that issuers will illustratively save between ca. £2m and £4m on transactions costs.

### **Reduced price premium for UK listed companies participating in M&A**

- 130.** Data provided to us shown in figure 5 above suggests that there is currently a “deals gap” between the global M&A involvement of UK listed issuers compared to that of UK listed companies in that the US has a higher value of deals in proportion to total (US) market capitalisation in most years. Part of the reason may be a disadvantage for UK listed issuers due to current requirements (as described by advisors and investors) because current ST and RPT requirements delay deal-making, cause some additional costs, eg for the circular and organisation of the shareholder vote, and introduce uncertainty.
- 131.** We have had feedback from sponsors and investors that current requirements for a shareholder vote mean that UK listed issuers pay a ‘premium’ where they are involved in M&A deals. This ‘premium’ can be expressed as having to bid higher prices than those from other jurisdictions or having to accept a lower price for their assets. Stakeholders estimated the cost of this current premium for these listed issuers as up to 2% of the deal value. Using White and Case data we calculate that were 274 deals involving UK listed companies from 2018-H1/2023 (ca. 50 per year on average) and that the total deal value was around £330.5bn. This gives an average deal value of £1.2bn. A 2% premium would therefore imply a saving of £24.1m per deal and £1.32bn year.
- 132.** Feedback from investors and sponsors (some of them also advisors) has suggested that these changes may also make it easier for these listed companies to compete in global M&A. Their feedback suggests that as our current requirements are additional to those in other jurisdictions and as shareholder votes take time to organise and the result of these are uncertain, UK companies are sometimes not invited to participate in global deals and, if they are invited, may also have to pay a premium (compared to companies from other jurisdictions).
- 133.** Given this our changes to these requirements may also mean that such companies no longer have to pay this premium and have a greater choice of deals to participate in. A

further benefit may then be that UK listed companies can compete for the higher quality deals and that investors in UK companies can take benefit from this activity.

- 134.** There may also be indirect benefits from changes to our rules for example it may increase incentives for companies to list on UK listings markets if capital raising is easier on these markets because requirements are less onerous.

### Changes to the sponsor regime

- 135.** The changes to the role of sponsors at admission could reduce the costs for sponsors who will no longer be responsible in the same way as now for vetting companies at the gateway. This should also reduce costs for companies listing who will now no longer need to use a sponsor in the way they do now.

### Proposals overall

- 136.** We note also that there are positive effects on investors from our proposals. Proposals which act to increase the number of listed companies will also increase the number of securities that investors can invest in, with investors benefitting due to the greater transparency compared to private companies.

## Our obligations under SICGO and the likely competitiveness effects of our proposals

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- 137.** The new Secondary International Competitiveness and Growth objective has come into force since the publication of CP23/10. When we advance our primary objectives, we must hence look at how our work affects the SICGO and advance this objective so far as reasonably possible. Our publication “Secondary international competitiveness and Growth objective” explains how we will pursue this objective. Proportionate regulation ensures that regulatory costs or restrictions on firms are proportionate to the expected wider regulatory benefits. This is the key driver of productivity, which our proposals are addressing, that is capable of increasing productivity and contributing to growth and competitiveness.
- 138.** Hence, we also sought to assess qualitatively the potential effects of our proposals at a high level on UK growth and competitiveness. We consider these below in respect of:
- a.** Impacts on the UK listing eco-system and UK financial services clusters
  - b.** Impacts on the relative attractiveness of UK listed markets
  - c.** wider potential effects on UK competitiveness and growth as assessed through their effects on the seven drivers of growth and competitiveness.

### a. Impacts on the UK listing eco-system and financial services clusters

- 139.** As explained above, we considered the costs and benefits on issuers, sponsors, investors and advisories and concluded that our proposal is overall net beneficial across these types of companies. As explained at paragraph 130 onwards this is importantly

driven by the likely reduction in the merger premium. It appears likely to us that these large savings will outweigh the potential higher due diligence costs and possibly lower attractiveness of UK stocks for investors (which we cannot quantify). As explained in [section trade-offs considered"] our proposals are designed to balance attractiveness of the UK for listed and newly listing firms due to proportionate (relatively low-cost) listing rules and the continued attractiveness of UK listed companies to investors due to the high standards of these listing rules and range of listed firms they can invest in. These direct net positive impacts (broadly speaking reduced regulatory costs) should contribute to UK competitiveness and promote UK growth.

- 140.** To assess wider impacts of our proposals we reconsidered the 'valuation gap' for UK listed companies compared to US listed companies discussed in CP23/10, with UK companies, who are subject to the requirements for a shareholder vote, valued lower than those in the US. We noted that this gap can partly be attributed to differences in sectoral composition and liquidity, but that it may also highlight differences in investors' attitudes and an actual or perceived higher risk of UK assets (factors such as the degree of economic and institutional stability and currency volatility may feed into this). Similarly, a recent report by UBS compared 60 large UK blue-chip companies with US companies they judged the closest match. UBS found that many British stocks were on par with or even exceeded their US peers from a valuation standpoint and that the apparent 'gap' was largely due to the inclusion of a few US tech giants like Meta and Amazon, which don't have peers in the UK.<sup>7</sup> Since our proposals reduce regulatory costs, they make UK listings relatively more attractive. Hence, we see no reason to believe that our proposals will increase the 'valuation gap'.
- 141.** We additionally considered the effects of these changes in regulatory costs on the competitiveness of UK capital markets as a whole, including on activity in these markets and then more broadly the effects on what stakeholders have described as the capital markets 'ecosystem'.
- 142.** We understand the capital markets ecosystem to mean the interaction of different elements of the UK listings eco-system. Such cluster effects can also influence potential issuers' incentives to list through their impact on the critical mass of investment analysts or number of 'peers' already listed in the UK as they approach the time where they may consider listing. We considered how our proposals impact upon the 'critical mass' and interconnections upon which the overall health of the cluster/s may depend. Specifically, we considered the impacts on the base of expertise (eg legal and investment bank analysts) as well as the broader cost impacts of our proposals.
- 143.** Since our proposal may encourage listing, earlier listing and listing of more innovative and acquisitive companies, it may also benefit firms in the 'eco-system', such as bookrunners and other underwriters in IPOs as well as law firms or analysts. This for example, by increasing economies of scale and scope. Additionally, increased listings might drive further listings because the presence of comparable companies is among the top 5 factors which companies consider when choosing an exchange, see the EY/ UK Finance report quoted at paragraph 16. The extent of net positive impacts on the UK

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7 See the LSEG's website here: <https://www.lsegissuerservices.com/spark/7hboSWKdv7xMEufiVWgiUH/fti-consulting-ir-monitor-01-november-2023>

listings 'eco-system', including issuers, sponsors, investors and advisories, and hence UK growth and competitiveness will depend on the number and type of additional listings (e.g. size and sector). While we recognise that in general we cannot precisely predict the impact of our proposed changes on the future numbers of UK listed companies, we believe the available evidence indicatively points to a potentially significant benefit from proposed changes; see paragraphs 79 onwards.

## **b. Impacts on the relative attractiveness of UK listed markets**

- 144.** We also considered the impact of our proposals on the attractiveness of UK listing markets relative to other jurisdictions.
- 145.** Recent surveys (albeit with unclear or low statistical reliability) suggest that regulatory requirements are amongst a number of key factors affecting firms' decision to list. Therefore, it appears likely that our proposals will have a significant positive net effect on listing; see paragraphs 16 and 66/7. This is also a conclusion that has been drawn by most respondents to CP23/10.
- 146.** Our proposed changes to eligibility requirements act to reduce costs for potential issuers and to remove obstacles that some issuers (eg, DCSS issuers or newer issuers) may face in listing. Further our proposed changes to requirements for significant and related party transactions, reduce costs, time delays and uncertainties and make it easier for UK listed companies to participate in global M&A, again making it more likely that potential issuers will find London an attractive market to list in (but also more attractive for companies from other jurisdictions to acquire and delist UK listed firms, this likely with a gain for the UK target companies). As explained at 139 onwards, we believe that these impacts will likely outweigh unintended consequences for investors. While we note that some might perceive the proposal as a drop in the regulatory standards for UK listings, we believe we struck the right balance between the interests of issuers and related firms (underwriters, advisors etc) and the interest of investors (see section trade-offs considered). The attractiveness of UK listed market relative to listed markets in other jurisdictions should hence increase.

## **c. Impacts on competitiveness and growth as a whole**

- 147.** We assess the impacts on competitiveness and growth by considering them against the relevant drivers of competitiveness and growth (of the seven identified in our publication on SiCGO). We consider them against three of these drivers below.
- **Proportionate regulation:** We consider that our proposals will make our listings regulation more proportionate. This is because we consider that the proposals will better balance the needs for investor protection (which are also reflected in prospectus requirements) with those of issuers for a timely and lower cost listing. We address areas where we consider that our current rules (for premium listing) impose disproportionate costs for example in relation to historical financial information requirements and transactions. We recognise that these changes potentially increase risks for investors, but consider that they provide a better balance of regulation, given the evidence that issuers and investors are seeking to list and invest elsewhere where the rules are less onerous.

- International markets. As discussed in this consultation paper, these proposals should act to improve the relative attractiveness of UK listed markets. We have shaped our proposals specifically to address those areas where our requirements appear out of step with those of other international jurisdictions and where data suggests that this may disadvantage UK listings markets and UK listed issuers. We consider that our proposals will mean lower costs for potential issuers, and lower burdens on their participation in global mergers and acquisitions (and hence also lower relative costs and burdens). This should also make UK listings markets more attractive to overseas firms considering listing. Whilst we recognise concerns that investors may price down UK listed securities due to a reduction (for example) in shareholder voting requirements, we have not seen evidence that they have done this where they invest in securities in other jurisdictions or that they have been reluctant to invest in these jurisdictions.
- FCA operational efficiency: We consider that our proposals will add to FCA operational efficiency by better targeting our regulatory focus. For example, we will no longer be having to assess applications for listing against as broad a range of requirements.

**148.** Given the analysis on the drivers of competitiveness and growth above we consider that the overall market effects of our proposals will be positive and will contribute to the growth and competitiveness of the UK economy.

**149.** Market integrity will be supported by the additional disclosures made for investors whilst market efficiency will be supported by the reduced costs for issuers. Since many see the IPO market as indicator of the state of the UK economy overall, an improvement here may increase business and investor confidence and may have a further indirect positive impact on the UK economy. These impacts are considered further in the compliance statement in this document.

**150.** The overall growth and competitiveness of the UK will be assisted in the following ways:

- Barriers to capital raising will be reduced for UK companies, including listed companies due to lower costs for eligibility and ongoing requirements. This will allow companies and issuers to choose more freely their optimum capital structure with consequent savings for these companies.
- Reduced costs for UK listed issuers will mean that these companies can either pass these cost savings through to their customers or investors, with consequent flow through the UK economy.
- A more level playing field for UK companies seeking to participate in M&A will mean that such companies are more likely to be attractive partners (whether targets or acquirers) in these deals, meaning that they can take greater benefit from them. This should act to improve the performance of UK companies and foster greater returns for investors.
- Increases (compared to the counterfactual) of the numbers of companies listed in the UK should create knock-on benefits associated with such listing, eg location of headquarters and a greater share of operations of these companies in the UK and greater focus of these companies on the UK market.

## Next steps

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- 151.** Following publication of this consultation paper we will be interested in stakeholder views about this CBA and any further data which stakeholders can provide us in relation to the costs and benefits of these proposals.

### Questions on this CBA

- 152.** As discussed earlier we caveat that in undertaking this CBA we were not able to assess in detail the costs or benefits that some market participants may have due to our proposals. This may reflect that firms expect to deal with compliance with our changed regulatory requirements as part of their day to day activity, or treat this as a given they will consider further once the rules changes are finalised. Therefore firms we contacted were unable to draw on detailed records to assess the costs associated with individual proposals. Therefore, we are interested in answers to the following Questions.

**Q56:** Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.

**Q57:** Do you hold any information or data that would allow assessing the costs and benefits considered (or those not considered) here? If so, please provide them to us.

**Q58:** Do you agree with our conclusion that the proposals don't significantly reduce the investment in UK listed companies compared to current levels, but might increase investment if larger number of companies list in the UK? We welcome comment, in particular, if supported with evidence on the likely impact on investment levels.

## Appendix to the CBA

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### The CBA considerations contained in CP23/10

- 153.** We have published a first consultation on these proposals as CP23/10. In CP23/10 we put forward initial costs and benefit considerations for stakeholder views. We summarise these considerations and the feedback from stakeholders below.

## Costs

**154.** These can be summarised as:

- Potential compliance and indirect costs for issuers or sponsors in relation to the proposals. These were familiarisation costs and some implementation costs, and additional monitoring and search costs, and/or greater liability (for sponsors) and reduced influence on listed firms for some investors.
- Costs for investors, including familiarisation costs and potential costs associated with additional monitoring and search costs.
- Familiarisation and implementation costs for advisors involved in IPOs.
- Some risk that firms which would have listed in standard, stay private or stay private for longer (to avoid the additional requirements)

## *Benefits for applicants and issuers*

**155.** Increased accessibility of listing and capital on UK regulated markets:

- vs premium listing, particularly for companies with a shorter financial track record, acquisitive background, or those that may not be able to demonstrate sufficiency of working capital (i.e., due to less restrictive and onerous eligibility requirements), including a reduction in costs and uncertainty for prospective listings at IPO vs premium listing around meeting the '75%' threshold for financial history over a 3-year period
- vs standard listing (i.e., it removes the perception of standard listing as a lower-class listing), and
- better alignment with other major capital centres, such that issuers may be better incentivised to seek listing in the UK.

**156.** Additional support provided by sponsors vs standard listing.

- This should improve the quality of applications we receive, and issuer readiness and ongoing compliance with listing and transparency rules.
- Reduced indirect costs for issuers for work from advisors e.g., accountancy firms in creation of HFI data, extent of sponsor assurances (although may be more marginal due to disclosures required as part of prospectus content).
- As compared to premium listing, a significant reduction in costs at gateway and imposed by continuing obligations, in particular for significant and related-party transactions, and rules more efficient e.g., allows issuers to act faster when undertaking transactions and removes regulatory deterrents to deal-making.
- Fewer sponsor-associated costs as fewer circumstances when a sponsor needs to be appointed post IPO vs premium listing.
- The listing rules are simpler and easier for issuers to understand, providing a clearer comprehension of what it means to be listed and of applicable obligations, potentially increasing compliance levels for some. For example, in relation to the proposals set out in chapter 6 of this consultation paper.
- Issuers may have more sources from which to raise equity finance, and can achieve a more optimal capital structure for their circumstances.
- Potential increase in attractiveness of a UK listing to new applicants, and to remaining listed for those currently with a standard or premium listing.



## ***Benefits for investors***

**157.** These are:

- Increased accessibility to listing potentially leads to increased and more varied investment opportunities for investors on UK public markets, which also provide high levels of transparency (investors may also have access to new companies at an earlier stage of their development and able to share more in the value gains in these companies). However, conversely, there may be less investment opportunities for investors in private equity.
- The listing rules are simpler and easier for investors to understand what it means to be listed and the protections afforded to them, leading to better informed investment decisions.

## **Responses to CBA related questions in CP23/10**

**158.** In Chapter 9 of CP23/10, we asked a series of questions (Q37-52) in relation to assessing the likely costs and benefits of our proposals, more specifically seeking views on:

- Whether we had identified the most relevant expected costs from key aspects of our proposals for different market participants, including issuers, sponsors, other advisors, investors and the FCA. We also asked for any evidence and data to help quantify these costs (see Q41-47), and
- Similarly, we set out expected benefits for different market participants as well as aggregate benefits for market functioning, and again asked for any information that may help quantify benefits (Q48-52).

## ***Feedback on costs***

**159.** There were nine responses with a mix of views about whether the proposals would reduce costs and the impact on sponsors. There was also a comment that there may be increased costs of investor engagement and a few comments that there could be significant costs for previously standard listed companies meeting the proposed Single Listing Category requirements. However, there were only one or two responses to questions seeking to estimate or quantify specific costs from familiarisation and implementation, or the proposals themselves. Those view responses did not offer any data or quantification but gave brief commentary that they thought costs would be either modest or provided mixed responses.

**160.** In terms of any other consideration of costs or aspects we hadn't considered for issuers or sponsors, there were 3 comments including that we should address costs of the AIM NOMAD, that there may be increased investor engagement costs and one comment generally in favour of the proposals. There are no further comments otherwise on costs we may not have considered. We also received no detailed feedback or data on estimates of familiarisation or implementation costs, or on the costs of the proposals, nor any further considerations.

**161.** With regard to our assessment of potential costs for investors, 2 respondents commented that the proposals in relation to significant transactions, RPTs and DCSS will impose significant due diligence and monitoring costs on investors. One commented



that the proposals may increase risk and reduce valuations. However, in response to any quantification of costs for investors, there were only general comments from limited respondents, with one submission stating they felt proposals did not increase risk, while another noted that any company choosing to list with a DCSS may see reduced valuation after IPO.

- 162.** On the impact of our proposals for index providers and index inclusion, we received 9 responses. There was a mix of views with one asking for guidance from index providers. One was concerned that index providers may require companies to comply with the Corporate Governance Code and there should be guidance on this. One comment was the FCA should put in place the regime it thinks is right and indices will adjust around this, though there was a concern that indices may gold plate and create premium listing by default. In terms of costs that may arise due to potential changes to indices as a consequence of our proposals, there were 3 general responses stating that our proposals could lead to a dilution of the quality of companies included in the index and this could create investor detriment. There was also a concern that there may be an increase in execution costs. However, we did not receive any data to quantify or substantiate these views.

### ***Feedback on benefits***

- 163.** In responding to our assessment of potential benefits from our proposals, there was a mix of views. Six respondents agreed with our list of potential benefits. Two expressed concern that we were not taking a holistic approach and that the cost of listing on AIM will end up same as on Main Market. Two respondents also expressed concern that the proposals may reduce what they saw as a competitive advantage from having higher standards (from an investor perspective) in premium listing and on the effects on investor stewardship. No respondents identified other benefits we had not already outlined.
- 164.** Regarding the factors influencing listing decisions and any 'ranking' of these factors, we received 6 responses with a range of views about the order of importance these had. Some of the responses commented that it was not possible to rank them.
- 165.** When it came to quantifying benefits, there were only 5 responses. One commented that there would be no benefits and another that they were opposed to removing shareholder voting requirements. A different respondent suggested there would be a general rise in market activity. One suggested that we should measure benefits against 'real world' metrics eg, the level of liquidity in the UK and the proportion of equities listed in the FTSE 100 held by UK investors. The efficiency of listing reforms could be calculated by assessing the ratio of private company formation compared to companies listing. Benefits could also be assessed by looking at the degree to which UK listed companies become more acquisitive, versus being purchased by overseas investors.

## Annex 3

# Compatibility statement

## Compliance with legal requirements

---

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

## The FCA's objectives and regulatory principles: Compatibility statement

---

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of enhancing integrity (s1D FSMA).
8. Further, we consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they seek to ensure requirements for listed companies, and companies seeking to list their securities, are clear and proportionate. The measures aim to encourage a better choice of investment opportunities to investors, and alternative routes to public markets for private companies.
9. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.
10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA. In particular:

### The need to use our resources in the most efficient and economic way

11. The proposals set out in this consultation paper are consistent with an efficient and economic use of our resources. Our approach is designed to make listing more accessible for issuers, in part by providing more clarity on our rules and reducing actual or perceived regulatory barriers or costs for companies. The proposed clarifications and changes would make it easier overall for us to assess issuers eligibility for listing.
12. A single commercial companies category and clearer tailored listing categories overall will reduce the need for detailed discussion and consideration of cases where it is unclear currently whether they meet the current Premium listing and standard listing eligibility requirements based on for example, the composition of the companies group structure.
13. Applying the sponsor regime to all issuers applying to the commercial companies category and the shell company category, will ensure that the benefits of the sponsor regime are realised for a wider range and number of issuers than is currently the case. This would help improve the quality and readiness of applications, helping to streamline the process and reducing costs for the FCA.

### The principle that a burden or restriction should be proportionate to the benefits

14. We consider that our proposals will have a positive impact on ensuring that the burdens and restrictions placed on issuers under the listing rules are proportionate to the benefits. We have undertaken a cost-benefit analysis which is included in Annex 2 of this consultation paper.

## **The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term**

- 15.** Our proposals have regard to the desirability of sustainable growth in the medium and long term. They seek to address several potential barriers to listing for issuers. If more companies choose to list in the UK, it would increase investment opportunities for investors and promote growth in the economy as companies can access deeper pools of capital via public markets.

## **The principle that we should exercise of our functions as transparently as possible**

- 16.** We consider that our proposals will deliver greater transparency in the way we exercise our functions in relation to the listing rules.
- 17.** In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). We do not expect our proposals to have a direct bearing on financial crime.

## **Expected effect on mutual societies**

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- 18.** The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

## **Compatibility with the duty to promote effective competition in the interests of consumers**

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- 19.** In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.
- 20.** We do not consider the proposals in this consultation paper to be inconsistent with our duty to promote effective competition in the interests of consumers. Our measures aim to improve access to listed public markets, simplifying, and giving companies more choice in how they chose to raise capital and investors more access to diverse investment opportunities on transparent UK public markets. Without our changes, some of these opportunities may not be accessible to some consumers or may require investment in private equity or overseas markets, which may be more expensive and/or less transparent for consumers.

## Equality and diversity

---

21. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation, and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.
22. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.47 of this consultation paper.

## Legislative and Regulatory Reform Act 2006 (LRRRA)

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23. We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that they will reduce barriers to issuers listing in the UK which will increase opportunities for investors and thereby contribute to overall market integrity. The design of these measures is intended to provide clarity and transparency to investors. We consider that our proposals strike a proportionate balance, focussing on transparency which supports market integrity, while removing key frictions that are regarded by some as hampering or deterring premium listed companies from pursuing transactions and the associated value creation that is intended to benefit the company and its shareholders.
24. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that they will help support potential issuers comply with the listing rules and support them as they grow.

## Treasury recommendations about economic policy

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25. We consider that our proposals are consistent with the aspects of the government's economic policy to which the Financial Conduct Authority should have regard.
26. In the remit letter from the Chancellor of the Exchequer to the FCA on 8 December 2022, the Chancellor affirms the FCA's role in protecting consumers, promoting competition, and protecting and enhancing the integrity of the UK financial system.
27. The FCA has regard to this letter and the recommendations within. As set out in this Annex, we consider that our proposals are proportionate, aim to increase investor protection and promote effective competition.
28. They are of relevance, in particular, regarding competitiveness and the government's wish to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre and hub for green finance. They are also of relevance regarding

innovation, and the government's recommendation that we should encourage new methods of engaging with consumers of financial services and new ways of raising capital, including recognising differences in the nature and objectives of business models, promoting effective competition, and ensuring burdens are proportionate.

- 29.** We consider our changes should have positive impacts across these areas, as generally our changes seek to make UK listed markets more accessible and flexible for different types of company at different stages of growth, including founder-led and more innovative companies. This should in turn diversify the range of investment opportunities available on UK markets, both for domestic and international investors who wish to invest here.
- 30.** We consider our changes should have positive impacts across these areas, as generally our changes seek to make UK listed markets more accessible and flexible for different types of company at different stages of growth, including founder-led and more innovative companies. This should in turn diversify the range of investment opportunities available on UK markets, both for domestic and international investors who wish to invest here.

## Annex 4

# List of non-confidential respondents to CP23/10

Arthur Cox LLP

Ancoram

The Association of Investment Companies

Australian Council of Superannuation Investors

Baillie Gifford & Co

BDO LLP

Bharti Airtel Ltd

Bird & Bird LLP

Bloomberg LLP

Border to Coast Pensions Partnership

Berenberg

Brunel Pension Partnership

BVCA

The Chartered Governance Institute

Candriam

CFA Society of the United Kingdom

The City of London Law Society & The Law Society

CMS Cameron McKenna Nabarro Olswang LLP

Coca-Cola Europacific Partners PLC

Corporate Reporting Users' Forum

Council of Institutional Investors

Deloitte LLP

Deutsche Bank

East Sussex Pensions Fund

Ecora Resources PLC

The Engagement Appeal Team

EOS at Federated Hermes

Financial Services Consumer Panel

Fladgate LLP

GC 100

Herbert Smith Freehills LLP

Hill Dickson LLP

Institute of Chartered Accountants England and Wales

Innovate Finance Ltd

Interactive Investor

The International Corporate Governance Network

Investment Association

Investor Coalition for Equal Votes

The Investor Forum

The Investor Relations Society

IPSX UK Ltd

Lazard

Listing Authority Advisory Panel and Markets Practitioner Panel

Local Pensions Partnership Investments Ltd

London Stock Exchange Group

Manchester Metropolitan University Law School

Minerva Analytics Ltd

Nest Corporation

Norges Bank Investment Management

Novum Securities Ltd



Panmure Gordon

Pension Protection Fund

The Pensions and Lifetime Savings Association

People's Partnership

Professor of Corporate Law and Governance at the University of Cambridge

Predator Oil & Gas Holdings PLC

PWC LLP

Quoted Company Alliance

RailPen

RailPen, Brunel Pensions Partnership, The Church of England Pensions Board, HSBC Bank (UK) Pension Scheme, Merseyside Pension Fund, Nest, People's Partnership, TPT Retirement Solutions, Universities Superannuation Scheme

The Sage Group PLC

Schroders

Share Plan Lawyers Group

Smith & Nephew PLC

St James Place

The UK Sustainable Investment and Finance Association

The Universities Superannuation Scheme

T. Rowe Price

Tumelo

White & Case LLP

UK Finance & AFME

United Kingdom Shareholders' Association & UK Individual Shareholders Society

Vanguard

Wise

World Federation of Exchanges

## Annex 5

# Abbreviations used in this paper

<b>Abbreviation</b>	<b>Description</b>
<b>AGM</b>	Annual general meetings
<b>AIFM</b>	Alternative Investment Fund Managers
<b>CBA</b>	Cost benefit analysis
<b>DCSS</b>	Dual/multiple class share structure
<b>DEPP</b>	Decision Procedure and Penalties Manual
<b>DTR</b>	Disclosure Guidance and Transparency Rules sourcebook
<b>ESG</b>	Environmental, social and governance
<b>FCA</b>	Financial Conduct Authority
<b>FRC</b>	Financial Reporting Council
<b>IFRS</b>	International Financial Reporting Standards
<b>ISSB</b>	International Sustainability Standards Board
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IOSCO MMoU</b>	IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
<b>IPO</b>	Initial public offering
<b>LR</b>	Listing Rules sourcebook
<b>MAR</b>	Market Abuse Regulation
<b>NOMAD</b>	Nominated adviser
<b>SCRR</b>	UK Secondary Capital Raising Review
<b>SICGO</b>	Secondary international competitiveness objective
<b>SPAC</b>	Special purpose acquisition company

Abbreviation	Description
TCFD	Taskforce for Climate-related Financial Disclosures
UK CGC	UK Corporate Governance Code
UKLR	UK Listing Rules sourcebook

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## Appendix 1

# Draft Handbook text (UK Listing Rules Instrument 2024)

March 2024 update: We have now published an updated draft instrument on 7 March 2024, which contains 'tranche 2' alongside the original 'tranche 1' drafting to form a complete draft instrument for the new UKLRs.

## UK LISTING RULES INSTRUMENT 2024

### Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 73A (Part 6 Rules);
  - (2) section 79 (Listing particulars and other documents);
  - (3) section 84 (Matters which may be dealt with by prospectus rules);
  - (4) section 88 (Sponsors);
  - (5) section 89A (Transparency rules);
  - (6) section 89O (Corporate governance rules);
  - (7) section 89P (Primary information providers);
  - (8) section 96 (Obligations of issuers of listed securities);
  - (9) section 101 (Part 6 rules: general provisions);
  - (10) section 137A (The FCA’s general rules);
  - (11) section 137T (General supplementary powers); and
  - (12) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

### Commencement

- C. This instrument comes into force on *[date]*.

### Amendments to the Handbook

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

### Making the UK Listing Rules sourcebook (UKLR)

- E. The Financial Conduct Authority makes the rules and gives the guidance in Annex B to this instrument.
- F. The UK Listing Rules sourcebook (UKLR) is added to the Listing, Prospectus and Disclosure block within the Handbook, immediately before the Prospectus Regulations Rules sourcebook (PRR).

### Revocation of the Listing Rules sourcebook (LR)

- G. The provisions of the Listing Rules sourcebook (LR) are revoked.

## Notes

- H. In the Annexes to this instrument, the notes (indicated by “**Note:**” or “*Editor’s note:*”) are included for the convenience of readers but do not form part of the legislative text.

## Citation

- I. This instrument may be cited as the UK Listing Rules Instrument 2024.
- J. The sourcebook in Annex B to this instrument may be cited as the UK Listing Rules sourcebook (or UKLR).

By order of the Board  
[*date*]

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>equity shares (commercial companies)</i>	<p>a <i>listing</i> of <i>equity shares</i> other than those of:</p> <ol style="list-style-type: none"> <li>(1) a <i>closed-ended investment fund</i>;</li> <li>(2) an <i>open-ended investment company</i>;</li> <li>(3) a <i>shell company</i>; or</li> <li>(4) an <i>investment entity</i> that is not a <i>closed-ended investment fund</i> or an <i>open-ended investment company</i>,</li> </ol> <p>where the <i>issuer</i> is required to comply with the requirements in <i>UKLR 5</i> (Equity shares (commercial companies) category: requirements for admission to listing) and other requirements in the <i>listing rules</i> that are expressed to apply to such <i>securities</i> in this category.</p>
<i>reverse takeover circular</i>	<p>a <i>circular</i> relating to a <i>reverse takeover</i>.</p>
<i>UKLR</i>	<p>the UK Listing Rules sourcebook.</p>

[*Editor's note*: definitions of additional new terms will be included as part of the second tranche of rules.]

Amend the following definitions as shown.

<i>admission or admission to listing</i>	<p>(in <del>LR</del> <u>UKLR</u>) admission of <i>securities</i> to the <i>official list</i>.</p>
<i>admission to trading</i>	<p>(1) (in <del>LR</del> <u>UKLR</u>) admission of <i>securities</i> to trading on an <i>RIE's</i> market for <i>listed securities</i>.</p>
	<p>...</p>

- applicant* (1) (in ~~LR~~ UKLR) an *issuer* which is applying for *admission of securities*.
- ...
- associate* (1) (in ~~LR~~ UKLR, in relation to a *director*, *substantial shareholder*, or *person exercising significant influence* who is an individual) and, (in *DTR*, in relation to a *related party* who is an individual):
- (a) that individual's spouse, civil partner or child (together "the individual's family");
  - (b) the trustees (acting as such) of any trust of which the individual or any of the individual's family is a beneficiary or discretionary object (other than a trust which is either an *occupational pension scheme* or an *employees' share scheme* which does not, in either case, have the effect of conferring benefits on persons all or most of whom are related parties;
  - (c) any *company* in whose *equity securities* the individual or any member or members (taken together) of the individual's family or the individual and any such member or members (taken together) are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) so that they are (or would on the fulfilment of the condition or the occurrence of the contingency be) able:
    - (i) to exercise or control the exercise of 30% or more of the votes able to be cast at general meetings on all, or substantially all, matters; or
    - (ii) to appoint or remove *directors* holding a majority of voting rights at board meetings on all, or substantially all, matters;
  - (d) any partnership whether a limited partnership or *limited liability partnership* in which the individual or any member or members (taken together) of the individual's family are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) so that they hold or control or would on the fulfilment of the condition or the occurrence of the contingency be able to hold or control:
    - (i) a voting interest greater than 30% in the partnership; or



- (ii) at least 30% of the partnership.

For the purpose of paragraph (c), if more than one *director* of the *listed company*, its *parent undertaking* or any of its *subsidiary undertakings* is interested in the *equity securities* of another *company*, then the interests of those *directors* and their *associates* will be aggregated when determining whether that *company* is an associate of the *director*.

- (2) (in ~~LR~~ UKLR, in relation to a *substantial shareholder* or *person exercising significant influence* which is a *company*) and, (in ~~DTR~~, in relation to a *related party* which is a *company*):

- (a) any other *company* which is its *subsidiary undertaking* or *parent undertaking* or fellow *subsidiary undertaking* of the *parent undertaking*;
- (b) any *company* whose *directors* are accustomed to act in accordance with the *substantial shareholder's* or *person exercising significant influence's* directions or instructions;
- (c) any *company* in the capital of which the *substantial shareholder* or *person exercising significant influence* and any other ~~company~~ *company* under paragraph (1) or (2) taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) able to exercise power of the type described in paragraph (1)(c)(i) or (ii) above of this definition.

...

- (3) (except in ~~LR~~ UKLR or in relation to a *credit-related regulated activity*) (in relation to a person ("A")):

...

- (4) (in ~~LR~~ UKLR) (when used in the context of a *controlling shareholder* who is an individual):

- (a) that individual's spouse, civil partner or child (together "the individual's family");
- (b) the trustees (acting as such) of any trust of which the individual or any of the individual's family is a beneficiary or discretionary object (other than a trust which is either an *occupational pension scheme* or an *employees' share scheme* which does not, in either case, have the effect of

conferring benefits on persons all or most of whom are *controlling shareholders*);

- (c) any *company* in whose *equity securities* the individual or any member or members (taken together) of the individual's family or the individual and any such member or members (taken together) are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) so that they are (or would on the fulfilment of the condition or the occurrence of the contingency be) able:
  - (i) to exercise or control the exercise of 30% or more of the votes able to be cast at general meetings on all, or substantially all, matters; or
  - (ii) to appoint or remove *directors* holding a majority of voting rights at board meetings on all, or substantially all, matters;
- (d) any partnership whether a limited partnership or *limited liability partnership* in which the individual or any member or members (taken together) of the individual's family are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) so that they hold or control or would on the fulfilment of the condition or the occurrence of the contingency be able to hold or control:
  - (i) a voting interest greater than 30% in the partnership; or
  - (ii) at least 30% of the partnership.

For the purpose of paragraph (c), if more than one *controlling shareholder* of the *listed company*, its *parent undertaking* or any of its *subsidiary undertakings* is interested in the *equity securities* of another *company*, then the interests of those *controlling shareholders* and their *associates* will be aggregated when determining whether that *company* is an associate of the *controlling shareholder*.

- (5) (in ~~LR~~ UKLR) (when used in the context of a *controlling shareholder* which is a company):
  - (a) any other *company* which is its *subsidiary undertaking* or *parent undertaking* or fellow *subsidiary undertaking* of the *parent undertaking*;

- (b) any *company* whose *directors* are accustomed to act in accordance with the *controlling shareholder's* directions or instructions;
- (c) any *company* in the capital of which the *controlling shareholder* and any other *company* under paragraph (a) or (b) taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) able to exercise power of the type described in paragraph (4)(c)(i) or (ii) of this definition.
- break fee arrangement* (in ~~LR UKLR~~) ~~an arrangement falling within the description in LR 10.2.6A R~~ an arrangement is a break fee arrangement if the purpose of the arrangement is that a compensatory sum will become payable by a listed company to another party (or parties) to a proposed transaction if the proposed transaction fails or is materially impeded and there is no independent substantive commercial rationale for the arrangement.
- certificate representing debt securities* (in ~~LR UKLR~~) a *certificate* representing certain securities where the certificate or other instrument confers rights in respect of *debentures*, *alternative debentures*, or *government and public securities*.
- circular* (in ~~LR UKLR~~) any document issued to holders of *listed securities* including notices of meetings but excluding *prospectuses*, *listing particulars*, annual reports and accounts, interim reports, proxy cards and dividend or interest vouchers.
- class* ...
- (4) (in ~~LR UKLR~~) *securities* the rights attaching to which are or will be identical and which form a single issue or issues.
- ...
- class tests* (in ~~LR UKLR~~) the tests set out in ~~LR 10 Annex 1~~ UKLR 7 Annex 1 (and for certain specialist companies, those tests as modified by ~~LR 10.7~~ UKLR 7.2), which are used to determine how a transaction is to be classified for the purposes of the *listing rules*.
- closed-ended investment fund* (in ~~LR UKLR~~ and *ESG*) an entity:
- (a) which is an undertaking with limited liability, including a company, limited partnership, or *limited liability partnership*; and
- (b) whose primary object is investing and managing its assets (including pooled funds contributed by holders of its *listed securities*):

- (i) in property of any description; and
- (ii) with a view to spreading investment risk.

*connected person* ...

- (5) (in *DTR* and ~~*LR UKLR*~~ in relation to a *person discharging managerial responsibilities* within an *issuer*) has the meaning given to “person closely associated” in article 3(1)(26) of the *Market Abuse Regulation*.

...

...

*constitution* (in ~~*LR UKLR*~~) memorandum and articles of association or equivalent constitutional document.

*contract of significance* (in ~~*LR UKLR*~~) a contract which represents in amount or value (or annual amount or value) a sum equal to 1% or more, calculated on a *group* basis where relevant, of:

- (a) in the case of a capital transaction or a transaction of which the principal purpose or effect is the granting of credit, the aggregate of the *group*'s share capital and reserves; or
- (b) in other cases, the total annual purchases, sales, payments or receipts, as the case may be, of the *group*.

*controlling shareholder* means any *person* who exercises or controls on their own or together with any *person* with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the *company*. For the purposes of calculating voting rights, the following voting rights are to be disregarded:

- (1) any voting rights which such a *person* exercises (or controls the exercise of) independently in its capacity as:
  - (a) bare trustee;<sub>2</sub>
  - (b) investment manager;<sub>2</sub>
  - (c) collective investment undertaking;<sub>1</sub> or
  - (d) a *long-term insurer* in respect of its linked long-term business;<sub>2</sub>

if no *associate* of that *person* interferes by giving direct or indirect instructions, or in any other way, in the exercise of such voting rights (except to the extent any such *person* confers or collaborates with such an *associate* which also acts in its capacity as investment manager, collective investment undertaking or *long-term insurer*); or

- (2) any voting rights which a *person* may hold (or control the exercise of) solely in relation to the direct performance, by way of business, of:
- (a) underwriting the issue or sale of *securities*; ~~or~~
  - (b) placing *securities*, where the *person* provides a firm commitment to acquire any *securities* which it does not place; or
  - (c) acquiring *securities* from existing shareholders or the *issuer* pursuant to an agreement to procure third-party purchases of *securities*;

and where the conditions below are satisfied:

- (i) the activities set out in (2)(a) to (c) are performed in the ordinary course of business;
- (ii) the *securities* to which the voting rights attach are held for a consecutive period of 5 *trading days* or less, beginning with the first *trading day* on which the *securities* are held;
- (iii) the voting rights are not exercised within the period the *securities* are held; and
- (iv) no attempt is made directly or indirectly by the *person* to intervene in (or attempt to intervene in) or exert (or attempt to exert) influence on the management of the *issuer* within the period the *securities* are held.

*convertible securities*

(in ~~LR~~ UKLR and *FEES*) a *security* which is:

- (a) convertible into, or exchangeable for, other *securities*; or
- (b) accompanied by a *warrant* or *option* to subscribe for or purchase other *securities*.

- debt security* (1) (in ~~LR~~ UKLR and *DTR* 7) *debentures, alternative debentures, debenture stock, loan stock, bonds, certificates of deposit or any other instrument creating or acknowledging indebtedness.*
- ...
- (3) (except in *DTR* and ~~LR~~ UKLR) any of the following:
- ...
- director* (1) (except in *COLL*, *DTR*, ~~LR~~ UKLR and *PRR*) (in relation to any of the following (whether constituted in the *United Kingdom* or under the law of a country or territory outside it)):
- ...
- ...
- (3) (in *DTR*, ~~LR~~ UKLR and *PRR*) (in accordance with section 417(1)(a) of the *Act*) in relation to an issuer which is a body corporate, a person occupying in relation to it the position of a director (by whatever name called) and, in relation to an issuer which is not a body corporate, a person with corresponding powers and duties.
- equity security* (1) (in ~~LR~~ UKLR) *equity shares and securities convertible into equity shares; and*
- ...
- executive management* (in ~~LR~~ UKLR) the executive committee or most senior executive or managerial body below the board (or where there is no such formal committee or body, the most senior level of managers reporting to the chief executive), including the company secretary but excluding administrative and support staff.
- external management company* (in ~~LR~~ UKLR and *PRR*) has the meaning in *PRR* 5.3.3R.
- group* (1) (except in relation to an *ICVC* and except for the purposes of *SYSC* 12 (Group risk systems and controls requirement) and ~~LR~~ UKLR) as defined in section 421 of the *Act* (Group) (in relation to a *person* (“A”)) A and any *person* who is:
- ...
- ...

- (4) (in ~~LR~~ UKLR):
- (a) (except in ~~LR 6.4.3G, LR 6.5.3G, LR 6.14.3R, LR 6.14.4G, LR 8.7.8R (10), LR 14.2.2R, LR 14.2.3AG, LR 18.2.8R and LR 18.2.9AG~~ UKLR 5.3.3G, UKLR 5.5.3R, UKLR 5.5.4G, UKLR 24.5.12R(9) and [*Editor's note: UKLR 13, UKLR 14, UKLR 15, UKLR 16 and UKLR 22 references to be included as part of the second tranche of rules*], an *issuer* and its *subsidiary undertakings* (if any); and
- (b) (in ~~LR 6.4.3G, LR 6.5.3G, LR 6.14.3R, LR 6.14.4G, LR 8.7.8R(10), LR 14.2.2R, LR 14.2.3AG, LR 18.2.8R and LR 18.2.9AG~~ UKLR 5.3.3G, UKLR 5.5.3R, UKLR 5.5.4G, UKLR 24.5.12R(9) and [*Editor's note: UKLR 13, UKLR 14, UKLR 15, UKLR 16 and UKLR 22 references to be included as part of the second tranche of rules*]) as defined in section 421 of the *Act*.

...

*Chinese wall information barrier* an arrangement that requires information held by a *person* in the course of carrying on one part of its business to be withheld from, or not to be used for, *persons* with or for whom it acts in the course of carrying on another part of its business.

*investment entity* (in ~~LR~~ UKLR) an entity whose primary object is investing and managing its assets with a view to spreading or otherwise managing investment risk.

*investment manager* (1) (except in ~~LR~~ UKLR) a *person* who, acting only on behalf of a *client*:

...

(2) (in ~~LR~~ UKLR) a *person* who, on behalf of a *client*, manages *investments* and is not a wholly-owned *subsidiary* of the *client*.

*issuer* ...

(3) (in ~~LR~~ UKLR and *FEES* in relation to ~~LR~~ UKLR) any *company* or other legal person or undertaking (including a *public sector issuer*), any *class* of whose *securities* has been *admitted to listing* or is the subject of an application for *admission to listing*.

...

*list of sponsors* (in ~~LR~~ UKLR) the list of *sponsors* maintained by the *FCA* in accordance with section 88(3)(a) of the *Act*.

<i>listed</i>	(1) (except in <del>LR</del> <u>UKLR</u> , SUP 11, INSPRU and IPRU(INS)) included in an official list.
	...
	(3) (in <del>LR</del> <u>UKLR</u> ) admitted to the <i>official list</i> maintained by the FCA in accordance with section 74 of the Act.
<i>listed company</i>	(in <del>LR</del> <u>UKLR</u> and DEPP) a <i>company</i> that has any <i>class</i> of its <i>securities listed</i> .
<i>listing particulars</i>	(in <del>LR</del> <u>UKLR</u> and PRR) (in accordance with section 79(2) of the Act), a document in such form and containing such information as may be specified in <i>listing rules</i> .
<i>London Stock Exchange</i>	(in <del>LR</del> <u>UKLR</u> ) London Stock Exchange Plc.
<i>long-term incentive scheme</i>	(in <del>LR</del> <u>UKLR</u> ) any arrangement (other than a retirement benefit plan, a deferred bonus or any other arrangement that is an element of an executive <i>director's</i> remuneration package) which may involve the receipt of any asset (including cash or any <i>security</i> ) by a <i>director</i> or <i>employee</i> of the <i>group</i> : <ul style="list-style-type: none"> <li>(a) which includes one or more conditions in respect of service and/or performance to be satisfied over more than one financial year; and</li> <li>(b) pursuant to which the <i>group</i> may incur (other than in relation to the establishment and administration of the arrangement) either cost or a liability, whether actual or contingent.</li> </ul>
<i>major subsidiary undertaking</i>	(in <del>LR</del> <u>UKLR</u> ) a <i>subsidiary undertaking</i> that represents 25% or more of the aggregate of the gross assets or profits (after deducting all charges except taxation) of the <i>group</i> .
<i>member</i>	(1) (except in PROF, <del>LR</del> <u>UKLR</u> , EG 16 and REC) a <i>person</i> admitted to membership of the <i>Society</i> or any <i>person</i> by law entitled or bound to administer <del>his</del> <u>their</u> affairs. <ul style="list-style-type: none"> <li>(2) (in PROF, <del>LR</del> <u>UKLR</u> and EG 16) (as defined in section 325(2) of the Act (FCA's general duty)) (in relation to a profession) a <i>person</i> who is entitled to practise that profession and, in practising it, is subject to the rules of the relevant <i>designated professional body</i>, whether or not <del>he is</del> <u>they are</u> a member of that body.</li> </ul>
	...



- mineral company* (in ~~LR~~ UKLR) a *company* or *group*, whose principal activity is, or is planned to be, the *extraction of mineral resources* (which may or may not include exploration for *mineral resources*).
- mineral resources* (in ~~LR~~ UKLR) include metallic and non-metallic ores, mineral concentrates, industrial minerals, construction aggregates, mineral oils, natural gases, hydrocarbons and solid fuels including coal.
- minority ethnic background* (in ~~LR~~ UKLR) from one of the following categories of ethnic background, as set out in the tables in ~~LR 9 Annex 2.1R(b)~~ UKLR 6 Annex 1(2) and ~~LR 14 Annex 1.1R(b)~~ [*Editor's note: UKLR 14, 16 and 22 references to be included as part of the second tranche of rules*], excluding the category "White British or other White (including minority-white groups)":
- (a) Asian/Asian British;
  - (b) Black/African/Caribbean/Black British;
  - (c) Mixed/Multiple Ethnic Groups; and
  - (d) Other ethnic group, ~~including Arab~~.
- miscellaneous securities* (in ~~LR~~ UKLR) *securities* which are not:
- (a) *shares*; ~~or~~
  - (b) *debt securities*; ~~or~~
  - (c) *asset backed securities*; ~~or~~
  - (d) ~~certificate~~ certificates representing *debt securities*; ~~or~~
  - (e) *convertible securities* which convert to *debt securities*; ~~or~~
  - (f) *convertible securities* which convert to *equity securities*; ~~or~~
  - (g) *convertible securities* which are exchangeable for *securities* of another *company*; ~~or~~
  - (h) ~~certificate~~ certificates representing *certain securities*; or
  - (i) *securitised derivatives*.
- modified report* (in ~~LR~~ UKLR) an accountant's or auditor's report:
- (a) in which the opinion is modified; or

	(b) which contains an emphasis-of-matter paragraph.
<i>national storage mechanism</i>	(in <del>LR</del> <u>UKLR</u> , <i>PRR</i> and <i>DTR</i> ) the system identified by the <i>FCA</i> on its website as the national storage mechanism for regulatory announcements and certain documents published by <i>issuers</i> .
<i>net annual rent</i>	(in <del>LR</del> <u>UKLR</u> ) (in relation to a <i>property</i> ) the current income or income estimated by the valuer: <ul style="list-style-type: none"> <li>(a) ignoring any special receipts or deductions arising from the <i>property</i>;</li> <li>(b) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and</li> <li>(c) after making deductions for superior rents (but not for amortisation) and any disbursements including, if appropriate, expenses of managing the <i>property</i> and allowances to maintain it in a condition to command its rent.</li> </ul>
<i>non-executive director</i>	(1) <u>(except in UKLR) a director who has no responsibility for implementing the decisions or the policies of the governing body of a firm.</u> (2) <u>(in UKLR) a director who has no responsibility for implementing the decisions or the policies of the governing body of an issuer.</u>
<i>offer</i>	... (3) (in <del>LR</del> <u>UKLR</u> and <i>PRR</i> ) an <i>offer of transferable securities to the public</i> . ...
<i>offer for sale</i>	(in <del>LR</del> <u>UKLR</u> ) an invitation to the public by, or on behalf of, a third party to purchase <i>securities</i> of the <i>issuer</i> already in issue or allotted (and may be in the form of an invitation to tender at or above a stated minimum price).
<i>offer for subscription</i>	(in <del>LR</del> <u>UKLR</u> ) an invitation to the public by, or on behalf of, an <i>issuer</i> to subscribe for <i>securities</i> of the <i>issuer</i> not yet in issue or allotted (and may be in the form of an invitation to tender at or above a stated minimum price).
<i>offer of transferable securities to the public</i>	(in <i>PRR</i> and <del>LR</del> <u>UKLR</u> ) (as defined in the <i>Prospectus Regulation</i> ) a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to purchase or subscribe for

those securities. This definition also applies to the placing of securities through financial intermediaries.

- official list* (1) (in ~~LR~~ UKLR) the list maintained by the *FCA* in accordance with section 74(1) of the *Act* for the purposes of Part VI of the *Act*.
- (2) (except in ~~LR~~ UKLR):
- ...
- open offer* (in ~~LR~~ UKLR and *DTR* 5) an invitation to existing *securities* holders to subscribe or purchase *securities* in proportion to their holdings, which is not made by means of a renounceable letter (or other negotiable document).
- open-ended investment company* (as defined in section 236 of the *Act* (Open-ended investment companies)) a *collective investment scheme* which satisfies both the property condition and the investment condition:
- (a) the property condition is that the property belongs beneficially to, and is managed by or on behalf of, a *body corporate* (“BC”) having as its purpose the investment of its funds with the aim of:
- (i) spreading investment risk; and
- (ii) giving its members the benefit of the results of the management of those funds by or on behalf of that body;
- (b) the investment condition is that, in relation to BC, a reasonable investor would, if ~~he~~ they were to participate in the *scheme*:
- (i) expect that ~~he~~ they would be able to realise, within a period appearing to ~~him~~ them to be reasonable, ~~his~~ their investment in the *scheme* (represented, at any given time, by the value of shares in, or securities of, BC held by ~~him~~ them as a *participant* in the *scheme*); and
- (ii) be satisfied that ~~his~~ their investment would be realised on a basis calculated wholly or mainly by reference to the value of property in respect of which the *scheme* makes arrangements.
- (see also *investment company with variable capital*.)
- overseas company* (in ~~LR~~ UKLR) a *company* incorporated outside the *United Kingdom*.

<i>percentage ratio</i>	(1) (in <del>LR</del> <u>UKLR</u> ) (in relation to a transaction) the figure, expressed as a percentage, that results from applying a calculation under a <i>class test</i> to the transaction;
	...
<i>person exercising significant influence</i>	(in <del>LR</del> <u>UKLR</u> ) in relation to a <i>listed company</i> , a <i>person</i> or entity which exercises significant influence over that <i>listed company</i> .
<i>placing</i>	(in <del>LR</del> <u>UKLR</u> ) a marketing of <i>securities</i> already in issue but not <i>listed</i> or not yet in issue, to specified <i>persons</i> or clients of the <i>sponsor</i> or any securities house assisting in the placing, which does not involve an offer to the public or to existing holders of the <i>issuer's securities</i> generally.
<i>probable reserves</i>	(in <del>LR</del> <u>UKLR</u> ): <ul style="list-style-type: none"> <li>(a) in respect of <i>mineral companies</i> primarily involved in the <i>extraction</i> of oil and gas resources, those reserves which are not yet <i>proven</i> but which, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced; and</li> <li>(b) in respect of <i>mineral companies</i> other than those primarily involved in the <i>extraction</i> of oil and gas resources, those <i>measured</i> and/or indicated mineral resources, which are not yet <i>proven</i> but of which detailed technical and economic studies have demonstrated that <i>extraction</i> can be justified at the time of the determination and under specified economic conditions.</li> </ul>
<i>profit estimate</i>	(in <del>PR and LR</del> <u>UKLR</u> ) (as defined in the <i>PR Regulation</i> ) a profit forecast for a financial period which has expired and for which results have not yet been published.
<i>profit forecast</i>	(in <del>PR and LR</del> <u>UKLR</u> ) (as defined in the <i>PR Regulation</i> ) a form of words which expressly states or by implication indicates a figure or a minimum or maximum figure for the likely level of profits or losses for the current financial period and/or financial periods subsequent to that period, or contains data from which a calculation of such a figure for future profits or losses may be made, even if no particular figure is mentioned and the word “profit” is not used.
<i>property</i>	(in <del>LR</del> <u>UKLR</u> ) freehold, heritable or leasehold property.
<i>property company</i>	(in <del>LR</del> <u>UKLR</u> ) a <i>company</i> primarily engaged in <i>property</i> activities including:

- (a) the holding of *properties* (directly or indirectly) for letting and retention as investments;
- (b) the development of *properties* for letting and retention as investments;
- (c) the purchase and development of *properties* for subsequent sale; or
- (d) the purchase of land for development *properties* for retention as investments.

*prospectus*

- (1) (in ~~LR UKLR~~, ~~and~~ *PRR*, *FEES*, *FUND 3* (Requirements for managers of alternative investment funds) and in the definition of *non-retail financial instrument*) a *prospectus* required under the *Prospectus Regulation*.
- (2) (except in ~~LR UKLR~~ and *PRR*) (in relation to a *collective investment scheme*) a document containing information about the *scheme* and complying with the requirements in *COLL 4.2.5R* (Table: contents of the prospectus), *COLL 8.3.4R* (Table: contents of qualified investor scheme prospectus), *COLL 9.3.2R* (Additional information required in the prospectus for an application under section 272), or *COLL 15.4.5R* (Table: contents of a long-term asset fund prospectus), applicable to a *prospectus* of a *scheme* of the type concerned.

*proven reserves*

(in ~~LR UKLR~~):

- (a) in respect of *mineral companies* primarily involved in the *extraction* of oil and gas resources, those reserves which, on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced; and
- (b) in respect of *mineral companies* other than those primarily involved in the *extraction* of oil and gas resources, those measured *mineral resources* of which detailed technical and economic studies have demonstrated that *extraction* can be justified at the time of the determination, and under specified economic conditions.

*regulated market*

- (1) a regulated market which is a *UK RIE*.

[~~Note:~~ **Note:** article 2(1)(13A) of *MiFIR*]

...

*related party*

- (1) (in ~~LR UKLR~~) as defined in ~~LR 11.1.4R~~ *UKLR 8.1.11R*;

	...
<i>related party transaction</i>	(1) (in <del>LR</del> <u>UKLR</u> ) as defined in <del>LR 11.1.5R</del> <u>UKLR 8.1.7R</u> and <u>UKLR 8.1.8G</u> ;
	...
<i>reverse takeover</i>	(in <del>LR</del> <u>UKLR</u> ) a transaction classified as a <i>reverse takeover</i> under <del>LR 5.6</del> <u>UKLR 7.5</u> .
<i>rights issue</i>	(in <del>LR</del> <u>UKLR</u> and <i>DTR 5</i> ) an offer to existing <i>security</i> holders to subscribe or purchase further <i>securities</i> in proportion to their holdings made by means of the issue of a renounceable letter (or other negotiable document) which may be traded (as “nil paid” rights) for a period before payment for the <i>securities</i> is due.
<i>securitised derivative</i>	an <i>option</i> or <i>contract for differences</i> which, in either case, is <i>listed</i> under <del>LR 19</del> <u>UKLR 18</u> of the <del>listing rules</del> <u>listing rules</u> (including such an <i>option</i> or <i>contract for differences</i> which is also a <i>debenture</i> ).
<i>security</i>	(1) (except in <del>LR</del> <u>UKLR</u> and <i>CONC</i> ) (in accordance with article 3(1) of the <i>Regulated Activities Order</i> (Interpretation)) any of the following <i>investments</i> specified in that Order:  ...  (2) (in <del>LR</del> <u>UKLR</u> ) (in accordance with section 102A of the <i>Act</i> ) anything which has been, or may be, admitted to the <i>official list</i> .  ...
<i>shadow director</i>	(in <del>LR</del> <u>UKLR</u> ) as in sub-paragraph (b) of the definition of director in section 417(1) of the <i>Act</i> .
<i>share</i>	(1) (except in <i>COLL</i> , <del>LR</del> <u>UKLR</u> , <i>DTR</i> , <i>REC</i> , <i>SUP 11</i> (Controllers and close links) and <i>SUP 16</i> (Reporting requirements)) the <i>investment</i> , specified in article 76 of the <i>Regulated Activities Order</i> (Shares etc), which is in summary: a share or stock in the share capital of:  ...  ...  (3) (in <i>DTR</i> and <del>LR</del> <u>UKLR</u> , and in <i>FEES</i> where relevant to <i>DTR</i> or <del>LR</del> <u>UKLR</u> ) (in accordance with section 540(1) of the Companies Act 2006) a share in the share capital of a <i>company</i> , and includes:

	(a) stock (except where a distinction between shares and stock is express or implied);
	(b) <i>preference shares</i> ; and
	(c) in chapters 4, 5, 6 and 7 of <i>DTR</i> a convertible share.
	...
<i>shell company</i>	as defined in <i>LR 5.6.5A</i> [ <i>Editor's note: UKLR 13 reference to be included as part of the second tranche of rules</i> ].
<i>significant transaction</i>	(1) <u>(in <i>FEES</i>) a transaction where:</u> ... (b) ... ... (iii) ...
	(2) <u>(in <i>UKLR</i>) a transaction classified as a significant transaction under <i>UKLR 7</i>.</u>
<i>specified weighted voting rights shares</i>	<del>has the meaning given to it in <i>LR 9.2.22CR</i></del> <u><i>weighted voting rights shares</i> of a class which meet the conditions set out in <i>UKLR 5.4.2R(1) to (3)</i>.</u>
<i>sponsor</i>	(1) (in <del><i>LR UKLR</i></del> , except in <i>LR 5.6.18AG</i> [ <i>Editor's note: UKLR 13 reference to be included as part of the second tranche of rules</i> ]) a <i>person</i> approved, under section 88 of the <i>Act</i> by the <i>FCA</i> , as a sponsor.  (1A) (in <i>LR 5.6.18AG</i> [ <i>Editor's note: UKLR 13 reference to be included as part of the second tranche of rules</i> ] as defined in <i>LR 5.6.18BR</i> [ <i>Editor's note: UKLR 13 reference to be included as part of the second tranche of rules</i> ].
	...
<i>sponsor declaration</i>	a declaration submitted by a <i>sponsor</i> to the <i>FCA</i> as required under <i>LR 8.4.3R</i> <del><i>UKLR 24.3.3R</i></del> ( <u>Application for listing New applicants: procedure</u> ), <del><i>LR 8.4.9R</i></del> <i>UKLR 24.3.7R</i> ( <del>Further application for listing</del> <u>Further issues: procedure</u> ), <del><i>LR 8.4.13R</i></del> <i>UKLR 24.3.11R</i> ( <del>Production of</del> <u>Circulars: procedure</u> ) or <del><i>LR 8.4.14R</i></del> <i>UKLR 24.3.12R</i> ( <u>Transfer</u>

~~between listing category~~ Applying for transfer between listing categories).

<i>sponsor service</i>	a service relating to a matter referred to in <del>LR 8.2</del> <u>UKLR 4.2</u> that a <i>sponsor</i> provides or is requested or appointed to provide, including preparatory work that a <i>sponsor</i> may undertake before a decision is taken as to whether or not it will act as <i>sponsor</i> for a <del>listed company</del> <u>listed issuer</u> or <i>applicant</i> or in relation to a particular transaction, and including all the <i>sponsor's</i> communications with the <del>FS</del> <u>FCA</u> in connection with the service. But nothing in this definition is to be taken as requiring a <i>sponsor</i> when requested to agree to act as a <i>sponsor</i> for a <i>company</i> or in relation to a transaction.
<i>subsidiary undertaking</i>	...  (3) (in <del>LR</del> <u>UKLR</u> and <i>BSOCS</i> ) as defined in section 1162 of the Companies Act 2006.
<i>substantial shareholder</i>	as defined in <del>LR 11.1.4AR</del> <u>UKLR 8.1.12R</u> .
<i>supplementary listing particulars</i>	(in <del>LR</del> <u>UKLR</u> ) (in accordance with section 81(1) of the <i>Act</i> ), supplementary listing particulars containing details of the change or new matter.
<i>target</i>	(in <del>LR</del> <u>UKLR</u> ) the subject of a <del>class-1 transaction</del> <u>significant transaction</u> or <i>reverse takeover</i> .
<i>TD Equivalence Decision</i>	the <i>UK</i> version of Commission Decision (EC) No 2008/961 of 12 December 2008 on the use by third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to prepare their consolidated financial statements, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>tender offer</i>	(in <del>LR</del> <u>UKLR</u> ) an offer by a <i>company</i> to purchase all or some of a <i>class</i> of its <i>listed equity securities</i> at a maximum or fixed price (that may be established by means of a formula) that is: <ul style="list-style-type: none"> <li>(a) communicated to all holders of that <i>class</i> by means of a <i>circular</i> or advertisement in two national newspapers;</li> <li>(b) open to all holders of that <i>class</i> on the same terms for at least seven days; and</li> <li>(c) open for acceptance by all holders of that <i>class</i> pro rata to their existing holdings.</li> </ul>



<i>trading day</i>	... (4) (in <del>LR</del> <u>UKLR</u> and <i>DTR</i> ) any day of normal trading in a <i>share</i> on a <i>regulated market</i> or <i>MTF</i> in the <i>United Kingdom</i> for this <i>share</i> .
<i>transferable security</i>	(1) (in PRR, <del>LR</del> <u>UKLR</u> and <i>DTR</i> ) (as defined in section 102A of the <i>Act</i> ) anything which is a transferable security for the purposes of <i>MiFIR</i> , other than money-market instruments for the purposes of <i>MiFIR</i> which have a maturity of less than 12 months. ...
<i>transparency rules</i>	(in accordance with sections 73A(1) and 89A of the <i>Act</i> ), <i>rules</i> relating to the notification and dissemination of information in respect of <i>issuers</i> of <i>transferable securities</i> and relating to major shareholdings.
<i>treasury shares</i>	shares which meet the conditions set out in paragraphs (a) and (b) of subsection 724(5) of the Companies Act 2006.
<i>vendor consideration placing</i>	(in <del>LR</del> <u>UKLR</u> ) a marketing, by or on behalf of vendors, of <i>securities</i> that have been allotted as consideration for an acquisition.

Delete the following definitions. The text is not shown struck through.

<i>class 1 acquisition</i>	(in <i>LR</i> ) a <i>class 1 transaction</i> that involves an acquisition by the relevant <i>listed company</i> or its <i>subsidiary undertaking</i> .
<i>class 1 circular</i>	(in <i>LR</i> ) a <i>circular</i> relating to a <i>class 1 transaction</i> or a transaction which must comply with the requirements of a <i>class 1 transaction</i> .
<i>class 1 disposal</i>	(in <i>LR</i> ) a <i>class 1 transaction</i> that consists of a disposal by the relevant <i>listed company</i> or its <i>subsidiary undertaking</i> .
<i>class 1 transaction</i>	(in <i>LR</i> and <i>FEES</i> ) a transaction classified as a class 1 transaction under <i>LR 10</i> .
<i>class 2 transaction</i>	(in <i>LR</i> ) a transaction classified as a class 2 transaction under <i>LR 10</i> .
<i>connected client</i>	(in <i>LR</i> ) in relation to a <i>sponsor</i> or securities house, any client of the <i>sponsor</i> or securities house who is:  (a) a partner, <i>director</i> , employee or controller (as defined in section 422 of the <i>Act</i> ) of the <i>sponsor</i> or securities house or of an undertaking described in paragraph (d); or

- (b) the spouse, civil partner or child of any individual described in paragraph (a); or
- (c) a *person* in his capacity as a trustee of a private trust (other than a pension scheme or an *employees' share scheme*) the beneficiaries of which include any *person* described in paragraph (a) or (b); or
- (d) an undertaking which in relation to the *sponsor* or securities house is a group undertaking.

*financial information table* (in *LR*) financial information presented in a tabular form that covers the reporting period set out in *LR* 13.5.13R in relation to the entities set out in *LR* 13.5.14R, and to the extent relevant *LR* 13.5.17AR.

*LR* the Listing Rules sourcebook.

- premium listing*
- (a) in relation to *equity shares* (other those of a *closed-ended investment fund* or of a *sovereign controlled commercial company* that is required to comply with the requirements in *LR* 21), means a *listing* where the *issuer* is required to comply with those requirements in *LR* 6 (Additional requirements for premium listing (commercial company)) and the other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*;
  - (b) in relation to *equity shares* of a *closed-ended investment fund*, means a *listing* where the *issuer* is required to comply with the requirements in *LR* 15 (Closed-Ended Investment Funds: Premium listing) and other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*;
  - (c) [deleted]
  - (d) in relation to *equity shares* of a *sovereign controlled commercial company*, means a *listing* where the *issuer* is required to comply with the requirements in *LR* 21 (Sovereign controlled commercial companies: Premium listing) and other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*; and
  - (e) in relation to *certificates representing shares* of a *sovereign controlled commercial company*, means a *listing* where the *issuer* is required to comply with the requirements in *LR* 21 (Sovereign controlled commercial companies: Premium listing)

and other requirements in the *listing rules* that are expressed to apply to such *securities* with a *premium listing*.

<i>premium listing (closed-ended investment fund)</i>	a <i>premium listing</i> of <i>equity shares</i> of a <i>closed-ended investment fund</i> .
<i>premium listing (commercial company)</i>	a <i>premium listing</i> of <i>equity shares</i> (other than those of a <i>closed-ended investment fund</i> or of a <i>sovereign controlled commercial company</i> that is required to comply with the requirements in <i>LR 21</i> ).
<i>premium listing (sovereign controlled commercial company)</i>	<p>a <i>premium listing</i> of:</p> <p>(a) <i>equity shares</i> (other than those of a <i>closed-ended investment fund</i>); or</p> <p>(b) <i>certificates representing shares</i>,</p> <p>where the <i>issuer</i> of the <i>equity shares</i> or, in the case of <i>certificates representing shares</i>, the issuer of the <i>equity shares</i> which the certificates represent is a <i>sovereign controlled commercial company</i> and is required to comply with the requirements in <i>LR 21</i> and other requirements in the <i>listing rules</i> that are expressed to apply to <i>securities</i> in this category.</p>
<i>property valuation report</i>	<p>(in <i>LR</i>) a <i>property valuation report</i> prepared by an independent expert in accordance with:</p> <p>(1) for an <i>issuer</i> incorporated in the <i>United Kingdom</i>, the Channel Islands or the Isle of Man, the Appraisal and Valuation Standards (5th edition) issued by the Royal Institution of Chartered Surveyors; or</p> <p>(2) for an <i>issuer</i> incorporated in any other place, either the standards referred to in paragraph (1) of this definition or the International Valuation Standards (7th edition) issued by the International Valuation Standards Committee.</p>
<i>related party circular</i>	(in <i>LR</i> ) a <i>circular</i> relating to a <i>related party transaction</i> .
<i>scientific research based company</i>	(in <i>LR</i> ) a <i>company</i> primarily involved in the laboratory research and development of chemical or biological products or processes or any other similar innovative science based company.
<i>standard listing</i>	in relation to <i>securities</i> , means a <i>listing</i> that is not a <i>premium listing</i> .

<i>standard listing (open-ended investment company)</i>	a <i>standard listing</i> of equity shares of an <i>open-ended investment company</i> .
<i>standard listing (shares)</i>	a <i>standard listing</i> of shares other than equity shares of an <i>open-ended investment company</i> or <i>preference shares</i> that are <i>specialist securities</i> .

The following definitions are unchanged and are included for the convenience of the reader.

<i>Act</i>	the Financial Services and Markets Act 2000.
<i>asset backed security</i>	(as defined in the <i>PR Regulation</i> ) <i>securities</i> which: <ol style="list-style-type: none"> <li>(a) represent an interest in assets, including any rights intended to assure servicing, or the receipt or timeliness of receipts by holders of assets of amounts payable thereunder; or</li> <li>(b) are secured by assets and the terms of which provide for payments which relate to payments or reasonable projections of payments calculated by reference to identified or identifiable assets.</li> </ol>
<i>authorised person</i>	(in accordance with section 31 of the <i>Act</i> (Authorised persons)) one of the following: <ol style="list-style-type: none"> <li>(a) a <i>person</i> who has a <i>Part 4A permission</i> to carry on one or more <i>regulated activities</i>;</li> <li>...</li> <li>(e) an <i>ICVC</i>;</li> <li>(f) the <i>Society of Lloyd's</i>.</li> </ol> <p>(see also <i>GEN 2.2.18R</i> for the position of an <i>authorised partnership</i> or unincorporated association which is dissolved.)</p>
<i>business day</i>	(1) (except in <i>DISP 1.6.2A</i> and <i>DISP 2.8</i> ) (in relation to anything done or to be done in (including to be submitted to a place in) any part of the <i>United Kingdom</i> ): <ol style="list-style-type: none"> <li>(a) (except in <i>REC</i>) any <i>day</i> which is not a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in that part of the <i>United Kingdom</i>;</li> <li>...</li> </ol>

- (2) (except in *DISP* 1.6.2A and *DISP* 2.8) (in relation to anything done or to be done by reference to a market outside the *United Kingdom*) any *day* on which that market is normally open for business.

...

*certificate representing certain securities*

the *investment* specified in article 80 of the *Regulated Activities Order* (Certificates representing certain securities), which is in summary: a certificate or other instrument which confers contractual or property rights (other than rights consisting of *options*):

- (a) in respect of any *share, debenture, alternative debenture, government and public security* or *warrant* held by a *person* other than the *person* on whom the rights are conferred by the certificate or instrument; and
- (b) the transfer of which may be effected without requiring the consent of that *person*;

but excluding any certificate or other instrument which confers rights in respect of two or more *investments* issued by different *persons* or in respect of two or more different *government and public securities* issued by the same *person*.

*company*

any *body corporate*.

*contract for differences*

- (1) the *investment*, specified in article 85 of the *Regulated Activities Order* (Contracts for differences etc), which is in summary rights under:
- (a) a contract for differences; or
- (b) any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in:
- (i) the value or price of property of any description; or
- (ii) an index or other factor designated for that purpose in the contract; or
- (c) a derivative instrument for the transfer of credit risk to which article 85(3) of the *Regulated Activities Order* applies. [Note: paragraph 8 of Section C of Annex 1 to *MiFID*]

...

<i>corporate governance rules</i>	(in accordance with sections 73A(1) and 89O(1) of the <i>Act</i> ) <i>rules</i> relating to the corporate governance of <i>issuers</i> who have requested or approved <i>admission to trading</i> of their securities. The <i>corporate governance rules</i> are located in chapters 1B, 4 and 7 of <i>DTR</i> .
<i>DEPP</i>	the Decision Procedure and Penalties manual.
<i>designated professional body</i>	a professional body designated by the Treasury under section 326 of the <i>Act</i> (Designation of professional bodies) for the purposes of Part XX of the <i>Act</i> (Provision of Financial Services by Members of the Professions); the following professional bodies have been designated in the Financial Services and Markets Act 2000 (Designated Professional Bodies) Order 2001 (SI 2001/1226), the Financial Services and Markets Act 2000 (Designated Professional Bodies) (Amendment) Order 2004 (SI 2004/3352) and the Financial Services and Markets Act 2000 (Designated Professional Bodies) (Amendment) Order 2006 (SI 2006/58): <ul style="list-style-type: none"> <li>(a) The Law Society of England and Wales;</li> <li>(b) The Law Society of Scotland;</li> <li>(c) The Law Society of Northern Ireland;</li> <li>(d) The Institute of Chartered Accountants in England and Wales;</li> <li>(e) The Institute of Chartered Accountants of Scotland;</li> <li>(f) The Institute of Chartered Accountants in Ireland;</li> <li>(g) The Association of Chartered Certified Accountants;</li> <li>(h) The Institute of Actuaries;</li> <li>(i) The Council for Licensed Conveyancers; and</li> <li>(j) The Royal Institution of Chartered Surveyors.</li> </ul>
<i>disclosure requirements</i>	articles 17, 18 and 19 of the <i>Market Abuse Regulation</i> .
<i>DTR</i>	the Disclosure Guidance and Transparency Rules sourcebook containing the <i>disclosure guidance</i> , <i>transparency rules</i> , <i>corporate governance rules</i> and the <i>rules</i> relating to <i>primary information providers</i> .
<i>EG</i>	the Enforcement Guide.
<i>employee</i>	(1) (for all purposes except those in (2), (3) (4) and (4A)) an individual:

- (a) who is employed or appointed by a *person* in connection with that *person's* business, whether under a contract of service or for services or otherwise; or
- (b) whose services, under an arrangement between that *person* and a third party, are placed at the disposal and under the control of that *person*;

but excluding an *appointed representative* or a *tied agent* of that *person*.

...

<i>employees' share scheme</i>	has the same meaning as in section 1166 of the Companies Act 2006.
<i>equity share</i>	<i>shares</i> comprised in a <i>company's equity share capital</i> .
<i>equity share capital</i>	(for a <i>company</i> ), its issued share capital excluding any part of that capital which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution.
<i>EUWA</i>	the European Union (Withdrawal) Act 2018.
<i>FCA</i>	Financial Conduct Authority.
<i>FEES</i>	the <i>FEES</i> manual.
<i>guidance</i>	guidance given in the <i>FCA Handbook</i> , by the <i>FCA</i> under the <i>Act</i> .
<i>Handbook</i>	the <i>FCA Handbook</i> .
<i>holding company</i>	(as defined in section 1159(1) of the Companies Act 2006 (Meaning of "subsidiary" etc) (in relation to another <i>body corporate</i> ("S"))) a <i>body corporate</i> which: <ul style="list-style-type: none"> <li>(a) holds a majority of the voting rights in S; or</li> <li>(b) is a member of S and has the right to appoint or remove a majority of its board of directors; or</li> <li>(c) is a member of S and controls alone, under an agreement with other shareholders and members, a majority of the voting rights in S.</li> </ul>
<i>independent director</i>	a <i>director</i> whom an <i>applicant</i> or <i>listed company</i> has determined to be independent under the <i>UK Corporate Governance Code</i> .
<i>independent shareholder</i>	any <i>person</i> entitled to vote on the election of <i>directors</i> of a <i>listed company</i> that is not a <i>controlling shareholder</i> of the <i>listed company</i> .

<i>inside information</i>	as described in article 7 of the <i>Market Abuse Regulation</i> .
<i>listed security</i>	any <i>security</i> that is admitted to an <i>official list</i> .
<i>listing rules</i>	(in accordance with sections 73A(1) and 73A(2) of the <i>Act</i> ) <i>rules</i> relating to admission to the <i>official list</i> .
<i>long-term insurer</i>	an <i>insurer</i> with <i>permission</i> to effect or carry out long-term insurance contracts.
<i>Market Abuse Regulation</i>	the <i>UK</i> version of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>month</i>	(in accordance with the Interpretation Act 1978) a calendar month.
<i>operational objectives</i>	as defined in section 1B(3) of the <i>Act</i> .
<i>option</i>	<p>(1) the <i>investment</i>, specified in article 83 of the <i>Regulated Activities Order</i> (Options), which is in summary an option to acquire or dispose of:</p> <ul style="list-style-type: none"> <li>(a) a <i>designated investment</i> (other than a <i>P2P agreement</i>, an option or one to which (d) or (e) applies); or</li> <li>(b) currency of the <i>United Kingdom</i> or of any other country or territory; or</li> <li>(c) palladium, platinum, gold or silver; or</li> <li>(d) a commodity to which article 83(2) and (4) of the <i>Regulated Activities Order</i> applies; or</li> <li>(e) a <i>financial instrument</i> in paragraph 10 of Section C of Annex 1 to <i>MiFID</i> to which article 83(3) and (4) of the <i>Regulated Activities Order</i> applies; or</li> <li>(f) an option to acquire or dispose of an option specified in (a), (b), (c), (d) or (e);</li> </ul> <p>but so that for the purposes of calculating capital requirements for <i>BIPRU firms</i> it also includes any of the items listed in the table</p>



in *BIPRU* 7.6.18R (Option PRR: methods for different types of option) and any cash settled option.

...

*overseas*

outside the *United Kingdom*.

*parent undertaking*

- (1) (in accordance with section 420 of the *Act* (Parent and subsidiary undertaking) and section 1162 of the Companies Act 2006 (Parent and subsidiary undertakings)):
- (a) (in relation to whether an *undertaking*, other than an incorporated friendly society, is a *parent undertaking* and except for the purposes described in (c)) an *undertaking* which has the following relationship to another *undertaking* (“S”):
- (i) it holds a majority of the voting rights in S; or
  - (ii) it is a member of S and has the right to appoint or remove a majority of its board of directors; or
  - (iii) it has the right to exercise a dominant influence over S through:
    - (A) provisions contained in S’s memorandum or articles; or
    - (B) a control contract; or
  - (iv) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or
  - (v) (A) it has the power to exercise, or actually exercises, dominant influence or control over S; or
    - (B) it and S are managed on a unified basis; or
  - (vi) it is a parent undertaking of a parent undertaking of S; or
  - (vii) (except in *REC* or for the purposes of the *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd’s or to the *Society* or *managing agents* in respect of *members*) he is an individual and would be a *parent undertaking* if he were an *undertaking*; or

- (viii) (except in *REC* or for the purposes of *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd's or to the *Society* or *managing agents* in respect of *members*) it is incorporated in or formed under the law of an *EEA State* and is a parent undertaking within the meaning of any rule of law in that State for purposes connected with implementation of the Seventh Company Law Directive;

in relation to (ii) and (iv); the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any shares in S are held by a *person* acting on behalf of the *undertaking* or any of its *subsidiary undertakings*; the provisions of Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (i) to (vi);

- (b) (in relation to whether an incorporated friendly society is a parent undertaking and except for the purposes escribed in (c)) an incorporated friendly society which has the following relationship to a *body corporate* ("S"):
  - (i) it holds a majority of the voting rights in S; or
  - (ii) it is a member of S and has the right to appoint or remove a majority of S's board of directors; or
  - (iii) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or
  - (iv) it is the *parent undertaking* of a *body corporate* which has the relationship in (i), (ii) or (iii) to S.
- (c) for the purposes of SYSC 12 (Group risk systems and controls requirement) and in relation to whether an *undertaking* is a *parent undertaking*) an *undertaking* which has the following relationship to another *undertaking* ("S"):
  - (i) a relationship described in (a) other than (a)(vii); or
  - (ii) it effectively exercises a dominant influence over S;

...

<i>person</i>	(in accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a <i>partnership</i> ).
<i>persons discharging managerial responsibilities</i>	as defined in article 3(1)(25) of the <i>Market Abuse Regulation</i> .
<i>preference share</i>	a <i>share</i> conferring preference as to income or return of capital which does not form part of the <i>equity share capital</i> of a <i>company</i> .
<i>Prospectus Regulation</i>	the <i>UK</i> version of Regulation (EU) No 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>Prospectus RTS Regulation</i>	the <i>UK</i> version of Commission Delegated Regulation (EU) 2019/979, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>Prospectus Rules</i>	(as defined in section 73A(4) of the <i>Act</i> ) <i>rules</i> expressed to relate to <i>transferable securities</i> .
<i>PRR</i>	...  (2) the Prospectus Regulation Rules sourcebook.
<i>PR Regulation</i>	the <i>UK</i> version of Regulation number 2019/980 of the European Commission, which is part of <i>UK</i> law by virtue of the <i>EUWA</i> .
<i>public sector issuer</i>	states and their regional and local authorities, <i>state monopolies</i> , <i>state finance organisations</i> , <i>public international bodies</i> , statutory bodies and <i>OECD state guaranteed issuers</i> .
<i>recognised investment exchange</i>	an investment exchange which is declared by a <i>recognition order</i> for the time being in force to be a recognised investment exchange.
<i>Regulated Activities Order</i>	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).
<i>regulatory information service or RIS</i>	a <i>primary information provider</i> .

<i>RIE</i>	<i>recognised investment exchange.</i>
<i>rule</i>	(in accordance with section 417(1) of the <i>Act</i> (Definitions)) a rule made by the <i>FCA</i> or the <i>PRA</i> under the <i>Act</i> (including as applied by the <i>Payment Services Regulations</i> and the <i>Electronic Money Regulations</i> ), including: <ul style="list-style-type: none"> <li>(a) a <i>Principle</i>; and</li> <li>(b) an <i>evidential provision</i>.</li> </ul>
<i>statutory notice</i>	a <i>warning notice</i> , <i>decision notice</i> or <i>supervisory notice</i> .
<i>supplementary prospectus</i>	(in <i>Part 6 rules</i> ) a supplementary prospectus containing details of a new factor, mistake or inaccuracy.
<i>TCFD Annex</i>	the document entitled “Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures” published in October 2021 by the Task Force on Climate-related Financial Disclosures, available at: <a href="https://www.fsb-tcf.org">https://www.fsb-tcf.org</a> .
<i>TCFD Guidance on Metrics, Targets and Transition Plans</i>	the document entitled “Guidance on Metrics, Targets, and Transition Plans” published in October 2021 by the Task Force on Climate related Financial Disclosures, available at: <a href="https://www.fsb-tcf.org">https://www.fsb-tcf.org</a> .
<i>TCFD Final Report</i>	the report entitled “Recommendations of the Task Force on Climate-related Financial Disclosures” published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: <a href="https://www.fsb-tcf.org">https://www.fsb-tcf.org</a> .
<i>TCFD Guidance on Risk Management Integration and Disclosure</i>	the document entitled “Guidance on Risk Management Integration and Disclosure” published in October 2020 by the Task Force on Climate-related Financial Disclosures, available at: <a href="https://www.fsb-tcf.org">https://www.fsb-tcf.org</a> .
<i>TCFD Guidance on Scenario Analysis for Non-Financial Companies</i>	the document entitled “Guidance on Scenario Analysis for Non-Financial Companies” published in October 2020 by the Task Force on Climate-related Financial Disclosures, available at: <a href="https://www.fsb-tcf.org">https://www.fsb-tcf.org</a> .

<i>TCFD Recommendations and Recommended Disclosures</i>	the four recommendations and the eleven recommended disclosures set out in Figure 4 of Section C of the <i>TCFD Final Report</i> .
<i>TCFD Technical Supplement on the Use of Scenario Analysis</i>	the technical supplement entitled “The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities” published in June 2017 by the Task Force on Climate-related Financial Disclosures, available at: <a href="https://www.fsb-tcf.org">https://www.fsb-tcf.org</a> .
<i>third country</i>	a territory or country which is not the <i>United Kingdom</i> .
<i>UK</i>	<i>United Kingdom</i> .
<i>UK-adopted IFRS</i>	<i>UK-adopted international accounting standards</i> .
<i>UK-adopted international accounting standards</i>	(in accordance with section 474(1) of the Companies Act 2006) international accounting standards which are adopted for use within the <i>United Kingdom</i> by virtue of Chapter 2 or 3 of Part 2 of the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019.
<i>UK Corporate Governance Code</i>	the UK Corporate Governance Code published in July 2018 by the Financial Reporting Council, available at: <a href="https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code">https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code</a> .
<i>UK RIE</i>	an <i>RIE</i> that is not an <i>ROIE</i> .
<i>United Kingdom</i>	England and Wales, Scotland and Northern Ireland (but not the Channel Islands or the Isle of Man).
<i>warrant</i>	(1) (except in <i>COLL</i> ) the <i>investment</i> , specified in article 79 of the <i>Regulated Activities Order</i> (Instruments giving entitlements to investments), which is in summary: a warrant or other instrument entitling the holder to subscribe for a <i>share</i> , <i>debenture</i> , <i>alternative debenture</i> or <i>government and public security</i> .
	...
<i>weighted voting rights shares</i>	<i>shares</i> that carry more than one vote on one or more matters to be decided at a general meeting.

## Annex B

### UK Listing Rules sourcebook (UKLR)

In this Annex all text is new and is not underlined. Insert the following new sourcebook, UK Listing Rules (UKLR).

#### 1 Preliminary

[*Editor's note*: UKLR 1 to be included as part of the second tranche of rules]

#### 2 Listing principles

[*Editor's note*: UKLR 2 to be included as part of the second tranche of rules]

#### 3 Requirements for listing: all securities

##### 3.1 Preliminary

Application

- 3.1.1 R This chapter applies to all *applicants* for *admission to listing* (unless a rule is specified only to apply to a particular type of *applicant* or *security*).

Refusal of applications

- 3.1.2 G Under the *Act*, the *FCA* may not grant an application for *admission* unless it is satisfied that:

- (1) the requirements of the *listing rules* are complied with; and
- (2) any special requirement (see *UKLR* 3.1.4R) is complied with.

- 3.1.3 G Under the *Act*, the *FCA* may also refuse an application for *admission* if it considers that:

- (1) *admission* of the *securities* would be detrimental to investors' interests; or
- (2) for *securities* already listed in a *third country*, the *issuer* has failed to comply with any obligations under that listing.

Special requirements

- 3.1.4 R (1) The *FCA* may make the *admission* of *securities* subject to any special requirement that it considers appropriate to protect investors.

- (2) The *FCA* must explicitly inform the *issuer* of any special requirement that it imposes.

No conditional admission

- 3.1.5 G The *FCA* is not able to make the *admission* of *securities* conditional on any event. The *FCA* may, in particular cases, seek confirmation from an *issuer* before the *admission* of *securities* that the *admission* does not purport to be conditional on any matter.

## 3.2 Requirements for all securities

Incorporation

- 3.2.1 R An *applicant* (other than a *public sector issuer*) must be:
- (1) duly incorporated or otherwise validly established according to the relevant laws of its place of incorporation or establishment; and
  - (2) operating in conformity with its *constitution*.

Validity

- 3.2.2 R To be *listed*, *securities* must:
- (1) conform with the law of the *applicant's* place of incorporation;
  - (2) be duly authorised according to the requirements of the *applicant's* *constitution*; and
  - (3) have any necessary statutory or other consents.

Admission to trading

- 3.2.3 R Other than in regard to *securities* to which *UKLR 23* applies, to be *listed*, *equity shares* must be admitted to trading on a *regulated market* for *listed securities*. All other *securities* must be admitted to trading on a *RIE's* market for *listed securities*.

Transferability

- 3.2.4 R (1) To be *listed*, *securities* must be freely transferable.
- (2) To be *listed*, *shares* must be fully paid and free from all liens and from any restriction on the right of transfer (except any restriction imposed for failure to comply with a notice under section 793 of the Companies Act 2006 (Notice by company requiring information about interests in its shares)).
- 3.2.5 G The *FCA* may modify *UKLR 3.2.4R* to allow partly paid *securities* to be *listed* if it is satisfied that their transferability is not restricted and investors

have been provided with appropriate information to enable dealings in the *securities* to take place on an open and proper basis.

- 3.2.6 G The *FCA* may, in exceptional circumstances, modify or dispense with *UKLR 3.2.4R* where the *applicant* has the power to disapprove the transfer of *shares* if the *FCA* is satisfied that this power would not disturb the market in those *shares*.

#### Market capitalisation

- 3.2.7 R (1) The expected aggregate market value of all *securities* (excluding *treasury shares* and *shares* of a *closed-ended investment fund* or *open-ended investment company*) to be *listed* must be at least:
- (a) £30 million for *shares*; and
  - (b) £200,000 for *debt securities*.
- (2) The expected aggregate market value of *shares* of a *closed-ended investment fund* or *open-ended investment company* to be *listed* must be at least £700,000.
- (3) Paragraph (1) does not apply to tap issues where the amount of the *debt securities* is not fixed.
- (4) Paragraphs (1) and (2) do not apply if *securities* of the same *class* are already *listed*.
- 3.2.8 G The *FCA* may modify *UKLR 3.2.7R* to admit *securities* of a lower value if it is satisfied that there will be an adequate market for the *securities* concerned.

#### Whole class to be listed

- 3.2.9 R An application for *listing* of *securities* of any *class* must:
- (1) if no *securities* of that *class* are already *listed*, relate to all *securities* of that *class*, issued or proposed to be issued; or
  - (2) if *securities* of that *class* are already *listed*, relate to all further *securities* of that *class*, issued or proposed to be issued.

#### Prospectus

- 3.2.10 R (1) This *rule* applies if:
- (a) a *prospectus* must be approved and published for the *securities*; or
  - (b) the *applicant* is permitted and elects to draw up a *prospectus* for the *securities*.



- (2) To be *listed*, a *prospectus* must have been approved by the *FCA* and published in relation to the *securities*.

#### Listing particulars

- 3.2.11 R (1) This *rule* applies if, under *UKLR 23*, *listing particulars* must be approved and published for *securities*.
- (2) To be *listed*, *listing particulars* for the *securities* must have been approved by the *FCA* and published in accordance with *UKLR 23*.

#### Convertible securities and miscellaneous securities carrying the right to buy or subscribe for other securities

- 3.2.12 R *Convertible securities* and *miscellaneous securities* giving the holder the right to buy or subscribe for other *securities* may be *admitted to listing* only if the *securities* into which they are convertible or over which they give a right to buy or subscribe are already, or will become at the same time:
- (1) *listed securities*; or
- (2) *securities* listed on a regulated, regularly operating, recognised open market.
- 3.2.13 G The *FCA* may dispense with *UKLR 3.2.12R* if it is satisfied that holders of the *convertible securities* have at their disposal all the information necessary to form an opinion about the value of the underlying *securities*.

## 4 Sponsors: responsibilities of issuers

### 4.1 Application

- 4.1.1 R This chapter applies to all *issuers* with, or applying for, *admission* of *equity shares* to the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category.

### 4.2 When a sponsor must be appointed or its guidance obtained

#### When a sponsor must be appointed

- 4.2.1 R An *issuer* with, or applying for, *admission* of its *equity shares* to the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category must appoint a *sponsor* on each occasion that it:
- (1) is required to submit any of the following documents to the *FCA* in connection with an application for *admission* of *equity shares* to the *equity shares (commercial companies)* category, the *equity*

*shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category:

- (a) a *prospectus* or *supplementary prospectus*;
  - (b) a summary document as required by article 1(5)(j) of the *Prospectus Regulation*; or
  - (c) *listing particulars* referred to in [*Editor's note*: UKLR 11 reference to be included as part of the second tranche of rules] or *supplementary listing particulars*;
- (2) is required to publish a document under article 1(4)(f) or (g) or (5)(e) or (f) of the *Prospectus Regulation*;
  - (3) is required to submit to the *FCA* a *reverse takeover circular* or an *initial transaction circular* for approval;
  - (4) is required by [*Editor's note*: UKLR 11 reference to be included as part of the second tranche of rules] to submit to the *FCA* a *circular* for approval;
  - (5) is required to do so by the *FCA* because it appears to the *FCA* that there is, or there may be, a breach of the *listing rules*, the *disclosure requirements* or the *transparency rules* by the *listed issuer*;
  - (6) is required by *UKLR 8.2.1R(3)* or [*Editor's note*: UKLR 11 reference to be included as part of the second tranche of rules] to provide a *listed issuer* with a confirmation that the terms of a proposed transaction or arrangement with a *related party* are fair and reasonable;
  - (7) is required by [*Editor's note*: UKLR 13 reference to be included as part of the second tranche of rules] to provide a *listed shell company* with a confirmation that the terms of a proposed *initial transaction* are fair and reasonable;
  - (8) is required to submit a letter to the *FCA* setting out how the *applicant* satisfies the criteria in *UKLR 3* and, if applicable, *UKLR 5*, *UKLR 11* or *UKLR 13*;
  - (9) is required to contact the *FCA* before making an announcement or to request a suspension in connection with an *initial transaction* under [*Editor's note*: UKLR 13 reference to be included as part of the second tranche of rules];
  - (10) provides to the *FCA* a disclosure regime confirmation in connection with an *initial transaction* under [*Editor's note*: UKLR 13 reference to be included as part of the second tranche of rules];

- (11) makes a disclosure announcement in connection with an *initial transaction* under [*Editor's note*: UKLR 13 reference to be included as part of the second tranche of rules] that contains a declaration described in [*Editor's note*: UKLR 13 references to be included as part of the second tranche of rules]; or
- (12) submits to the *FCA* a letter in relation to the *issuer's* eligibility in connection with a *reverse takeover* under UKLR 7.5.13G(2).

4.2.2 R An *issuer* must appoint a *sponsor* where it applies to transfer its category of *listing* from:

- (1) a *listing* in the *equity shares (commercial companies)* category to a *listing* in the *equity shares (closed-ended investment funds)* category;
- (2) a *listing* in the *equity shares (commercial companies)* category to a *listing* in the *equity shares (shell companies)* category;
- (3) a *listing* in the *equity shares (closed-ended investment funds)* category to a *listing* in the *equity shares (commercial companies)* category;
- (4) a *listing* in the *equity shares (open-ended investment companies)* category to a *listing* in the *equity shares (commercial companies)* category;
- (5) a *listing* in the *equity shares (international commercial companies secondary listing)* category to a *listing* in the *equity shares (commercial companies)* category;
- (6) a *listing* in the *equity shares (international commercial companies secondary listing)* category to a *listing* in the *equity shares (shell companies)* category;
- (7) a *listing* in the *equity shares (international commercial companies secondary listing)* category to a *listing* in the *equity shares (closed-ended investment funds)* category;
- (8) a *listing* in the *equity shares (standard-listed transition)* category to a *listing* in the *equity shares (commercial companies)* category;
- (9) a *listing* in the *equity shares (standard-listed transition)* category to a *listing* in the *equity shares (shell companies)* category; or
- (10) a *listing* in the *equity shares (standard-listed transition)* category to a *listing* in the *equity shares (closed-ended investment funds)* category.

4.2.3 R An *issuer* with *equity shares* admitted to the *equity shares (commercial companies)* category or the *equity shares (closed-ended investment funds)*

category must appoint a *sponsor* where it proposes to make a request to the *FCA* to modify, waive or substitute the operation of *UKLR 7*, *UKLR 8* or *UKLR 11*.

- 4.2.4 R An *issuer* with a *listing* of *equity shares* in the *equity shares (commercial companies)* category or the *equity shares (closed-ended investment funds)* category must appoint a *sponsor* where it proposes to make a request to the *FCA* for individual guidance in relation to the *listing rules*, the *disclosure requirements* or the *transparency rules* in connection with a matter referred to in *UKLR 7*, *UKLR 8* or *UKLR 11*.
- 4.2.5 G If an *issuer* with or applying for *admission* of its *equity shares* to the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category wishes to seek individual guidance about a matter that is or will be the subject of a *sponsor service*, the *FCA* expects to discuss all matters relating to a *sponsor service* directly with a *sponsor*. However, in appropriate circumstances, the *FCA* will communicate directly with the *issuer* or its advisers.

Other transactions where an issuer must obtain a sponsor's guidance

- 4.2.6 R If an *issuer* with a *listing* of *equity shares* in the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category is proposing to enter into a transaction which, due to its size or nature, could amount to a *reverse takeover* or an *initial transaction*, it must obtain the guidance of a *sponsor* to assess the application of the *listing rules*, the *disclosure requirements* and the *transparency rules*.

### 4.3 Notifications to FCA

- 4.3.1 R A *listed issuer* or *applicant* must ensure the *FCA* is informed promptly of the name and contact details of any *sponsor* appointed in accordance with the *listing rules* (either by the *listed issuer* or *applicant*, or by the *sponsor* itself).
- 4.3.2 R (1) A *listed issuer* or *applicant* must notify the *FCA*, in writing, immediately of the resignation or dismissal of any *sponsor* that it had appointed.
- (2) In the case of a dismissal, the reasons for the dismissal must be included in the notification.
- (3) The notification must be copied to the *sponsor*.

### 4.4 Issuer appoints more than one sponsor

- 4.4.1 R Where a *listed issuer* or *applicant* appoints more than one *sponsor* to provide a *sponsor service*, the *listed issuer* or *applicant* must:

- (1) ensure that one *sponsor* takes responsibility for contact with the *FCA* in respect of administrative arrangements for the *sponsor service*; and
- (2) inform the *FCA* promptly, in writing, of the name and contact details of the *sponsor* taking responsibility under (1).

#### **4.5 Cooperation with sponsors**

- 4.5.1 R In relation to the provision of a *sponsor service*, an *issuer* with or applying for *admission* of its *equity shares* to the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category must cooperate with its *sponsor* by providing the *sponsor* with all information reasonably requested by the *sponsor* for the purpose of carrying out the *sponsor service* in accordance with *UKLR 24*.
- 4.5.2 G The role of a *sponsor* – including to provide the *FCA* with assurances, explanations and confirmations relating to compliance with the *listing rules* by *issuers* with or applying for *admission* of *equity shares* and to provide guidance to *issuers* with or applying for *admission* of *equity shares* in understanding and meeting their responsibilities under the *listing rules*, *disclosure requirements* and *transparency rules* – is set out in *UKLR 24.2* and *UKLR 24.3*. Such assurances, explanations and confirmations may relate to shareholder approvals obtained, or other work undertaken, by an *issuer* before the appointment of a *sponsor* in relation to a particular transaction. Therefore, an *issuer* with or applying for *admission* of its *equity shares* to the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category is encouraged to engage with a *sponsor* at the earliest possible stage if it is in doubt about the application of the *listing rules*, the *disclosure requirements* or the *transparency rules* to a particular matter.

### **5 Equity shares (commercial companies): requirements for admission to listing**

[*Editor's note*: any proposed drafting to introduce eligibility requirements corresponding to Premium Listing Principle 3 and Premium Listing Principle 4 to be included in this chapter as part of the second tranche of rules]

#### **5.1 Application**

- 5.1.1 R This chapter applies to an *applicant* for the *admission* of *equity shares* other than those of:
- (1) a *closed-ended investment fund*;

- (2) an *open-ended investment company*;
  - (3) a *shell company*; or
  - (4) an *investment entity* that is not a *closed-ended investment fund* or an *open-ended investment company*.
- 5.1.2 R This chapter applies to an *applicant* for the *admission of equity shares* to the *equity shares (commercial companies)* category except where:
- (1) the *applicant* meets the following conditions:
    - (a) it has an existing *listing* in the *equity shares (commercial companies)* category;
    - (b) it is applying for the *admission of equity shares* of the same *class* as the *shares* that have been *admitted* to the *equity shares (commercial companies)* category; and
    - (c) it is not entering into a transaction classified as a *reverse takeover*; or
  - (2) the following conditions are met:
    - (a) a *company* has an existing *listing* in the *equity shares (commercial companies)* category;
    - (b) the *applicant* is a new *holding company* of the *company* in (2)(a); and
    - (c) the *company* in (2)(a) is not entering into a transaction classified as a *reverse takeover*.
- 5.1.3 R This chapter does not apply to an *applicant* for the *admission of equity shares* to the *equity shares (international commercial companies secondary listing)* category.
- 5.1.4 G An *applicant* to whom this chapter applies must satisfy the requirements in this chapter (in addition to those in *UKLR 3*).

## 5.2 Externally managed companies

- 5.2.1 R An *applicant* must satisfy the *FCA* that:
- (1) the discretion of its board to make strategic decisions on behalf of the *applicant* has not been limited or transferred to a *person* outside the *applicant's group*; and
  - (2) its board has the capability to act on key strategic matters in the absence of a recommendation from a *person* outside the *applicant's group*.

- 5.2.2 G In considering whether an *applicant* has satisfied UKLR 5.2.1R, the *FCA* will consider, among other things, whether the *applicant's* board consists solely of *non-executive directors* and whether significant elements of the strategic decision-making or planning for the *applicant* take place outside the *applicant's group* – for example, with an *external management company*.

### 5.3 Controlling shareholders

- 5.3.1 R An *applicant* with a *controlling shareholder* must demonstrate that, despite having a *controlling shareholder*, the *applicant* is able to carry on the business it carries on as its main activity independently from such *controlling shareholder* at all times.
- 5.3.2 G UKLR 5.3.1R is intended to ensure that the protections afforded to holders of *equity shares* by the requirements of the *equity shares (commercial companies)* category are meaningful.
- 5.3.3 G Factors which may indicate that an *applicant* does not satisfy the requirement in UKLR 5.3.1R (even where the agreement in UKLR 5.3.4R is in place) include:
- (1) an *applicant* has granted or may be required to grant security over its business in connection with the funding of a *controlling shareholder* or a member of a *controlling shareholder's group*;
  - (2) a *controlling shareholder* (or any *associate* thereof) appears to be able to influence the operations of the *applicant* outside its normal governance structures or via material shareholdings in one or more significant *subsidiary undertakings*;
  - (3) a *controlling shareholder* appears to be able to exercise improper influence over the *applicant*; or
  - (4) an *applicant* cannot demonstrate that it has access to financing other than from a *controlling shareholder* (or an *associate* thereof).
- 5.3.4 R An *applicant* with a *controlling shareholder* upon *admission* must have in place a written and legally binding agreement with its *controlling shareholder* which is intended to ensure that the *controlling shareholder* complies with undertakings that:
- (1) transactions and arrangements with the *controlling shareholder* (and/or any of its *associates*) will be conducted at arm's length and on normal commercial terms;
  - (2) neither the *controlling shareholder* nor any of its *associates* will take any action that would have the effect of preventing the *applicant* from complying with its obligations under the *listing rules*; and

- (3) neither the *controlling shareholder* nor any of its *associates* will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the *listing rules*.

5.3.5 R An *applicant* with more than one *controlling shareholder* is not required to enter into a separate agreement with each *controlling shareholder* if:

- (1) the *applicant* reasonably considers, in light of its understanding of the relationship between the relevant *controlling shareholders*, that a *controlling shareholder* can procure the compliance of another *controlling shareholder* and that *controlling shareholder's associates* with the undertakings in UKLR 5.3.4R; and
- (2) the agreement which contains the undertakings in UKLR 5.3.4R, entered into with the relevant *controlling shareholder*, also contains:
  - (a) a provision in which the *controlling shareholder* agrees to procure the compliance of a non-signing *controlling shareholder* and its *associates* with the undertakings in UKLR 5.3.4R; and
  - (b) the name of such non-signing *controlling shareholder*.

## 5.4 Constitutional arrangements

5.4.1 R An *applicant* must have in place a *constitution* that allows it to comply with the *listing rules* – in particular:

- (1) UKLR 6.2.29R to vote on matters that must be decided by a resolution of the holders of the *listed company's equity shares* that have been *admitted* to the *equity shares (commercial companies)* category; and
- (2) for an *applicant* with a *controlling shareholder*, UKLR 6.2.9R and UKLR 6.2.10R concerning the election and re-election of *independent directors*.

5.4.2 R Where the *applicant* will have *specified weighted voting rights shares* in issue following *admission*, the *applicant* must have in place, on the first occasion the *applicant* makes an application for the *admission* of *equity shares* to the *equity shares (commercial companies)* category, a *constitution* which ensures that:

- (1) the *specified weighted voting rights shares* may only be issued to a *person* who, on the first occasion the *applicant* makes an application for the *admission* of *equity shares* to the *equity shares (commercial companies)* category, was:
  - (a) a *director* of the *applicant*;



- (b) a natural person who is an investor in, or shareholder of, the *applicant*;
  - (c) an *employee* of the *applicant*; or
  - (d) a *person* established for the sole benefit of, or solely owned and controlled by, a *person* specified in (a), (b) or (c);
- (2) the voting rights attached to *specified weighted voting rights shares* issued in accordance with UKLR 5.4.2R(1) may not be transferred except to a *person* established for the sole benefit of, or solely owned and controlled by, a *person* specified in (1)(a), (b) or (c) to whom such *specified weighted voting rights shares* were issued; and
  - (3) the holders of the *specified weighted voting rights shares* cannot exercise the voting rights attached to *specified weighted voting rights shares* on the shareholder votes referred to in UKLR 6.2.29R(1).
- 5.4.3 G UKLR 5.4.2R(1)(d) and UKLR 5.4.2R(2) are intended to enable *specified weighted voting rights shares* to be held or transferred for the purpose of obtaining or maintaining favourable treatment of the *specified weighted voting rights shares*, including to take account of local tax, exchange control or securities laws in *overseas* territories.

#### Pre-emption rights

- 5.4.4 R If the law of the country of its incorporation does not confer on shareholders rights which are at least equivalent to UKLR 9.2.1R, an *overseas company* applying for a *listing* in the *equity shares (commercial companies)* category must:
- (1) ensure that its *constitution* provides for rights which are at least equivalent to the rights provided in UKLR 9.2.1R (as qualified by UKLR 9.2.2R); and
  - (2) be satisfied that conferring such rights would not be incompatible with the law of the country of its incorporation.

## 5.5 Shares in public hands

- 5.5.1 R Where an *applicant* is applying for the *admission* of a *class* of *equity shares* to *listing* in the *equity shares (commercial companies)* category, a sufficient number of *shares* of that *class* must, no later than the time of *admission*, be distributed to the public.
- 5.5.2 R For the purposes of UKLR 5.5.1R:
- (1) a sufficient number of *shares* will be taken to have been distributed to the public when 10% of the *shares* for which application for *admission* has been made are in public hands; and

- (2) *treasury shares* are not to be taken into consideration when calculating the number of *shares* of the *class*.

5.5.3 R For the purposes of *UKLR 5.5.1R* and *UKLR 5.5.2R*, *shares* are not held in public hands if they are:

- (1) held, directly or indirectly, by:
- (a) a *director* of the *applicant* or of any of its *subsidiary undertakings*;
  - (b) a *person* connected with a *director* of the *applicant* or of any of its *subsidiary undertakings*;
  - (c) the trustees of any *employees' share scheme* or pension fund established for the benefit of any *directors* and *employees* of the *applicant* and its *subsidiary undertakings*;
  - (d) any *person* who, under any agreement, has a right to nominate a *person* to the board of *directors* of the *applicant*; or
  - (e) any *person* or *persons* in the same *group* or *persons* acting in concert who have an interest in 5% or more of the *shares* of the relevant *class*; or

- (2) subject to a lock-up period of more than 180 calendar days.

5.5.4 G When calculating the number of *shares* for the purposes of *UKLR 5.5.3R(1)(e)*, holdings of *investment managers* in the same *group* will be disregarded where investment decisions are made independently by the individual in control of the relevant fund and those decisions are unfettered by the *group* to which the *investment manager* belongs.

## 5.6 Shares of a third country company

5.6.1 R The *FCA* will not admit *shares* of an *applicant* incorporated in a *third country* that are not listed either in its country of incorporation or in the country in which a majority of its *shares* are held, unless the *FCA* is satisfied that the absence of the listing is not due to the need to protect investors.

## 6 Equity shares (commercial companies): continuing obligations

[*Editor's note*: any amendments to address the results of the Financial Reporting Council consultation on proposed revisions to the current (2018) edition of the UK Corporate Governance Code to be included as part of the second tranche of rules]

### 6.1 Preliminary

Application

- 6.1.1 R This chapter applies to a *company* that has a *listing of equity shares* in the *equity shares (commercial companies)* category.

## 6.2 Requirements with continuing application

### Admission to trading

- 6.2.1 R A *listed company* must comply with UKLR 3.2.3R at all times.
- 6.2.2 R A *listed company* must inform the *FCA* in writing as soon as possible if it has:
- (1) requested a *RIE* to admit or re-admit any of its *listed equity shares* to trading;
  - (2) requested a *RIE* to cancel or suspend trading of any of its *listed equity shares*; or
  - (3) been informed by a *RIE* that trading of any of its *listed equity shares* will be cancelled or suspended.

### Controlling shareholders

- 6.2.3 R A *listed company* with a *controlling shareholder* must demonstrate that, despite having a *controlling shareholder*, the *listed company* is able to carry on the business it carries on as its main activity independently from such *controlling shareholder* at all times.
- 6.2.4 G UKLR 5.3.3G provides *guidance* on factors that may indicate that a *listed company* with a *controlling shareholder* is not carrying on the business it carries on as its main activity independently from a *controlling shareholder*.
- 6.2.5 R Where a *listed company* has a *controlling shareholder*, it must have in place at all times:
- (1) a written and legally binding agreement which is intended to ensure that the *controlling shareholder* complies with the undertakings in UKLR 5.3.4R; and
  - (2) a *constitution* that allows the election and re-election of *independent directors* to be conducted in accordance with UKLR 6.2.9R and UKLR 6.2.10R.
- 6.2.6 R In order to comply with UKLR 6.2.5R(1), where a *listed company* will have more than one *controlling shareholder*, the *listed company* will not be required to enter into a separate agreement with each *controlling shareholder* if:
- (1) the *listed company* reasonably considers, in light of its understanding of the relationship between the relevant *controlling shareholders*, that a *controlling shareholder* can procure the compliance of another

*controlling shareholder* and that *controlling shareholder's associates* with the undertakings in UKLR 5.3.4R; and

- (2) the agreement which contains the undertakings in UKLR 5.3.4R, entered into with the relevant *controlling shareholder*, also contains:
  - (a) a provision in which the *controlling shareholder* agrees to procure the compliance of a non-signing *controlling shareholder* and its *associates* with the undertakings in UKLR 5.3.4R; and
  - (b) the names of any such non-signing *controlling shareholder*.

6.2.7 R Where, as a result of changes in ownership or control of a *listed company*, a *person* becomes a *controlling shareholder* of the *listed company*, the *listed company* will be allowed:

- (1) a period of not more than 6 months from the event that resulted in that *person* becoming a *controlling shareholder* to comply with UKLR 6.2.5R(1); and
- (2) in the case of a *listed company* which did not previously have a *controlling shareholder*, until the date of the next annual general meeting of the *listed company*, other than an annual general meeting for which notice:
  - (a) has already been given; or
  - (b) is given within a period of 3 months from the event that resulted in that *person* becoming a *controlling shareholder*,  
to comply with UKLR 6.2.5R(2).

6.2.8 G In complying with UKLR 6.2.5R(2), a *listed company* may allow an existing *independent director* who is being proposed for re-election (including any such *director* who was appointed by the board of the *listed company* until the next annual general meeting) to remain in office until any resolution required by UKLR 6.2.10R has been voted on.

6.2.9 R Where UKLR 6.2.5R applies, the election or re-election of any *independent director* by shareholders must be approved by:

- (1) the shareholders of the *listed company*; and
- (2) the *independent shareholders* of the *listed company*.

6.2.10 R Where UKLR 6.2.9R applies, if the election or re-election of an *independent director* is not approved by both the shareholders and the *independent shareholders* of the *listed company*, but the *listed company* wishes to propose that *person* for election or re-election as an *independent director*, the *listed company* must propose a further resolution to elect or re-elect the proposed *independent director* which:

- (1) must not be voted on within a period of 90 days from the date of the original vote;
- (2) must be voted on within a period of 30 days from the end of the period set out in (1); and
- (3) must be approved by the shareholders of the *listed company*.

6.2.11 R A *listed company* must comply with the undertakings in UKLR 5.3.4R or UKLR 6.2.5R(1) at all times.

6.2.12 G In addition to the annual confirmation required to be included in a *listed company's* annual financial report under UKLR 6.6.1R(13), the *FCA* may request information from a *listed company* under [*Editor's note*: UKLR 1 reference to be included as part of the second tranche of rules] to confirm or verify that an undertaking in UKLR 5.3.4R or UKLR 6.2.5R(1) or a procurement obligation (as set out in UKLR 5.3.5R(2)(a) or UKLR 6.2.6R(2)(a)) contained in an agreement entered into under UKLR 5.3.4R or UKLR 6.2.5R(1) is being or has been complied with.

Compliance with the disclosure requirements, transparency rules and corporate governance rules

6.2.13 G A *listed company*, whose *equity shares* are admitted to trading on a *regulated market*, should consider the obligations under the *disclosure requirements*.

6.2.14 R A *listed company* that is not already required to comply with the obligations referred to under article 17 of the *Market Abuse Regulation* must comply with those obligations as if it were an *issuer* for the purposes of the *disclosure requirements* and *transparency rules* subject to article 22 of the *Market Abuse Regulation*.

6.2.15 G A *listed company*, whose *equity shares* are admitted to trading on a *regulated market*, should consider its obligations under *DTR 4* (Periodic Financial Reporting), *DTR 5* (Vote Holder and Issuer Notification Rules), *DTR 6* (Continuing obligations and access to information) and *DTR 7* (Corporate governance).

6.2.16 R A *listed company* that is not already required to comply with the *transparency rules* must comply with *DTR 4*, *DTR 5* and *DTR 6* as if it were an *issuer* for the purposes of the *transparency rules*.

Disclosure of rights attached to equity shares

6.2.17 R Unless exempted in UKLR 6.2.20R, a *listed company* must:

- (1) forward to the *FCA* for publication a copy of one or more of the following:

- (a) the approved *prospectus* or *listing particulars* for its *listed equity shares*;
  - (b) the relevant agreement or document setting out the terms and conditions on which its *listed equity shares* were issued; or
  - (c) a document describing:
    - (i) the rights attached to its *listed equity shares*;
    - (ii) limitations on such rights; and
    - (iii) the procedure for the exercise of such rights,

produced in accordance with the relevant Annex of the *Prospectus Regulation* that would have applied had the *listed company* been required to produce a *prospectus* for those *listed equity shares*; and
  - (2) if the information in relation to the rights attached to its *listed equity shares* set out in the document previously forwarded in accordance with (1) is no longer accurate, forward to the *FCA* for publication a copy of either of the following:
    - (a) a new document in accordance with (1); or
    - (b) a document describing or setting out the changes which have occurred in relation to the rights attached to the *listed company's listed equity shares*.
- 6.2.18 R The documents in *UKLR 6.2.17R* must be forwarded to the *FCA* for publication by uploading them to the *national storage mechanism*.
- 6.2.19 G The purpose of *UKLR 6.2.17R* is to require *listed companies* to maintain publicly available information in relation to the rights attached to their *listed equity shares* so that investors can access such information.
- 6.2.20 R A *listed company* is exempt from *UKLR 6.2.17R* where:
- (1) it has previously forwarded to the *FCA* for publication, or otherwise filed with the *FCA*, a document specified in *UKLR 6.2.17R(1)*;
  - (2) if the information in relation to the rights attached to its *listed equity shares* set out in the document previously forwarded or filed in accordance with (1) is no longer accurate, it has forwarded to the *FCA* for publication, or otherwise filed with the *FCA*, a copy of either of the following:
    - (a) one of the documents specified in *UKLR 6.2.17R(1)*; or

- (b) a document describing or setting out the changes which have occurred in relation to the rights attached to the *listed company's listed equity shares*; and
- (3) the documents in (1) and (2) have been forwarded to the *FCA* for publication, or otherwise filed with the *FCA*, by:
  - (a) forwarding them for publication on a location previously identified on the *FCA* website where the public can inspect documents referred to in the *listing rules* as being documents to be made available at the document viewing facility; or
  - (b) uploading them to the *national storage mechanism*.

#### Contact details

- 6.2.21 R A *listed company* must ensure that the *FCA* is provided with up-to-date contact details of at least one appropriate person nominated by it to act as the first point of contact with the *FCA* in relation to the *company's* compliance with the *listing rules* and the *disclosure requirements* and *transparency rules*.
- 6.2.22 G The contact person referred to in *UKLR 6.2.21R* will be expected to be:
  - (1) knowledgeable about the *listed company* and the *listing rules* applicable to it;
  - (2) capable of ensuring that appropriate action is taken on a timely basis; and
  - (3) contactable on *business days* between the hours of 7am and 7pm.
- 6.2.23 G The requirement in *UKLR 6.2.21R* is additional to the requirement to provide contact details for at least 2 executive *directors* in [*Editor's note: UKLR 1 reference to be included as part of the second tranche of rules*].

#### Sponsors

- 6.2.24 G A *listed company* should consider its notification obligations under *UKLR 4.3*.

#### Shares in public hands

- 6.2.25 R A *listed company* must comply with *UKLR 5.5.1R* to *UKLR 5.5.3R* at all times.

#### Publication of unaudited financial information

- 6.2.26 R (1) This *rule* applies to a *listed company* that has published:

- (a) any unaudited financial information in a *reverse takeover circular* or a *prospectus*; or
  - (b) any *profit forecast* or *profit estimate*.
- (2) The first time a *listed company* publishes financial information as required by *DTR 4.1* after the publication of the unaudited financial information, *profit forecast* or *profit estimate*, it must:
- (a) reproduce that financial information, *profit forecast* or *profit estimate* in its next annual report and accounts;
  - (b) produce and disclose in the annual report and accounts the actual figures for the same period covered by the information reproduced under paragraph (2)(a); and
  - (c) provide an explanation of the difference, if there is a difference of 10% or more between the figures required by paragraph (2)(b) and those reproduced under paragraph (2)(a).

6.2.27 G *UKLR 6.2.26R* does not apply to:

- (1) pro forma financial information prepared in accordance with Annex 1 and Annex 2 of the *PR Regulation*; or
- (2) any preliminary statements of annual results or half-yearly or quarterly reports that are reproduced with the unaudited financial information.

Externally managed companies

6.2.28 R An *issuer* must at all times ensure that the discretion of its board to make strategic decisions on behalf of the *company* has not been limited or transferred to a *person* outside the *issuer's group*, and that the board has the capability to act on key strategic matters in the absence of a recommendation from a *person* outside the *issuer's group*.

Voting on matters relevant to listing in the equity shares (commercial companies) category

- 6.2.29 R (1) Where the provisions of [*Editor's note: UKLR 21* references to be included as part of the second tranche of rules] or *UKLR 9* require a shareholder vote to be taken, that vote must be decided by a resolution of the holders of the *listed company's equity shares* that have been *admitted* to the *equity shares (commercial companies)* category.
- (2) Where the provisions of [*Editor's note: UKLR 21* references to be included as part of the second tranche of rules] or *UKLR 6.2.9R* require that the resolution must in addition be approved by *independent shareholders*, only *independent shareholders* who hold the *listed company's equity shares* that have been *admitted* to the *equity shares (commercial companies)* category can vote.



- 6.2.30 G The *FCA* may modify the operation of *UKLR* 6.2.29R in exceptional circumstances – for example, to accommodate the operation of:
- (1) special share arrangements designed to protect the national interest;
  - (2) dual-listed company voting arrangements; and
  - (3) voting rights attaching to *preference shares* or similar *securities* that are in arrears.

Listed companies with specified weighted voting rights shares in issue

- 6.2.31 R For so long as a *listed company* has *specified weighted voting rights shares* in issue, the *listed company* must at all times maintain constitutional arrangements that comply with *UKLR* 5.4.2R.
- 6.2.32 G The effect of *UKLR* 5.4.2R(3) and *UKLR* 6.2.29R(1) is that the voting rights attached to *specified weighting voting rights shares* may not count towards the shareholder votes referred to in *UKLR* 6.2.29R(1).
- 6.2.33 G The *FCA* may modify the operation of *UKLR* 6.2.31R in exceptional circumstances – for example, to accommodate the operation of:
- (1) special share arrangements designed to protect the national interest;
  - (2) dual-listed company voting arrangements; and
  - (3) voting rights attaching to *preference shares* or similar *securities* that are in arrears.

Notifications to the FCA: notifications regarding continuing obligations

- 6.2.34 R A *listed company* must notify the *FCA* without delay if it does not comply with any continuing obligation set out in *UKLR* 6.2.3R, *UKLR* 6.2.5R, *UKLR* 6.2.9R, *UKLR* 6.2.10R, *UKLR* 6.2.25R, *UKLR* 6.2.29R or *UKLR* 6.2.31R.

Notifications to the FCA: notifications regarding compliance with independence provisions

- 6.2.35 R A *listed company* must notify the *FCA* without delay if:
- (1) it no longer complies with *UKLR* 6.2.11R;
  - (2) it becomes aware that an undertaking in *UKLR* 5.3.4R or *UKLR* 6.2.5R(1) has not been complied with by the *controlling shareholder* or any of its *associates*; or
  - (3) it becomes aware that a procurement obligation (as set out in *UKLR* 5.3.5R(2)(a) or *UKLR* 6.2.6R(2)(a)) contained in an agreement entered into under *UKLR* 5.3.4R or *UKLR* 6.2.5R(1) has not been complied with by a *controlling shareholder*.

Notifications to the FCA: notifications regarding UKLR 6.2.2R

- 6.2.36 R A *listed company* must notify the *FCA* without delay if its annual financial report contains a statement of the kind specified under *UKLR 6.2.2R*.

Inability to comply with continuing obligations

- 6.2.37 G Where a *listed company* is unable to comply with a continuing obligation set out in *UKLR 6.2*, it should consider seeking a cancellation of *listing* or applying for a transfer of its *listing* category. In particular, the *listed company* should note [*Editor's note*: *UKLR 21* references to be included as part of the second tranche of rules].

### 6.3 Continuing obligations: holders

Proxy forms

- 6.3.1 R A *listed company* must ensure that, in addition to its obligations under the Companies Act 2006, a proxy form:
- (1) provides for at least 3-way voting on all resolutions intended to be proposed (except that it is not necessary to provide proxy forms with 3-way voting on procedural resolutions); and
  - (2) states that if it is returned without an indication as to how the proxy shall vote on any particular matter, the proxy will exercise their discretion as to whether, and if so how, they vote.

Proxy forms for re-election of retiring directors

- 6.3.2 R If the resolutions to be proposed include the re-election of retiring *directors* and the number of retiring *directors* standing for re-election exceeds 5, the proxy form may give shareholders the opportunity to vote for or against (or abstain from voting on) the re-election of the retiring *directors* as a whole but must also allow votes to be cast for or against (or for shareholders to abstain from voting on) the re-election of the retiring *directors* individually.

Sanctions

- 6.3.3 R Where a *listed company* has taken a power in its *constitution* to impose sanctions on a shareholder who is in default in complying with a notice served under section 793 of the Companies Act 2006 (Notice by company requiring information about interests in its shares):
- (1) sanctions may not take effect earlier than 14 days after service of the notice;
  - (2) for a shareholding of less than 0.25% of the *shares* of a particular *class* (calculated exclusive of *treasury shares*), the only sanction that the *constitution* may provide for is a prohibition against attending meetings and voting;

- (3) for a shareholding of 0.25% or more of the *shares* of a particular *class* (calculated exclusive of *treasury shares*), the *constitution* may provide:
  - (a) for a prohibition against attending meetings and voting;
  - (b) for the withholding of the payment of dividends (including *shares* issued in lieu of dividend) on the *shares* concerned; and
  - (c) for the placing of restrictions on the transfer of *shares*, provided that restrictions on transfer do not apply to a sale to a genuine unconnected third party (such as through a *RIE* or an *overseas* exchange or by the acceptance of a takeover offer); and
- (4) any sanctions imposed in accordance with paragraph (2) or (3) above must cease to apply after a specified period of not more than 7 days after the earlier of:
  - (a) receipt by the *issuer* of notice that the shareholding has been sold to an unconnected third party through a *RIE* or an *overseas* exchange or by the acceptance of a takeover offer; and
  - (b) due compliance, to the satisfaction of the *issuer*, with the notice under section 793.

6.3.4 G An *overseas company* with a *listing* in the *equity shares (commercial companies)* category is not required to comply with UKLR 6.3.3R.

## 6.4 Notifications

### Copies of documents

- 6.4.1 R A *listed company* must forward to the *FCA* for publication a copy of all *circulars*, notices, reports or other documents to which the *listing rules* apply at the same time as they are issued, by uploading it to the *national storage mechanism*.
- 6.4.2 R A *listed company* must forward to the *FCA* for publication a copy of all resolutions passed by the *listed company* other than resolutions concerning ordinary business at an annual general meeting as soon as possible after the relevant general meeting, by uploading it to the *national storage mechanism*.
- 6.4.3 R (1) A *listed company* must notify a *RIS* as soon as possible when a document has been forwarded to the *FCA* under UKLR 6.4.1R or UKLR 6.4.2R unless the full text of the document is provided to the *RIS*.
  - (2) A notification made under paragraph (1) must set out where copies of the relevant document can be obtained.

### Notifications relating to capital

- 6.4.4 R A *listed company* must notify a *RIS* as soon as possible (unless otherwise indicated in this rule) of the following information relating to its capital:
- (1) any proposed change in its capital structure, including the structure of its *listed debt securities*, save that an announcement of a new issue may be delayed while marketing or underwriting is in progress;
  - (2) any redemption of *listed shares*, including details of the number of *shares* redeemed and the number of *shares* of that *class* outstanding following the redemption;
  - (3) any extension of time granted for the currency of temporary documents of title; and
  - (4) (except in relation to a block listing of *securities*) the results of any new issue of *equity securities* or a public offering of existing *equity securities*.

- 6.4.5 R Where the *securities* are subject to an underwriting agreement, a *listed company* may, at its discretion and subject to the obligations in article 17 of the *Market Abuse Regulation*, delay notifying a *RIS* as required by *UKLR* 6.4.4R(4) for up to 2 *business days* until the obligation by the underwriter to take or procure others to take *securities* is finally determined or lapses. In the case of an issue or offer of *securities* which is not underwritten, notification of the result must be made as soon as it is known.

#### Notification of board changes and directors' details

- 6.4.6 R A *listed company* must notify a *RIS* of any change to the board, including:
- (1) the appointment of a new *director*, stating the appointee's name and whether the position is executive, non-executive or chair and the nature of any specific function or responsibility of the position;
  - (2) the resignation, removal or retirement of a *director* (unless the *director* retires by rotation and is re-appointed at a general meeting of the *listed company's* shareholders);
  - (3) important changes to the role, functions or responsibilities of a *director*; and
  - (4) the effective date of the change if it is not with immediate effect, as soon as possible and, in any event, by the end of the *business day* following the decision or receipt of notice about the change by the *company*.
- 6.4.7 R If the effective date of the board change is not yet known, the notification required by *UKLR* 6.4.6R should state this fact and the *listed company* should notify a *RIS* as soon as the effective date has been decided.

- 6.4.8 R A *listed company* must notify a *RIS* of the following information in respect of any new *director* appointed to the board as soon as possible following the decision to appoint the *director* and, in any event, within 5 *business days* of the decision:
- (1) details of all directorships held by the *director* in any other publicly quoted *company* at any time in the previous 5 years, indicating whether or not they are still a *director*;
  - (2) any unspent convictions in relation to indictable offences;
  - (3) details of any receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors of any *company* where the *director* was an executive *director* at the time of, or within the 12 months preceding, such events;
  - (4) details of any compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where the *director* was a partner at the time of, or within the 12 months preceding, such events;
  - (5) details of receiverships of any asset of such *person* or of a partnership of which the *director* was a partner at the time of, or within the 12 months preceding, such event; and
  - (6) details of any public criticisms of the *director* by statutory or regulatory authorities (including *designated professional bodies*) and whether the *director* has ever been disqualified by a court from acting as a *director* of a *company* or from acting in the management or conduct of the affairs of any *company*.
- 6.4.9 R A *listed company* must, in respect of any current *director*, notify a *RIS* as soon as possible of:
- (1) any changes in the information set out in *UKLR* 6.4.8R(2) to *UKLR* 6.4.8R(6); and
  - (2) any new directorships held by the *director* in any other publicly quoted *company*.
- 6.4.10 G If no information is required to be disclosed pursuant to *UKLR* 6.4.8R, the notification required by *UKLR* 6.4.8R should state this fact.
- Notification of lock-up arrangements
- 6.4.11 R A *listed company* must notify a *RIS* as soon as possible of information relating to the disposal of *equity shares* under an exemption allowed in the lock-up arrangements disclosed in accordance with the *PR Regulation*.

- 6.4.12 R A *listed company* must notify a *RIS* as soon as possible of the details of any variation in the lock-up arrangements disclosed in accordance with the *PR Regulation* or any subsequent announcement.

Notification of shareholder resolutions

- 6.4.13 R A *listed company* must notify a *RIS* as soon as possible after a general meeting of all resolutions passed by the *company* other than resolutions concerning ordinary business passed at an annual general meeting.

Change of name

- 6.4.14 R A *listed company* which changes its name must, as soon as possible:
- (1) notify a *RIS* of the change, stating the date on which it has taken effect;
  - (2) inform the *FCA* in writing of the change; and
  - (3) where the *listed company* is incorporated in the *United Kingdom*, send the *FCA* a copy of the revised certificate of incorporation issued by the Registrar of Companies.

Change of accounting date

- 6.4.15 R A *listed company* must notify a *RIS* as soon as possible of:
- (1) any change in its accounting reference date; and
  - (2) the new accounting reference date.
- 6.4.16 R A *listed company* must prepare and publish a second interim report in accordance with *DTR* 4.2 if the effect of the change in the accounting reference date is to extend the accounting period to more than 14 months.
- 6.4.17 G The second interim report must be prepared and published in respect of either:
- (1) the period up to the old accounting reference date; or
  - (2) the period up to a date not more than 6 months prior to the new accounting reference date.

## 6.5 Preliminary statement of annual results, and statement of dividends

Preliminary statement of annual results

- 6.5.1 R If a *listed company* prepares a preliminary statement of annual results:
- (1) the statement must be published as soon as possible after it has been approved by the board;

- (2) the statement must be agreed with the *company's* auditors prior to publication;
- (3) the statement must show the figures in the form of a table, including the items required for a half-yearly report, consistent with the presentation to be adopted in the annual accounts for that financial year;
- (4) the statement must give details of the nature of any likely modification or emphasis-of-matter paragraph that may be contained in the auditors' report required to be included with the annual financial report; and
- (5) the statement must include any significant additional information necessary for the purpose of assessing the results being announced.

#### Statement of dividends

- 6.5.2 R A *listed company* must notify a *RIS* as soon as possible after the board has approved any decision to pay or make any dividend or other distribution on *listed equity shares* or to withhold any dividend or interest payment on *listed securities*, giving details of:
- (1) the exact net amount payable per *share*;
  - (2) the payment date;
  - (3) the record date (where applicable); and
  - (4) any foreign income dividend election, together with any income tax treated as paid at the lower rate and not repayable.

#### Omission of information

- 6.5.3 G The *FCA* may authorise the omission of information required by *UKLR* 6.5.1R or *UKLR* 6.5.2R if it considers that disclosure of such information would be contrary to the public interest or seriously detrimental to the *listed company*, provided that such omission would not be likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the *shares*.

## 6.6 Annual financial report

### Information to be included in annual report and accounts

- 6.6.1 R In addition to the requirements set out in *DTR* 4.1, a *listed company* must include in its annual financial report, where applicable, the following:
- (1) a statement of the amount of interest capitalised by the *group* during the period under review, with an indication of the amount and treatment of any related tax relief;

- (2) any information required by *UKLR* 6.2.26R (Publication of unaudited financial information);
- (3) details of any long-term incentive schemes as required by *UKLR* 9.3.3R;
- (4) details of any arrangements under which a *director* of the *company* has waived or agreed to waive any emoluments from the *company* or any *subsidiary undertaking*;
- (5) where a *director* has agreed to waive future emoluments, details of such waiver, together with those relating to emoluments which were waived during the period under review;
- (6) in the case of any allotment for cash of *equity securities* made during the period under review otherwise than to the holders of the *company's equity shares* in proportion to their holdings of such *equity shares* and which has not been specifically authorised by the *company's* shareholders:
  - (a) the classes of *equity securities* allotted and for each class of *equity securities*, the number allotted, their aggregate nominal value and the consideration received by the *company* for the allotment;
  - (b) the names of the allottees, if fewer than 6 in number, and in the case of 6 or more allottees a brief generic description of each new class of equity holder (e.g. holder of loan stock);
  - (c) the market price of the allotted *securities* on the date on which the terms of the issue were fixed; and
  - (d) the date on which the terms of the issue were fixed;
- (7) the information required by paragraph (6) must be given for any unlisted *major subsidiary undertaking* of the *company*;
- (8) where a *listed company* has *listed shares* in issue and is a *subsidiary undertaking* of another *company*, details of the participation by the *parent undertaking* in any placing made during the period under review;
- (9) details of any *contract of significance* subsisting during the period under review:
  - (a) to which the *listed company*, or one of its *subsidiary undertakings*, is a party and in which a *director* of the *listed company* is or was materially interested; and
  - (b) between the *listed company*, or one of its *subsidiary undertakings*, and a *controlling shareholder*;



- (10) details of any contract for the provision of services to the *listed company* or any of its *subsidiary undertakings* by a *controlling shareholder*, subsisting during the period under review, unless:
- (a) it is a contract for the provision of services which it is the principal business of the shareholder to provide; and
  - (b) it is not a *contract of significance*;
- (11) details of any arrangement under which a shareholder has waived or agreed to waive any dividends;
- (12) where a shareholder has agreed to waive future dividends, details of such waiver, together with those relating to dividends which are payable during the period under review; and
- (13) a statement made by the board:
- (a) that the *listed company* has entered into any agreement required under *UKLR 6.2.5R(1)*; or
  - (b) where the *listed company* has not entered into an agreement required under *UKLR 6.2.5R(1)*:
    - (i) a statement that the *FCA* has been notified of that non-compliance in accordance with *UKLR 6.2.34R*; and
    - (ii) a brief description of the background to and reasons for failing to enter into the agreement that enables shareholders to evaluate the impact of non-compliance on the *listed company*; and
  - (c) that:
    - (i) the *listed company* has complied with the undertakings in *UKLR 5.3.4R* or *UKLR 6.2.5R(1)* during the period under review;
    - (ii) so far as the *listed company* is aware, the undertakings in *UKLR 5.3.4R* or *UKLR 6.2.5R(1)* have been complied with during the period under review by the *controlling shareholder* or any of its *associates*; and
    - (iii) so far as the *listed company* is aware, the procurement obligation (as set out in *UKLR 5.3.5R(2)(a)* or *UKLR 6.2.6R(2)(a)*) included in any agreement entered into under *UKLR 5.3.4R* or *UKLR 6.2.5R(1)* has been complied with during the period under review by a *controlling shareholder*; or

- (d) where an undertaking in *UKLR 5.3.4R* or *UKLR 6.2.5R(1)* or a procurement obligation (as set out in *UKLR 5.3.5R(2)(a)* or *UKLR 6.2.6R(2)(a)*) included in any agreement entered into under *UKLR 5.3.4R* or *UKLR 6.2.5R(1)* has not been complied with during the period under review:
    - (i) a statement that the *FCA* has been notified of that non-compliance in accordance with *UKLR 6.2.35R*; and
    - (ii) a brief description of the background to and reasons for failing to comply with the relevant undertaking or procurement obligation that enables shareholders to evaluate the impact of non-compliance on the *listed company*.
- 6.6.2 R Where an *independent director* declines to support a statement made under *UKLR 6.6.1.R(13)(a)* or (c), the statement must record this fact.
- 6.6.3 G Where a *listed company's* annual financial report contains a statement of the type referred to in *UKLR 6.6.1R(13)(b)* or (d), the *FCA* may still take any action it considers necessary in relation to the underlying breach by the *listed company* of *UKLR 6.2.5R(1)* or *UKLR 6.2.11R*.
- 6.6.4 R The *listed company's* annual financial report must include the information required under *UKLR 6.6.1R* in a single identifiable section, unless the annual financial report includes a cross-reference table indicating where that information is set out.
- 6.6.5 G A *listed company* need not include with the annual report and accounts details of waivers of dividends of less than 1% of the total value of any dividend provided that some payment has been made on each *share* of the relevant *class* during the relevant calendar year.

#### Additional information

- 6.6.6 R In the case of a *listed company* incorporated in the *United Kingdom*, the following additional items must be included in its annual financial report:
- (1) a statement setting out all the interests (in respect of which transactions are notifiable to the *listed company* under article 19 of the *Market Abuse Regulation*) of each *person* who is a *director* of the *listed company* as at the end of the period under review, including:
    - (a) all changes in the interests of each *director* that have occurred between the end of the period under review and a date not more than one month prior to the date of the notice of the annual general meeting; or
    - (b) if there have been no changes in the period described in paragraph (a), a statement that there have been no changes in the interests of each *director*.

‘The interests of each *director*’ includes the interests of *connected persons* of which the *listed company* is, or ought upon reasonable enquiry to become, aware.

- (2) a statement showing the interests disclosed to the *listed company* in accordance with *DTR 5* as at the end of the period under review and:
- (a) all interests disclosed to the *listed company* in accordance with *DTR 5* that have occurred between the end of the period under review and a date not more than one month prior to the date of the notice of the annual general meeting; or
  - (b) if no interests have been disclosed to the *listed company* in accordance with *DTR 5* in the period described in (a), a statement that no changes have been disclosed to the *listed company*.
- (3) statements by the *directors* on:
- (a) the appropriateness of adopting the going concern basis of accounting (containing the information set out in Provision 30 of the *UK Corporate Governance Code*); and
  - (b) their assessment of the prospects of the *company* (containing the information set out in Provision 31 of the *UK Corporate Governance Code*),

prepared in accordance with the ‘Guidance on Risk Management, Internal Control and Related Financial and Business Reporting’ published by the Financial Reporting Council in September 2014;

- (4) a statement setting out:
- (a) details of any shareholders’ authority for the purchase, by the *listed company*, of its own *shares* that is still valid at the end of the period under review;
  - (b) in the case of purchases made otherwise than through the market or by tender to all shareholders, the names of sellers of such *shares* purchased, or proposed to be purchased, by the *listed company* during the period under review;
  - (c) in the case of any purchases made otherwise than through the market or by tender or partial offer to all shareholders, or options or contracts to make such purchases, entered into since the end of the period covered by the report, information equivalent to that required under Part 2 of Schedule 7 to the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (Disclosure required by company acquiring its own shares etc); and

- (d) in the case of sales of *treasury shares* for cash made otherwise than through the market, or in connection with an *employees' share scheme*, or otherwise than pursuant to an opportunity which (so far as was practicable) was made available to all holders of the *listed company's securities* (or to all holders of a relevant *class* of its *securities*) on the same terms, particulars of the names of purchasers of such *shares* sold, or proposed to be sold, by the *company* during the period under review;
- (5) a statement of how the *listed company* has applied the Principles set out in the *UK Corporate Governance Code*, in a manner that would enable shareholders to evaluate how the principles have been applied;
- (6) a statement as to whether the *listed company* has:
  - (a) complied throughout the accounting period with all relevant provisions set out in the *UK Corporate Governance Code*; or
  - (b) not complied throughout the accounting period with all relevant provisions set out in the *UK Corporate Governance Code* and, if so, setting out:
    - (i) those provisions it has not complied with, if any;
    - (ii) in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and
    - (iii) the *company's* reasons for non-compliance;
- (7) a statement setting out details of the unexpired term of any *director's* service contract of a *director* proposed for election or re-election at the forthcoming annual general meeting, and, if any *director* proposed for election or re-election does not have a *directors' service contract*, a statement to that effect;
- (8) a statement setting out:
  - (a) whether the *listed company* has included in its annual financial report climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*;
  - (b) in cases where the *listed company* has:
    - (i) made climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*, but has included some or all of these disclosures in a document other than the annual financial report:

- (A) the recommendations and/or recommended disclosures for which it has included disclosures in that other document;
  - (B) a description of that document and where it can be found; and
  - (C) the reasons for including the relevant disclosures in that document and not in the annual financial report;
- (ii) not included climate-related financial disclosures consistent with all of the *TCFD Recommendations and Recommended Disclosures* in either its annual financial report or other document as referred to in (i):
    - (A) the recommendations and/or recommended disclosures for which it has not included such disclosures;
    - (B) the reasons for not including such disclosures; and
    - (C) any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures; and
- (c) where in its annual financial report or (where appropriate) other document the climate-related financial disclosures referred to in (a) can be found;
- (9) a statement setting out:
    - (a) whether the *listed company* has met the following targets on board diversity as at a chosen reference date within its accounting period:
      - (i) at least 40% of the individuals on its board of *directors* are women;
      - (ii) at least one of the following senior positions on its board of *directors* is held by a woman:
        - (A) the chair;
        - (B) the chief executive;
        - (C) the senior independent director; or
        - (D) the chief financial officer; and

- (iii) at least one individual on its board of *directors* is from a *minority ethnic background*;
  - (b) in cases where the *listed company* has not met all of the targets in (a):
    - (i) the targets it has not met; and
    - (ii) the reasons for not meeting those targets;
  - (c) the reference date used for the purposes of (a) and, where this is different from the reference date used for the purposes of reporting this information in respect of the previous accounting period, an explanation as to why; and
  - (d) any changes to the board that have occurred between the reference date used for the purposes of (a) and the date on which the annual financial report is approved that have affected the *listed company's* ability to meet one or more of the targets in (a);
- (10) subject to *UKLR 6.6.13R*, numerical data on the ethnic background and the gender identity or sex of the individuals on the *listed company's* board and in its *executive management* as at the reference date used for the purposes of *UKLR 6.6.6R(9)(a)*, which should be set out in the format of the tables contained in *UKLR 6 Annex 1* and contain the information prescribed by those tables; and
- (11) an explanation of the *listed company's* approach to collecting the data used for the purposes of making the disclosures in *UKLR 6.6.6R(9)*.
- 6.6.7 G (1) The effect of *UKLR 6.6.6R(1)* is that a *listed company* is required to set out a 'snapshot' of the total interests of a *director* and their *connected persons*, as at the end of the period under review (including certain information to update it as at a date not more than a month before the date of the notice of the annual general meeting). The interests that need to be set out are limited to those in respect of which transactions fall to be notified under the notification requirement for *persons discharging managerial responsibilities* in article 19 of the *Market Abuse Regulation*. *Persons* who are *directors* during, but not at the end of, the period under review need not be included.
- (2) A *listed company* unable to compile the statement in *UKLR 6.6.6R(1)* from information already available to it may need to seek the relevant information, or confirmation, from the *director* themselves, including that in relation to *connected persons*, but would not be expected to obtain information directly from *connected persons*.
- 6.6.8 G For the purposes of *UKLR 6.6.6R(8)*, in determining whether climate-related financial disclosures are consistent with the *TCFD Recommendations and*

*Recommended Disclosures*, a *listed company* should undertake a detailed assessment of those disclosures which takes into account:

- (1) Section C of the *TCFD Annex* entitled “Guidance for All Sectors”;
- (2) (where appropriate) Section D of the *TCFD Annex* entitled “Supplemental Guidance for the Financial Sector”; and
- (3) (where appropriate) Section E of the *TCFD Annex* entitled “Supplemental Guidance for Non-Financial Groups”.

6.6.9 G For the purposes of *UKLR 6.6.6R(8)*, in determining whether a *listed company’s* climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*, the *FCA* considers that the following documents are relevant:

- (1) the *TCFD Final Report* and the *TCFD Annex*, to the extent not already referred to in *UKLR 6.6.6R(8)* and *UKLR 6.6.8G*;
- (2) the *TCFD Technical Supplement on the Use of Scenario Analysis*;
- (3) the *TCFD Guidance on Risk Management Integration and Disclosure*;
- (4) (where appropriate) the *TCFD Guidance on Scenario Analysis for Non-Financial Companies*; and
- (5) the *TCFD Guidance on Metrics, Targets and Transition Plans*.

6.6.10 G For the purposes of *UKLR 6.6.6R(8)*, in determining whether climate-related financial disclosures are consistent with the *TCFD Recommendations and Recommended Disclosures*, a *listed company* should consider whether those disclosures provide sufficient detail to enable users to assess the *listed company’s* exposure to and approach to addressing climate-related issues.

A *listed company* should carry out its own assessment to ascertain the appropriate level of detail to be included in its climate-related financial disclosures, taking into account factors such as:

- (1) the level of its exposure to climate-related risks and opportunities; and
- (2) the scope and objectives of its climate-related strategy,

noting that these factors may relate to the nature, size and complexity of the *listed company’s* business.

6.6.11 G (1) For the purposes of *UKLR 6.6.6R(8)*, the *FCA* would ordinarily expect a *listed company* to be able to make climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures*, except where it faces transitional

challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities.

- (2) In particular, the *FCA* would expect that a *listed company* should ordinarily be able to make disclosures consistent with:
- (a) the recommendation and recommended disclosures on governance in the *TCFD Recommendations and Recommended Disclosures*;
  - (b) the recommendation and recommended disclosures on risk management in the *TCFD Recommendations and Recommended Disclosures*; and
  - (c) recommended disclosures (a) and (b) set out under the recommendation on strategy in the *TCFD Recommendations and Recommended Disclosures*, to the extent that the *listed company* does not face the transitional challenges referred to in (1) in relation to such disclosures.

- 6.6.12 G Where making disclosures on transition plans as part of its disclosures on strategy under the *TCFD Recommendations and Recommended Disclosures*, a *listed company* that is headquartered in, or operates in, a country that has made a commitment to a net zero economy, such as the UK's commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019, is encouraged to assess the extent to which it has considered that commitment in developing and disclosing its transition plan. Where it has not considered this commitment in developing and disclosing its transition plan, the *FCA* encourages a *listed company* to explain why it has not done so.
- 6.6.13 R In relation to *UKLR* 6.6.6R(10), where individuals on a *listed company's* board or in its *executive management* are situated *overseas*, and data protection laws in that jurisdiction prevent the collection or publication of some or all of the personal data required to be disclosed under that provision, then a *listed company* may instead explain the extent to which it is unable to make the relevant disclosures.
- 6.6.14 G Given the range of possible approaches to data collection for reporting on gender identity or sex for the purposes of *UKLR* 6.6.6R(10), a *listed company* may add to the categories included in the first column of the table in *UKLR* 6 Annex 1R(1) in order to reflect the basis on which it has collected data.
- 6.6.15 G In relation to *UKLR* 6.6.6R(11), the *FCA* expects a *listed company's* approach to data collection to be:
- (1) consistent for the purposes of reporting under both *UKLR* 6.6.6R(9) and (10); and
  - (2) consistent across all individuals in relation to whom data is being reported.



The *FCA* expects the explanation of a *listed company's* approach to data collection to include the method of collection and / or source of the data, and where data collection is done on the basis of self-reporting by the individuals concerned, a description of the questions asked.

- 6.6.16 G In addition to the information required under *UKLR* 6.6.6R(9) to (11) (and without prejudice to the requirements of *DTR* 7.2.8AR), a *listed company* may, if it wishes to do so, include the following in its annual financial report:
- (1) a brief summary of any key policies, procedures and processes, and any wider context, that it considers contribute to improving the diversity of its board and *executive management*;
  - (2) any mitigating factors or circumstances which make achieving diversity on its board more challenging (for example, the size of the board or the country where its main operations are located); and
  - (3) any risks it foresees in being able to meet or continue to meet the board diversity targets in *UKLR* 6.6.6R(9)(a) in the next accounting period, or any plans to improve the diversity of its board.
- 6.6.17 R An *overseas company* with a *listing of equity shares* in the *equity shares (commercial companies)* category must include in its annual report and accounts the information in *UKLR* 6.6.6R(5), *UKLR* 6.6.6R(6) and *UKLR* 6.6.6R(7) to (11).
- 6.6.18 R (1) An *overseas company* with a *listing of equity shares* in the *equity shares (commercial companies)* category must comply with *DTR* 7.2 (Corporate governance statements) as if it were an *issuer* to which that section applies.
- (2) An *overseas company* with a *listing of equity shares* in the *equity shares (commercial companies)* category which complies with *UKLR* 6.6.17R will be taken to satisfy the requirements of *DTR* 7.2.2R and *DTR* 7.2.3R, but must comply with all of the other requirements of *DTR* 7.2 as if it were an *issuer* to which that section applies.

#### Information required by law

- 6.6.19 G The requirements of *UKLR* 6.6.6R(6) relating to corporate governance are additional to the information required by law to be included in the *listed company's* annual report and accounts.

#### Auditors report

- 6.6.20 R A *listed company* must ensure that the auditors review each of the following before the annual report is published:
- (1) statements by the *directors* regarding going concern and longer-term viability as required by *UKLR* 6.6.6R(3); and

- (2) the parts of the statement required by *UKLR 6.6.6R(6)* (corporate governance) that relate to Provisions 6 and 24 to 29 of the *UK Corporate Governance Code*.

Strategic report with supplementary information

- 6.6.21 R Any strategic report with supplementary information provided to shareholders by a *listed company*, as permitted under section 426 of the Companies Act 2006, must disclose:
- (1) earnings per share; and
  - (2) the information required for a strategic report set out in or under the Companies Act 2006 and the supplementary material required under section 426A of the Companies Act 2006.

**6 Annex 1 Data on the diversity of the individuals on a listed company's board and in its executive management**

- R The following tables set out the information that a *listed company* must include in its annual financial report under *UKLR 6.6.6R(10)*, and the format in which it must be set out.

- (1) Table for reporting on gender identity or sex

	<b>Number of board members</b>	<b>Percentage of the board</b>	<b>Number of senior positions on the board (CEO, CFO, SID and chair)</b>	<b>Number in executive management</b>	<b>Percentage of executive management</b>
<b>Men</b>					
<b>Women</b>					
<b>[Other categories]</b>					
<b>Not specified/ prefer not to say</b>					

[**Note:** the placeholder for ‘Other categories’ is optional and should be used to indicate additional categories which a listed company may wish to include in accordance with *UKLR* 6.6.14G.

(2) Table for reporting on ethnic background

	<b>Number of board members</b>	<b>Percentage of the board</b>	<b>Number of senior positions on the board (CEO, CFO, SID and chair)</b>	<b>Number in executive management</b>	<b>Percentage of executive management</b>
<b>White British or other White (including minority-white groups)</b>					
<b>Mixed/ Multiple ethnic groups</b>					
<b>Asian/Asian British</b>					
<b>Black/African / Caribbean/ Black British</b>					
<b>Other ethnic group</b>					

Not specified/ prefer not to say					
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**7 Equity shares (commercial companies): significant transactions and reverse takeovers**

**7.1 Preliminary**

Application

7.1.1 R This chapter applies to a *company* that has a *listing* of *equity shares* in the *equity shares (commercial companies)* category.

Purpose

- 7.1.2 G (1) The purpose of this chapter is to set out:
- (a) the requirements for a *listed company* in relation to *significant transactions* and *reverse takeovers*; and
  - (b) certain other transactions where a *listed company* must comply with the requirements for *significant transactions*.
- (2) The requirements are intended to ensure that holders of *listed equity shares*:
- (a) are notified of:
    - (i) *significant transactions*;
    - (ii) certain indemnities and similar arrangements;
    - (iii) certain issues by *major subsidiary undertakings*; and
    - (iv) *reverse takeovers*; and
  - (b) have the opportunity to vote on *reverse takeovers*.
- (3) The requirements are also intended to ensure that a *listed company* discloses detailed information concerning the transactions in (2)(a)(i) to (iv) on a timely basis, to support engagement between the *listed company* and its shareholders and to enhance market transparency.

Meaning of ‘significant transaction’

7.1.3 R In *UKLR*, a transaction is classified as a *significant transaction* where any *percentage ratio* is 25% or more.

## Meaning of ‘reverse takeover’

- 7.1.4 R (1) In *UKLR*, a *reverse takeover* means a transaction consisting of an acquisition of a business, a *company* or assets:
- (a) where any *percentage ratio* is 100% or more; or
  - (b) which in substance results in a fundamental change in the business or in a change in board or voting control of the *issuer*.
- (2) Paragraph (1) applies whether such acquisition is effected:
- (a) by way of a direct acquisition by the *issuer* or a subsidiary;
  - (b) by way of the *issuer* introducing a new *holding company* to its corporate structure and then carrying out the acquisition through the new *holding company*; or
  - (c) in any other way.
- 7.1.5 G For the purpose of *UKLR* 7.1.4R(1)(b), the *FCA* considers that the following factors are indicators of a fundamental change:
- (1) the extent to which the transaction will change the strategic direction or nature of the *issuer’s* business;
  - (2) whether its business will be part of a different industry sector following the completion of the transaction; or
  - (3) whether its business will deal with fundamentally different suppliers and end users.

## Meaning of ‘transaction’

- 7.1.6 R In this chapter (except where specifically provided to the contrary) a reference to a transaction by a *listed company*:
- (1) includes:
    - (a) (subject to paragraph (2)(a) to (g)), all agreements (including amendments to agreements) entered into by the *listed company* or its *subsidiary undertakings*;
    - (b) the grant or acquisition of an *option* as if the *option* had been exercised, except that, if exercise is solely at the *listed company’s* or *subsidiary undertaking’s* discretion, the transaction will be classified on exercise and only the consideration (if any) for the *option* will be classified on the grant or acquisition; and
    - (c) joint venture arrangements; and

- (2) excludes:
- (a) a transaction in the ordinary course of business;
  - (b) an issue of *securities*, or a transaction to raise finance, which does not involve the acquisition or disposal of any fixed asset of the *listed company* or of its *subsidiary undertakings*;
  - (c) any transaction between the *listed company* and its wholly owned *subsidiary undertaking* or between its wholly owned *subsidiary undertakings*;
  - (d) a *break fee arrangement*;
  - (e) an indemnity or similar arrangement, except where the agreement or arrangement meets the conditions set out in *UKLR 7.4.1R(1)*;
  - (f) an issue of *equity shares* by a *major subsidiary undertaking* of a *listed company*, except where the issue meets the conditions set out in *UKLR 7.4.3R*; and
  - (g) a transaction where the *listed company* purchases its own *equity shares*.

7.1.7 G This chapter is intended to cover transactions that are outside the ordinary course of the *listed company's* business and may change a *security holder's* economic interest in the *company's* assets and liabilities (whether or not the change in the assets or liabilities is recognised on the *company's* balance sheet).

#### Meaning of 'ordinary course of business'

7.1.8 R For the purposes of *UKLR 7.1.6R(2)(a)*, a transaction in the ordinary course of business includes:

- (1) regular trading activities (if the *company* is a trading *company*);
- (2) ongoing commercial arrangements and purchases commonly undertaken as part of the existing business or within the industry sector in which the *company* operates;
- (3) capital expenditure to support and maintain the existing business and its infrastructure;
- (4) capital expenditure to add scale to the existing business in line with the *company's* business strategy as previously notified to a *RIS* (including, for example, within the latest published *prospectus* or annual financial report); or

- (5) in the case of a *listed property company*, where the accounting treatment of a *property* that is acquired or disposed of is such that:
  - (a) for an acquisition, the *property* will be classified as a current asset in the *company's* published accounts; or
  - (b) for a disposal, the *property* was classified as a current asset in the *company's* published accounts.

7.1.9 R For the purposes of UKLR 7.1.6R(2)(a), a transaction in the ordinary course of business excludes:

- (1) mergers with, or acquisitions of, other businesses (whether structured by way of a share or asset acquisition);
- (2) transactions that would lead to a substantial involvement in a business activity that did not previously form a significant part of the *listed company's* principal activities;
- (3) transactions that would lead to the *listed company* no longer having a substantial involvement in a business activity that forms a significant part of its principal activities;
- (4) transactions entered into by the *listed company* to address the risks to the *company* of a current or reasonably projected working capital shortfall, or entered into because the *company* is in severe financial difficulty; or
- (5) *reverse takeovers*.

7.1.10 G (1) The assessment of whether a transaction is in the ordinary course of business under this chapter will depend on the specific circumstances of the *listed company*.

- (2) Factors that may indicate whether a transaction is in the ordinary course of a *company's* business include:
  - (a) the size and incidence of similar transactions which the *company* has entered into;
  - (b) the nature and size of the *company's* existing business and common factors within the industry sector in which it operates;
  - (c) the *company's* corporate strategy for its business, including in relation to growth and industry focus, as set out in the *company's* latest published *prospectus* or annual financial report;
  - (d) the existing accounting treatment (for a disposal) or planned accounting treatment (for an acquisition or new arrangement) by the *listed company*; and

- (e) whether its shareholders could reasonably expect the *company* to enter into the transaction, taking into account the factors in (a) to (d) and any further information that the company has already notified to a *RIS*, and also taking into account the subject matter of the transaction, its terms, its anticipated impact on the *listed company*, and the associated benefits and risks.

### Sponsors

- 7.1.11 R An *issuer* with a *listing of equity shares* in the *equity shares (commercial companies)* category must appoint a *sponsor* where it proposes to make a request to the *FCA* to modify, waive or substitute the operation of *UKLR 7*.
- 7.1.12 R An *issuer* with a *listing of equity shares* in the *equity shares (commercial companies)* category must appoint a *sponsor* where it proposes to make a request to the *FCA* for individual guidance in relation to the *listing rules*, the *disclosure requirements* or the *transparency rules* in connection with a matter referred to in *UKLR 7*.
- 7.1.13 R If an *issuer* with a *listing of equity shares* in the *equity shares (commercial companies)* category is proposing to enter into a transaction which – due to its size or nature – could amount to a *reverse takeover*, it must obtain the guidance of a *sponsor* to assess the application of the *listing rules*, the *disclosure requirements* and the *transparency rules*.

## 7.2 Classifying transactions

### Classifying transactions

- 7.2.1 G A transaction is classified by assessing its size relative to that of the *listed company* proposing to make it. The comparison of size is made by using the *percentage ratios* resulting from applying the *class test* calculations to a transaction. The *class tests* are set out in *UKLR 7 Annex 1* (and modified or added to for specialist companies under *UKLR 7.2.3R* to *UKLR 7.2.8R*).
- 7.2.2 G The *class tests* set out in *UKLR 7 Annex 1* are applicable for the purposes of determining whether a transaction is a *significant transaction* or a *reverse takeover*.

### Classification of transactions by listed property companies

- 7.2.3 R *UKLR 7 Annex 1* is modified as follows in relation to acquisitions or disposals of *property* by a *listed property company*:
- (1) for the purposes of paragraph 2R(1) (the gross assets test), the assets test is calculated by dividing the transaction consideration by the gross assets of the *listed property company* and paragraphs 2R(5) and 2R(6) do not apply;



- (2) for the purposes of paragraph 2R(1) (the gross assets test), if the transaction is an acquisition of land to be developed, the assets test is calculated by dividing the transaction consideration and any financial commitments relating to the development by the gross assets of the *listed property company* and paragraphs 2R(5) and 2R(6) do not apply;
  - (3) for the purposes of paragraph 2R(2), the gross assets of a *listed property company* are, at the option of the *company*:
    - (a) the aggregate of the *company's* share capital and reserves (excluding minority interests);
    - (b) the book value of the *company's properties* (excluding those properties classified as current assets in the latest published annual report and accounts); or
    - (c) the published valuation of the *company's properties* (excluding those properties classified as current assets in the latest published annual report and accounts);
  - (4) paragraph 4R(1) (the consideration test) does not apply but instead the test in *UKLR 7.2.4R* applies; and
  - (5) paragraph 6R(1) (the gross capital test) applies to disposals as well as acquisitions of *property*.
- 7.2.4 R (1) In addition to the tests in *UKLR 7 Annex 1*, if the transaction is an acquisition of *property* by a *listed property company* and any of the consideration is in the *equity shares* of that *company*, the *listed company* must determine the *percentage ratios* that result from the calculations under the test in (2).
- (2) The share capital test is calculated by dividing the number of consideration *shares* to be issued by the number of *equity shares* in issue (excluding *treasury shares*).
- 7.2.5 R (1) In addition to the tests in *UKLR 7 Annex 1*, a *listed property company* must determine the *percentage ratios* that result from the calculation under the test in (2).
- (2) The net annual rent test is calculated by dividing the *net annual rent* attributable to the assets the subject of the transaction by the *net annual rent* of the *listed company*.
- (3) For the purposes of calculating the *net annual rent* test, except as otherwise stated in (4) to (7), figures used to classify *net annual rent* must be the figures shown in the latest published audited consolidated accounts or, if a *listed company* has, or will have, published a preliminary statement of later annual results at the time the terms of a

transaction are agreed, the figures shown in that preliminary statement.

- (4) (a) The figures of the *listed company* must be adjusted to take account of transactions completed during the period to which the figures referred to in (3) relate, and subsequent completed transactions where any *percentage ratio* was 5% or more at the time the terms of the relevant transaction were agreed.
- (b) The figures of the *target company* or business must be adjusted to take account of transactions completed during the period to which the figures referred to in (3) relate, and subsequent completed transactions where any *percentage ratio* would have been 5% or more at the time the terms of the relevant transaction were agreed when classified against the target as a whole.
- (5) Figures on which the auditors are unable to report without modification must be disregarded.
- (6) The principles in (3) to (5) also apply (to the extent relevant) to calculating the *net annual rent* of the target company or business.
- (7) The *FCA* may modify (5) in appropriate cases to permit figures to be taken into account.

#### Classification of transactions by listed mineral companies

- 7.2.6 R (1) In addition to the tests in *UKLR 7 Annex 1*, a *listed mineral company* undertaking a transaction involving significant *mineral resources* or rights to significant *mineral resources* must determine the *percentage ratios* that result from the calculations under the test in paragraph (2).
- (2) The reserves test is calculated by dividing the volume or amount of the *proven reserves* and *probable reserves* to be acquired or disposed of by the volume or amount of the aggregate *proven reserves* and *probable reserves* of the *mineral company* making the acquisition or disposal.
- 7.2.7 G If the *mineral resources* are not directly comparable, the *FCA* may modify *UKLR 7.2.6R(2)* to permit valuations to be used instead of amounts or volumes.
- 7.2.8 R When calculating the size of a transaction under *UKLR 7 Annex 1* and *UKLR 7.2.6R(2)*, account must be taken of any associated transactions or loans effected or intended to be effected, and any contingent liabilities or commitments.

#### Classifying joint ventures

- 7.2.9 R When classifying a joint venture under *UKLR 7*, a *listed company* must classify both sides to a joint venture, so that both the disposal into the joint

venture and the acquisition of an interest in the joint venture are classified. The 2 sets of *class tests* must not be aggregated and the highest result from the class tests will determine the overall classification of the transaction.

- 7.2.10 G
- (1) It is common, when entering into a joint venture, for the partners to include exit provisions in the terms of the agreement. These typically give each partner a combination of rights and obligations to either sell their own holding or to acquire their partner's holding should certain triggering events occur.
  - (2) If the *listed company* does not retain sole discretion over the event which requires them to either purchase the joint venture partner's stake or to sell their own, *UKLR 7.1.6R(1)(b)* requires this obligation to be classified at the time it is agreed as though it had been exercised at that time. Further, if the consideration to be paid is to be determined by reference to the future profitability of the joint venture or an independent valuation at the time of exercise, this consideration will be treated as being uncapped. If this is the case, the initial agreement will be classified in accordance with *UKLR 7 Annex 1 4R(3)* at the time it is entered into.
  - (3) If the *listed company* does retain sole discretion over the triggering event, or if the *listed company* is making a choice to purchase or sell following an event which has been triggered by the joint venture partner, the purchase or sale must be classified when this discretion is exercised or when the choice to purchase or sell is made.
  - (4) Where an *issuer* enters into a joint venture exit arrangement which takes the form of a put or call option and exercise of the option is solely at the discretion of the other party to the arrangement, the transaction should be classified at the time it is agreed as though the option had been exercised at that time.

#### Aggregating transactions

- 7.2.11 R Transactions completed during the 12 months before the date of the latest transaction must be aggregated with that transaction for the purposes of classification if:
- (1) they are entered into by the *company* with the same *person* or with *persons* connected with one another;
  - (2) they involve the acquisition or disposal of *securities* or an interest in one particular *company*; or
  - (3) together they lead to substantial involvement in a business activity which did not previously form a significant part of the *company's* principal activities.
- 7.2.12 R If under *UKLR 7.2.11R* any of the aggregated *percentage ratios* is 25% or more, the aggregated transactions will be classified as a *significant*

*transaction*, in which case the *listed company* must comply with the requirements in *UKLR 7.3* (Significant transactions) in respect of the aggregated transactions as a whole.

- 7.2.13 R If under *UKLR 7.2.11R* the aggregation of transactions results in a *reverse takeover*, the *listed company* must comply with the requirements in *UKLR 7.5* (Reverse takeovers) in respect of the aggregated transactions as a whole but the requirement for shareholder approval applies only to the latest transaction.
- 7.2.14 G The *FCA* may modify these *rules* to require the aggregation of transactions in circumstances other than those specified in *UKLR 7.2.11R*.

### 7.3 Significant transactions

#### Notification of significant transactions

- 7.3.1 R
- (1) A *listed company* must notify a *RIS* as soon as possible after the terms of a *significant transaction* are agreed.
  - (2) The notification must include:
    - (a) the information required by:
      - (i) *UKLR 7 Annex 2 Part 1* (Information relating to the transaction); and
      - (ii) *UKLR 7 Annex 2 Part 2* (Financial information); and
      - (iii) *UKLR 7 Annex 2 Part 3* (Non-financial information); and
    - (b) any other relevant circumstances or information necessary to provide an understanding of, and to enable the shareholders to assess, the terms of the transaction and its impact on the *listed company*, having regard to the purpose of this chapter in *UKLR 7.1.2G*.
  - (3) Where a *listed company* includes details of estimated synergies or other quantified estimated financial benefits expected to arise from a *significant transaction* in the notification, the notification must include the information required by *UKLR 7 Annex 2 Part 4.1* (Synergy benefits).
  - (4) Where a *listed company* includes financial information in the notification (including the information required by *UKLR 7 Annex 2 Part 2*), the notification must include the information required by *UKLR 7 Annex 2 Part 4.2 to 4.4* (Sources of information).
  - (5) Where a *listed company* includes pro forma financial information in the notification, the notification must include the information

required by *UKLR 7 Annex 2 Part 4.5* (Pro forma financial information).

- (6) If the *listed company* is in severe financial difficulty or the transaction is to address the risk of a working capital shortfall, the notification must include the information required by *UKLR 7 Annex 2 Part 5* (Additional requirements for transactions by companies in severe financial difficulty or transactions to address the risk of a working capital shortfall).

#### Incorporation by reference

- 7.3.2 R Information may be incorporated in a notification made by a *listed company* under *UKLR 7.3.1R* by reference to relevant information contained in:
- (1) an approved *prospectus* or listing particulars of that *listed company*; or
  - (2) any other published document of that *listed company* that has been filed with the *FCA*.
- 7.3.3 R Information incorporated by reference must be the latest available to the *listed company*.
- 7.3.4 R Information required by *UKLR 7.3.1R(2)(a)(i)*, *UKLR 7.3.1R(2)(b)* and *UKLR 7.3.1R(6)* must not be incorporated by reference to information contained in another document.
- 7.3.5 R When information is incorporated by reference, a cross-reference list must be provided in the notification to enable *security* holders to easily identify specific items of information. The cross-reference list must specify where the information can be accessed by *security* holders.

#### Omission of information

- 7.3.6 G The *FCA* may authorise the omission of information required by *UKLR 7.3.1R(2)* to (6) if it considers that:
- (1) disclosure of that information would be:
    - (a) contrary to the public interest; or
    - (b) seriously detrimental to the *listed company*; and
  - (2) the omission would not be likely to mislead the public with regard to facts and circumstances that are essential for the assessment of the matter covered by the notification.
- 7.3.7 R A request to the *FCA* to authorise the omission of specific information in a particular case must:

- (1) be made in writing by the *listed company*;
- (2) identify the specific information concerned and the specific reasons for the omission; and
- (3) state why, in the *listed company's* opinion, one or more grounds in *UKLR 7.3.6G* apply.

#### Aggregated transactions

7.3.8 R Where the effect of *UKLR 7.2.11R* is that the aggregated transactions will be classified as a *significant transaction*, the requirements in *UKLR 7.3.1R(2)* to (6) apply to the aggregated transactions as a whole.

7.3.9 G Where the notification is made in respect of aggregated transactions, the notification should explain why the transactions have been aggregated, having regard to whether *UKLR 7.2.11R(1)*, (2) or (3) applies. Where the aggregated transactions in substance form one larger transaction, the notification should explain the overall impact of the transactions as a whole, taking a look-through approach to the information that is required to be included in the notification.

#### Disclosure requirements

7.3.10 G The *listed company* should consider the obligations referred to under articles 17 and 18 of the *Market Abuse Regulation*.

#### Supplementary notification

- 7.3.11 R
- (1) A *listed company* must notify a *RIS* as soon as possible if, after the notification under *UKLR 7.3.1R*:
    - (a) it becomes aware that there has been a material change affecting any matter contained in that earlier notification;
    - (b) it becomes aware that a material new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification;
    - (c) it has agreed a material change to the terms of the transaction; or
    - (d) it has agreed the terms of one or more further transactions that are required to be aggregated and are material but are not a *significant transaction* in their own right (individually or together).
  - (2) The supplementary notification in (1)(a), (b) or (c) must:
    - (a) give details of the change or new matter; and

- (b) contain a statement that, except as disclosed:
    - (i) there has been no material change affecting any matter contained in the earlier notification;
    - (ii) no other material new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification.
  - (3) The supplementary notification in (1)(d) must include the information set out in *UKLR 7 Annex 2 Part 1* (Information relating to the transaction) in relation to the further aggregated transaction or transactions.
- 7.3.12 R Where the further aggregated transaction or transactions (individually or together) constitute a *significant transaction*, the supplementary notification must comply with the requirements set out in *UKLR 7.3.1R*.
- 7.3.13 R In *UKLR 7.3.11R*, ‘material’ means material for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the *listed company* and the rights attaching to any *securities* forming part of the consideration. It includes:
- (1) a change in the terms of the transaction that increases any of the *percentage ratios* by 10% or more; and
  - (2) where the addition of the aggregated transactions results in an increase of any of the *percentage ratios* by 10% or more.

## 7.4 Indemnities and major subsidiary undertakings

### Indemnities and similar arrangements

- 7.4.1 R (1) Where a *listed company* proposes to enter into any agreement or arrangement with a party (other than a wholly owned *subsidiary undertaking* of the *listed company*):
- (a) under which a *listed company* agrees to discharge any liabilities for costs, expenses, commissions or losses incurred by or on behalf of that party, whether or not on a contingent basis;
  - (b) which is exceptional; and
  - (c) under which the maximum liability is either unlimited, or is equal to or exceeds an amount equal to 1% of the *listed company's* market capitalisation (as calculated for classification purposes),
- a *listed company* must notify a *RIS* as soon as possible after the terms of any agreement or arrangement have been agreed.

- (2) The notification under *UKLR 7.4.1R(1)* must comply with the requirements in *UKLR 7.3* (Significant transactions) as applicable.
- (3) Paragraph (1) does not apply to a *break fee arrangement*.

7.4.2 G For the purposes of *UKLR 7.4.1R(1)(b)*, the *FCA* considers that the following indemnities are not exceptional:

- (1) those customarily given in connection with sale and purchase agreements;
- (2) those customarily given to underwriters or placing agents in an underwriting or placing agreement;
- (3) those given to advisers against liabilities to third parties arising out of providing advisory services; and
- (4) any other indemnity that is specifically permitted to be given to a *director* or auditor under the Companies Act 2006.

#### Issues by major subsidiary undertakings

7.4.3 R If:

- (1) a *major subsidiary undertaking* of a *listed company* issues *equity shares* for cash or in exchange for other *securities* or to reduce indebtedness;
- (2) the issue would dilute the *listed company's* percentage interest in the *major subsidiary undertaking*; and
- (3) the economic effect of the dilution is equivalent to a disposal of 25% or more of the aggregate of the gross assets or profits (after the deduction of all charges except taxation) of the *group*,

a *listed company* must notify a *RIS* as soon as possible after the terms of the issue have been agreed.

7.4.4 R The notification required in *UKLR 7.4.3R* must comply with the requirements set out in *UKLR 7.3* (Significant transactions) as applicable.

## 7.5 Reverse takeovers

### Notification and shareholder approval

7.5.1 R An *issuer* must, in relation to a *reverse takeover*:

- (1) comply with the requirements of *UKLR 7.3* for the *reverse takeover*, except that the notification is not required to include the information required by:
  - (a) *UKLR 7 Annex 2 Part 2* (Financial information); or



- (b) *UKLR 7 Annex 2 Part 3 (Non-financial information)*;
  - (2) send a *reverse takeover circular* to its shareholders and obtain their prior approval in a general meeting for the *reverse takeover*; and
  - (3) ensure that any agreement effecting the *reverse takeover* is conditional on that approval being obtained.
- 7.5.2 G *UKLR 10* sets out requirements for the content and approval of *reverse takeover circulars*.

Material change to terms of a reverse takeover transaction

- 7.5.3 R If, after obtaining shareholder approval but before the completion of a *reverse takeover*, there is a material change to the terms of the transaction, the *listed company* must comply again separately with *UKLR 7.5.1R* in relation to the transaction.
- 7.5.4 G The *FCA* would (among other things) generally consider an increase of 10% or more in the consideration payable to be a material change to the terms of the transaction.

Supplementary circular

- 7.5.5 R (1) If a *listed company* becomes aware of a matter described in (2) after the publication of a *reverse takeover circular*, but before the date of a general meeting, it must, as soon as practicable:
- (a) advise the *FCA* of the matters of which it has become aware; and
  - (b) send a supplementary *circular* to holders of its *listed equity shares*, providing an explanation of the matters referred to in (2).
- (2) The matters referred to in (1) are
- (a) a material change affecting any matter the *listed company* is required to have disclosed in a *reverse takeover circular*; or
  - (b) a material new matter which the *listed company* would have been required to disclose in the *reverse takeover circular* if it had arisen at the time of its publication.
- (3) The *listed company* must have regard to *UKLR 10.3.1R(3)* when considering the materiality of any change or new matter under *UKLR 7.5.5R(2)*.
- 7.5.6 G *UKLR 10* applies in relation to a supplementary *circular*. It may be necessary to adjourn a convened shareholder meeting if a supplementary

*circular* cannot be sent to holders of *listed equity shares* at least 7 days prior to the convened shareholder meeting as required by *UKLR 10.1.9R*.

#### Cancellation of listing

- 7.5.7 G If an *issuer* is proposing to enter into a transaction classified as a *reverse takeover* it should consider [*Editor's note: UKLR 21 reference to be included as part of the second tranche of rules*].
- 7.5.8 G Where an *issuer* completes a *reverse takeover*, the *FCA* will seek to cancel the *listing* of an *issuer's equity shares* unless the *FCA* is satisfied that circumstances exist such that cancellation is not required. The *FCA* will have regard to [*Editor's note: UKLR 21 reference to be included as part of the second tranche of rules*] and the individual circumstances of the case.
- 7.5.9 R Where the *issuer's listing* is cancelled following completion of a *reverse takeover*, the *issuer* must re-apply for the *listing* of the *shares*.
- 7.5.10 R A *sponsor* must contact the *FCA* on behalf of an *issuer* as early as possible:
- (1) before a *reverse takeover* which has been agreed or is in contemplation is announced; or
  - (2) where details of the *reverse takeover* have leaked,
- to discuss whether a cancellation of the *issuer's listing* is appropriate on completion of the *reverse takeover*.
- 7.5.11 G *UKLR 7.5.12G* to *UKLR 7.5.15G* set out circumstances in which the *FCA* will generally be satisfied that a cancellation is not required.

#### Acquisitions of targets within the same listing category: issuer maintaining its listing category

- 7.5.12 G Where:
- (1) an *issuer* acquires the *shares* of a *target*;
  - (2) those *shares* are also *listed* in the *equity shares (commercial companies)* category; and
  - (3) the *issuer* wishes to maintain its *listing* of *shares* in the *equity shares (commercial companies)* category,
- the *FCA* will generally be satisfied that a cancellation is not required on completion of a *reverse takeover*.

#### Acquisitions of targets from different listing categories: issuer maintaining its listing category

- 7.5.13 G Where an *issuer* acquires the *shares* of a *target* with a different *listing* category from its own and the *issuer* wishes to maintain its *listing* in the

*equity shares (commercial companies)* category, the *FCA* will generally be satisfied that a cancellation is not required on completion of a *reverse takeover* if:

- (1) the *issuer* will continue to be eligible for the *equity shares (commercial companies)* category following completion of the transaction;
- (2) a *sponsor* provides an eligibility letter to the *FCA* setting out how the *issuer* as enlarged by the acquisition satisfies each *listing rule* requirement that is relevant to it being eligible for the *equity shares (commercial companies)* category not less than 20 *business days* prior to the announcement of the *reverse takeover*; and
- (3) the *issuer* makes an announcement or publishes a *circular* explaining:
  - (a) the background and reasons for the acquisition;
  - (b) any changes to the acquiring *issuer*'s business that have been made or are proposed to be made in connection with the acquisition;
  - (c) the effect of the transaction on the acquiring *issuer*'s obligations under the *listing rules*;
  - (d) how the acquiring *issuer* will continue to meet the relevant requirements for *listing*; and
  - (e) any other matter that the *FCA* may reasonably require.

Acquisitions of targets from different listing categories: issuer changing listing category

- 7.5.14 G The *FCA* will generally be satisfied that a cancellation is not required on completion of a *reverse takeover* if:
- (1) the *target* is *listed* with a different *listing* category from that of the *issuer*;
  - (2) the *issuer* wishes to transfer its *listing* to a different *listing* category in conjunction with the acquisition; and
  - (3) the *issuer* as enlarged by the relevant acquisition complies with the relevant requirements of [*Editor's note*: UKLR 21 reference to be included as part of the second tranche of rules] to transfer to a different *listing* category.
- 7.5.15 G Where an *issuer* is applying [*Editor's note*: UKLR 21 reference to be included as part of the second tranche of rules] in order to avoid a cancellation as contemplated by *UKLR 7.5.14G*, the *FCA* will normally waive the requirement for shareholder approval under [*Editor's note*: UKLR 21 reference to be included as part of the second tranche of rules]

where the *issuer* is obtaining separate shareholder approval for the acquisition.

## 7 Annex The class tests

### 1

Class tests			
1	G	This annex sets out the following <i>class tests</i> :	
		(1)	the gross assets test;
		(2)	the consideration test; and
		(3)	the gross capital test.
The gross assets test			
2	R	(1)	The assets test is calculated by dividing the gross assets the subject of the transaction by the gross assets of the <i>listed company</i> .
		(2)	The ‘gross assets of the <i>listed company</i> ’ means the total non-current assets, plus the total current assets, of the <i>listed company</i> .
		(3)	For:
		(a)	an acquisition of an interest in an undertaking which will result in consolidation of the assets of that undertaking in the accounts of the <i>listed company</i> ; or
		(b)	a disposal of an interest in an undertaking which will result in the assets of that undertaking no longer being consolidated in the accounts of the <i>listed company</i> ,
			the ‘gross assets the subject of the transaction’ means the value of 100% of that undertaking’s assets, irrespective of what interest is acquired or disposed of.
		(4)	For an acquisition or disposal of an interest in an undertaking which does not fall within (3), the ‘gross assets the subject of the transaction’ means:
		(a)	for an acquisition, the consideration together with liabilities assumed (if any); and
		(b)	for a disposal, the assets attributed to that interest in the <i>listed company’s</i> accounts.
		(5)	If there is an acquisition of assets other than an interest in an undertaking, the ‘assets the subject of the transaction’ means the consideration or, if

			greater, the book value of those assets as they will be included in the <i>listed company's</i> balance sheet.
		(6)	If there is a disposal of assets other than an interest in an undertaking, the 'assets the subject of the transaction' means the book value of the assets in the <i>listed company's</i> balance sheet.
3	G		The <i>FCA</i> may modify <i>UKLR 7 Annex 1 2R</i> to require, when calculating the assets which are the subject of the transaction, the inclusion of further amounts if contingent assets or arrangements referred to in <i>UKLR 7.4.1R</i> (Indemnities and similar arrangements) are involved.
<b>The consideration test</b>			
4	R	(1)	The consideration test is calculated by taking the consideration for the transaction as a percentage of the aggregate market value of all the ordinary shares (excluding <i>treasury shares</i> ) of the <i>listed company</i> .
		(2)	For the purposes of (1):
		(a)	the consideration is the amount paid to the contracting party;
		(b)	if all or part of the consideration is in the form of <i>securities</i> to be traded on a market, the consideration attributable to those <i>securities</i> is the aggregate market value of those <i>securities</i> ; and
		(c)	if deferred consideration is or may be payable or receivable by the <i>listed company</i> in the future, the consideration is the maximum total consideration payable or receivable under the agreement.
		(3)	If the total consideration is not subject to any maximum (and the other <i>class tests</i> indicate the transaction to be a transaction where all <i>percentage ratios</i> are less than 25%) the transaction is to be treated as a <i>significant transaction</i> .
		(4)	For the purposes of (2)(b), the figures used to determine consideration consisting of:
		(a)	<i>securities</i> of a <i>class</i> already <i>listed</i> must be the aggregate market value of all those <i>securities</i> on the last <i>business day</i> before the announcement; and
		(b)	a new <i>class</i> of <i>securities</i> for which an application for <i>listing</i> will be made must be the expected aggregate market value of all those <i>securities</i> .
		(5)	For the purposes of (1), the figure used to determine market capitalisation is the aggregate market value of all the ordinary <i>shares</i> (excluding <i>treasury shares</i> ) of the <i>listed company</i> at the close of business on the last <i>business day</i> before the announcement.

5	G	The <i>FCA</i> may modify <i>UKLR 7 Annex 1 4R</i> to require the inclusion of further amounts in the calculation of the consideration – for example, if the purchaser agrees to discharge any liabilities, including the repayment of inter-company or third-party debt, whether actual or contingent, as part of the terms of the transaction.	
<b>The gross capital test</b>			
6	R	(1)	The gross capital test is calculated by dividing the gross capital of the <i>company</i> or business being acquired by the gross capital of the <i>listed company</i> .
		(2)	The test in (1) is only to be applied for an acquisition of a <i>company</i> or business.
		(3)	For the purposes of (1), the ‘gross capital of the <i>company</i> or business being acquired’ means the aggregate of:
		(a)	the consideration (as calculated under <i>UKLR 7 Annex 1 4R</i> );
		(b)	if a <i>company</i> , any of its <i>shares</i> and <i>debt securities</i> which are not being acquired;
		(c)	all other liabilities (other than current liabilities) including for this purpose minority interests and deferred taxation; and
		(d)	any excess of current liabilities over current assets.
		(4)	For the purposes of (1), the gross capital of the <i>listed company</i> means the aggregate of:
		(a)	the market value of its <i>shares</i> (excluding <i>treasury shares</i> ) and the issue amount of the <i>debt security</i> ;
		(b)	all other liabilities (other than current liabilities) including, for this purpose, minority interests and deferred taxation; and
		(c)	any excess of current liabilities over current assets.
		(5)	For the purposes of (1):
		(a)	figures used must be, for <i>shares</i> and <i>debt security</i> aggregated for the purposes of the gross capital <i>percentage ratio</i> , the aggregate market value of all those <i>shares</i> (or, if not available before the announcement, their nominal value) and the issue amount of the <i>debt security</i> ; and
		(b)	for <i>shares</i> and <i>debt security</i> aggregated for the purposes of (3)(b), any <i>treasury shares</i> held by the <i>company</i> are not to be taken into account.
<b>Figures used to classify assets</b>			

7	R	(1)	For the purposes of calculating the tests in this annex, except as otherwise stated in (2) to (6), figures used to classify assets must be the figures shown in the latest published audited consolidated accounts or, if a <i>listed company</i> has, or will have, published a preliminary statement of later annual results at the time the terms of a transaction are agreed, the figures shown in that preliminary statement.
		(2)	If a balance sheet has been published in a subsequently published interim statement, gross assets and gross capital should be taken from the balance sheet published in the interim statement.
		(3)	(a) The figures of the <i>listed company</i> must be adjusted to take account of transactions completed during the period to which the figures referred to in (1) or (2) relate, and subsequent completed transactions where any <i>percentage</i> ratio was 5% or more at the time the terms of the relevant transaction were agreed.
			(b) The figures of the target company or business must be adjusted to take account of transactions completed during the period to which the figures referred to in (1) or (2) relate, and subsequent completed transactions where any <i>percentage</i> ratio was 5% or more at the time the terms of the relevant transaction were agreed.
		(4)	Figures on which the auditors are unable to report without modification must be disregarded.
		(5)	When applying the <i>percentage ratios</i> to an acquisition by a <i>company</i> whose assets consist wholly or predominantly of cash or short-dated <i>securities</i> , the cash and short-dated <i>securities</i> must be excluded in calculating its assets and market capitalisation.
		(6)	The principles in this paragraph also apply (to the extent relevant) to calculating the assets of the target company or business.
8	G		The <i>FCA</i> may modify <i>UKLR 7 Annex 1 7R(4)</i> in appropriate cases to permit figures to be taken into account.
<b>Anomalous results</b>			
9	G		If a calculation under any of the <i>class tests</i> produces an anomalous result or if a calculation is inappropriate to the activities of the <i>listed company</i> , the <i>FCA</i> may modify the relevant <i>rule</i> to substitute other relevant indicators of size, including industry specific tests.
<b>Adjustments to figures</b>			
10	G		Where a <i>listed company</i> wishes to make adjustments to the figures used in calculating the class tests pursuant to <i>UKLR 7 Annex 1 9G</i> , it should discuss this with the <i>FCA</i> before the class tests crystallise.

## 7 Annex Notification requirements

### 2

This annex sets out the information to be included in a notification required by *UKLR 7.3.1R* and *UKLR 7.5.1R*.

Part 1	Information relating to the transaction	
1.1	R	A notification required by <i>UKLR 7.3.1R</i> and <i>UKLR 7.5.1R</i> must include the following information:
		(1) details of the transaction, including the name of the other party to the transaction;
		(2) an explanation of the reasons for entering into the transaction;
		(3) a description of the business carried on by, or using, the net assets the subject of the transaction;
		(4) the consideration, and how it is being satisfied (including the terms of any arrangements for deferred consideration);
		(5) the value of the gross assets the subject of the transaction;
		(6) the profits attributable to the assets the subject of the transaction;
		(7) the effect of the transaction on the <i>listed company</i> , including any benefits which are expected to accrue to the <i>company</i> , and any risks to the <i>company</i> , as a result of the transaction;
		(8) a statement of the effect of the transaction on the <i>group's</i> earnings and assets and liabilities;
		(9) details of any service contracts of proposed <i>directors</i> of the <i>listed company</i> ;
		(10) details of any <i>break fee arrangements</i> ;
		(11) for a disposal, the application of the sale proceeds;
		(12) for a disposal, if <i>securities</i> are to form part of the consideration received, a statement as to whether the <i>securities</i> are to be sold or retained;
		(13) details of key individuals important to the business or <i>company</i> the subject of the transaction;
		(14) if the transaction is a joint venture, details of any exit arrangement;



		(15)	if the transaction is required to be aggregated under <i>UKLR 7.2.11R</i> , details of transactions completed during the relevant period; and
		(16)	a statement by the board that the transaction is, in the board's opinion, in the best interests of <i>security</i> holders as a whole.

Part 2		Financial information	
2.1	R	A notification required by <i>UKLR 7.3.1R</i> must include the following information:	
		(1)	where the transaction involves an acquisition, the information in <i>UKLR 7 Annex 2 2.2R</i> as applicable;
		(2)	where the transaction involves a disposal, the information in <i>UKLR 7 Annex 2 2.3R</i> as applicable; and
		(3)	for all transactions the information in <i>UKLR 7 Annex 2 2.4R</i> .
Acquisitions			
2.2	R	Where the transaction involves an acquisition, the notification must include the following:	
		(1)	when a <i>listed company</i> is acquiring an interest in a <i>target</i> which will result in a consolidation of the <i>target's</i> assets and liabilities with those of the <i>listed company</i> :
		(a)	audited consolidated financial information that covers:
		(i)	the <i>target</i> ; and
		(ii)	the <i>target's subsidiary undertakings</i> , if any,
			for a reporting period of 2 years up to the end of the latest financial period for which the <i>target</i> or its parent has prepared audited accounts; and
		(b)	an explanation of the proposed accounting treatment of the <i>target</i> in the <i>listed company's</i> next audited consolidated accounts;
		(2)	when a <i>listed company</i> is acquiring an interest in a <i>target</i> that will be accounted for as an investment, and the <i>target's securities</i> that are the subject of the transaction are admitted to an investment exchange that enables intra-day price formation:
		(a)	the amounts of the dividends or other distributions paid in the past 2 years; and

		(b)	the price per <i>security</i> and the imputed value of the entire holding being acquired at the close of business at the following times:
		(i)	on the last business day of each of the 6 months prior to the announcement of the transaction; and
		(ii)	on the day prior to the announcement of the transaction;
	(3)		when a <i>listed company</i> is acquiring an interest in a <i>target</i> that will be accounted for using the equity method in the <i>listed company's</i> annual consolidated accounts:
		(a)	a narrative explanation of the proposed accounting treatment of the <i>target</i> in the <i>issuer's</i> next audited consolidated accounts;
		(b)	audited consolidated financial information that covers:
		(i)	the <i>target</i> ; and
		(ii)	the <i>target's subsidiary undertakings</i> , if any,
			for a reporting period of 2 years up to the end of the latest financial period for which the <i>target</i> or its parent has prepared audited accounts, if available; and
	(4)		where the information in (1), (2) or (3) is not available:
		(a)	a statement by the board that the information is not available;
		(b)	an explanation as to how the value of the consideration has been arrived at; and
		(c)	a statement by the board that it considers the consideration to be fair as far as the <i>security</i> holders of the <i>company</i> are concerned.
	Disposals		
2.3	R		Where the transaction involves a disposal, the notification must include the following:
		(1)	when a <i>listed company</i> is disposing of an interest in a <i>target</i> which will result in the assets and liabilities which are the subject of the disposal no longer being consolidated:
		(a)	audited consolidated financial information that covers:
		(i)	the <i>target</i> ; and
		(ii)	the <i>target's subsidiary undertakings</i> , if any,

				for a reporting period of 2 years up to the end of the latest financial period for which the <i>target</i> or its parent has prepared audited accounts;
		(2)	(a)	when a <i>listed company</i> is disposing of an interest in a <i>target</i> which will result in the assets and liabilities which are the subject of the disposal no longer being consolidated and where the information in (1) is not available:
				(i) the last annual consolidated balance sheet;
				(ii) the consolidated income statements for the last 2 years drawn up to at least the level of profit or loss for the period; and
				(iii) the consolidated balance sheet and consolidated income statement (drawn up to at least the level of profit or loss for the period) at the <i>issuer's</i> interim balance sheet date if the <i>issuer</i> has published interim financial statements since the publication of its last annual audited consolidated financial statements;
			(b)	the information in (2)(a) must be extracted without material adjustment from the consolidation schedules that underlie the <i>listed company's</i> audited consolidated accounts or, in the case of (2)(iii), the interim financial information, and must be accompanied by a statement to this effect; and
			(c)	where a change of accounting policies has occurred during the period covered by the financial information required by (2)(a), the financial information must be presented on the basis of both the original and amended accounting policies for the year prior to that in which the new accounting policy is adopted unless the change did not require a restatement of the comparative;
		(3)		when a <i>listed company</i> is disposing of an interest in a <i>target</i> that has been accounted for as an investment, and the <i>target's securities</i> that are the subject of the transaction are admitted to an investment exchange that enables intra-day price formation:
			(a)	the amounts of the dividends or other distributions paid in the past 2 years; and
			(b)	the price per <i>security</i> and the imputed value of the entire holding being disposed of at the close of business at the following times:
				(i) on the last <i>business day</i> of each of the 6 months prior to the announcement of the transaction; and
				(ii) on the day prior to the announcement of the transaction;

		(4)	when a <i>listed company</i> is disposing of an interest in a <i>target</i> that was accounted for using the equity method in the <i>listed company's</i> annual consolidated accounts, the line entries relating to the <i>target</i> from its last audited consolidated balance sheet and those from its audited consolidated income statement for the past 2 years together with the equivalent line entries from its interim consolidated balance sheet and interim consolidated income statement, where the <i>issuer</i> has published subsequent interim financial information; and
		(5)	where the information in (1), (3) or (4) is not available or cannot be produced in accordance with the requirements in (2)(a):
		(a)	a statement by the board that the information is not available or cannot be produced;
		(b)	an explanation as to how the value of the consideration has been arrived at; and
		(c)	a statement by the board that it considers the consideration to be fair as far as the <i>security</i> holders of the <i>company</i> are concerned.
Content of audited financial information			
2.4	R	A notification must include, for each of the periods covered by the audited financial information in <i>UKLR 7 Annex 2 2.2R(1)</i> and <i>2.3R(1)</i> , the following information:	
		(1)	a balance sheet and its explanatory notes;
		(2)	an income statement and its explanatory notes;
		(3)	a cash flow statement and its explanatory notes;
		(4)	a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners;
		(5)	the accounting policies;
		(6)	any additional explanatory notes;
		(7)	the audit report; and
		(8)	if the audited financial information includes a <i>modified report</i> :
		(a)	whether the modification or emphasis-of-matter paragraph is significant to shareholders; and
		(b)	if the modification or emphasis-of-matter paragraph is significant to shareholders, the reason for its significance.

<b>Part 3</b>	<b>Non-financial information</b>	
3.1	R	A notification required by <i>UKLR 7.3.1R</i> must include the information identified (by reference to certain paragraphs of Annex 1 of the <i>PR Regulation</i> ) in the following table relating to the <i>listed company</i> and the undertaking the subject of the transaction.

<b>Information</b>	<b>Listed company</b>	<b>Undertaking the subject of the transaction</b>
Annex 1 item 3.1 – Risk factors	*	*
Annex 1 item 17.1 – Related party transactions	*	
Annex 1 item 18.6.1 – Legal and arbitration proceedings	*	*
Annex 1 item 18.7.1 – Significant change in the issuer’s financial position	*	*
Annex 1 item 20.1 – Material contracts	*	*

3.2	R	The information required by Annex 1 item 20.1 (Material contracts), Annex 1 item 18.6.1 (Legal and arbitration proceedings) and Annex 1 item 18.7.1 (Significant changes in the issuer’s financial position) must be presented as follows:
		(1) for an acquisition, in separate statements for the <i>listed company</i> for the undertaking, business or assets to be acquired; or
		(2) for a disposal, in separate statements for the <i>listed company</i> and its <i>subsidiary undertakings</i> (on the basis that the disposal has taken place), and for the undertaking, business or assets to be disposed of.
3.3	R	In determining what information is required to be included by virtue of Annex 1 item 20.1 (Material contracts) if a <i>prospectus</i> or <i>listing particulars</i> are not required, regard should be had as to whether information about that provision is information which <i>securities</i> holders of the <i>issuer</i> would reasonably require for the purpose of making a properly informed assessment of the transaction and its impact on the <i>issuer</i> .

3.4	R	The information required by 3.1R is modified as follows:	
		(1)	information required by Annex 1 item 17.1 (Related party transactions):
		(a)	need only be given if it is relevant to the transaction; and
		(b)	need not be given if it has already been published before the notification is made; and
		(2)	information required by Annex 1 item 3.1 (Risk factors) should be provided only in respect of those risk factors which:
		(a)	are material risk factors to the proposed transaction;
		(b)	will be material new risk factors to the <i>group</i> as a result of the proposed transaction; or
		(c)	are existing material risk factors to the <i>group</i> which will be impacted by the proposed transaction.

<b>Part 4</b>	<b>Synergy benefits, sources of information and pro forma financial information</b>		
	Synergy benefits		
4.1	R	Where a <i>listed company</i> includes details of estimated synergies or other quantified estimated financial benefits expected to arise from a transaction in a notification required by <i>UKLR 7.3.1R</i> and <i>UKLR 7.5.1R</i> the notification must include the following:	
		(1)	the basis for the belief that those synergies or other quantified estimated financial benefits will arise;
		(2)	an analysis and explanation of the constituent elements of the synergies or other quantified estimated financial benefits (including any costs) sufficient to enable the relative importance of those elements to be understood, including an indication of when they will be realised and whether they are expected to be recurring;
		(3)	a base figure for any comparison drawn;
		(4)	a statement that the synergies or other quantified estimated financial benefits are contingent on the transaction and could not be achieved independently; and
		(5)	a statement that the estimated synergies or other quantified estimated financial benefits reflect both the beneficial elements and relevant costs.
	Sources of information		

4.2	R	Where a <i>listed company</i> includes financial information in a notification required by <i>UKLR 7.3.1R</i> and <i>UKLR 7.5.1R</i> the notification must cite the source of all financial information that it discloses in the notification and include the following:	
		(1)	a statement of whether the financial information was extracted from accounts, internal financial accounting records, internal management accounting records, or an external or other source;
		(2)	a statement of whether financial information that was extracted from audited accounts was extracted without material adjustment; and
		(3)	an indication of which aspects of the financial information relate to:
		(a)	historical financial information;
		(b)	forecast or estimated financial information; or
		(c)	pro forma financial information,
			with reference made to where the basis of presentation can be found.
4.3	R	If financial information has not been extracted directly from audited accounts, the notification must include the following:	
		(1)	the basis and assumptions on which the financial information has been prepared; and
		(2)	a statement that the financial information is unaudited or not reported on by an accountant.
4.4	R	A <i>listed company</i> must provide investors with all necessary information to understand the context and relevance of non-statutory figures.	
		Pro forma financial information	
4.5	R	If a <i>listed company</i> includes pro forma financial information in a notification required by <i>UKLR 7.3.1R</i> and <i>UKLR 7.5.1R</i> , the notification must:	
		(1)	cite the sources of any unadjusted financial information that it discloses in the notification; and
		(2)	include an explanation of the basis upon which the pro forma financial information has been prepared.

<b>Part 5</b>	<b>Additional requirements for transactions by companies in severe financial difficulty or transactions to address the risk of a working capital shortfall</b>
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5.1	R	If the <i>listed company</i> is in severe financial difficulty or the transaction is to address the risk of a working capital shortfall, the <i>listed company</i> must include in a notification required by <i>UKLR 7.3.1R</i> and <i>UKLR 7.5.1R</i> the following:	
		(1)	a statement by the board that, in the board's opinion:
		(a)	the <i>company</i> has entered into the transaction because it is in severe financial difficulty; or
		(b)	the <i>company</i> has entered into the transaction to address the risk of a current or reasonably projected working capital shortfall,
			as applicable;
		(2)	an explanation of:
		(a)	how the severe financial difficulty has arisen; or
		(b)	the nature of the working capital shortfall and how the <i>company</i> intends to provide the additional working capital thought by the <i>company</i> to be necessary,
			as applicable;
		(3)	full disclosure about the <i>group's</i> prospects (or the continuing <i>group's</i> prospects if the transaction is a disposal) for at least the current financial year;
		(4)	an explanation of how the transaction addresses the matters in (1);
		(5)	an explanation of the consequences for the <i>listed company</i> if it is not able to proceed with the proposals; and
		(6)	details of any financing arrangements (either current or future) if they are contingent upon the transaction being effected.

## 8 Equity shares (commercial companies): related party transactions

### 8.1 Preliminary

#### Application

8.1.1 R This chapter applies to a *company* that has a *listing of equity shares* in the *equity shares (commercial companies)* category.

#### Purpose

8.1.2 G The purpose of this chapter is to set out governance and notification requirements for a *listed company* in relation to *related party transactions*. These requirements are intended to:



- (1) ensure that the shareholders of *companies* with *listed equity shares* are notified of *related party transactions* when they are entered into by the *listed company*, and support engagement between the *listed company* and its shareholders in relation to *related party transactions*; and
  - (2) enhance market transparency in relation to *related party transactions*.
- 8.1.3 G These requirements are also intended to prevent a *related party* from taking advantage of its position and prevent any perception that it may have done so.

#### Sponsors

- 8.1.4 G An *issuer* with a *listing of equity shares* in the *equity shares (commercial companies)* category that is proposing to enter into a *related party transaction* requiring the *issuer* to make a notification under UKLR 8.2.1R(4) must comply with the requirement to appoint a *sponsor* under UKLR 8.2.1R(3).
- 8.1.5 R An *issuer* with a *listing of equity shares* in the *equity shares (commercial companies)* category must appoint a *sponsor* where it proposes to make a request to the *FCA* to modify, waive or substitute the operation of UKLR 8.
- 8.1.6 R An *issuer* with a *listing of equity shares* in the *equity shares (commercial companies)* category must appoint a *sponsor* where it proposes to make a request to the *FCA* for individual guidance in relation to the *listing rules*, the *disclosure requirements* or the *transparency rules* in connection with a *related party transaction*.

#### Definition of ‘related party transaction’

- 8.1.7 R In UKLR, a *related party transaction* means:
- (1) a transaction (other than a transaction in the ordinary course of business) between a *listed company* and a *related party*;
  - (2) an arrangement (other than an arrangement in the ordinary course of business) pursuant to which a *listed company* and a *related party* each invests in, or provides finance to, another undertaking or asset; or
  - (3) any other similar transaction or arrangement (other than a transaction or arrangement in the ordinary course of business) between a *listed company* and any other *person*, the purpose and effect of which is to benefit a *related party*.
- 8.1.8 G A *related party transaction* includes the variation or novation of an existing agreement between the *listed company* and a *related party*, regardless of whether the party was a *related party* at the time the original agreement was entered into.

## Meaning of ‘transaction’ or ‘arrangement’

- 8.1.9 R A reference in this chapter:
- (1) to a transaction or arrangement by a *listed company* includes a transaction or arrangement by its *subsidiary undertaking*;
  - (2) to a transaction or arrangement is, unless the contrary intention appears, a reference to the entering into of the agreement for the transaction or the entering into of the arrangement; and
  - (3) to a transaction or arrangement includes a transaction or arrangement which amends or revises the terms of an existing transaction or arrangement.

## Transactions to which this chapter does not apply

- 8.1.10 R *UKLR 8.2.1R to UKLR 8.2.5R* do not apply to a *related party transaction* if it is a transaction or arrangement:
- (1) of a kind referred to in paragraph 1 of *UKLR 8 Annex 1* (a transaction the terms of which were agreed before a person became a related party); or
  - (2) of a kind referred to in paragraphs 2 to 8 of *UKLR 8 Annex 1* and does not have any unusual features.

## Definition of ‘related party’

- 8.1.11 R In *UKLR*, a *related party* means:
- (1) a *person* who is (or was within the 12 months before the date of the transaction or arrangement) a *substantial shareholder*;
  - (2) a *person* who is (or was within the 12 months before the date of the transaction or arrangement) a *director* or *shadow director* of:
    - (a) the *listed company*; or
    - (b) any other *company* which is one of the following (and, if that *person* has ceased to a *director* or *shadow director*, any other *company* which was one of the following while that *person* was a *director* or *shadow director* of such other *company*);
      - (i) a *subsidiary undertaking* of the *listed company*;
      - (ii) a *parent undertaking* of the *listed company*; or
      - (iii) a fellow *subsidiary undertaking* of a *parent undertaking* of the *listed company*; or
  - (3) a *person exercising significant influence*; or

- (4) an *associate* of a *related party* referred to in paragraph (1), (2) or (3).

Definition of ‘substantial shareholder’

- 8.1.12 R In *UKLR*, a *substantial shareholder* means any *person* who is entitled to exercise, or to control the exercise of, 20% or more of the votes able to be cast on all or substantially all matters at general meetings of:
- (1) the *company*; or
  - (2) any *company* which is:
    - (a) a *subsidiary undertaking* of the *company*;
    - (b) a *parent undertaking* of the *company*; or
    - (c) a fellow *subsidiary undertaking* of a *parent undertaking* of the *company*.
- 8.1.13 G For the purposes of determining votes that are able to be cast at general meetings of a *company*, voting rights attached to *shares* which are not *listed shares*, including *specified weighted voting rights shares*, should be taken into consideration.
- 8.1.14 R For the purposes of calculating voting rights in *UKLR* 8.1.12R, the following voting rights are to be disregarded:
- (1) any voting rights which such a *person* exercises (or controls the exercise of) independently in its capacity as:
    - (a) bare trustee;
    - (b) investment manager;
    - (c) collective investment undertaking; or
    - (d) a *long-term insurer* in respect of its linked long-term business, if no *associate* of that *person* interferes by giving direct or indirect instructions, or in any other way, in the exercise of such voting rights (except to the extent any such *person* confers or collaborates with such an *associate* which also acts in its capacity as investment manager, collective investment undertaking or *long-term insurer*); or
  - (2) any voting rights:
    - (a) which a *person* may hold (or control the exercise of) solely in relation to the direct performance, by way of business, of:
      - (i) underwriting the issue or sale of *securities*;

- (ii) placing *securities*, where the *person* provides a firm commitment to acquire any *securities* which it does not place; or
  - (iii) acquiring *securities* from existing shareholders or the *issuer* pursuant to an agreement to procure third-party purchases of *securities*; and
- (b) where the conditions in (i) to (iv) are satisfied:
- (i) the activities set out in (2)(a) are performed in the ordinary course of business;
  - (ii) the *securities* to which the voting rights attach are held for a consecutive period of 5 *trading days* or less, beginning with the first *trading day* on which the *securities* are held;
  - (iii) the voting rights are not exercised within the period in which the *securities* are held; and
  - (iv) attempt is made directly or indirectly by the *firm* to intervene in or exert influence on (or attempt to intervene in or exert influence on) the management of the *issuer* within the period the *securities* are held.

#### Meaning of ‘ordinary course of business’

- 8.1.15 G For the purposes of this chapter, a transaction in the ordinary course of business includes (but is not limited to):
- (1) regular trading activities (if the *company* is a trading *company*);
  - (2) ongoing commercial arrangements and purchases commonly undertaken as part of the existing business or within the industry sector in which the *company* operates;
  - (3) capital expenditure to support and maintain the existing business and its infrastructure;
  - (4) capital expenditure to add scale to the existing business in line with the *company*’s business strategy as previously notified to a *RIS* (including, for example, within the latest published *prospectus* or annual financial report); or
  - (5) in the case of a *listed property company*, where the accounting treatment of a *property* that is acquired or disposed is such that:
    - (a) for an acquisition, the *property* will be classified as a current asset in the *company*’s published accounts; or

- (b) for a disposal, the *property* was classified as a current asset in the *company's* published accounts.
- 8.1.16 G For the purposes of this chapter, a transaction in the ordinary course of business excludes:
- (1) mergers with, or acquisitions of, other businesses (whether structured by way of a share or asset acquisition);
  - (2) transactions that would lead to a substantial involvement in a business activity that did not previously form a significant part of the *listed company's* principal activities;
  - (3) transactions that would lead to the *listed company* no longer having a substantial involvement in a business activity that forms a significant part of its principal activities;
  - (4) transactions entered into by the *listed company* to address the risks to the *company* of a current or reasonably projected working capital shortfall, or entered into because the *company* is in severe financial difficulty; or
  - (5) *reverse takeovers*.
- 8.1.17 G (1) The assessment of whether a transaction is in the ordinary course of business under this chapter will depend on the specific circumstances of the *listed company*.
- (2) Factors that may indicate whether a transaction is in the ordinary course of a *company's* business include:
- (a) the size and incidence of similar transactions which the *company* has entered into;
  - (b) the nature and size of the *company's* existing business and common factors within the industry sector in which it operates;
  - (c) the *company's* corporate strategy for its business, including in relation to growth and industry focus, as set out in the *company's* latest published *prospectus* or annual financial report;
  - (d) the existing accounting treatment (for a disposal) or planned accounting treatment (for an acquisition or new arrangement) by the *listed company*; and
  - (e) whether its shareholders could reasonably expect the *company* to enter into the transaction, taking into account:
    - (i) the factors in (a) to (d);

- (ii) any further information that the *company* has already notified to a *RIS*;
- (iii) the subject matter of the transaction;
- (iv) the terms of the transaction;
- (v) the anticipated impact on the *listed company*; and
- (vi) the associated benefits and risks.

Where a related party transaction is also a significant transaction or other transaction under UKLR 7

- 8.1.18 G Where a *related party transaction* is also a *significant transaction* under UKLR 7.1.3R, the requirements and *guidance* under UKLR 7 also apply, in addition to the requirements under this chapter.

## 8.2 Requirements for related party transactions

General requirements for related party transactions

- 8.2.1 R If a *listed company* enters into a *related party transaction* where any *percentage ratio* is 5% or more, the *listed company* must:
- (1) obtain the approval of its board for the transaction or arrangement before it is entered into;
  - (2) ensure that any *director* who is, or an *associate* of whom is, the *related party*, or who is a *director* of the *related party*, does not take part in the board's consideration of the transaction or arrangement and does not vote on the relevant board resolution;
  - (3) before entering into the transaction or arrangement, obtain written confirmation from a *sponsor* that the terms of the proposed transaction or arrangement with the *related party* are fair and reasonable as far as the *security* holders of the *listed company* are concerned; and
  - (4) notify a *RIS* as soon as possible after the terms of the transaction or arrangement are agreed.
- 8.2.2 R The notification must include:
- (1) details of the *related party transaction*, including:
    - (a) the name of the *related party*;
    - (b) the value of the consideration for the transaction or arrangement; and
    - (c) a description of the transaction or arrangement;

- (2) the fact that the transaction or arrangement is a *related party transaction* which fell within *UKLR 8.2.1R*;
- (3) details of the nature and extent of the *related party's* interest in the transaction(s) or arrangement(s);
- (4) a statement by the board that the transaction or arrangement is fair and reasonable as far as the *security* holders of the *company* are concerned and that the *directors* have been so advised by a *sponsor*; and
- (5) the name of the sponsor that provided the written confirmation in *UKLR 8.2.1R(3)*.

8.2.3 R The notification must also include any other relevant circumstances or information necessary to provide an understanding of, and to enable the shareholders to assess the terms of the transaction and its impact on the *listed company*, having regard to the purpose of this chapter in *UKLR 8.1.2G* and *UKLR 8.1.3G*.

8.2.4 R If, before the completion of a *related party transaction* referred to in *UKLR 8.2.1R* that has been notified in accordance with this section, there is a material change to the terms of the transaction, the *listed company* must comply again separately with *UKLR 8.2.1R* to *UKLR 8.2.3R* in relation to the transaction.

8.2.5 G The *FCA* would (among other things) generally consider an increase of 10% or more in the consideration payable to be a material change to the terms of the transaction.

#### Supplementary notification

- 8.2.6 R
- (1) A *listed company* must notify a *RIS* as soon as possible if, after the notification under *UKLR 8.2.1R(4)*, it becomes aware that:
    - (a) there has been a material change affecting any matter contained in that earlier notification (other than a material change to the terms of the transaction to which *UKLR 8.2.4R* applies); or
    - (b) a material new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification.
  - (2) The supplementary notification must:
    - (a) give details of the change or new matter; and
    - (b) contain a statement that, except as disclosed:

- (i) there has been no material change affecting any matter contained in the earlier notification; and
  - (ii) no other material new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification.
- (3) In paragraphs (1) to (2), ‘material’ means material for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the *listed company* and the rights attaching to any *securities* forming part of the consideration.

#### Aggregation of transactions in any 12-month period

- 8.2.7 R (1) If a *listed company* enters into transactions or arrangements with the same *related party* (and any of its *associates*) in any 12-month period, the transactions or arrangements must be aggregated.
- (2) If any *percentage ratio* is 5% or more for the aggregated transactions or arrangements, the *listed company*:
- (a) must comply with *UKLR* 8.2.1R, in respect of the latest transaction or arrangement; and
  - (b) the notification required by *UKLR* 8.2.1R(4) must include:
    - (i) all of the information required by *UKLR* 8.2.2R for the latest transaction;
    - (ii) the information required in *UKLR* 8.2.2R (1) to (3) for the other aggregated transactions; and
    - (iii) the information required by *UKLR* 8.2.3R.

#### 8 Annex 1 Transactions to which related party transaction rules do not apply

#### 8 Annex 1 R

Transaction agreed before person became a related party	
1	The <i>related party</i> transaction rules do not apply to a transaction the terms of which:
(1)	were agreed at a time when no party to the transaction or person who was to receive the benefit of the transaction was a <i>related party</i> ; and



	(2)	have not been amended, or required the exercise of discretion by the <i>listed company</i> under those terms, since the party or person became a <i>related party</i> .
<b>Issue of new securities and sale of treasury shares</b>		
2	The <i>related party transaction</i> rules do not apply to a transaction that consists of:	
	(1)	the take up by a <i>related party</i> of new <i>securities</i> or <i>treasury shares</i> under its entitlement in a pre-emptive offering;
	(2)	an issue of new <i>securities</i> made under the exercise of conversion or subscription rights attaching to a listed class of <i>securities</i> .
<b>Employees' share schemes and long-term incentive schemes</b>		
3	The <i>related party transaction</i> rules do not apply to the:	
	(1)	receipt of any asset (including cash or <i>securities</i> of the <i>listed company</i> or any of its <i>subsidiary undertakings</i> ) by a <i>director</i> of the <i>listed company</i> , its <i>parent undertaking</i> or any of its <i>subsidiary undertakings</i> ; or
	(2)	grant of an option or other right to a <i>director</i> of the <i>listed company</i> , its <i>parent undertaking</i> , or any of its <i>subsidiary undertakings</i> to acquire (whether or not for consideration) any asset (including cash or new or existing <i>securities</i> of the <i>listed company</i> or any of its <i>subsidiary undertakings</i> ); or
	(3)	provision of a gift or loan to the trustees of an employee benefit trust to finance the provision of assets as referred to in (1) or (2),
	in accordance with the terms of an <i>employees' share scheme</i> or a <i>long-term incentive scheme</i> .	
<b>Credit</b>		
4	The <i>related party transaction</i> rules do not apply to a grant of credit (including the lending of money or the guaranteeing of a loan):	
	(1)	to the <i>related party</i> on normal commercial terms;
	(2)	to a <i>director</i> for an amount and on terms no more favourable than those offered to employees of the group generally; or
	(3)	by the <i>related party</i> on normal commercial terms and on an unsecured basis.
<b>Directors' indemnities and loans</b>		
5	(1)	The <i>related party transaction</i> rules do not apply to a transaction that consists of:

	(a)	granting an indemnity to a <i>director</i> of the <i>listed company</i> (or any of its <i>subsidiary undertakings</i> ) if the terms of the indemnity are in accordance with those specifically permitted to be given to a <i>director</i> under the Companies Act 2006;
	(b)	maintaining a contract of insurance if the insurance is in accordance with that specifically permitted to be maintained for a <i>director</i> under the Companies Act 2006 (whether for a <i>director</i> of the <i>listed company</i> or for a <i>director</i> of any of its <i>subsidiary undertakings</i> ); or
	(c)	a loan or assistance to a <i>director</i> by a <i>listed company</i> or any of its <i>subsidiary undertakings</i> if the terms of the loan or assistance are in accordance with those specifically permitted to be given to a <i>director</i> under sections 204, 205 or 206 of the Companies Act 2006.
	(2)	Paragraph (1) applies to a <i>listed company</i> that is not subject to the Companies Act 2006 if the terms of the indemnity or contract of insurance are in accordance with those that would be specifically permitted under that Act (if it applied).
<b>Underwriting</b>		
6	(1)	The <i>related party transaction</i> rules do not apply to the underwriting by a <i>related party</i> of all or part of an issue of <i>securities</i> by the <i>listed company</i> (or any of its <i>subsidiary undertakings</i> ) if the consideration to be paid by the <i>listed company</i> (or any of its <i>subsidiary undertakings</i> ) for the underwriting:
	(a)	is no more than the usual commercial underwriting consideration; and
	(b)	is the same as that to be paid to the other underwriters (if any).
	(2)	Paragraph (1) does not apply to the extent that a <i>related party</i> is underwriting <i>securities</i> which it is entitled to take up under an issue of <i>securities</i> .
<b>Joint investment arrangements</b>		
7		The <i>related party transaction</i> rules do not apply to an arrangement where a <i>listed company</i> , or any of its <i>subsidiary undertakings</i> , and a <i>related party</i> each invests in, or provides finance to, another undertaking or asset if the following conditions are satisfied:
	(1)	the amount invested, or provided, by the <i>related party</i> is not more than 25% of the amount invested, or provided, by the <i>listed company</i> or its <i>subsidiary undertaking</i> (as the case may be); and
	(2)	the terms and circumstances of the investment or provision of finance by the <i>listed company</i> or its <i>subsidiary undertakings</i> (as the case may be) are no less favourable than those applying to the investment or provision of finance by the <i>related party</i> .

		<b>Insignificant subsidiary undertaking</b>	
8	(1)	The <i>related party transaction</i> rules do not apply to a transaction or arrangement where each of the conditions in paragraphs (2) to (6) (as far as applicable) is satisfied.	
	(2)	The party to the transaction or arrangement is only a <i>related party</i> because:	
	(a)	it is (or was within the 12 months before the date of the transaction or arrangement) a <i>substantial shareholder</i> or its <i>associate</i> ; or	
	(b)	it is a <i>person</i> who is (or was within the 12 months before the date of the transaction or arrangement) a <i>director</i> or <i>shadow director</i> or their <i>associate</i> ,	
		of a <i>subsidiary undertaking</i> or <i>subsidiary undertakings</i> of the <i>listed company</i> that has, or if there is more than one <i>subsidiary undertaking</i> that have in aggregate, contributed less than 10% of the profits of, and represented less than 10% of the assets of, the <i>listed company</i> for the relevant period.	
	(3)	The <i>subsidiary undertaking</i> or each of the <i>subsidiary undertakings</i> (as the case may be) have been in the <i>listed company's group</i> for 1 full financial year or more.	
	(4)	In paragraph (2), 'relevant period' means:	
	(a)	if the <i>subsidiary undertaking</i> or each of the <i>subsidiary undertakings</i> (as the case may be) has been consolidated in the <i>listed company's group</i> for 1 full financial year or more but less than 3 full financial years, each of the full financial years before the date of the transaction or arrangement for which accounts have been published; and	
	(b)	if the <i>subsidiary undertaking</i> or any of the <i>subsidiary undertakings</i> (as the case may be) has been consolidated in the <i>listed company's group</i> for 3 full financial years or more, each of the 3 full financial years before the date of the transaction or arrangement for which accounts have been published.	
	(5)	If the <i>subsidiary undertaking</i> or any of the <i>subsidiary undertakings</i> (as the case may be) are themselves party to the transaction or arrangement or if <i>securities</i> in the <i>subsidiary undertaking</i> or any of the <i>subsidiary undertakings</i> or their assets are the subject of the transaction or arrangement, then the ratio of consideration to market capitalisation of the <i>listed company</i> is less than 10%.	
	(6)	In this <i>rule</i> , the figures to be used to calculate assets and consideration to market capitalisation are the same as those used to classify assets and	

		consideration to market capitalisation in <i>UKLR 7 Annex 1</i> (as modified or added to by <i>UKLR 7.2.3R</i> to <i>UKLR 7.2.8R</i> where applicable).
(7)	(a)	In this <i>rule</i> , for the purposes of calculating profit, except as otherwise stated in paragraphs (b) to (e), figures used to classify profit must be the figures shown in the latest published audited consolidated accounts or, if a <i>listed company</i> has, or will have, published a preliminary statement of later annual results at the time the terms of a transaction are agreed, the figures shown in that preliminary statement.
	(b)	The figures of the <i>listed company</i> must be adjusted to take account of transactions completed during the period to which the figures referred to in (a) relate, and subsequent completed transactions where any <i>percentage ratio</i> was 5% or more at the time the terms of the relevant transaction were agreed.
	(c)	The figures of the <i>target company</i> or business must be adjusted to take account of transactions completed during the period to which the figures referred to in (a) relate, and subsequent completed transactions where any <i>percentage ratio</i> would have been 5% or more at the time the terms of the relevant transaction were agreed when classified against the <i>target</i> as a whole.
	(d)	Figures on which the auditors are unable to report without modification must be disregarded.
	(e)	The principles in paragraphs (a) to (d) also apply (to the extent relevant) to calculating the <i>net annual rent</i> of the <i>target company</i> or business.
	(f)	The <i>FCA</i> may modify paragraph (d) in appropriate cases to permit figures to be taken into account.

**9 Equity shares (commercial companies): further issuances, dealing in own securities and treasury shares**

**9 Equity shares (commercial companies): further issuances, dealing in own securities and treasury shares: equity shares (commercial companies)**

**9.1 Application**

Application

9.1.1 R This chapter applies to a *company* that has a *listing* of *equity shares* in the *equity shares (commercial companies)* category.

9.1.2 G This chapter contains *rules* applicable to a *listed company* that:

- (1) proposes to issue *equity securities* for cash or sell *treasury shares* that are *equity shares* for cash;
- (2) adopts an *employees' share scheme* or *long-term incentive scheme*;
- (3) undertakes:
  - (a) a *rights issue*;
  - (b) an *open offer*;
  - (c) a *vendor consideration placing*;
  - (d) a *placing*;
  - (e) an *offer for sale*; or
  - (f) an *offer for subscription*;
- (4) purchases its own *securities* from a *related party*;
- (5) purchases its own *equity shares*;
- (6) purchases its own *securities* other than *equity shares*; or
- (7) sells or transfers *treasury shares*.

#### Exceptions

- 9.1.3 R *UKLR 9.5 to UKLR 9.7* do not apply to a transaction entered into:
- (1) in the ordinary course of business by a securities dealing business; or
  - (2) on behalf of third parties either by the *company* or any member of its *group*,

if the *listed company* has established and maintains effective *information barriers* between those responsible for any decision relating to the transaction and those in possession of *inside information* relating to the *listed company*.

## 9.2 Pre-emption rights

- 9.2.1 R A *listed company* proposing to issue *equity securities* for cash or to sell *treasury shares* that are *equity shares* for cash must first offer those *equity securities* in proportion to their existing holdings to:
- (1) existing holders of that *class* of *equity shares* (other than the *listed company* itself by virtue of it holding *treasury shares*); and
  - (2) holders of other *equity shares* of the *listed company* who are entitled to be offered them.

- 9.2.2 R *UKLR 9.2.1R* does not apply to:
- (1) a *listed company* incorporated in the *United Kingdom* if a disapplication of statutory pre-emption rights has been authorised by shareholders in accordance with section 570 (Disapplication of pre-emption rights: directors acting under general authorisation) or section 571 (Disapplication of pre-emption rights by special resolution) of the Companies Act 2006 and the issue of *equity securities* or sale of *treasury shares* that are *equity shares* by the *listed company* is within the terms of the authority;
  - (2) a *listed company* undertaking a *rights issue* or *open offer*, provided that the disapplication of pre-emption rights is with respect to:
    - (a) *equity securities* representing fractional entitlements; or
    - (b) *equity securities* which the *company* considers necessary or expedient to exclude from the *offer* on account of the laws or regulatory requirements of a territory other than its country of incorporation, unless that territory is the *United Kingdom*;
  - (3) a *listed company* selling *treasury shares* for cash to an *employees' share scheme*; or
  - (4) an *overseas company* with a *listing of equity shares* in the *equity shares (commercial companies)* category if a disapplication of pre-emption rights has been authorised by shareholders that is equivalent to an authority given in accordance either with section 570 or section 571 of the Companies Act 2006 or in accordance with the law of its country of incorporation, provided that the issue of *equity securities* or sale of *treasury shares* that are *equity shares* by the *listed company* is within the terms of the authority.

### 9.3 Share schemes, incentive plans and discounted option arrangements

#### Employees' share schemes and long-term incentive plans

- 9.3.1 R (1) This *rule* applies to the following schemes of a *listed company* incorporated in the *United Kingdom* and of any *major subsidiary undertaking* of that *listed company* (even if that *major subsidiary undertaking* is incorporated or operates *overseas*):
- (a) an *employees' share scheme*, if the scheme involves or may involve the issue of new *shares* or the transfer of *treasury shares*; and
  - (b) a *long-term incentive scheme* in which one or more *directors* of the *listed company* is eligible to participate.
- (2) The *listed company* must ensure that the *employees' share scheme* or *long-term incentive scheme* is approved by an ordinary resolution of

the shareholders of the *listed company* in a general meeting before it is adopted.

- 9.3.2 R *UKLR 9.3.1R* does not apply to the following *long-term incentive schemes*:
- (1) an arrangement where participation is offered on similar terms to all or substantially all *employees* of the *listed company* or any of its *subsidiary undertakings* whose *employees* are eligible to participate in the arrangement (provided that all or substantially all *employees* are not *directors* of the *listed company*); or
  - (2) an arrangement where the only participant is a *director* of the *listed company* (or an individual whose appointment as a *director* of the *listed company* is being contemplated) and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual.

- 9.3.3 R For a scheme referred to in *UKLR 9.3.2R(2)*, the following information must be disclosed in the first annual report published by the *listed company* after the date on which the relevant individual becomes eligible to participate in the arrangement:
- (1) all of the information prescribed in *UKLR 10.6.10R*;
  - (2) the name of the sole participant;
  - (3) the date on which the participant first became eligible to participate in the arrangement;
  - (4) an explanation of why the circumstances in which the arrangement was established were unusual;
  - (5) the conditions to be satisfied under the terms of the arrangement; and
  - (6) the maximum award(s) under the terms of the arrangement or, if there is no maximum, the basis on which awards will be determined.

#### Discounted option arrangements

- 9.3.4 R (1) This *rule* applies to the grant to a *director* or *employee* of a *listed company* or of any *subsidiary undertaking* of a *listed company* of an *option* to subscribe, *warrant* to subscribe or other similar right to subscribe for *shares* in the capital of the *listed company* or any of its *subsidiary undertakings*.
- (2) A *listed company* must not, without the prior approval by an ordinary resolution of the shareholders of the *listed company* in a general meeting, grant the *option*, *warrant* or other right if the price per *share* payable on the exercise of the *option*, *warrant* or other similar

right to subscribe is less than whichever of the following is used to calculate the exercise price:

- (a) the market value of the *share* on the date on which the exercise price is determined; or
- (b) the market value of the *share* on the *business day* before that date; or
- (c) the average of the market values for a number of dealing days within a period not exceeding 30 days immediately before that date.

9.3.5 R UKLR 9.3.4R does not apply to the grant of an *option* to subscribe, *warrant* to subscribe or other similar right to subscribe for *shares* in the capital of a *listed company* or any of its *subsidiary undertakings*:

- (1) under an *employees' share scheme*, if participation is offered on similar terms to all or substantially all *employees* of the *listed company* or any of its *subsidiary undertakings* whose *employees* are entitled to participate in the scheme; or
- (2) following a takeover or reconstruction, in replacement for and on comparable terms with *options* to subscribe, *warrants* to subscribe or other similar rights to subscribe held immediately before the takeover or reconstruction, for *shares* in either a *company* of which the *listed company* thereby obtains control or in any of that *company's subsidiary undertakings*.

## 9.4 Transactions

### Rights issue

9.4.1 R For a placing of rights arising from a *rights issue* before the official start of dealings, a *listed company* must ensure that:

- (1) the placing relates to at least 25% of the maximum number of *equity securities* offered;
- (2) the placees are committed to take up whatever is placed with them;
- (3) the price paid by the placees does not exceed the price at which the *equity securities* which are the subject of the *rights issue* are offered by more than one half of the calculated premium over that offer price (that premium being the difference between the offer price and the theoretical ex-rights price); and
- (4) the *equity securities* which are the subject of the *rights issue* are of the same *class* as the *equity securities* already *listed*.



- 9.4.2 G The *FCA* may modify *UKLR* 9.4.1R(1) to allow the placing to relate to less than 25% if it is satisfied that requiring at least 25% would be detrimental to the success of the issue.
- 9.4.3 G In a *rights issue*, the *FCA* may list the *equity securities* at the same time as they are admitted to trading in nil paid form. On the *equity securities* being paid up and the allotment becoming unconditional, the *listing* will continue without any need for a further application to list fully paid *securities*.
- 9.4.4 R If existing shareholders do not take up their rights to subscribe in a *rights issue*:
- (1) the *listed company* must ensure that the *equity securities* to which the *offer* relates are offered for subscription or purchase on terms that any premium obtained over the subscription or purchase price (net of expenses) is to be for the account of the holders, except that if the proceeds for an existing holder do not exceed £5.00, the proceeds may be retained for the *company's* benefit; and
  - (2) the *equity securities* may be allotted or sold to underwriters if, on the expiry of the subscription period, no premium (net of expenses) has been obtained.
- 9.4.5 R A *listed company* must ensure that for a *rights issue* the following are notified to a *RIS* as soon as possible:
- (1) the issue price and principal terms of the issue; and
  - (2) the results of the issue and, if any rights not taken up are sold, details of the sale, including the date and price per *share*.
- 9.4.6 R A *listed company* must ensure that the *offer* relating to a *rights issue* remains open for acceptance for at least 10 *business days*. For the purposes of calculating the period of 10 *business days*, the first *business day* is the date on which the *offer* is first open for acceptance.

#### Open offers

- 9.4.7 R A *listed company* must ensure that the timetable for an *open offer* is approved by the *RIE* on which its *equity securities* are traded.
- 9.4.8 R A *listed company* must ensure that the *open offer* remains open for acceptance for at least 10 *business days*. For the purposes of calculating the period of 10 *business days*, the first *business day* is the date on which the *offer* is first open for acceptance.
- 9.4.9 R A *listed company* must ensure that in relation to communicating information on an *open offer*:
- (1) if the *offer* is subject to shareholder approval in a general meeting, the announcement must state that this is the case; and

- (2) the *circular* dealing with the *offer* must not contain any statement that might be taken to imply that the *offer* gives the same entitlements as a *rights issue* unless it is an *offer* with a compensatory element.

9.4.10 R If existing shareholders do not take up their rights to subscribe in an *open offer* with a compensatory element:

- (1) the *listed company* must ensure that the *equity securities* to which the *offer* relates are offered for subscription or purchase on terms that any premium obtained over the subscription or purchase price (net of expenses) is to be for the account of the holders, except that if the proceeds for an existing holder do not exceed £5.00, the proceeds may be retained for the *company's* benefit; and
- (2) the *equity securities* may be allotted or sold to underwriters if, on the expiry of the subscription period, no premium (net of expenses) has been obtained.

9.4.11 R A *listed company* must ensure that for a subscription in an *open offer* with a compensatory element the following are notified to a *RIS* as soon as possible:

- (1) the offer price and principal terms of the *offer*; and
- (2) the results of the *offer* and, if any *securities* not taken up are sold, details of the sale, including the date and price per *share*.

#### Vendor consideration placing

9.4.12 R A *listed company* must ensure that in a *vendor consideration placing* all vendors have an equal opportunity to participate in the placing.

#### Discounts not to exceed 10%

- 9.4.13 R (1) If a *listed company* makes an *open offer*, *placing*, *vendor consideration placing*, *offer for subscription of equity shares* or an issue out of treasury (other than in respect of an *employees' share scheme*) of a *class* already *listed*, the price must not be at a discount of more than 10% to the middle market price of those *shares* at the time of announcing the terms of the *offer* for an *open offer* or *offer for subscription of equity shares* or at the time of agreeing the placing for a *placing* or *vendor consideration placing*.
- (2) In paragraph (1), the middle market price of *equity shares* means the middle market quotation for those *equity shares* as derived from the daily official list of the *London Stock Exchange* or any other publication of a *RIE* showing quotations for *listed securities* for the relevant date.

- (3) If a *listed company* makes an *open offer, placing, vendor consideration placing or offer for subscription of equity shares* during the *trading day*, it may use an appropriate on-screen intra-day price derived from another market.
- (4) Paragraph (1) does not apply to an *offer* or placing at a discount of more than 10% if:
  - (a) the terms of the *offer* or placing at that discount have been specifically approved by the *issuer's* shareholders; or
  - (b) it is an issue of *shares* for cash or the sale of *treasury shares* for cash under a pre-existing general authority to disapply section 561 of the Companies Act 2006 (Existing shareholders' rights of pre-emption).
- (5) The *listed company* must notify a *RIS* as soon as possible after it has agreed the terms of the *offer* or placing.

- 9.4.14 G On each occasion that the *listed company* plans to use an on-screen intra-day price, it should discuss the source of the price in advance with the *FCA*. The *FCA* may be satisfied that there is sufficient justification for its use if the alternative market has an appropriate level of liquidity and the source is one that is widely accepted by the market.

#### Offer for sale or subscription

- 9.4.15 R A *listed company* must ensure that for an *offer for sale* or an *offer for subscription of equity securities*:
- (1) letters of allotment or acceptance are all issued simultaneously and numbered serially (and, where appropriate, split and certified by the *listed company's* registrars);
  - (2) if the *equity securities* may be held in uncertificated form, there is equal treatment of those who elect to hold the *equity securities* in certificated form and those who elect to hold them in uncertificated form;
  - (3) letters of regret are posted at the same time or not later than 3 *business days* after the letters of allotment or acceptance; and
  - (4) if a letter of regret is not posted at the same time as letters of allotment or acceptance, a notice to that effect is inserted in a national newspaper, to appear on the morning after the letters of allotment or acceptance are posted.

#### Fractional entitlements

- 9.4.16 R If, for an issue of *equity securities* (other than an issue in lieu of dividend), a shareholder's entitlement includes a fraction of a *security*, a *listed*

*company* must ensure that the fraction is sold for the benefit of the holder, except that if its value (net of expenses) does not exceed £5.00 it may be sold for the *company's* benefit. Sales of fractions may be made before *listing* is granted.

Further issues

- 9.4.17 R When *shares* of the same *class* as *shares* that are *listed* are allotted, an application for *admission to listing* of such *shares* must be made as soon as possible and, in any event, within one month of the allotment.

Temporary documents of title (including renounceable documents)

- 9.4.18 R A *listed company* must ensure that any temporary document of title (other than one issued in global form) for an *equity security*:
- (1) is serially numbered;
  - (2) states, where applicable:
    - (a) the name and address of the first holder and names of joint holders (if any);
    - (b) for a fixed income *security*, the amount of the next payment of interest or dividend;
    - (c) the pro rata entitlement;
    - (d) the last date on which transfers were or will be accepted for registration for participation in the issue;
    - (e) how the *securities* rank for dividend or interest;
    - (f) the nature of the document of title and proposed date of issue;
    - (g) how fractions (if any) are to be treated; and
    - (h) for a *rights issue*, the time, being not less than 10 *business days* calculated in accordance with UKLR 9.4.6R, in which the *offer* may be accepted, and how *equity securities* not taken up will be dealt with; and
  - (3) if renounceable:
    - (a) states in a heading that the document is of value and negotiable;
    - (b) advises holders of *equity securities* who are in any doubt as to what action to take to consult appropriate independent advisers immediately;

- (c) states that where all of the *securities* have been sold by the addressee (other than ex rights or ex capitalisation), the document should be passed to the *person* through whom the sale was effected for transmission to the purchaser;
- (d) has the form of renunciation and the registration instructions printed on the back of, or attached to, the document;
- (e) includes provision for splitting (without fee) and for split documents to be certified by an official of the *company* or authorised agent;
- (f) provides for the last day for renunciation to be the second *business day* after the last day for splitting; and
- (g) if at the same time as an allotment is made of *shares* issued for cash, *shares* of the same *class* are also allotted credited as fully paid to vendors or others, provides for the period for renunciation to be the same as, but no longer than, that provided for in the case of *shares* issued for cash.

#### Definitive documents of title

- 9.4.19 R A *listed company* must ensure that any definitive document of title for an *equity share* (other than a bearer *security*) includes the following matters on its face (or on the reverse in the case of paragraphs (5) and (6)):
- (1) the authority under which the *listed company* is constituted and the country of incorporation and registered number (if any);
  - (2) the number or amount of *securities* the certificate represents and, if applicable, the number and denomination of units (in the top right-hand corner);
  - (3) a footnote stating that no transfer of the *security* or any portion of it represented by the certificate can be registered without production of the certificate;
  - (4) if applicable, the minimum amount and multiples thereof in which the *security* is transferable;
  - (5) the date of the certificate; and
  - (6) for *equity shares* with preferential rights, on the face (or, if not practicable, on the reverse), a statement of the conditions thereof as to capital, dividends and (where applicable) conversion.

## 9.5 Purchase from a related party

- 9.5.1 R Where a purchase by a *listed company* of its own *equity securities* or *preference shares* is to be made from a *related party*, whether directly or

through intermediaries, *UKLR 8* (Related party transactions) must be complied with unless:

- (1) a *tender offer* is made to all holders of the *class of securities*; or
- (2) in the case of a market purchase pursuant to a general authority granted by shareholders, it is made without prior understanding, arrangement or agreement between the *listed company* and any *related party*.

## 9.6 Purchase of own equity shares

Requirement for a tender offer

9.6.1 R Unless *UKLR 9.6.2R* applies, purchases by a *listed company* of shares in any *class* of its *equity shares* pursuant to a general authority by the shareholders must be by way of a *tender offer* to all shareholders of that *class*.

9.6.2 R *UKLR 9.6.1R* does not apply to:

- (1) purchases by a *listed company* of less than 15% of any *class* of its *equity shares* (excluding *treasury shares*) pursuant to a general authority by the shareholders where the price to be paid is lower than or equal to the higher of:
  - (a) 5% above the average market value of the *company's equity shares* for the 5 *business days* prior to the day the purchase is made; and
  - (b) the technical standards stipulated by article 5(6) of the *Market Abuse Regulation*; or
- (2) purchases by a *listed company* of 15% or more of any *class* of its *equity shares* (excluding *treasury shares*) where the full terms of the *share buyback* have been specifically approved by shareholders.

9.6.3 G Where, pursuant to a general authority granted by shareholders, a series of purchases are made that in aggregate amount to 15% or more of the number of *equity shares* of the relevant *class* in issue immediately following the shareholders meeting at which the general authority to purchase was granted, a *tender offer* need only be made in respect of any purchase that takes the aggregate to or above that level. Purchases that have been specifically approved by shareholders are not to be taken into account in determining whether the 15% level has been reached.

Notification prior to purchase

9.6.4 R (1) Any decision by the board to submit to shareholders a proposal for the *listed company* to be authorised to purchase its own *equity shares* must be notified to a *RIS* as soon as possible.

- (2) A notification required by paragraph (1) must set out whether the proposal relates to:
  - (a) specific purchases and if so, the names of the *persons* from whom the purchases are to be made; or
  - (b) a general authorisation to make purchases.
- (3) The requirement set out in paragraph (1) does not apply to a decision by the board to submit to shareholders a proposal to renew an existing authority to purchase own *equity shares*.

9.6.5 R A *listed company* must notify a *RIS* as soon as possible of the outcome of the shareholders' meeting to decide the proposal described in *UKLR 9.6.4R*.

#### Notification of purchases

- 9.6.6 R Any purchase of a *listed company's* own *equity shares* by or on behalf of the *company* or any other member of its *group* must be notified to a *RIS* as soon as possible, and in any event, by no later than 7.30am on the *business day* following the calendar day on which the purchase occurred. The notification must include:
- (1) the date of purchase;
  - (2) the number of *equity shares* purchased;
  - (3) the purchase price for each of the highest and lowest prices paid, where relevant;
  - (4) the number of *equity shares* purchased for cancellation and the number of *equity shares* purchased to be held as *treasury shares*; and
  - (5) where *equity shares* were purchased to be held as *treasury shares*, a statement of:
    - (a) the total number of *treasury shares* of each *class* held by the *company* following the purchase and non-cancellation of such *equity shares*; and
    - (b) the number of *equity shares* of each *class* that the *company* has in issue less the total number of *treasury shares* of each *class* held by the *company* following the purchase and non-cancellation of such *equity shares*.

#### Consent of other classes and circular requirements

9.6.7 R Unless *UKLR 9.6.8R* applies, a *company* with *listed securities* convertible into, or exchangeable for, or carrying a right to subscribe for *equity shares*

of the *class* proposed to be purchased must (prior to entering into any agreement to purchase such *shares*):

- (1) convene a separate meeting of the holders of those *securities*; and
- (2) obtain their approval for the proposed purchase of *equity shares* by a special resolution.

9.6.8 R *UKLR 9.6.7R* does not apply if the trust deed or terms of issue of the relevant *securities* authorise the *listed company* to purchase its own *equity shares*.

9.6.9 R A *circular* convening a meeting required by *UKLR 9.6.7R* must include (in addition to the information in *UKLR 10* (Equity shares (commercial companies): contents of circulars)):

- (1) a statement of the effect on the conversion expectations of holders in terms of attributable assets and earnings, on the basis that the *company* exercises the authority to purchase its *equity shares* in full at the maximum price allowed (where the price is to be determined by reference to a future market price, the calculation must be made on the basis of market prices prevailing immediately prior to the publication of the *circular* and that basis must be disclosed); and
- (2) any adjustments to the rights of the holders which the *company* may propose (in such a case, the information required under paragraph (1) must be restated on the revised basis).

Other similar transactions

9.6.10 G A *listed company* intending to enter into a transaction that would have an effect on the *company* similar to that of a purchase of own *equity shares* should consult with the *FCA* to discuss the application of *UKLR 9.6*.

## 9.7 Purchase of own securities other than equity shares

9.7.1 R Except where the purchases will consist of individual transactions made in accordance with the terms of issue of the relevant *securities*, where a *listed company* intends to purchase any of its *securities* convertible into its *equity shares* and where the *equity shares* are *listed* in the *equity shares (commercial companies)* category it must:

- (1) ensure that no dealings in the relevant *securities* are carried out by or on behalf of the *company* or any member of its *group* until the proposal has either been notified to a *RIS* or abandoned; and
- (2) notify a *RIS* of its decision to purchase.

Notification of purchases, early redemptions and cancellations

9.7.2 R Any purchases, early redemptions or cancellations of a *company's* own *securities* convertible into *equity shares* where the *equity shares* are *listed*



in the *equity shares (commercial companies)* category, by or on behalf of the *company* or any other member of its *group* must be notified to a *RIS* when an aggregate of 10% of the initial amount of the relevant *class* of *securities* has been purchased, redeemed or cancelled, and for each 5% in aggregate of the initial amount of that *class* acquired thereafter.

- 9.7.3 R The notification required by *UKLR 9.7.2R* must be made as soon as possible and, in any event, no later than 7.30am on the *business day* following the calendar day on which the relevant threshold is reached or exceeded. The notification must state:
- (1) the amount of *securities* acquired, redeemed or cancelled since the last notification; and
  - (2) whether or not the *securities* are to be cancelled and the number of that *class* of *securities* that remain outstanding.

#### Period between purchase and notification

- 9.7.4 R In circumstances where the purchase is not being made pursuant to a *tender offer* and the purchase causes a relevant threshold in *UKLR 9.7.2R* to be reached or exceeded, no further purchases may be undertaken until after a notification has been made in accordance with *UKLR 9.7.2R* to *UKLR 9.7.3R*.

#### Warrants and options – circular requirements

- 9.7.5 R Where, within a period of 12 months, a *listed company* purchases *warrants* or *options* over its own *equity shares* which, on exercise, convey the entitlement to *equity shares* representing 15% or more of the *company's* existing issued *shares* (excluding *treasury shares*), the *company* must send to its shareholders a *circular* containing the following information:
- (1) a statement of the *directors' intentions* regarding future purchases of the *company's warrants* and *options*;
  - (2) the number and terms of the *warrants* or *options* acquired and to be acquired and the method of acquisition;
  - (3) where *warrants* or *options* have been, or are to be, acquired from specific parties, a statement of the names of those parties and all material terms of the acquisition; and
  - (4) details of the prices to be paid.

## 9.8 Treasury shares

Notification of capitalisation issues and of sales, transfers and cancellations of treasury shares

- 9.8.1 R If by virtue of its holding *treasury shares*, a *listed company* is allotted *shares* as part of a capitalisation issue, the *company* must notify a *RIS* as

soon as possible and, in any event, by no later than 7.30am on the *business day* following the calendar day on which allotment occurred of the following information:

- (1) the date of the allotment;
- (2) the number of *shares* allotted;
- (3) a statement as to what number of *shares* allotted has been cancelled and what number is being held as *treasury shares*; and
- (4) where *shares* allotted are being held as *treasury shares*, a statement of:
  - (a) the total number of *treasury shares* of each *class* held by the *company* following the allotment; and
  - (b) the number of *shares* of each *class* that the *company* has in issue less the total number of *treasury shares* of each *class* held by the *company* following the allotment.

9.8.2 R Any sale for cash, transfer for the purposes of or pursuant to an *employees' share scheme* or cancellation of *treasury shares* that represents over 0.5% of the *listed company's share capital* must be notified to a *RIS* as soon as possible and, in any event, by no later than 7.30am on the *business day* following the calendar day on which the sale, transfer or cancellation occurred. The notification must include:

- (1) the date of the sale, transfer or cancellation;
- (2) the number of *shares* sold, transferred or cancelled;
- (3) the sale or transfer price for each of the highest and lowest prices paid, where relevant; and
- (4) a statement of:
  - (a) the total number of *treasury shares* of each *class* held by the *company* following the sale, transfer or cancellation; and
  - (b) the number of *shares* of each *class* that the *company* has in issue less the total number of *treasury shares* of each *class* held by the *company* following the sale, transfer or cancellation.

## 10 Equity shares (commercial companies): contents of circulars

### 10.1 Preliminary

#### Application

10.1.1 R This chapter applies to a *company* that has a *listing* in the *equity shares (commercial companies)* category.

Listed company to ensure circulars comply with chapter

- 10.1.2 R A *listed company* must ensure that *circulars* it issues to holders of its *listed equity shares* comply with the requirements of this chapter.

Incorporation by reference

- 10.1.3 R Subject to *UKLR* 10.1.5R, information may be incorporated in a *circular* issued by a *listed company* by reference to relevant information contained in:

- (1) an approved *prospectus* or *listing particulars* of that *listed company*; or
- (2) any other published document of that *listed company* that has been filed with the *FCA*.

- 10.1.4 R Information incorporated by reference must be the latest available to the *listed company*.

- 10.1.5 R Information required by *UKLR* 10.3.1R(1) and (2) must not be incorporated in the *circular* by reference to information contained in another document.

- 10.1.6 R When information is incorporated by reference, a cross-reference list must be provided in the *circular* to enable *security* holders to easily identify specific items of information. The cross-reference list must specify where the information can be accessed by *security* holders.

Omission of information

- 10.1.7 G The *FCA* may authorise the omission of information required by *UKLR* 10.3, *UKLR* 10.4, *UKLR* 10.6 and *UKLR* 10 Annex 1R, if it considers that:

- (1) disclosure of that information would be:
  - (a) contrary to the public interest; or
  - (b) seriously detrimental to the *listed company*; and
- (2) the omission would not be likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the matter covered by the *circular*.

- 10.1.8 R A request to the *FCA* to authorise the omission of specific information in a particular case must:

- (1) be made in writing by the *listed company*;

- (2) identify the specific information concerned and the specific reasons for the omission; and
- (3) state why, in the *listed company's* opinion, one or more grounds in *UKLR 10.1.7G* apply.

Sending information to holders of listed equity shares

- 10.1.9 R A supplementary *circular* must be sent to holders of *listed equity shares* no later than 7 days prior to the date of a meeting at which a vote which is expressly required under the *listing rules* will be taken.
- 10.1.10 G It may be necessary for a convened shareholder meeting to be adjourned to comply with *UKLR 10.1.9R*.

## 10.2 Approval of circulars

Circulars to be approved

- 10.2.1 R A *listed company* must not circulate or publish any of the following types of *circular* unless it has been approved by the *FCA*:
  - (1) a *reverse takeover circular*;
  - (2) a *circular* which proposes a cancellation of *listing* which is required to be sent to shareholders under [*Editor's note*: *UKLR 21* reference to be included as part of the second tranche of rules]; or
  - (3) a *circular* that proposes a transfer of *listing* which is required to be sent to shareholders under [*Editor's note*: *UKLR 21* reference to be included as part of the second tranche of rules].

Approval procedures

- 10.2.2 R The following documents (to the extent applicable) must be lodged with the *FCA* in final form before it will approve a *circular*:
  - (1) a Sponsors Declaration for the Production of a Circular completed by the *sponsor*;
  - (2) for a *reverse takeover circular*, a letter setting out any items of information required by this chapter that are not applicable in that particular case; and
  - (3) any other document that the *FCA* has sought in advance from the *listed company* or its *sponsor*.
- 10.2.3 R A copy of the following documents in draft form must be submitted at least 10 clear *business days* before the date on which the *listed company* intends to publish the *circular*:

- (1) the *circular*; and
- (2) the letters and documents referred to in *UKLR* 10.2.2R(1) and (2).

10.2.4 R If a *circular* submitted for approval is amended, a copy of amended drafts must be resubmitted, marked to show changes made to conform with *FCA* comments and to indicate other changes.

#### Approval of circulars

10.2.5 G The *FCA* will approve a *circular* if it is satisfied that the requirements of this chapter are satisfied.

10.2.6 G The *FCA* will only approve a *circular* between 9am and 5.30pm on a *business day* (unless alternative arrangements are made in advance).

**Note:** *UKLR* 6.4.1R requires a *company* to forward to the *FCA* a copy of all *circulars* issued (whether or not they require approval) for publication, by uploading it to the *national storage mechanism*.

#### Sending approved circulars

10.2.7 R A *listed company* must send a *circular* to holders of its *listed equity shares* as soon as practicable after it has been approved.

### 10.3 Contents of all circulars

#### Contents of all circulars

10.3.1 R Every *circular* sent by a *listed company* to holders of its *listed securities* must:

- (1) provide a clear and adequate explanation of its subject matter, giving due prominence to its essential characteristics, benefits and risks;
- (2) state why the *security* holder is being asked to vote or, if no vote is required, why the *circular* is being sent;
- (3) if voting or other action is required, contain all information necessary to allow the *security* holders to make a properly informed decision;
- (4) if voting or other action is required, contain a heading drawing attention to the document's importance and advising *security* holders who are in any doubt as to what action to take to consult appropriate independent advisers;
- (5) if voting is required, contain a recommendation from the board as to the voting action *security* holders should take for all resolutions proposed, indicating whether or not the proposal

described in the *circular* is, in the board's opinion, in the best interests of *security* holders as a whole;

- (6) state that, if all the *securities* have been sold or transferred by the addressee, the *circular* and any other relevant documents should be passed to the *person* through whom the sale or transfer was effected for transmission to the purchaser or transferee;
- (7) if new *securities* are being issued in substitution for existing *securities*, explain what will happen to existing documents of title;
- (8) not include any reference to a specific date on which listed *securities* will be marked 'ex' any benefit or entitlement which has not been agreed in advance with the *RIE* on which the *company's securities* are or are to be traded;
- (9) if it relates to a transaction in connection with which *securities* are proposed to be *listed*, include a statement that an application has been or will be made for the *securities* to be *admitted* and, if known, a statement of the following matters:
  - (a) the dates on which the *securities* are expected to be *admitted* and on which dealings are expected to commence;
  - (b) how the new *securities* rank for dividend or interest;
  - (c) whether the new *securities* rank equally with any existing *listed securities*;
  - (d) the nature of the document of title;
  - (e) the proposed date of issue;
  - (f) the treatment of any fractions;
  - (g) whether or not the *security* may be held in uncertificated form; and
  - (h) the names of the *RIEs* on which *securities* are to be traded;
- (10) if a *person* is named in the *circular* as having advised the *listed company* or its *directors*, a statement that the adviser has given and has not withdrawn its written consent to the inclusion of the reference to the adviser's name in the form and context in which it is included; and
- (11) if the *circular* relates to cancelling *listing*, state whether it is the *company's* intention to apply to cancel the *securities' listing*.

10.3.2 G Where the notification required by *UKLR 7.3.1R* contains information set out in *UKLR 7.3.1 R(6)*, the *circular* should also contain that information.

10.3.3 R If another *rule* provides that a *circular* of a particular type must include specified information, that information is (unless the contrary intention appears) in addition to the information required under this section.

#### Pro forma financial information in circulars

10.3.4 R If a *listed company* includes pro forma financial information in a *circular*, it must:

- (1) cite the sources of any unadjusted financial information; and
- (2) explain the basis upon which the pro forma financial information has been prepared.

## 10.4 Reverse takeover circulars

### Reverse takeover circulars

10.4.1 R A *reverse takeover circular* must also include the following information:

- (1) the information given in the notification required by *UKLR 7.5.1R(1)*;
- (2) the information set out in *UKLR 7 Annex 2 Part 2* (Financial information) with the modification that the following subparagraph is added to Part 2.2R(2)(b) after Part 2.2R(2)(b)(ii): ‘and (iii) the latest practicable date prior to the submission of the *reverse takeover circular*’;
- (3) if applicable, the information set out in *UKLR 7 Annex 2 Part 4* (Synergy benefits, sources of information and pro-forma financial information);
- (4) the information set out in *UKLR 10 Annex 1*;
- (5) if the transaction is a *related party transaction*, the information given in the notification required by *UKLR 8.2.1R(4)*;
- (6) a declaration by the *issuer* and its *directors* in the following form (with appropriate modifications):  
‘The [issuer] and the directors of [the issuer], whose names appear on page [ ], accept responsibility for the information contained in this document. To the best of the knowledge of the [issuer] and the directors, the information contained in this document is in accordance with the facts and the document makes no omission likely to affect its import;’

- (7) if a statement or report attributed to a *person* as an expert is included in a *circular* (other than a statement or report incorporated by reference from a *prospectus* or *listing particulars*), a statement to the effect that the statement or report is included, in the form and context in which it is included, with the *person's* consent.

- 10.4.2 G The information necessary under *UKLR* 10.3.1R(3) includes all the material terms of the *reverse takeover*, including the consideration.
- 10.4.3 R If the *reverse takeover circular* contains audited financial information which includes a *modified report*, the *reverse takeover circular* must set out:
- (1) the information required by *UKLR* 7 Annex 2 Part 2.4R(8); and
  - (2) a statement from the *directors* explaining why they are able to recommend the proposal set out in the *reverse takeover circular* notwithstanding the *modified report*.

#### Takeover offers

- 10.4.4 R If a *reverse takeover circular* relates to a takeover offer which has not been recommended by the offeree's board or the *listed company* has not had access to due diligence information on the offeree at the time the *reverse takeover circular* is published, the *listed company* must comply with paragraphs (1) and (2):
- (1) Information on the offeree required by *UKLR* 10 Annex 1 should be disclosed in the *reverse takeover circular* on the basis of information published or made available by the offeree and of which the *listed company* is aware and is free to disclose.
  - (2) If the takeover offer has been recommended but the *listed company* does not have access to due diligence information on the offeree, the *listed company* must disclose in the *reverse takeover circular* why access has not been given to that information.

#### Acquisition or disposal of mineral resources

- 10.4.5 R If a *reverse takeover transaction* relates to an acquisition or disposal of *mineral resources* or rights to *mineral resources*, the *reverse takeover circular* must include:
- (1) details of *mineral resources* and, where applicable, reserves (presented separately) and exploration results or prospects;
  - (2) anticipated mine life and exploration potential or similar duration of commercial activity in extracting reserves;



- (3) an indication of the duration and main terms of any licences or concessions and the legal, economic and environmental conditions for exploring and developing those licences or concessions;
- (4) indications of the current and anticipated progress of mineral exploration and/or extraction and processing including a discussion of the accessibility of the deposit; and
- (5) an explanation of any exceptional factors that have influenced the matters in (1) to (4).

10.4.6 G The information in *UKLR* 10.4.5R should be prepared in accordance with the reporting standards referred to in Appendix I of Primary Market Technical Note 619.1 (available at the following URL: [www.fca.org.uk/publication/primary-market/tn-619-1.pdf](http://www.fca.org.uk/publication/primary-market/tn-619-1.pdf)) and, in the case of a company with oil and gas projects, having regard to Appendix III of Primary Market Technical Note 619.1.

## 10.5 Circulars about purchase of own equity shares

### Purchase of own equity shares

- 10.5.1 R (1) A *circular* relating to a resolution proposing to give the *company* authority to purchase its own *equity securities* must also include:
- (a) if the authority sought is a general one, a statement of the *directors'* intentions about using the authority;
  - (b) if known, the method by which the *company* intends to acquire its *equity shares* and the number to be acquired in that way;
  - (c) a statement of whether the *company* intends to cancel the *equity shares* or hold them in treasury;
  - (d) if the authority sought related to a proposal to purchase from specific parties, a statement of the names of the persons from whom *equity shares* are to be acquired together with all material terms of the proposal;
  - (e) details about the price, or the maximum and minimum price, to be paid;
  - (f) the total number of *warrants* and *options* to subscribe for *equity shares* that are outstanding at the latest practicable date before the *circular* is published and both the proportion of issued share capital (excluding *treasury shares*) that:
    - (i) they represent at that time; and

- (ii) they will represent if the full authority to buyback *shares* (existing and being sought) is used; and
    - (g) in relation to a purchase of *equity shares* in the circumstances described in UKLR 9.6.2R(2), an explanation of the potential impact of the proposed *share* buyback, including whether control of the *listed company* may be concentrated following the proposed transaction.
  - (2) If the exercise in full of the authority sought would result in the purchase of 25% or more of the *company's* issued *equity shares* (excluding *treasury shares*) the *circular* must also include the following information referred to in the *PR Regulation*:
    - (a) Annex 1 item 3.1 – Risk factors;
    - (b) Annex 1 Section 10 – Trend information;
    - (c) Annex 1 item 15.2 – Shareholdings and stock options;
    - (d) Annex 1 item 16.1 – Major interests in shares; and
    - (e) Annex 1 item 18.7.1 – Significant changes in the issuer's financial position;
- 10.5.2 G In considering whether an explanation given in a *circular* satisfies the requirement in UKLR 10.5.1R(1)(g), the *FCA* would expect the following information to be included in the explanation:
- (1) the shareholdings of *substantial shareholders* in the *listed company* before and after the proposed transaction; and
  - (2) the shareholdings of a holder of *equity shares* who may become a *substantial shareholder* in the *listed company* as a result of the proposed transaction.

## 10.6 Other circulars

### Authority to allot shares

- 10.6.1 R A *circular* relating to a resolution proposing to grant the *directors'* authority to allot shares or other securities pursuant to section 551 (Power of directors to allot shares etc: authorisation by company) of the Companies Act 2006 must include:
- (1) a statement of the maximum amount of shares or other securities which the *directors* will have authority to allot and the percentage which that amount represents of the total ordinary share capital in issue (excluding *treasury shares*) as at the latest practicable date before publication of the *circular*;

- (2) a statement of the number of *treasury shares* held by the *company* as at the date of the *circular* and the percentage which that amount represents of the total ordinary share capital in issue (excluding *treasury shares*) as at the latest practicable date before publication of the *circular*;
- (3) a statement by the *directors* as to whether they have any present intention of exercising the authority and, if so, for what purpose; and
- (4) a statement as to when the authority will lapse.

#### Disapplying pre-emption rights

- 10.6.2 R A *circular* relating to a resolution proposing to disapply pre-emption rights provided by *UKLR* 9.2.1R must include:
- (1) a statement of the maximum amount of *equity securities* which the disapplication will cover; and
  - (2) if there is a general disapplication for *equity securities* for cash made otherwise than to existing shareholders in proportion to their existing holdings, the percentage which the amount generally disappplied represents of the total *equity* share capital in issue as at the latest practicable date before publication of the *circular*.

#### Reduction of capital

- 10.6.3 R A *circular* relating to a resolution proposing to reduce the *company's* capital, other than a reduction of capital pursuant to section 626 of the Companies Act 2006 (Reduction of capital in connection with redenomination), must include a statement of the reasons for, and the effects of, the proposal.

#### Capitalisation or bonus issue

- 10.6.4 R (1) A *circular* relating to a resolution proposing a capitalisation or bonus issue must include:
- (a) the reason for the issue;
  - (b) a statement of the last date on which transfers were or will be accepted for registration to participate in the issue;
  - (c) details of the proportional entitlement; and
  - (d) a description of the nature and amount of reserves which are to be capitalised.

- (2) Any timetable set out in the *circular* must have been approved by the *RIE* on which the *company's equity securities* are traded.

Scrip dividend alternative

- 10.6.5 R (1) A *circular* containing an offer to shareholders of the right to elect to receive *shares* instead of all or part of a cash dividend must include:
- (a) a statement of the total number of *shares* that would be issued if all eligible shareholders were to elect to receive *shares* for their entire shareholdings, and the percentage which that number represents of the *equity shares* (excluding *treasury shares*) in issue at the date of the *circular*;
  - (b) in a prominent position, details of the equivalent cash dividend foregone to obtain each *share* or the basis of the calculation of the number of *shares* to be offered instead of cash;
  - (c) a statement of the total cash dividend payable and applicable tax credit on the basis that no elections for the scrip dividend alternative are received;
  - (d) a statement of the date for ascertaining the *share* price used as a basis for calculating the allocation of *shares*;
  - (e) details of the proportional entitlement;
  - (f) details of what is to happen to fractional entitlements;
  - (g) the record date; and
  - (h) a form of election relating to the scrip dividend alternative which:
    - (i) is worded so as to ensure that shareholders must elect positively in order to receive shares instead of cash; and
    - (ii) includes a statement that the right is non-transferable.
- (2) Any timetable set out in the *circular* must have been approved by the *RIE* on which the *company's equity securities* are traded.

Scrip dividend mandate schemes/dividend reinvestment plans

- 10.6.6 R (1) A *circular* relating to any proposal where shareholders are entitled to complete a mandate in order to receive *shares* instead of future cash dividends must include:

- (a) the information in *UKLR* 10.6.5R(1)(d) and (f);
  - (b) the basis of the calculation of the number of *shares* to be offered instead of cash;
  - (c) a statement of last date for lodging notice of participation or cancellation in order for that instruction to be valid for the next dividend;
  - (d) details of when adjustment to the number of *shares* subject to the mandate will take place;
  - (e) details of when cancellation of a mandate instruction will take place;
  - (f) a statement of whether or not the mandate instruction must be in respect of a shareholder's entire holding;
  - (g) the procedure for notifying shareholders of the details of each scrip dividend; and
  - (h) a statement of the circumstances, if known, under which the *directors* may decide not to offer a scrip alternative in respect of any dividend.
- (2) The timetable in the *circular* for each scrip alternative covered by a scrip dividend mandate plan must have been approved by the *RIE* on which the *company's equity shares* are traded.

#### Notices of meetings

- 10.6.7 R (1) When holders of *listed equity shares* are sent, a notice of meeting which includes any business, other than ordinary business at an annual general meeting, an explanatory *circular* must accompany the notice. If the other business is to be considered at or on the same day as an annual general meeting, the explanation may be incorporated in the *directors' report*.
- (2) A *circular* or other document convening an annual general meeting where only ordinary business is proposed does not need to comply with *UKLR* 10.3.1R(4), (5) or (6).
- 10.6.8 G A *circular* or other document convening an annual general meeting where special business is proposed will need to comply with all of *UKLR* 10.3.1R (including paragraphs (4), (5) and (6) in respect of special business).

#### Amendments to constitution

- 10.6.9 R A *circular* to shareholders about proposed amendments to the *constitution* must include:

- (1) an explanation of the effect of the proposed amendments; and
- (2) either the full terms of the proposed amendments, or a statement that the full terms will be available for inspection:
  - (a) at the place of the general meeting for at least 15 minutes before and during the meeting; and
  - (b) on the *national storage mechanism* from the date of sending the *circular*.

Employees' share scheme, etc

- 10.6.10 R A *circular* to shareholders about the approval of an *employees' share scheme* or *long-term incentive scheme* must:
- (1) include either the full text of the scheme or a description of its principal terms;
  - (2) include, if *directors* of the *listed company* are trustees of the scheme, or have a direct or indirect interest in the trustees, details of the trusteeship or interest;
  - (3) state that the provisions (if any) relating to:
    - (a) the *persons* to whom, or for whom, securities, cash or other benefits are provided under the scheme (the 'participants');
    - (b) limitations on the number or amount of the *securities*, cash or other benefits subject to the scheme;
    - (c) the maximum entitlement for any one participant; and
    - (d) the basis for determining a participant's entitlement to, and the terms of, *securities*, cash or other benefit to be provided and for the adjustment thereof (if any) if there is a capitalisation issue, *rights issue* or *open offer*, sub-division or consolidation of *shares* or reduction of capital or any other variation of capital,

cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the scheme or for the *company* operating the scheme or for members of its group);
  - (4) state whether benefits under the scheme will be pensionable and, if so, the reasons for this; and

- (5) if the scheme is not circulated to shareholders, include a statement that it will be available for inspection:
- (a) at the place of the general meeting for at least 15 minutes before and during the meeting; and
  - (b) on the *national storage mechanism* from the date of sending the *circular*.

10.6.11 R The resolution contained in the notice of meeting accompanying the *circular* must refer either to:

- (1) the scheme itself (if circulated to shareholders); or
- (2) the summary of its principal terms included in the *circular*.

10.6.12 R The resolution approving the adoption of an *employees' share scheme* or *long-term incentive scheme* may authorise the *directors* to establish further schemes based on any scheme which has previously been approved by shareholders but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any *shares* made available under such further schemes are treated as counting against any limits on individual or overall participation in the main scheme.

#### Amendments to employees' share scheme, etc

10.6.13 R A *circular* to shareholders about proposed amendments to an *employees' share scheme* or a *long-term incentive scheme* must include:

- (1) an explanation of the effect of the proposed amendments; and
- (2) the full terms of the proposed amendments, or a statement that the full text of the scheme as amended will be available for inspection:
  - (a) at the place of the general meeting for at least 15 minutes before and during the meeting; and
  - (b) on the *national storage mechanism* from the date of sending the *circular*.

#### Discounted option arrangements

10.6.14 R If shareholders' approval is required by *UKLR 9.3.4R*, the *circular* to shareholders must include the following information:

- (1) details of the *persons* to whom the *options*, *warrants* or rights are to be granted; and

- (2) a summary of the principal terms of the *options, warrants* or rights.

#### Reminders of conversion rights

- 10.6.15 R (1) A *circular* to holders of *listed securities* convertible into *shares* reminding them of the times when conversion rights are exercisable must include:
- (a) the date of the last day for lodging conversion forms and the date of the expected sending of the certificates;
  - (b) a statement of the market values for the *securities* on the first dealing day in each of the 6 *months* before the date of the *circular* and on the latest practicable date before sending the *circular*;
  - (c) the basis of conversion in the form of a table setting out capital and income comparisons;
  - (d) a brief explanation of the tax implications of conversion for holders resident for tax purposes in the *United Kingdom*;
  - (e) if there is a trustee, or other representative, of the *securities* holders to be redeemed, a statement that the trustee, or other representative, has given its consent to the issue of the *circular* or stated that it has no objection to the resolution being put to a meeting of the *securities* holders;
  - (f) reference to future opportunities to convert and whether the terms of conversion will be the same as or will differ from those available at present, or, if there are no such opportunities, disclosure of that fact;
  - (g) reference to letters of indemnity – for example, if certificates have been lost;
  - (h) if power exists to allot *shares* issued on conversion to another person, reference to forms of nomination; and
  - (i) a statement as to whether holders exercising their rights of conversion will retain the next interest payment due on the *securities*.
- (2) The *circular* must not contain specific advice as to whether or not to convert the *securities*.

#### Election of independent directors



- 10.6.16 R Where a *listed company* has a *controlling shareholder*, a *circular* to shareholders relating to the election or re-election of an *independent director* must include:
- (1) details of any existing or previous relationship, transaction or arrangement the proposed *independent director* has or had with the *listed company*, its *directors*, any *controlling shareholder* or any associate of a *controlling shareholder* or a confirmation that there have been no such relationships, transactions or arrangements; and
  - (2) a description of:
    - (a) why the *listed company* considers the proposed *independent director* will be an effective *director*;
    - (b) how the *listed company* has determined that the proposed *director* is an *independent director*; and
    - (c) the process followed by the *listed company* for the selection of the proposed *independent director*.
- 10.6.17 R In relation to a *listed company* which did not previously have a *controlling shareholder*, UKLR 10.6.16R does not apply to a *circular* sent to shareholders within a period of 3 *months* from the event that resulted in a *person* becoming a *controlling shareholder* of the *listed company*.

## 10 Annex 1 Reverse takeover circulars

- 10 Annex 1.1 R The following table identifies (by reference to certain paragraphs of Annex 1 of the *PR Regulation*) the additional information required to be included in a *reverse takeover circular* relating to the *listed company* and the undertaking the subject of the transaction.

Information	Listed company	Undertaking which is the subject of the transaction
Annex 1 item 3.1 – Risk factors	*	*
Annex 1 Section 10 – Trend information	*	*
Annex 1 item 17.1 – Related party transactions	*	
Annex 1 item 18.6.1 – Legal and arbitration proceedings	*	*

Annex 1 item 18.7.1 – Significant change in the issuer’s financial position	*	*
Annex 1 item 20.1 – Material contracts	*	*
Annex 1 item 21.1 – Documents available	*	

## 10 Annex R

## 1.2

1	The information required by this annex must be presented as follows:	
	(1)	The information required by Annex 1 item 20.1 (Material contracts), Annex 1 item 18.6.1 (Legal and arbitration proceedings), Annex 1 item 18.7.1 (Significant changes in the issuer’s financial position) and Annex 1 item 10.1(b) (Trend information) must be presented:
	(a)	for an acquisition, in separate statements for the <i>listed company</i> and its <i>subsidiary undertakings</i> and for the undertaking, business or assets to be acquired; or
	(b)	for a disposal, in separate statements for the <i>listed company</i> and its <i>subsidiary undertakings</i> (on the basis that the disposal has taken place), and for the undertaking, business or assets to be disposed of;
	(2)	the information required by Annex 1 items 10.1(a) and 10.2 (Trend information) must be presented:
	(a)	in the case of an acquisition, in a single statement for the <i>listed company</i> and its <i>subsidiary undertakings</i> (on the basis that the acquisition has taken place); or
	(b)	in the case of a disposal, in a single statement for the <i>listed company</i> and its <i>subsidiary undertakings</i> (on the basis that the disposal has taken place).
2	In determining what information is required to be included by virtue of Annex 1 item 20.1 (Material contracts) if a <i>prospectus</i> or <i>listing particulars</i> are not required, regard should be had to whether information about that provision is information which <i>securities</i> holders of the <i>issuer</i> would reasonably require for the purpose of making a properly informed assessment about the way in which to exercise the voting rights attached to their <i>securities</i> or the way in which to take any other action required of them related to the subject matter of the <i>circular</i> .	
3	The information required by this annex is modified as follows:	
	(1)	Information required by Annex 1 item 17.1 (Related party transactions);

	(a)	need only be given if it is relevant to the transaction; and
	(b)	need not be given if it has already been published before the <i>circular</i> is sent.
(2)		Information required by Annex 1 item 3.1 (Risk factors) should be provided only in respect of those risk factors which:
	(a)	are material risk factors to the proposed transaction;
	(b)	will be material new risk factors to the <i>group</i> as a result of the proposed transaction; or
	(c)	are existing material risk factors to the <i>group</i> which will be impacted by the proposed transaction.
(3)		Information required by Annex 1 item 21.1 must include a copy of the sale and purchase agreement (or equivalent document) if applicable. The <i>issuer</i> must indicate where the sale and purchase agreement (or equivalent document) is available for physical or electronic inspection.

## 11 Closed-ended investment funds

[*Editor's note:* UKLR 11 to be included as part of the second tranche of rules]

## 12 Open-ended investment companies

[*Editor's note:* UKLR 12 to be included as part of the second tranche of rules]

## 13 Equity shares (shell companies)

[*Editor's note:* UKLR 13 to be included as part of the second tranche of rules]

## 14 Equity shares (international commercial companies secondary listing)

[*Editor's note:* UKLR 14 to be included as part of the second tranche of rules]

## 15 Certificates representing certain securities (depository receipts)

[*Editor's note:* UKLR 15 to be included as part of the second tranche of rules]

## 16 Non-equity shares and non-voting equity shares

[*Editor's note:* UKLR 16 to be included as part of the second tranche of rules ]

## **17 Debt and debt-like securities**

[*Editor's note:* UKLR 17 to be included as part of the second tranche of rules ]

## **18 Securitised derivatives**

[*Editor's note:* UKLR 18 to be included as part of the second tranche of rules ]

## **19 Warrants, options and other miscellaneous securities**

[*Editor's note:* UKLR 19 to be included as part of the second tranche of rules ]

## **20 Admission to listing: processes and procedures**

[*Editor's note:* UKLR 20 to be included as part of the second tranche of rules ]

## **21 Suspending, cancelling, restoring listing, and transfer between listing categories**

[*Editor's note:* UKLR 21 to be included as part of the second tranche of rules ]

## **22 Equity shares (transition)**

[*Editor's note:* UKLR 22 to be included as part of the second tranche of rules ]

## **23 Listing particulars for professional securities market and certain other securities**

[*Editor's note:* UKLR 23 to be included as part of the second tranche of rules ]

## **24 Sponsors**

### **24.1 Application**

24.1.1 R A *sponsor* must comply with:

- (1) *UKLR 24.2* (Role of a sponsor: general);
- (2) *UKLR 24.3* (Role of a sponsor: transactions);

- (3) UKLR 24.4 (Criteria for approval as a sponsor); and
- (4) UKLR 24.5 (Supervision of sponsors).

24.1.2 R A *person* applying for approval as a *sponsor* must comply with UKLR 24.4 (Criteria for approval as a sponsor).

[**Note:** UKLR 4.2 sets out the various circumstances in which an *issuer* must appoint or obtain guidance from a *sponsor*.]

## 24.2 Role of a sponsor: general

### Responsibilities of a sponsor

24.2.1 R A *sponsor* must, in relation to a *sponsor service*:

- (1) provide assurance to the *FCA*, when required, that the applicable requirements of the *issuer* with or applying for *admission* of its *equity shares* under the *listing rules* and the *Prospectus Rules* have been met;
- (2) provide to the *FCA* any explanation or confirmation in such form and within such time limit as the *FCA* reasonably requires for the purposes of ensuring that the applicable requirements of the *listing rules*, the *Prospectus Rules*, the *disclosure requirements* and the *transparency rules* are being complied with by an *issuer* with or applying for *admission* of its *equity shares*; and
- (3) guide the *issuer* with or applying for *admission* of its *equity shares* in understanding and meeting its responsibilities under the *listing rules*, the *Prospectus Rules*, the *disclosure requirements* and the *transparency rules*.

24.2.2 R A *sponsor* must, for so long as it provides a *sponsor service*:

- (1) take such reasonable steps as are sufficient to ensure that any communication or information it provides to the *FCA* in carrying out the *sponsor service* is, to the best of its knowledge and belief, accurate and complete in all material respects; and
- (2) as soon as possible provide to the *FCA* any information of which it becomes aware that materially affects the accuracy or completeness of information it has previously provided.

24.2.3 G Where a *sponsor* provides information to the *FCA* which is or is based on information it has received from a third party in assessing whether a *sponsor* has complied with its obligations in UKLR 24.2.2R(1), the *FCA* will have regard, among other things, to whether a *sponsor* has appropriately used its own knowledge, judgement and expertise to review and challenge the information provided by the third party.

24.2.4 G The *sponsor* will be the main point of contact with the *FCA* for any matter referred to in *UKLR 4.2*. The *FCA* expects to discuss all issues relating to a transaction and any draft or final document directly with the *sponsor*. However, in appropriate circumstances, the *FCA* will communicate directly with the *issuer* with or applying for *admission* of its *equity shares*, or its advisers.

24.2.5 G A *sponsor* remains responsible for complying with *UKLR 24.2* even where a *sponsor* relies on the *issuer* with or applying for *admission* of its *equity shares* or a third party when providing assurance or confirmation to the *FCA*.

Principles for sponsors: due care and skill

24.2.6 R A *sponsor* must, in relation to a *sponsor service*, act with due care and skill.

Principles for sponsors: honesty and integrity

24.2.7 R A *sponsor* must, in relation to a *sponsor service*, act with honesty and integrity.

Principles for sponsors: duty regarding directors of issuers

24.2.8 R Where, in relation to a *sponsor service*, a *sponsor* gives any guidance or advice to a *listed issuer* or *applicant* on the application or interpretation of the *listing rules*, *disclosure requirements* or *transparency rules*, the *sponsor* must take reasonable steps to satisfy itself that the *director* or *directors* of the *listed issuer* understand their responsibilities and obligations under the *listing rules*, *disclosure requirements* and *transparency rules*.

Principles for sponsors: relations with the FCA

24.2.9 R A *sponsor* must at all times (whether in relation to a *sponsor service* or otherwise):

- (1) deal with the *FCA* in an open and cooperative way; and
- (2) deal with all enquiries raised by the *FCA* promptly.

24.2.10 R If, in connection with the provision of a *sponsor service*, a *sponsor* becomes aware that it, or an *issuer* with or applying for *admission* of its *equity shares* is failing or has failed to comply with its obligations under the *listing rules*, *disclosure requirements* or *transparency rules*, the *sponsor* must promptly notify the *FCA*.

Principles for sponsors: identifying and managing conflicts

24.2.11 G The purpose of *UKLR 24.2.12R* to *UKLR 24.2.17G* is to ensure that conflicts of interest do not adversely affect:

- (1) the ability of a *sponsor* to perform its functions properly under this chapter; or
  - (2) market confidence in *sponsors*.
- 24.2.12 R A *sponsor* must, for so long as it provides a *sponsor service*, take all reasonable steps to identify conflicts of interest that could adversely affect its ability to perform its functions properly under this chapter.
- 24.2.13 G In identifying conflicts of interest, *sponsors* should also take into account circumstances that could:
- (1) create a perception in the market that a *sponsor* may not be able to perform its functions properly; or
  - (2) compromise the ability of a *sponsor* to fulfil its obligations to the *FCA* in relation to the provision of a *sponsor service*.
- 24.2.14 R A *sponsor* must, for so long as it provides a *sponsor service*, take all reasonable steps to put in place and maintain effective organisational and administrative arrangements that ensure conflicts of interest do not adversely affect its ability to perform its functions properly under this chapter.
- 24.2.15 G Disclosure of a conflict of interest will not usually be considered to be an effective organisational or administrative arrangement for the purpose of *UKLR 24.2.14R*.
- 24.2.16 R A *sponsor* must, for so long as it provides a *sponsor service*, be reasonably satisfied that its organisational and administrative arrangements will ensure that its ability to perform its functions properly under this chapter will not be adversely affected by a conflict of interest. If a *sponsor* is not so reasonably satisfied in relation to a *sponsor service*, it must decline or cease to provide such *sponsor service*.
- 24.2.17 G *UKLR 24.2.16R* recognises that there will be some conflicts of interest that cannot be effectively managed. Providing *sponsor services* in those cases could adversely affect both a *sponsor's* ability to perform its functions properly and market confidence in *sponsors*. If in doubt about whether a conflict can be effectively managed, a *sponsor* should discuss the issue with the *FCA* before it decides whether it can provide a *sponsor service*.

#### Principles for sponsors: joint sponsors

- 24.2.18 R If a *listed issuer* or *applicant* appoints more than one *sponsor* to provide a *sponsor service*:
- (1) the appointment does not relieve any of the appointed *sponsors* of their obligations under *UKLR 24*; and

- (2) the *sponsors* are each responsible for complying with the obligations under *UKLR 24*.

24.2.19 G If a *listed issuer* or *applicant* appoints more than one *sponsor* to provide a *sponsor service*, the *FCA* expects the *sponsors* to cooperate with each other in relation to the *sponsor service*, including by establishing arrangements for the sharing of information as appropriate, having regard to the *sponsor service*.

### 24.3 Role of a sponsor: transactions

#### Application for admission

24.3.1 R *UKLR 24.3.2R* to *UKLR 24.3.4G* apply in relation to an application for admission of *equity shares* to the *equity shares (commercial companies)* category, the *equity shares (closed-ended investment funds)* category or the *equity shares (shell companies)* category if: an *applicant* does not have *equity shares* already admitted to *listing*; the conditions in *UKLR 5.1.2R(1)* or *UKLR 5.1.2R(2)* do not apply; and, in connection with the application, the *applicant* is required to publish a document under article 1(4)(f) or (g) or (5)(e) or (f) of the *Prospectus Regulation*, or is required to submit to the *FCA*:

- (1) a *prospectus* or *supplementary prospectus*;
- (2) a summary document under article 1(5)(j) of the *Prospectus Regulation*; or
- (3) *listing particulars* or *supplementary listing particulars* under [Editor's note: *UKLR 11* reference to be included as part of the second tranche of rules].

24.3.2 R A *sponsor* must not submit to the *FCA* an application on behalf of an *applicant*, in accordance with *UKLR 20*, unless it has come to a reasonable opinion, after having made due and careful enquiry, that:

- (1) the *applicant* has satisfied all requirements of the *listing rules* relevant to an application for *admission*;
- (2) the *applicant* has satisfied all applicable requirements set out in the *Prospectus Rules*;
- (3) the *directors* of the *applicant* have a reasonable basis on which to make any working capital statement included in the document referred to in *UKLR 24.3.1R*;
- (4) the *directors* of the *applicant* have established procedures which enable the *applicant* to comply with the *listing rules* and the *disclosure requirements* and *transparency rules* on an ongoing basis; and



- (5) the *directors* of the *applicant* have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the *applicant* and its *group*.

New applicants: procedure

24.3.3 R A *sponsor* must:

- (1) submit a completed Sponsor's Declaration on an Application for Listing to the *FCA* either:
  - (a) on the day the *FCA* is to consider the application for approval of a document referred to in *UKLR* 4.2.1R(1) and prior to the time such document is approved; or
  - (b) at a time agreed with the *FCA*, if the *FCA* is not approving such document;
- (2) submit a completed Shareholder Statement or Pricing Statement, as applicable, to the *FCA* by 9am on the day the *FCA* is to consider the application;
- (3) ensure that all matters known to it which, in its reasonable opinion, should be taken into account by the *FCA* in considering:
  - (a) the application for *admission*; and
  - (b) whether the *admission* of the *equity shares* would be detrimental to investors' interests,

have been disclosed with sufficient prominence in the document referred to in *UKLR* 4.2.1R(1) or *UKLR* 4.2.1R(2), or otherwise in writing to the *FCA*; and
- (4) submit a letter to the *FCA* setting out how the *applicant* satisfies the criteria in *UKLR* 3 and, if applicable, *UKLR* 5, *UKLR* 11 or *UKLR* 13, no later than when the first draft of the document referred to in *UKLR* 4.2.1R(1) or *UKLR* 4.2.1R(2) is submitted (or, if the *FCA* is not approving such document at a time to be agreed with the *FCA*).

[**Note:** the Sponsor's Declaration on an Application for Listing, the Shareholder Statement and the Pricing Statement forms can be found on the Primary Markets section of the *FCA's* website [*Editor's note:* insert hyperlink].]

24.3.4 G Depending on the circumstances of the case, a *sponsor* providing *sponsor services* to an *applicant* on an application for *admission* may have to confirm in writing to the *FCA* that the *applicant's* board has allotted the *equity shares*.

[**Note:** see [*Editor's note:* UKLR 20 reference to be included as part of the second tranche of rules].]

Application for admission: further issues

- 24.3.5 R *UKLR 24.3.6R to UKLR 24.3.8G* apply in relation to an application for admission of equity shares of an applicant that has securities already admitted to listing or in circumstances in which *UKLR 5.1.2R(1)* or *UKLR 5.1.2R(2)* applies.
- 24.3.6 R A sponsor appointed in accordance with *UKLR 4.2.1R* must not submit to the *FCA* an application on behalf of an applicant, in accordance with *UKLR 20*, unless it has come to a reasonable opinion, after having made due and careful enquiry, that:
- (1) the applicant has satisfied all requirements of the listing rules relevant to an application for admission;
  - (2) the applicant has satisfied all applicable requirements set out in the *Prospectus Rules*; and
  - (3) the directors of the applicant have a reasonable basis on which to make any working capital statement included in the document referred to in *UKLR 4.2.1R(1)*.

Further issues: procedure

- 24.3.7 R A sponsor must:
- (1) submit a completed Sponsor's Declaration on an Application for Listing to the *FCA* either:
    - (a) on the day the *FCA* is to consider the application for approval of the document referred to in *UKLR 4.2.1R(1)* and prior to the time such document is approved; or
    - (b) at a time agreed with the *FCA* if the *FCA* did not approve the document referred to in *UKLR 4.2.1R(1)*;
  - (2) submit a completed Shareholder Statement or Pricing Statement, as applicable, to the *FCA* by 9am on the day the *FCA* is to consider the application; and
  - (3) ensure that all matters known to it which, in its reasonable opinion, should be taken into account by the *FCA* in considering the application for admission have been disclosed with sufficient prominence in the document referred to in *UKLR 4.2.1R(1)* or *UKLR 4.2.1R(2)*, or otherwise in writing to the *FCA*.

[**Note:** the Sponsor’s Declaration on an Application for Listing form can be found on the Primary Markets section of the *FCA*’s website [*Editor’s note:* insert hyperlink].]

- 24.3.8 G Depending on the circumstances of the case, a *sponsor* providing *sponsor services* to an *applicant* on an application for *admission* may have to confirm, in writing to the *FCA*, the number of *equity shares* to be allotted or admitted.

[**Note:** see [*Editor’s note:* UKLR 20 reference to be included as part of the second tranche of rules].]

Circulars: reverse takeovers and initial transactions

[*Editor’s note:* circular requirements applicable to closed-ended investment funds to be included in the second tranche of rules]

- 24.3.9 R *UKLR 24.3.10R* to *UKLR 24.3.13R* apply in relation to transactions involving an *issuer* with *equity shares* admitted to *listing* that is required to submit to the *FCA* for approval a *reverse takeover circular* or an *initial transaction circular*.
- 24.3.10 R A *sponsor* must not submit to the *FCA*, on behalf of a *listed issuer*, a *reverse takeover circular* or an *initial transaction circular* for approval, unless the *sponsor* has come to a reasonable opinion, after having made due and careful enquiry, that:
- (1) the *listed issuer* has satisfied all requirements of the *listing rules* relevant to the production of a *reverse takeover circular* or an *initial transaction circular*; and
  - (2) the transaction will not have an adverse impact on the *listed issuer’s* ability to comply with the *listing rules* or the *disclosure requirements* or the *transparency rules*.

Circulars: procedure

- 24.3.11 R A *sponsor* acting on a transaction falling within *UKLR 24.3.9R* must:
- (1) submit a completed Sponsor’s Declaration for the Production of a Circular to the *FCA* on the day the *circular* is to be approved by the *FCA* and prior to the time the *circular* is approved;
  - (2) submit a Pricing Statement, if applicable, to the *FCA* by 9am on the day the *FCA* is to consider the application; and
  - (3) ensure that all matters known to it which, in its reasonable opinion, should be taken into account by the *FCA* in considering the

transaction have been disclosed with sufficient prominence in the documentation or otherwise in writing to the *FCA*.

[**Note:** the Sponsor’s Declaration for the Production of a Circular form can be found on the Primary Markets section of the *FCA*’s website [*Editor’s note:* insert hyperlink].]

#### Applying for transfer between listing categories

- 24.3.12 R In relation to a proposed transfer under [*Editor’s note:* UKLR 21 reference to be included as part of the second tranche of rules], if a *sponsor* is appointed in accordance with *UKLR* 4.2.2R, it must:
- (1) submit a letter to the *FCA* setting out how the *issuer* satisfies each *listing rule* requirement relevant to the category of listing to which it wishes to transfer, by no later than when the first draft of the document referred to in [*Editor’s note:* UKLR 21 reference to be included as part of the second tranche of rules] is submitted;
  - (2) submit a completed Sponsor’s Declaration for a Transfer of Listing to the *FCA* for the proposed transfer on the day the document referred to in [*Editor’s note:* UKLR 21 reference to be included as part of the second tranche of rules] is to be approved by the *FCA* and before it is approved; and
  - (3) ensure that all matters known to it which, in its reasonable opinion, should be taken into account by the *FCA* in considering the transfer between listing categories have been disclosed with sufficient prominence in the document referred to in [*Editor’s note:* UKLR 21 reference to be included as part of the second tranche of rules] or otherwise in writing to the *FCA*.

[**Note:** the Sponsor’s Declaration for a Transfer of Listing can be found on the Primary Markets section of the *FCA* website [*Editor’s note:* insert hyperlink].]

- 24.3.13 R A *sponsor* must not submit to the *FCA* on behalf of an *issuer* a final *circular* for approval or a Sponsor’s Declaration for a Transfer of Listing, unless it has come to a reasonable opinion, after having made due and careful enquiry, that:
- (1) the *issuer* satisfies all eligibility requirements of the *listing rules* that are relevant to the new category to which it is seeking to transfer;
  - (2) the *issuer* has satisfied all requirements relevant to the production of the *circular* required under [*Editor’s note:* UKLR 21 reference to be included as part of the second tranche of rules] or the announcement required under [*Editor’s note:* UKLR 21 reference to be included as part of the second tranche of rules] (whichever is relevant);

- (3) the *directors* of the *issuer* have established procedures which enable the *issuer* to comply with the *listing rules*, the *disclosure requirements* and the *transparency rules* on an ongoing basis; and
- (4) the *directors* of the *issuer* have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the *issuer* and its *group*.

24.3.14 R *UKLR 24.3.13R(3)* and *UKLR 24.3.13R(4)* do not apply in relation to an *issuer* that was required to meet these requirements under its existing *listing* category.

#### Initial transactions

24.3.15 R A *sponsor* acting on an *initial transaction* by an *issuer* with *equity shares* admitted to the *equity shares (shell companies)* category must provide written confirmation to the *FCA* that, in its opinion, it is reasonable for the *issuer* to provide the declarations described in [*Editor's note: UKLR 13 reference to be included as part of the second tranche of rules*] before the *issuer* makes an announcement under [*Editor's note: UKLR 13 reference to be included as part of the second tranche of rules*] containing the declarations required by [*Editor's note: UKLR 13 reference to be included as part of the second tranche of rules*].

## 24.4 Criteria for approval as a sponsor

#### List of sponsors

24.4.1 G The *FCA* will maintain a *list of sponsors* on its website.

#### Application for approval as a sponsor

24.4.2 R A *person* wanting to provide *sponsor services*, and to be included on the *list of sponsors*, must apply to the *FCA* for approval as a *sponsor* by submitting the following to the Primary Market Specialist Supervision Team at the *FCA's* address:

- (1) a completed Sponsor Firm Application Form;
- (2) details of any matter in the past 5 years that would have been notifiable to the *FCA* pursuant to *UKLR 24.5.12R(2)*, (3), (4) or (5), had the *person* been approved as a *sponsor*; and
- (3) the application fee set out in *FEES 3*.

[**Note:** the Sponsor's Firm Application Form can be found on the Primary Markets section of the *FCA's* website [*Editor's note: insert hyperlink*].]

24.4.3 R A *person* wanting to provide *sponsor services* and be included on the *list of sponsors* must also submit:

- (1) all additional documents, explanations and information as required by the *FCA*; and
  - (2) verification of any information in such a manner as the *FCA* may specify.
- 24.4.4 G When considering an application for approval as a *sponsor*, the *FCA* may:
- (1) carry out any enquiries and request any further information which it considers appropriate, including consulting other regulators;
  - (2) request that the applicant or its specified representative answer questions and explain any matter the *FCA* considers relevant to the application; and
  - (3) take into account any information which it considers appropriate in relation to the application.
- [**Note:** the decision-making procedures that the *FCA* will follow when it considers whether to refuse an application for approval as a *sponsor* are set out in *DEPP*.]
- Criteria for approval as a sponsor
- 24.4.5 R The *FCA* will approve a *person* as a *sponsor* only if it is satisfied that the *person*:
- (1) is an *authorised person* or a *member* of a *designated professional body*;
  - (2) is competent to provide *sponsor services* in accordance with *UKLR 24*; and
  - (3) has appropriate systems and controls in place to carry out its role as a *sponsor* in accordance with *UKLR 24*.
- 24.4.6 G In assessing whether a *person* wanting to provide *sponsor services* satisfies *UKLR 24.4.5R(2)*, the *FCA* will consider a variety of factors, including any matters notified to it pursuant to *UKLR 24.4.2R(2)*.
- 24.4.7 R The *FCA* may impose restrictions or limitations on the *sponsor services* a *sponsor* can provide at the time of granting a *sponsor's* approval.
- 24.4.8 G Situations when the *FCA* may impose restrictions or limitations on the *sponsor services* a *sponsor* can provide, include (but are not limited to) where it appears to the *FCA* that:
- (1) the *employees* of the *person* applying to be a *sponsor* whom it is proposed will perform *sponsor services* have no or limited relevant experience and expertise of the kind described in *UKLR 24.4.12R(1)*

in relation to certain types of *sponsor services* or in relation to certain types of *company*; or

- (2) the *person* applying to be a *sponsor* does not have systems and controls in place which are appropriate for the nature of the *sponsor services* which the *person* applying to be a *sponsor* proposes to undertake.

[**Note:** a *statutory notice* may be required under section 88 of the *Act*. Where this is the case, the procedure for giving a *statutory notice* is set out in *DEPP*.]

- 24.4.9 G Where a *person* wishes to apply for approval as a *sponsor* to provide a limited range of *sponsor services*, it may do so on the basis that the *FCA* will impose a limitation or restriction on its approval (in accordance with section 88 of the *Act*). In such circumstances, the *FCA* will assess whether the *person* satisfies *UKLR 24.4.5R(2)* and *UKLR 24.4.5R(3)* taking into consideration the *sponsor services* to which the approval, as formally limited or restricted by the *FCA*, will relate.

#### Continuing obligations

- 24.4.10 R A *sponsor* must comply, at all times, with the criteria set out in *UKLR 24.4.5R*.
- 24.4.11 G In assessing whether a *sponsor* satisfies *UKLR 24.4.10R*, the *FCA* will consider a variety of factors including any matters notified to it pursuant to *UKLR 24.5.12R*.

#### Competence of a sponsor

- 24.4.12 R A *sponsor*, or a *person* applying for approval as a *sponsor*, will not satisfy *UKLR 24.4.5R(2)* unless it has:
- (1) a sufficient amount of relevant experience and expertise, demonstrated by having:
- (a) submitted a *sponsor declaration* to the *FCA*:
- (i) for a *person* applying for approval as a *sponsor*, within 5 years of the date of its application; and
- (ii) for a *sponsor*, within the previous 5 years; or
- (b) provided sufficient relevant corporate finance advisory services within the previous 5 years to *persons*:
- (i) with or applying for admission of securities to a *UK RIE*; and

- (ii) each having an aggregate market value or expected aggregate market value of at least the amount specified in *UKLR 3.2.7R(1)(a)*,
      - at the time such services were provided; and
  - (2) a sufficient number of *employees* with the skills and knowledge necessary for it to:
    - (a) provide *sponsor services* in accordance with *UKLR 24.2*;
    - (b) understand:
      - (i) the *rules* and *guidance* directly relevant to *sponsor services*;
      - (ii) the procedural requirements and processes of the *FCA*;
      - (iii) the due diligence process required in order to provide *sponsor services* in accordance with *UKLR 24.2* and *UKLR 24.3*;
      - (iv) the responsibilities and obligations of a *sponsor* in *UKLR 24*; and
      - (v) specialist industry sectors and/or certain types of *company*, if relevant to the *sponsor services* it provides or intends to provide; and
    - (c) be able to comply with the key contact requirements in *UKLR 24.4.27R*.
- 24.4.13 G In assessing whether a *sponsor*, or a *person* applying for approval as a *sponsor*, satisfies *UKLR 24.4.12R*, the *FCA* will consider a variety of factors, including:
- (1) the nature, scale and complexity of its business;
  - (2) the diversity of its operations;
  - (3) the volume and size of transactions it undertakes;
  - (4) the volume and size of transactions it anticipates undertaking in the following year; and
  - (5) the degree of risk associated with the transactions it undertakes or anticipates undertaking in the following year.
- 24.4.14 G To determine whether a *sponsor*, or a *person* applying for approval as a *sponsor*, satisfies *UKLR 24.4.12R(1)(a)*, the *FCA* may consider whether any of the *sponsor's* or *person's employees* have had material involvement in



the provision of *sponsor services* that have required the submission of a *sponsor declaration* within the previous 5 years.

- 24.4.15 G To determine whether a *sponsor*, or a *person* applying for approval as a *sponsor*, satisfies UKLR 24.4.12R(1)(b), the *FCA* may consider a variety of factors, including:
- (1) the cumulative body of its experience and expertise providing relevant corporate finance advisory services; and
  - (2) the range of skills and knowledge evidenced through its provision of relevant corporate finance advisory services, including:
    - (a) advising on the rules and guidance issued by a regulator or exchange;
    - (b) adhering to the procedural requirements and processes of a regulator or exchange; and
    - (c) undertaking due diligence to:
      - (i) support assurances or information delivered to a regulator or exchange; and
      - (ii) verify public statements made by an issuer.
- 24.4.16 G To determine whether a *sponsor*, or a *person* applying for approval as a *sponsor*, satisfies UKLR 24.4.12R(1)(b), the *FCA* may consider whether any of the *sponsor's* or *person's employees* have within the previous 5 years had material involvement in the provision of relevant corporate finance advisory services to *persons* with or applying for admission of securities to a *UK RIE* and each having an aggregate market value or expected aggregate market value of at least the amount specified in UKLR 3.2.7R(1)(a) at the time such services were provided.
- 24.4.17 G In exceptional circumstances, the *FCA* may consider dispensing with, or modifying, the requirement in UKLR 24.4.12R(1) in accordance with [*Editor's note*: UKLR 1 reference to be included as part of the second tranche of rules].
- 24.4.18 G Notwithstanding UKLR 24.4.13G, when considering whether a *sponsor* satisfies UKLR 24.4.12R(2)(c) the *FCA* expects a *sponsor* to have no fewer than 2 *employees* who are able to satisfy the key contact requirements in UKLR 24.4.27R(2).
- 24.4.19 G In assessing whether a *sponsor*, or a *person* applying for approval as a *sponsor*, can demonstrate it is competent in the areas required under UKLR 24.4.12R(2), the *FCA* may also take into account, where relevant, the guidance or advice on the *listing rules*, the *disclosure requirements* and the *transparency rules* the *sponsor* or *person* has given in circumstances other than in providing *sponsor services*.

## Systems and controls: general

- 24.4.20 R A *sponsor*, or a *person* applying for approval as a *sponsor*, will not satisfy UKLR 24.4.5R(3) unless it has in place:
- (1) clear and effective reporting lines for the provision of *sponsor services* (including clear and effective management responsibilities);
  - (2) effective systems and controls which require *employees* with management responsibilities for the provision of *sponsor services* to understand and apply the requirements of UKLR 24;
  - (3) effective systems and controls for the appropriate supervision of *employees* engaged in the provision of *sponsor services* by the *sponsor*;
  - (4) effective systems and controls for compliance with all applicable *listing rules* at all times, including when performing *sponsor services*;
  - (5) effective systems and controls which require appropriate staffing arrangements for providing each *sponsor service* in line with the principles for *sponsors* in UKLR 24.2;
  - (6) effective systems and controls for *employees* engaged in the provision of *sponsor services* to receive appropriate guidance and training to provide each *sponsor service* in line with the principles for *sponsors* in UKLR 24.2;
  - (7) effective systems and controls to identify and manage conflicts of interest;
  - (8) effective systems and controls for compliance with each of the requirements in UKLR 24.4.12R(2)(b); and
  - (9) systems and controls which comply with the requirements of UKLR 24.4.24R.
- 24.4.21 G When considering a *sponsor's* ability to comply with UKLR 24.4.20R, the *FCA* will consider a variety of factors, including:
- (1) the nature, scale and complexity of its business;
  - (2) the diversity of its operations;
  - (3) the volume and size of the transactions it undertakes;
  - (4) the volume and size of the transactions it anticipates undertaking in the following year; and

- (5) the degree of risk associated with the transactions it undertakes or anticipates undertaking in the following year.

Systems and controls: conflicts of interest

- 24.4.22 G A *sponsor* will generally be regarded as having appropriate systems and controls for identifying and managing conflicts if it has in place effective policies and procedures:
- (1) to ensure that decisions taken on managing conflicts of interest are taken by appropriately senior staff and on a timely basis;
  - (2) to monitor whether arrangements put in place to manage conflicts are effective; and
  - (3) to ensure that individuals within the *sponsor* are appropriately trained to enable them to identify, escalate and manage conflicts of interest.
- 24.4.23 G The policies and procedures referred to in *UKLR 24.4.22G* are distinct from the actual organisational and administrative arrangements that a *sponsor* is required to put in place and maintain under *UKLR 24.2.14R* to manage specific conflicts.

Systems and controls: record management

- 24.4.24 R A *sponsor* must have effective arrangements to create and retain for 6 years accessible records which are sufficient to be capable of demonstrating that it has provided *sponsor services* and otherwise complied with its obligations under *UKLR 24*, including:
- (1) where a declaration is to be submitted to the *FCA*:
    - (a) under *UKLR 24.3.3R(1)*, *UKLR 24.3.7R(1)*, *UKLR 24.3.11R(1)* or *UKLR 24.3.12R(2)*; or
    - (b) pursuant to an appointment under *UKLR 4.2.1R(5)*,  
the basis of each declaration given;
  - (2) where any opinion, assurance or confirmation is provided by a *sponsor* to the *FCA* or an *issuer* with or applying for *admission* of its *equity shares* in relation to a *sponsor service*, the basis of that opinion, assurance or confirmation;
  - (3) where a sponsor submits a request to the *FCA*:
    - (a) to modify, waive or substitute the operation of *UKLR 7*, *UKLR 8* or *UKLR 11* pursuant to *UKLR 4.2.3R*; or
    - (b) for individual guidance pursuant to *UKLR 4.2.4R*,

the basis upon which any guidance, judgements or opinions made or given by the *sponsor* to an *issuer* which underlie the request have been made or given;

- (4) where a *sponsor* provides guidance to an *issuer* with or applying for admission of its *equity shares* pursuant to UKLR 4.2.6R or UKLR 24.2.1R(3), the basis upon which the guidance is given and upon which any judgements or opinions underlying the guidance have been made or given; and
- (5) the steps taken to comply with its obligations under UKLR 24.2.12R, UKLR 24.2.14R, UKLR 24.2.16R and UKLR 24.4.10R.

24.4.25 G Records should:

- (1) be capable of timely retrieval; and
- (2) include material communications which relate to the provision of *sponsor services*, including any advice or guidance given to an *issuer* with or applying for admission of its *equity shares* in relation to its responsibilities under the *listing rules*, the *disclosure requirements* and the *transparency rules*.

24.4.26 G In considering whether a *sponsor* has satisfied the requirements regarding sufficiency of records in UKLR 24.4.24R, the *FCA* will consider whether the records would enable a person with general knowledge of the role and responsibilities of *sponsors* but no specific knowledge of the actual *sponsor service* undertaken to understand and verify the basis upon which material judgements have been made throughout the provision of the *sponsor service*.

#### Key contact

24.4.27 R For each *sponsor service* requiring the submission of a document to the *FCA* or contact with the *FCA*, a *sponsor* must:

- (1) at the time of submission or on first making contact with the *FCA* in connection with the *sponsor service*, notify the *FCA* of the name and contact details of a key contact within the *sponsor* for that matter; and
- (2) ensure that its key contact:
  - (a) has sufficient knowledge about the *listed issuer* or *applicant* and the proposed matter to be able to answer queries from the *FCA* about it;
  - (b) is available to answer queries from the *FCA* on any *business day* between 7am and 6pm;

- (c) is authorised to make representations to the *FCA* for and on behalf of the *sponsor*;
- (d) possesses technical knowledge of *rules* and *guidance* directly relevant to the *sponsor service*; and
- (e) understands the responsibilities and obligations of the *sponsor* under *UKLR 24* in relation to the *sponsor service*.

## 24.5 Supervision of sponsors

- 24.5.1 G The *FCA* expects to have an open, cooperative and constructive relationship with a *sponsor* to enable it to have a broad picture of the *sponsor's* activities and its ability to satisfy the criteria for approval as a *sponsor* as set out in *UKLR 24.4.5R*.

### Requirement to provide information

- 24.5.2 R (1) The *FCA* may, by notice in writing given to a *sponsor*, require it to provide specified documents or specified information to the *FCA*.
- (2) The *sponsor* must, as soon as practicable, provide to the *FCA* any documents or information that it has been required to provide under (1).
- (3) This *rule* applies only to documents or information reasonably required by the *FCA* in connection with the performance of its functions in relation to a *sponsor* or a *person* that has appointed a *sponsor*.

### Supervisory tools

- 24.5.3 G The *FCA* uses a variety of tools to monitor whether a *sponsor*:
- (1) continues to satisfy the criteria for approval as a *sponsor* as set out in *UKLR 24.4.5R*; and
  - (2) remains in compliance with all applicable *listing rules*.
- 24.5.4 R The *FCA* may impose restrictions or limitations on the *sponsor services* a *sponsor* can provide at any time following the grant of a *sponsor's* approval.
- 24.5.5 G Situations when the *FCA* may impose restrictions or limitations on the *sponsor services* a *sponsor* can provide include (but are not limited to) where it appears to the *FCA* that:
- (1) the *sponsor* has no or limited relevant experience and expertise of providing certain types of *sponsor services* or of providing *sponsor services* to certain types of *company*; or

- (2) the *sponsor* does not have systems and controls in place which are appropriate for the nature of the *sponsor services* which the *sponsor* is undertaking or proposing to undertake.

[**Note:** a *statutory notice* may be required under section 88 of the *Act*. Where this is the case, the procedure for giving a *statutory notice* is set out in *DEPP*.]

24.5.6 G *FCA* staff, after notifying the *sponsor*, may make supervisory visits to a *sponsor* on a periodic and an ad hoc basis.

24.5.7 G The *FCA* will give reasonable notice to a *sponsor* of requests for meetings or requests for access to a *sponsor's* documents and records.

#### Requests from other regulators

24.5.8 G The *FCA*, on behalf of other regulators, may request information from a *sponsor* or pass information on to other regulators to enable such regulators to discharge their functions.

#### Fees

24.5.9 R A *sponsor* must pay the annual fee set out in *FEES* 4 in order to remain on the *list of sponsors*.

#### Annual notifications

24.5.10 R A *sponsor* must provide to the *FCA* on or after the first *business day* of January each year but no later than the last *business day* of January each year:

- (1) written confirmation that it continues to satisfy the criteria for approval as a *sponsor* as set out in *UKLR* 24.4.5R; and
- (2) for each of the criteria in that *rule*, evidence of the basis upon which it considers that it meets that criterion.

24.5.11 R Written confirmation must be provided by submitting a completed Sponsor Annual Notification Form to the *FCA* by electronic mail to the address specified by the *sponsor's* usual supervisory contact at the *FCA*.

[**Note:** the Sponsor Annual Notification Form can be found on the Primary Markets section of the *FCA's* website [*Editor's note:* insert hyperlink].]

#### General notifications

24.5.12 R A *sponsor* must notify the *FCA* in writing as soon as possible if:

- (1) (a) the *sponsor* ceases to satisfy the criteria for approval as a *sponsor* set out in *UKLR* 24.4.5R or becomes aware of any matter which, in its reasonable opinion, would be relevant to

- the *FCA* in considering whether the *sponsor* continues to comply with *UKLR 24.4.10R*; or
- (b) the *sponsor* becomes aware of any fact or circumstance relating to the *sponsor* or any of its *directors*, partners or *employees* engaged in the provision of *sponsor services* by the *sponsor* which, in its reasonable opinion, would be likely to adversely affect market confidence in *sponsors*;
- (2) the *sponsor*, or any of its *directors*, partners or *employees* engaged in the provision of *sponsor services* by the *sponsor*, are:
- (a) convicted of any offence involving fraud, theft or other dishonesty; or
  - (b) the subject of a bankruptcy proceeding, a receiving order or an administration order;
- (3) any of its *directors*, partners or *employees* engaged in the provision of *sponsor services* by the *sponsor* are disqualified by a court from acting as a *director* of a *company* or from acting in a management capacity or conducting the affairs of any *company*;
- (4) the *sponsor*, or any of its *directors*, partners or *employees* engaged in the provision of *sponsor services* by the *sponsor*, are subject to any public criticism, regulatory intervention or disciplinary action:
- (a) by the *FCA*;
  - (b) by any *UK RIE*;
  - (c) by any *designated professional body*;
  - (d) by any body that is comparable to the *FCA* or a *designated professional body*; or
  - (e) under any comparable legislation in any jurisdiction outside the *United Kingdom*;
- (5) the *sponsor* resigns or is dismissed by a *listed issuer* or *applicant*, giving details of any relevant facts or circumstances;
- (6) the *sponsor* changes its name;
- (7) a *listed issuer* or *applicant* denies the *sponsor* access to documents or information that have been the subject of a reasonable request by the *sponsor*;
- (8) it identifies or otherwise becomes aware of any material deficiency in the *sponsor's* systems and controls;

- (9) there is intended to be a change of control of the *sponsor*, any restructuring of the *sponsor's group*, or a re-organisation of or a substantial change to the *directors*, partners or *employees* engaged in the provision of *sponsor services* by the *sponsor*; or
- (10) there is expected to be a change in the financial position of the *sponsor* or any of its *group companies* that would be likely to adversely affect the *sponsor's* ability to perform *sponsor services* or otherwise comply with *UKLR 24*.
- 24.5.13 R Where a *sponsor* is of the opinion that, notwithstanding the circumstances giving rise to a notification obligation under *UKLR 24.5.12R*, it continues to satisfy the ongoing criteria for approval as a *sponsor* in accordance with *UKLR 24.4.10R*, it must include in its notification to the *FCA* a statement to that effect and the basis for its opinion.
- 24.5.14 G General notifications may be made in the first instance by telephone but must be confirmed promptly in writing.
- 24.5.15 G Written notifications should be sent to the Primary Market Specialist Supervision Team at the *FCA's* address.

#### Non-delegation of sponsor functions

- 24.5.16 R A *sponsor* must not delegate any of its functions as such, or permit another *person* to perform those functions.

#### Discipline of sponsors

- 24.5.17 G The *FCA* may take action against a *sponsor* under section 88A of the *Act* if it considers that the *sponsor* has contravened a requirement or restriction imposed on the *sponsor* by the *listing rules*. *EG* sets out the *FCA's* policy on when and how it will use its disciplinary powers, including in relation to a *sponsor*.

[**Note:** a *statutory notice* may be required under section 88A of the *Act*. Where this is the case, the procedure for giving a *statutory notice* is set out in *DEPP*.]

#### Cancellation of a sponsor's approval at the sponsor's request

- 24.5.18 G A *sponsor* that intends to request the *FCA* to cancel its approval as a *sponsor* should comply with *UKLR 24.5.20R*.
- 24.5.19 G Examples of when a *sponsor* should submit a cancellation request pursuant to *UKLR 24.5.20R* include, but are not limited to:
- (1) situations where the *sponsor* ceases to satisfy the ongoing criteria for approval as a *sponsor* in accordance with *UKLR 24.4.10R* and, following a notification made under *UKLR 24.5.12R*, there are no



ongoing discussions with the *FCA* which could lead to the conclusion that the *sponsor* remains eligible; or

- (2) where there is a change of control of the *sponsor* or any restructuring of the *sponsor's group* that will result in *sponsor services* being provided by a different *person*, in which case the *person* that is intended to provide the *sponsor services* should apply for approval as a *sponsor* under *UKLR 24.4* before it provides any *sponsor services*.

24.5.20 R A request by a *sponsor* for its approval as a *sponsor* to be cancelled must be in writing and must include:

- (1) the *sponsor's* name;
- (2) a clear explanation of the background and reasons for the request;
- (3) the date on which the *sponsor* requests the cancellation to take effect;
- (4) a signed confirmation that the *sponsor* will not provide any *sponsor services* as of the date the request is submitted to the *FCA*; and
- (5) the name and contact details of the *person* at the *sponsor* with whom the *FCA* should liaise with in relation to the request.

24.5.21 G A *sponsor* may withdraw its request at any time before the cancellation takes effect. The withdrawal request should initially be made by telephone and then confirmed in writing as soon as possible, with an explanation of the reasons for the withdrawal.

#### Suspension of a sponsor's approval at the sponsor's request

24.5.22 R A request by a *sponsor* for its approval as a *sponsor* to be suspended must be in writing and must include:

- (1) the *sponsor's* name;
- (2) a clear explanation of the background and reasons for the request;
- (3) the date on which the *sponsor* requests the suspension to take effect;
- (4) a signed confirmation that the *sponsor* will not provide any *sponsor services* as of the date the request is submitted to the *FCA*; and
- (5) the name and contact details of the *person* at the *sponsor* with whom the *FCA* should liaise with in relation to the request.

24.5.23 G A *sponsor* may withdraw its request at any time before the suspension takes effect. The withdrawal request should initially be made by telephone and then confirmed in writing as soon as possible, with an explanation of the reasons for the withdrawal.

- 24.5.24 G A *sponsor* may wish to consider submitting a suspension request under *UKLR 24.5.22R* where the *sponsor*:
- (1) ceases to satisfy the ongoing criteria for approval as a *sponsor* in accordance with *UKLR 24.4.10R*;
  - (2) has notified the *FCA* in accordance with *UKLR 24.5.12R*;
  - (3) is having ongoing discussions with the *FCA* regarding remedial action; and
  - (4) is undertaking remedial action which may result in the *sponsor* being able to satisfy the ongoing criteria for approval in accordance with *UKLR 24.4.10R*.

Sponsors: advancing the *FCA*'s operational objectives

- 24.5.25 G The *FCA* may impose restrictions or limitations on the services a *sponsor* can provide or suspend a *sponsor*'s approval under section 88E of the *Act* if the *FCA* considers it desirable to do so in order to advance one or more of its *operational objectives*.

[**Note:** a *statutory notice* may be required under section 88F of the *Act*. Where this is the case, the procedure for giving a *statutory notice* is set out in *DEPP*.]

## Appendix 2

# Draft Handbook text (Listing Rules Sourcebook (Sponsor Competency) Instrument 2024)

March 2024 update: This part of the consultation is now closed

**LISTING RULES SOURCEBOOK (SPONSOR COMPETENCY) INSTRUMENT 2024**

**Powers exercised**

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the powers and related provisions in or under the following sections of the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 73A (Part 6 Rules);
  - (2) section 88 (Sponsors);
  - (3) section 96 (Obligations of issuers of listed securities);
  - (4) section 137A (The FCA’s general rules);
  - (5) section 137T (General supplementary powers); and
  - (6) section 139A (Power of the FCA to give guidance).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on *[date]*.

**Amendments to the Handbook**

- D. The Listing Rules sourcebook (LR) is amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Listing Rules Sourcebook (Sponsor Competency) Instrument 2024.

By order of the Board  
*[date]*

## Annex

## Amendments to the Listing Rules sourcebook (LR)

In this Annex, underlining indicates new text and striking through indicates deleted text.

## 8 Sponsors: Premium Listing

...

### 8.6 Criteria for approval as a sponsor

...

Application for approval as a sponsor

8.6.2 R *A person wanting to provide sponsor services, and to be included on the list of sponsors, must apply to the FCA for approval as a sponsor by submitting the following to the Primary Market Specialist Supervision Team at the FCA's address:*

- (1) a completed Sponsor Firm Application Form; ~~and~~
- (2) ~~[deleted]~~ details of any matter in the past 5 years that would have been notifiable to the FCA pursuant to LR 8.7.8R(2), (3), (4) or (5), had the person been approved as a sponsor; and

...

...

Criteria for approval as a sponsor

...

8.6.5A R ...

8.6.5AA G In assessing whether a person wanting to provide sponsor services satisfies LR 8.6.5R(2), the FCA will consider a variety of factors, including any matters notified to it pursuant to LR 8.6.2R(2).

8.6.5B G Situations when the FCA may impose restrictions or limitations on the services a sponsor can provide include (but are not limited to) where it appears to the FCA that:

- (1) the ~~employees~~ employees of the person applying to be a sponsor whom it is proposed will perform sponsor services have no or limited relevant experience and expertise of ~~providing the kind described in LR 8.6.7R(1) in relation to certain types of sponsor services or of providing sponsor services in relation to certain types of company;~~ providing the kind described in LR 8.6.7R(1) in relation to certain types of sponsor services or of providing sponsor services in relation to certain types of company; or

...

...

## Continuing obligations

8.6.6 R ...

8.6.6A G In assessing whether a *sponsor* satisfies LR 8.6.6R, the FCA will consider a variety of factors, including any matters notified to it pursuant to LR 8.7.8R.

## Competence of a sponsor

8.6.7 R A *sponsor*, or a *person* applying for approval as a *sponsor*, will not satisfy LR 8.6.5R(2) unless it has:

- (1) ~~submitted a *sponsor declaration* to the FCA~~ a sufficient amount of relevant experience and expertise, demonstrated by having:
  - (a) ~~for a *person* applying for approval as a *sponsor*, within three years of the date of its application; and~~ submitted a *sponsor declaration* to the FCA:
    - (i) for a *person* applying for approval as a *sponsor*, within 5 years of the date of its application; and
    - (ii) for a *sponsor*, within the previous 5 years; or
  - (b) ~~for a *sponsor*, within the previous three years; and~~ provided sufficient relevant corporate finance advisory services within the previous 5 years to *persons*:
    - (i) with or applying for admission of securities to a UK RIE; and
    - (ii) each having an aggregate market value or expected aggregate market value of at least the amount specified in LR 2.2.7R(1)(a),  
at the time such services were provided; and
- (2) a sufficient number of *employees* with the skills, and knowledge ~~and~~ expertise necessary for it to:
  - (a) provide *sponsor services* in accordance with LR 8.3;
  - (b) understand:
    - (i) ~~the rules, and guidance and ESMA publications~~ directly relevant to *sponsor services*;

...

- (v) specialist industry sectors and/or certain types of company, if relevant to the *sponsor services* it provides or intends to provide; and

...

8.6.7A G To determine whether a *sponsor*<sub>2</sub> or a *person* applying for approval as a *sponsor*<sub>2</sub> ~~is able to satisfy~~ satisfies LR 8.6.7R(1)(a), the *FCA* may consider whether any of the *sponsor's* or *person's employees* have had material involvement in the provision of *sponsor services* that have required the submission of a *sponsor declaration* within the previous ~~three~~ 5 years.

8.6.7AA G To determine whether a *sponsor*, or a *person* applying for approval as a *sponsor*, satisfies LR 8.6.7R(1)(b), the *FCA* may consider a variety of factors, including:

- (1) the cumulative body of its experience and expertise providing relevant corporate finance advisory services; and
- (2) the range of skills and knowledge evidenced through its provision of relevant corporate finance advisory services, including:
  - (a) advising on the rules and guidance issued by a regulator or exchange;
  - (b) adhering to the procedural requirements and processes of a regulator or exchange; and
  - (c) undertaking due diligence to:
    - (i) support assurances or information delivered to a regulator or exchange; and
    - (ii) verify public statements made by an issuer.

...

8.6.7C G In assessing whether a *sponsor*<sub>2</sub> or a *person* applying for approval as a *sponsor*<sub>2</sub> satisfies ~~LR 8.6.7R(2)~~ LR 8.6.7R, the *FCA* will consider a variety of factors<sub>2</sub> including:

...

- (5) ...

8.6.7CA G To determine whether a *sponsor*, or a *person* applying for approval as a *sponsor*, satisfies LR 8.6.7R(1)(b), the *FCA* may consider whether any of the *sponsor's* or *person's employees* have, within the previous 5 years, had material involvement in the provision of corporate finance advisory services to persons with or applying for admission of securities to a UK RIE and each having an aggregate market value or expected aggregate market value

of at least the amount specified in LR 2.2.7R(1)(a) at the time such services were provided.

...

Key contact

...

8.6.20 G ~~The FCA expects an *employee* carrying out the role of key contact to have provided a *sponsor service* in the previous three years.~~



## Appendix 3

# Handbook origins table

*Editor's note: Please note that the below table of derivation is only an approximate guide as to where the UKLR provisions (either in whole or in part) have derived from the current LR sourcebook in terms of drafting. As some of the LR provisions have been adapted substantially, the UKLR provisions will not look exactly the same as the LR provisions.*

### Table of Derivation for UKLR

Table of Origin / Derivation for UKLR 3

(1) UKLR	(2) Current location in LR (where applicable)
3.1.1R	2.1.1R
3.1.2G	2.1.2G
3.1.3G	2.1.3G
3.1.3R	2.1.4R
3.1.5G	2.1.5G
3.2.1R	2.2.1R
3.2.2R	2.2.2R
3.2.3R	2.2.3R
3.2.4R	2.2.4R
3.2.5G	2.2.5G
3.2.6G	2.2.6G
3.2.7R	2.2.7R
3.2.8G	2.2.8G
3.2.9R	2.2.9R
3.2.10R	2.2.10R
3.2.11R	2.2.11R
3.2.12R	2.2.12R
3.2.13G	2.2.13G

Table of Origin / Derivation for UKLR 4

(1) UKLR	(2) Current location in LR (where applicable)
4.1.1R	8.1.2R
4.2.1R	8.2.1R
4.2.2R	8.2.1AR
4.2.3R	N/A

Table of Origin / Derivation for UKLR 4

(1) UKLR	(2) Current location in LR (where applicable)
4.2.4R	N/A
4.2.5G	N/A
4.2.6R	8.2.2R
4.3.1R	8.5.1R
4.3.2R	8.5.2R
4.4.1R	8.5.3R
4.5.1R	8.5.6R
4.5.2G	N/A

Table of Origin / Derivation for UKLR 5

(1) UKLR	(2) Current location in LR (where applicable)
5.1.1R	N/A
5.1.2R	6.1.1R
5.1.3R	N/A
5.1.4G	6.1.2G
5.2.1R	6.13.1R
5.2.2G	6.13.2G
5.3.1R	6.5.1R
5.3.2G	6.5.2G
5.3.3G	6.5.3G
5.3.4R	6.5.4R
5.3.5R	6.5.5R
5.4.1R	6.9.1R
5.4.2R	6.9.1AR
5.4.3G	N/A
5.4.4R	6.9.2R
5.5.1R	6.14.1R, 14.2.2R
5.5.2R	6.14.2R, 14.2.2R
5.5.3R	6.14.3R, 14.2.2R
5.5.4G	6.14.4G, 14.2.3AR
5.6.1R	6.15.1R, 14.2.4R

Table of Origin / Derivation for UKLR 6

(1) UKLR	(2) Current location in LR (where applicable)
6.1.1R	9.1.1R
6.2.1R	9.2.1R, 14.3.1R

Table of Origin / Derivation for UKLR 6

(1) UKLR	(2) Current location in LR (where applicable)
6.2.2R	9.2.2R
6.2.3R	9.2.2ABR
6.2.4G	9.2.2ACG
6.2.5R	9.2.2ADR
6.2.6R	9.2.2BR
6.2.7R	9.2.2CR
6.2.8G	9.2.2DG
6.2.9R	9.2.2ER
6.2.10R	9.2.2FR
6.2.11R	9.2.2GR
6.2.12G	9.2.2HG
6.2.13G	9.2.5G, 14.3.11G
6.2.14R	9.2.6R
6.2.15G	9.2.6AG, 14.3.22G
6.2.16R	9.2.6BR, 14.3.23R
6.2.17R	9.2.6ER, 14.3.11AR
6.2.18R	9.2.6FR, 14.3.11BR
6.2.19G	9.2.6GG, 14.3.11CR
6.2.20R	9.2.6HR, 14.3.11DR
6.2.21R	9.2.11R, 14.3.8R
6.2.22G	9.2.12G
6.2.23G	N/A
6.2.24G	9.2.13G
6.2.25R	9.2.15R, 14.3.2R
6.2.26R	9.2.18R
6.2.27G	9.2.19G
6.2.28R	9.2.20R
6.2.29R	9.2.21R
6.2.30G	9.2.22G
6.2.31R	9.2.22AR
6.2.32G	9.2.22EG
6.2.33G	9.2.22FG
6.2.34R	9.2.23R
6.2.35R	9.2.24R
6.2.36R	9.2.25R
6.2.37G	9.2.26G

Table of Origin / Derivation for UKLR 6

(1) UKLR	(2) Current location in LR (where applicable)
6.3.1R	9.3.6R
6.3.2R	9.3.7R
6.3.3R	9.3.9R
6.3.4G	9.3.10R
6.4.1R	9.6.1R
6.4.2R	9.6.2R
6.4.3R	9.6.3R
6.4.4R	9.6.4R
6.4.5R	9.6.6R
6.4.6R	9.6.11R
6.4.7R	9.6.12R
6.4.8R	9.6.13R
6.4.9R	9.6.14R
6.4.10G	9.6.15G
6.4.11R	9.6.16R
6.4.12R	9.6.17R
6.4.13R	9.6.18R
6.4.14R	9.6.19R
6.4.15R	9.6.20R
6.4.16R	9.6.21R
6.4.17G	9.6.22G
6.5.1R	9.7A.1R
6.5.2R	9.7A.2R
6.5.3G	9.7A.3G
6.6.1R	9.8.4R
6.6.2R	9.8.4AR
6.6.3G	9.8.4BG
6.6.4R	9.8.4CR
6.6.5G	9.8.5G
6.6.6R	9.8.6R, 14.3.27R to 14.3.32G
6.6.7G	9.8.6AG
6.6.8G	9.8.6BG
6.6.9G	9.8.6CG
6.6.10G	9.8.6DG
6.6.11G	9.8.6EG
6.6.12G	9.8.6FG

Table of Origin / Derivation for UKLR 6

(1) UKLR	(2) Current location in LR (where applicable)
6.6.13R	9.8.6GR
6.6.14G	9.8.6HG
6.6.15G	9.8.6IG
6.6.16G	9.8.6JG
6.6.17R	9.8.7R
6.6.18R	9.8.7AR, 14.3.24R
6.6.19G	9.8.9G
6.6.20R	9.8.10R
6.6.21R	9.8.13R
6 Annex 1	9 Annex 2

Table of Origin / Derivation for UKLR 7

(1) UKLR	(2) Current location in LR (where applicable)
7.1.1R	10.1.1R
7.1.2G	10.1.2G
7.1.3R	10.2.2R
7.1.4R	5.6.4R
7.1.5G	5.6.5G
7.1.6R	10.1.3R
7.1.7G	10.1.4G
7.1.8R	N/A
7.1.9R	N/A
7.1.10G	10.1.5G
7.1.11R	N/A
7.1.12R	N/A
7.1.13R	8.2.2R
7.2.1G	10.2.1G
7.2.2G	N/A
7.2.3R	10.7.1R
7.2.4R	10.7.2R
7.2.5R	10.7.1R(4)
7.2.6R	10.7.5R
7.2.7G	10.7.6G
7.2.8R	10.7.7R
7.2.9R	N/A
7.2.10G	10.8.9G

Table of Origin / Derivation for UKLR 7

(1) UKLR	(2) Current location in LR (where applicable)
7.2.11R	10.2.10R
7.2.12R	N/A
7.2.13R	N/A
7.2.14G	10.2.11G
7.3.1R	10.4.1R
7.3.2R	13.1.3R
7.3.3R	13.1.4R
7.3.4R	13.1.5R
7.3.5R	13.1.6R
7.3.6G	13.1.7G
7.3.7R	13.1.8R
7.3.8R	N/A
7.3.9G	N/A
7.3.10G	N/A
7.3.11R	10.4.2R
7.3.12R	N/A
7.3.13R	10.4.2R
7.4.1R	10.2.4R
7.4.2G	10.2.5G
7.4.3R	10.2.8R
7.4.4R	10.2.8R
7.5.1R	10.5.1R
7.5.2G	10.5.1R Note
7.5.3R	10.5.2R
7.5.4G	10.5.3G
7.5.5R	10.5.4R
7.5.6G	10.5.5G
7.5.7G	N/A
7.5.8G	5.6.19G
7.5.9R	5.6.21R
7.5.10R	N/A
7.5.11G	5.6.20G
7.5.12G	N/A
7.5.13G	5.6.23G
7.5.14G	5.6.27G
7.5.15G	5.6.29G

Table of Origin / Derivation for UKLR 7

(1) UKLR	(2) Current location in LR (where applicable)
Annex 1, 1G	Annex 1, 1G
Annex 1, 2R	Annex 1, 2R
Annex 1, 3G	Annex 1, 3G
Annex 1, 4R	Annex 1, 5R
Annex 1, 5G	Annex 1, 6G
Annex 1, 6R	Annex 1, 7R
Annex 1, 7R	Annex 1, 8R
Annex 1, 8G	Annex 1, 9G
Annex 1, 9G	Annex 1, 10G
Annex 1, 10G	Annex 1, 11G
Annex 2	N/A

Table of Origin / Derivation for UKLR 8

(1) UKLR	(2) Current location in LR (where applicable)
8.1.1R	11.1.1R
8.1.2G	11.1.2G
8.1.3G	11.1.2(2)G
8.1.4G	N/A
8.1.5R	N/A
8.1.6R	N/A
8.1.7R	11.1.5R
8.1.8G	11.1.9G
8.1.9R	11.1.3R
8.1.10R	11.1.6R
8.1.11R	11.1.4R
8.1.12R	11.1.4AR
8.1.13G	N/A
8.1.14R	11.1.4AR
8.1.15G	N/A
8.1.16G	N/A
8.1.17G	11.1.5AG
8.1.18G	N/A
8.2.1R	11.1.10R
8.2.1R(1)	13.6.1R(5)
8.2.1R(2)	13.6.2R
8.2.1R(3)	11.1.10R(2)(b)

Table of Origin / Derivation for UKLR 8

(1) UKLR	(2) Current location in LR (where applicable)
8.2.1R(4)	10.4.1R
8.2.2R	11.1.10R(2) (c)
8.2.3R	11.1.10R(2)(c)(v)
8.2.4R	11.1.7AR
8.2.5G	11.1.7BG
8.2.6R	10.4.2R
8.2.7R	11.1.11R
Annex 1	LR 11 Annex 1
Annex 1, 1	Annex 1, 1A
Annex 1, 2	Annex 1, 2
Annex 1, 3	Annex 1, 3
Annex 1, 4	Annex 1, 4
Annex 1, 5	Annex 1, 5
Annex 1, 6	Annex 1, 6
Annex 1, 7	Annex 1, 8
Annex 1, 8(1) to (6)	Annex 1, 9(1) to (6)
Annex 1, 8(7)	LR 10 Annex 1 para 8R and 9G

Table of Origin / Derivation for UKLR 9

(1) UKLR	(2) Current location in LR (where applicable)
9.1.1R	12.1.1R
9.1.2R	12.1.2R
9.1.3R	12.1.3R
9.2.1R	9.3.11R
9.2.2R	9.3.12R
9.3.1R	9.4.1R
9.3.2R	9.4.2R
9.3.3R	9.4.3R
9.3.4R	9.4.4R
9.3.5R	9.4.5R
9.4.1R	9.5.1R
9.4.2G	9.5.2G
9.4.3G	9.5.3G
9.4.4R	9.5.4R
9.4.5R	9.5.5R
9.4.6R	9.5.6R



Table of Origin / Derivation for UKLR 9

(1) UKLR	(2) Current location in LR (where applicable)
9.4.7R	9.5.7R
9.4.8R	9.5.7AR
9.4.9R	9.5.8R
9.4.10R	9.5.8AR
9.4.11R	9.5.8BR
9.4.12R	9.5.9R
9.4.13R	9.5.10R
9.4.14G	9.5.10AG
9.4.15R	9.5.11R
9.4.16R	9.5.13R
9.4.17R	9.5.14R
9.4.18R	9.5.15R
9.4.19R	9.5.16R
9.5.1R	12.3.1R
9.6.1R	12.4.1R, 12.4.2R
9.6.2R	12.4.1R, 12.4.2AR
9.6.3G	12.4.3G
9.6.4R	12.4.4R
9.6.5R	12.4.5R
9.6.6R	12.4.6R
9.6.7R	12.4.7R
9.6.8R	12.4.8R
9.6.9R	12.4.9R
9.6.10G	12.4.10G
9.7.1R	12.5.1R
9.7.2R	12.5.2R
9.7.3R	12.5.3R
9.7.4R	12.5.5R
9.7.5R	12.5.7R
9.8.1R	12.6.3R
9.8.2R	12.6.4R

Table of Origin / Derivation for UKLR 10

(1) UKLR	(2) Current location in LR (where applicable)
10.1.1R	13.1.1R
10.1.2R	13.1.2R

Table of Origin / Derivation for UKLR 10

(1) UKLR	(2) Current location in LR (where applicable)
10.1.3R	13.1.3R
10.1.4R	13.1.4R
10.1.5R	13.1.5R
10.1.6R	13.1.6R
10.1.7G	13.1.7G
10.1.8R	13.1.8R
10.1.9R	13.1.9R
10.1.10G	13.1.10G
10.2.1R	13.2.1R
10.2.2R	13.2.4R
10.2.3R	13.2.5R
10.2.4R	13.2.7R
10.2.5G	13.2.8G
10.2.6G	13.2.9G
10.2.7R	13.2.10R
10.3.1R	13.3.1R
10.3.2G	N/A
10.3.3R	13.3.2R
10.3.4R	13.3.3R
10.4.1R	13.4.1R
10.4.2G	13.4.1AG
10.4.3R	13.4.2R
10.4.4R	13.4.3R
10.4.5R	13.4.6R, 13.4.7G
10.4.6G	13.4.7G
10.5.1R	13.7.1R
10.5.2G	13.7.1AG
10.6.1R	13.8.1R
10.6.2R	13.8.2R
10.6.3R	13.8.4R
10.6.4R	13.8.5R
10.6.5R	13.8.6R
10.6.6R	13.8.7R
10.6.7R	13.8.8R
10.6.8G	13.8.9G
10.6.9R	13.8.10R

Table of Origin / Derivation for UKLR 10

(1) UKLR	(2) Current location in LR (where applicable)
10.6.10R	13.8.11R
10.6.11R	13.8.12R
10.6.12R	13.8.13R
10.6.13R	13.8.14R
10.6.14R	13.8.15R
10.6.15R	13.8.16R
10.6.16R	13.8.17R
10.6.17R	13.8.18R
Annex 1	LR 13 Annex 1
Annex 1.1R	LR 13 Annex 1
Annex 1.2R	LR 13 Annex 1

Table of Origin / Derivation for UKLR 24

(1) UKLR	(2) Current location in LR (where applicable)
24.1.1R	8.1.1R
24.1.2R	8.1.1AR
24.2.1R	8.3.1R
24.2.2R	8.3.1AR
24.2.3G	8.3.1BG
24.2.4G	8.3.2G
24.2.5G	8.3.2AG
24.2.6R	8.3.3R
24.2.7R	8.3.5BR
24.2.8R	8.3.4R
24.2.9R	8.3.5R
24.2.10R	8.3.5AR
24.2.11G	8.3.7AG
24.2.12R	8.3.7BR
24.2.13G	8.3.8G
24.2.14R	8.3.9R
24.2.15G	8.3.10G
24.2.16R	8.3.11R
24.2.17G	8.3.12G
24.2.18R	8.3.14R
24.2.19G	8.3.15G
24.3.1R	8.4.1R

Table of Origin / Derivation for UKLR 24

(1) UKLR	(2) Current location in LR (where applicable)
24.3.2R	8.4.2R
24.3.3R	8.4.3R
24.3.4G	8.4.4G
24.3.5R	8.4.7R
24.3.6R	8.4.8R
24.3.7R	8.4.9R
24.3.8G	8.4.10G
24.3.9R	8.4.11R
24.3.10R	8.4.12R
24.3.11R	8.4.13R
24.3.12R	8.4.14R
24.3.13R	8.4.15R
24.3.14R	8.4.16R
24.3.15R	8.4.17R
24.4.1G	8.6.1G
24.4.2R	8.6.2R
24.4.3R	8.6.3R
24.4.4G	8.6.4G
24.4.5R	8.6.5R
24.4.6G	N/A
24.4.7R	8.6.5AR
24.4.8G	8.5.6BG
24.4.9G	8.6.5CG
24.4.10R	8.6.6R
24.4.11G	N/A
24.4.12R	8.6.7R
24.4.13G	8.6.7CG
24.4.14G	8.6.7AG
24.4.15G	N/A
24.4.16G	N/A
24.4.17G	8.6.7BG
24.4.18G	8.6.7DG
24.4.19G	8.6.9BG
24.4.20R	8.6.12R
24.4.21G	8.6.13G
24.4.22G	8.6.13AG

Table of Origin / Derivation for UKLR 24

(1) UKLR	(2) Current location in LR (where applicable)
24.4.23G	8.6.13BG
24.4.24R	8.6.16AR
24.4.25G	8.6.16BG
24.4.26G	8.6.16CG
24.4.27R	8.6.19R
24.5.1G	8.7.1G
24.5.2R	8.7.1AR
24.5.3G	8.7.2G
24.5.4R	8.7.2AR
24.5.5G	8.7.2BG
24.5.6G	8.7.3G
24.5.7G	8.7.4G
24.5.8G	8.7.5G
24.5.9R	8.7.6R
24.5.10R	8.7.7R
24.5.11R	8.7.7AR
24.5.12R	8.7.8R
24.5.13R	8.7.8AR
24.5.14G	8.7.9G
24.5.15G	8.7.10G
24.5.16R	8.7.16R
24.5.17G	8.7.20G
24.5.18G	8.7.21G
24.5.19G	8.7.21AG
24.5.20R	8.7.22R
24.5.21G	8.7.23G
24.5.22R	8.7.25R
24.5.23G	8.7.26G
24.5.24G	8.7.26AG
24.5.25G	8.7.27G

## Appendix 4

# **Proposed changes to Technical Note 'Sponsors: Practical implications of competence requirements for sponsors and applicants'**

# UKLA FCA Technical Note

## Sponsors – Practical implications of competence requirements for sponsors and applicants

LR 8.6.5R; LR 8.6.5CG; LR 8.6.6R; LR 8.6.7R; LR 8.6.7AG; LR 8.6.7BG; LR 8.6.7CG; LR 8.6.7DG; LR 8.6.9BG; LR 8.6.12R; LR 8.6.13G; LR 8.6.19R; LR 8.6.20G; LR 8.7.7R; LR 8.7.7AR.

### Competence requirements

The requirement for a sponsor to be competent is a continuing obligation (LR 8.6.6R). The competence requirements for sponsors and applicants for sponsor approval, which can be found in LR 8.6.7R–LR 8.6.9BG, require a sponsor or applicant:

- to have submitted a sponsor declaration (as defined) to the FCA within the last three years (LR 8.6.7R(1))
- to have a sufficient number of skilled employees who, inter alia, understand what we have referred to in this note as ‘competency sets’ (as set out in LR 8.6.7R(2)(b)), being identified areas of skills, knowledge and expertise that we expect of sponsors, and
- to retain employees who are able to act as ‘key contacts’ when making submissions to the UKLA department (requirements for key contacts are set out in LR 8.6.19R, which is summarised below)

A sponsor’s ability to comply with these requirements will be considered in light of the sponsor’s current and proposed business and operations (LR 8.6.7CG).

LR 8.6.12R(9) requires the sponsor to have effective systems and controls in place to comply with these competency sets. LR 8.6.16AR(4) requires a sponsor to record the steps they have taken to comply with its obligations under LR 8.6.6R, which will include its obligations to demonstrate competence to perform sponsor services.

LR 8.6.19R requires a sponsor to ensure that, when it is performing a sponsor service that requires the submission of a document or contact with the FCA, it provides the FCA with the name of a ‘key contact’. LR 8.6.19R(2) requires a sponsor to ensure that key contacts meet certain criteria including whether they:

- are sufficiently knowledgeable about their client and the matter the subject of the sponsor service
- can demonstrate an understanding of core skills, knowledge and expertise (as referred to in LR 8.6.7R(2)(b)(i) and (iv)), and
- are authorised to make representations to the FCA for and on behalf of the sponsor

LR 8.6.20G sets out our expectation that a key contact will have experience of carrying out sponsor services in the last three years.

## Considerations relating to sponsor competence

This Note is intended to assist sponsors or applicants for sponsor approval in considering whether the firm meets, or continues to meet, the rules requiring sponsors to be competent to provide sponsor services at all times. We have set out below a number of questions and answers, some of which will only be relevant to new applicants, and some of which will also be applicable to existing sponsors. ~~This Note is intended to assist sponsors or applicants in considering whether the firm meets, or continues to meet, the rules requiring sponsors to be competent to provide sponsor services at all times.~~ This Guidance will be particularly relevant to existing sponsors when completing their Annual Notification Form (AN) and to new applicants for sponsor approval when completing an application form (New Applicant Form).

### **(a) When applying to be a sponsor, does the UKLA department FCA require us to explain how we are able to meet the requirements of LR 8.6.7R (2)? What information do you require on staffing?**

As an new applicant for sponsor approval, we would expect to review the full staffing proposition of the business that is to provide sponsor services. We require an applicant for sponsor approval to make a submission setting out how it considers itself able to meet the requirements of LR 8.6.7R (2) and how it is able to demonstrate that the sponsor function meets our requirements in relation to all the identified competency sets. Persons considering applying for approval as a sponsor can find the relevant form on our website<sup>1</sup>. We expect, as part of that submission, to be provided with, inter alia:

- a list of staff providing sponsor services
- an organogram of the sponsor function
- an analysis of how the proposed sponsor function meets the requirement of LR 8.6.7R (2)
- an explanation of how transactions are expected to be staffed
- what reporting lines and control functions are put in place to ensure compliance with LR 8.6.12R (taking into account LR 8.6.7CG), and
- identification of the employees able to meet the key contact requirements in LR 8.6.19R together with an explanation as to how they meet those requirements

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<sup>1</sup> [www.fca.org.uk/firms/markets/ukla/sponsor-firms/sponsors/applying](https://www.fca.org.uk/firms/markets/ukla/sponsor-firms/sponsors/applying) <https://www.fca.org.uk/markets/primary-markets/sponsor-regime/apply-become-sponsor>



**(b) What is the minimum number of employees a new an applicant for sponsor approval needs to retain in order to be approved as a sponsor?**

Our rules relating to sponsor competence require a sponsor to maintain a sufficient number of skilled staff employees (LR 8.6.7R(2)), in other words, adequacy of resource. ~~New a~~ Applicants for sponsor approval will need to determine whether they have sufficient resource to meet their expected business activity, in light of the guidance set out in LR 8.6.7CG, and whether they will be able to provide sponsor services in accordance with the Principles for Sponsors, including the need to provide sponsor services with due care and skill. ~~Despite the expectation set out in LR 8.6.7D that new applicants (and sponsors) need a minimum of two employees capable of meeting the key contact requirements, sponsors and new applicants will need to consider whether they meet our expectations in light of guidance set out in LR 8.6.7CG and LR 8.6.7DG.~~ Although LR 8.6.7DG indicates that in order to be competent, we would expect a sponsor to have a minimum of two employees capable of performing the role of key contact in order to minimise key person risk, a sponsor will need to consider the number of key contacts it needs in the context of its business model and activity levels (LR 8.6.7CG). This may require a sponsor to staff its operations with significantly more than the minimum number two employees capable of acting as key contacts set out in LR 8.6.7DG.

**(c) We haven't submitted a sponsor declaration of the type specified in LR 8.6.7R (1) in almost three five years. Can we rely on other declarations? What action should we take?**

LR 8.6.7R (1) requires a sponsor or applicant for sponsor approval to have a sufficient amount of relevant experience and expertise. A sponsor can meet this requirement by demonstrating that it has submitted a sponsor declaration to the FCA in the last five years (LR 8.6.7R (1)(a)(ii)). An applicant for sponsor approval can meet the requirement by demonstrating that it has submitted a sponsor declaration to the FCA within five years of the date of its application. (LR 8.6.7R (1)(a)(i)). In either case, a sponsor or applicant for sponsor approval may look through to its employees' material involvement in sponsor services requiring a sponsor declaration to demonstrate this experience (LR 8.6.7AG).

However, LR 8.6.7R (1)(b) also allows a sponsor or applicant for sponsor approval to meet this part of the sponsor competence requirements without having previously submitted a sponsor declaration or relying on looking through to employees that have previously had material involvement in sponsor services requiring a sponsor declaration. In this case, a sponsor or applicant for sponsor approval will need to meet the requirement by reference to its provision of sufficient relevant corporate finance advisory services to persons with (or applying for) admission of securities to a UK recognised investment exchange and with a minimum aggregate market value (or expected aggregate market value) of at least the amount required by LR 2.2.7R (1)(a). LR 8.6.7.AAG provides further guidance on factors the FCA may consider when determining whether a sponsor or applicant for sponsor approval satisfies this

requirement, including the cumulative body of its experience and expertise providing relevant corporate finance advisory services and the range of skills, knowledge and experience evidenced through the provision of the services.

~~We require a sponsor to have submitted~~ Sponsors and applicants for sponsor approval should note that a sponsor declaration in this context means, namely one a declaration that covers confirmations concerning compliance with LRs, PRRs and DTRs and, where relevant, the effect of the transaction on the issuer and the sufficiency of working capital. Therefore a declaration given on an announcement of a reverse takeover under LR 8.4.17R or in relation to LR 8.2.1R (5) (sponsor appointment where there has been, or may be, a breach of the LRs or DTRs) will not be relevant for satisfying this requirement and we have drafted the definition of 'sponsor declaration' accordingly.

~~Notwithstanding that LR 8.6.7R provides alternative methods for demonstrating experience and expertise,~~ it is likely that the ~~Sponsor Supervision~~ Primary Market Specialist Supervision team will be communicating with sponsors whom they have been able to identify as struggling to satisfy ~~this requirement~~ LR 8.6.7R (1)(a)(ii). However, we expect sponsors to build into their procedures an internal notification requirement that alerts management if the firm has not conducted a sponsor transaction resulting in the production of a relevant sponsor declaration for a period of time. Sponsors should be mindful that they remain under an obligation (LR 8.7.8R (1)(a)) to notify us as soon as possible if they cease to satisfy the criteria in LR 8.6.5R or become aware of any matter that, in their reasonable opinion, would be relevant to the FCA in considering whether the sponsor continues to comply with LR 8.6.6.R. In practice, we expect sponsors to contact us well before they are in actual breach of their obligations under LR 8.6.7R (1).

In most cases, sponsors ~~at risk of not meeting the requirements of~~ LR 8.6.7 R (1) will seek to recruit to satisfy this requirement. For guidance on how our provisions for 'looking through' to ~~individuals~~ employees apply to these situations, please see question (ii) below on the application of LR 8.6.7AG for new applicants and existing sponsors.

#### **(d) What should we take into account when considering LR 8.6.7R (2)(a)?**

LR 8.6.7R (2)(a) requires a sponsor, or a person applying for approval to act as sponsor, to have a sufficient number of employees with the skills; and knowledge and expertise necessary for it to provide *sponsor services* in accordance with LR 8.3. The Principles for Sponsors in LR 8.3 (Principles) set out what we see as the role of a sponsor and four key principles that should apply to that role. These are:

- carrying out sponsor services with due care and skill
- ascertaining whether directors understand their obligations under the LRs and DTRs

- being open and cooperative with the FCA, dealing with all enquiries raised by the FCA promptly, acting with honesty and integrity and, in connection with a sponsor service, raising any failure by its client or itself to comply with the LRs and DTRs of which it is aware, and
- identifying and managing conflicts of interest affecting a sponsor's ability to provide sponsor services or affecting market confidence in sponsors

We expect a sponsor to have considered the scope of the role and the responsibilities that sponsors are subject to when seeking to fulfil that role in accordance with these Principles.

When considering whether a sponsor has an appropriate number of skilled employees for the purposes of LR 8.6.7R (2)(a), we expect a sponsor or person applying for sponsor approval to consider whether, inter alia:

- the number of staff employees within the organisation will be able to staff the expected pipeline of transactions without compromising the performance of those services to the requisite standard of professional care
- the staff employees providing sponsor services have sufficient expertise skills and knowledge to identify and communicate the directors' obligations to them
- the employees providing sponsor services understand the requirement for sponsors to conduct an open and co-operative relationship with the FCA, and
- the staffing model for the sponsor function allows the sponsor to identify and manage any potential conflicts of interest in order to allow them to act for current and potential clients

**(e) How can we demonstrate our ability to comply with the requirements set out in LR 8.6.7R (2)(b) relating to competency sets?**

The competency sets articulate five areas in which we expect sponsors, or those applying for approval to act as sponsor to have relevant skills; and knowledge ~~and~~ expertise. These are:

- the rules; and guidance ~~and~~ ESMA publications directly relevant to sponsor services;
- the procedural requirements and processes of *the FCA*
- the due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4
- the responsibilities and obligations of a sponsor set out in LR 8, and
- specialist industry sectors and/or certain types of company, if relevant to the sponsor services it provides or intends to provide

TN/714.13 provides a description of the types of skills; and knowledge and expertise that we expect sponsors to consider when assessing their understanding of each of these competency sets; depending on a sponsor's business model, it may wish to consider other relevant areas. However, we consider the competency sets listed above to be the core abilities a sponsor should be able to demonstrate when assessing whether it is competent to carry out sponsor services.

Our expectation is that, on an annual basis, in preparing for the submission of the AN, those responsible for the sponsor function within their firms will consider the skills; and knowledge and expertise of those performing sponsor services, with reference to the descriptions set out in TN/714.13, and form a view, based on the factors set out in LR 8.6.7CG, as to whether they have a sufficient number of employees who can demonstrate the required skills, knowledge and expertise. Further guidance on our expectations of this assessment is set out below.

**(f) Do you expect us to assess individuals against the competency sets?**

We do not expect sponsors or new applicants for sponsor approval to perform a detailed assessment of each individual's understanding of each competency set. However, we would expect any sponsor assessing compliance with LR 8.6.5R (2) to document how they reached a view that the sponsor function, as a whole, is competent to provide sponsor services with reference to each competency set. In firms where the sponsor role is carried out by a limited number of employees, more consideration is likely to be given at an individual level to the ability of the sponsor to meet the requirements of LR 8.6.7R (2)(b).

We envisage that a sponsor will, in performing the assessment of the function carrying out sponsor services, draw on their knowledge of those employees' skills, work experience on sponsor services and other corporate finance activity and recent training. We would also expect those performing the assessment to consider any potential gaps in knowledge that they might identify, to consider 'key man person risk' and/or possible succession planning, and to reflect on any pertinent feedback that they may have received from the UKLA department FCA during the performance of sponsor services. Where a sponsor is of the view that it may not meet the requirements of LR 8.6.6R, it should contact the Sponsor Primary Market Specialist Supervision team as soon as possible.

**(g) Will you expect each employee involved in the provision of sponsor services to be able to demonstrate an understanding of all the competency sets as set out in LR 8.6.7R (2)(b)?**

We are aware that sponsors do not all conduct their business in the same way, often using different staffing or management models. We are also aware that, when a firm acts as a sponsor, there will not necessarily be a separate business unit acting 'as sponsor'. Firms may identify employees from a number of different business areas to carry out sponsor services, or function as a sponsor. Depending on the type of service

offered and the structure of the sponsor firm, the employees identified may each hold different skill sets and bring different skills and knowledge and ~~expertise~~ to the sponsor team performing the sponsor service. Therefore, we do not expect each employee to be able to demonstrate an understanding of all competency sets.

However, a sponsor is required to have systems and controls in place regarding 'appropriate staffing arrangements': this requirement in LR 8.6.12R (6) seeks to ensure that sponsors consider the ability of the execution team allocated to the sponsor service to comply with the requirements of LR 8, including the Principles for Sponsors in LR 8.3. Therefore, a sponsor should be structured in such a way as to ensure that the approach to staffing sponsor services takes into account the need to consider whether each client or transaction team providing a particular sponsor service is able to meet all competency sets. This does not mean that sponsors will need to restructure their businesses or the way in which they provide corporate finance advisory work to their clients, but rather that sponsors will need to consider the staffing of each sponsor service in order to determine whether the team allocated to the matter is able, as a whole, to meet our requirements as well as those of their client. This will therefore necessitate a sponsor assessing its ability to meet the requirements of LR 8.6.7R (2)(b) on an ongoing basis as well as on a transactional basis.

**(h) Do we need to keep a record of our assessment of competence? What level of records do we need to keep to evidence the steps we have taken to comply with these obligations?**

Sponsors are required to keep records of their assessment of competence and to provide evidence to support that assessment and an annual confirmation that they satisfy the criteria for approval (LR 8.7.7R (1) and LR 8.7.7AR (1A)), including the competence requirements set out in LR 8.6.7R. In addition, sponsors are also required to keep records of the steps that they have taken to comply with their obligations under LR 8.6.6R (LR 8.6.16AR (4)).

Clearly, the level of detail that a sponsor is expected to record when meeting these obligations, particularly in relation to any competence assessment, will differ depending on the size of the firm, the sectors in which it operates and its level of activity. To assist with their record-keeping obligations in this area, sponsors may wish to use the AN as a record of the steps that they have taken to comply with their obligations under LR 8.6.16AR (4) and LR 8.7.7AR (1A). To this end, the AN includes prompts for sponsors to consider when completing the form. Should sponsors wish, they may of course retain more detailed records underpinning their considerations of compliance with these requirements. This may be the case where the firm already carries out a more in-depth review process of staff or their function for their own or other regulatory purposes.

The AN sets out each of the criteria for approval as a sponsor, as well as the more detailed components of the competence requirements (LR 8.6.7R), including the competency sets. Under each requirement, the form provides space for sponsors to

record, using free text, how they believe that they are able to meet the requirements. As an example, we set out below an illustration of the type of text a sponsor may provide in relation to the first competency set (LR 8.6.7R (2)(b)(i)).

Extract from the AN: Example text

**i. Understand :**

**1. the rules; and guidance and ESMA publications directly relevant to sponsor services**

*(please provide details of the area of the business or identified staff that the sponsor relies on to demonstrate compliance with this requirement and an indication of how the sponsor is able to demonstrate the skills; and knowledge ~~and~~ expertise required, including transactional and advisory experience as well as any relevant training or other resource).*

[Sponsor] relies on the employees within the sector teams of the Investment Banking division (IBD) in the London office to provide expert knowledge of the LRs, DTRs and PRRs. In particular, the Real Estate, Retail and Extraction teams carry out the bulk of our sponsor services and ~~much of our expertise resides within the employees in those teams. Where other sector teams intend to undertake sponsor services we ensure that they are supported by staff in our specialist execution team who also undertake sponsor services on a regular basis~~ provide support where other sector teams intend to undertake sponsor services. In order to ensure that these teams retain up-to-date knowledge of the relevant rules and guidance we undertake the following:

1. We assess on an annual basis the transactional experience of the teams gained acting for FTSE 350 companies and in particular we identify where the service provided has been a sponsor service. For a breakdown of transaction experience (including the names of those involved in the performance of the service) we would refer you to our response to Q12 in Part B of this form.
2. We retain two law firms on an ongoing basis to update us on regulatory changes and to provide us with bespoke training on hot topics arising in relation to the provision of corporate finance advisory services including carrying out the role of sponsor. Details of training provided to IBD and supporting functions this year are set out in Qx below.
3. We have embedded compliance resource within IBD that ensures that staff providing or likely to provide sponsor services are briefed on regulatory changes, including guidance and other publications from ~~ESMA~~ which are relevant to the provision of sponsor services.
4. We hold weekly WIP meetings for IBD in order to disseminate knowledge gained on live transactions concerning, amongst other things, interactions and expectations of the ~~UKLA department~~ FCA.
5. We currently act as broker to six FTSE 250 clients whom we regularly advise on announcement and other disclosure obligations.

The above example is modelled on a large integrated firm that is an approved sponsor. Given the differing types of firms approved as sponsors, the level of detail and evidence relied on is likely to differ from sponsor to sponsor. For instance, a firm operating a corporate-broking business model, or an advisory-only business, may rely on a smaller core team of employees to conduct sponsor services. Such sponsors may seek to demonstrate compliance with LR 8.6.7R (2)(b)(i) by making similar submissions as above in relation to transaction experience (paragraph 1), internal dissemination of information (paragraph 4) and other experience of providing advice on the LRs, DTRs and PRRs (paragraph 5). However, they would describe differing approaches to training and compliance (paragraphs 2 and 3) and staffing of transactions, which may rely more on key individuals, such as directors, rather than team structures as in the example above. Ultimately, however, those responsible for the assessment will need to demonstrate that they have a reasonable basis on which to provide the confirmation that they continue to meet the criteria for approval, including the competence requirements.

In the case of an applicant for sponsor approval that hasn't performed sponsor services previously, the firm may look through to the experience of its employees in demonstrating an understanding of the competency sets, including skills and knowledge that employees may have gained in other roles. An applicant for sponsor approval may also place reliance on training and internal knowledge sharing, where employees with relevant skills and knowledge are able to build and support the understanding of other employees.

**(i) How do we comply with LR 8.6.7R (2)(b)(v), which requires a sponsor to have an understanding of specialist industry sectors and/or certain types of company, where relevant to the sponsor's business?**

This requirement is only relevant As set out in TN714.3, where a sponsor intends to provide sponsor services to an issuer in a specialist industry sector, such as the mineral or property sectors, or that is a specialist type of company, such as an investment company, it is important that the sponsor is able to demonstrate a sufficient understanding of that sector or company type to be able to provide sponsor services effectively. As such, for sponsors that do not operate, or intend to operate, in specialist sectors, such as mineral or property sectors, it will not be necessary to consider whether the sponsor function demonstrates an understanding of this competency set.

For sponsors that do intend to provide sponsor services for specialist sector issuers, it is important that they consider how they are able to meet our expectations: these are more particularly described in section A of TN/714.1. We recognise that a sponsor or applicant for sponsor approval may be able to demonstrate its understanding of a specialist industry sector or company type in a number of ways. It is possible that some sponsors or applicants for sponsor approval are structured in a way that recognises specialist industry sector or company expertise and, as such, are able to meet this requirement relatively easily. In other cases, it may be necessary for the sponsor or applicant for sponsor approval to draw together specialists from other areas of the firm,



such as colleagues in different jurisdictions or with expertise in a particular area. In some cases a sponsor may need to consider how best to enhance existing knowledge within the firm by making use of external specialists. It may also be necessary for the sponsor or applicant for sponsor approval to arrange additional training for the team involved.

**(j) How much and what type of corporate finance advisory experience is necessary to satisfy LR 8.6.7R 1(b)?**

LR 8.6.7R 1(b) allows a sponsor or an applicant for sponsor approval to meet part of the sponsor competence requirements without having previously submitted a sponsor declaration or relying on looking through to employees that have previously had material involvement in a transaction involving a sponsor declaration. In this case, a sponsor or applicant for sponsor approval will need to meet the requirement by reference to its provision of sufficient relevant corporate finance advisory services to issuers meeting certain criteria. LR 8.6.7AAG (2) provides further guidance on factors the FCA may consider when determining whether a sponsor or applicant for sponsor approval satisfies this requirement, including the cumulative body of its experience and expertise providing relevant corporate finance advisory services and the range of skills and knowledge evidenced through the provision of the services. The factors outlined in LR 8.6.7AA G are not exhaustive.

When assessing a sponsor's or applicant for sponsor approval's ability to meet the requirements of LR 8.6.7R 1(b), the FCA is interested to understand if the firm has sufficient experience analogous to the provision of services culminating in a sponsor declaration. In considering this, the FCA will consider whether the cumulative body of experience is relevant to the scale and nature of the sponsor services the firm expects to perform (LR 8.6.7CG). For instance, a firm presenting several examples of having advised clients on the application of rules pertaining to mergers and acquisitions may not be able to demonstrate to our satisfaction that it has expertise to provide sponsor services relating to the IPO of an issuer to which the sponsor regime applies.

The FCA will also take into account the volume of experience. In considering the body of experience presented to us, we expect a sponsor or applicant for sponsor approval to be able to demonstrate multiple examples of its work on corporate finance advisory services. We expect that experience to demonstrate a consistent ability to advise issuers meeting the criteria specified in LR 8.6.7R (1)(b)(i) and (ii) on rules and guidance issued by a regulator or exchange, adhere to the procedural requirements and processes of a regulator or exchange and to undertake due diligence to support assurances given to a regulator or exchange and to verify public statements made by an issuer.



**(k) To demonstrate we have provided sufficient relevant corporate finance advisory services to satisfy the requirements in LR 8.6.7R (1)(b), why must such services have been provided to issuers with a specified minimum market value?**

LR 8.6.7R (1)(b) allows a sponsor or applicant for sponsor approval to meet part of the sponsor competence requirements by reference to the provision of sufficient relevant corporate finance advisory services to issuers meeting the criteria specified in LR 8.6.7R (1)(b)(i) and (ii). At the time at which such services were provided, the issuers must have had a minimum aggregate market value or, in the case of issuers applying for admission, an expected aggregate market value, of at least the amount required under LR 2.2.7R(1)(a) (LR 8.6.7R (1)(b)(ii)).

Whilst we allow sponsors or applicants for sponsor approval to meet the sponsor competence requirements by reference to experience other than experience involving the provision of a sponsor declaration or by relying on looking through to employees that have previously had material involvement in a transaction involving a sponsor declaration, we want to ensure that the experience that a firm can demonstrate is analogous to the provision of sponsor services culminating in a sponsor declaration. We consider relevant experience to be that which approximates most closely the scale and complexity of transactions relating to companies to which the sponsor regime applies.

**(l) — We are a Nominated Adviser for the purposes of the AIM Rules for Companies. Can we become a sponsor based solely on this experience?**

In our view the sponsor regime is an expert regime in its own right and that the best indicator of competence is through previous experience of performing the role. Based on discussions with stakeholders, it is our view that the role of the sponsor cannot be replicated by other experience.

**(i) LR 8.6.7AG and LR 8.6.7CAG indicates that in order to meet the requirements of providing a sponsor declaration in the last three years in LR 8.6.7R, you may 'look through' to individuals to satisfy this requirement. What does this mean? Is this only relevant to new applicants for sponsor approval?**

At the point of application, ~~a new~~ an applicant for sponsor approval is unlikely to be able to satisfy the requirement of LR 8.6.7R (1)(a)(i) as it would not have submitted a sponsor declaration to the FCA. LR 8.6.7AG indicates that for the purposes of complying with LR 8.6.7R(1)(a), individuals will be viewed as representing the experience and expertise of the firm for the purposes of the provision of a sponsor declaration. In LR 8.6.7AG we have highlighted that we will consider whether any of the applicant's employees have had material involvement in the provision of sponsor services that have required the submission of a sponsor declaration within the previous ~~three~~ five years.

This requirement guidance may also be relevant to existing sponsors that, due to low activity, wish to rely on newly recruited personnel in order to satisfy the requirement of LR 8.6.7AGR (1)(a)(ii).

We expect to derive a similar level of comfort from 'looking through' to individuals as we would from a sponsor having submitted a declaration. By this we mean that, in order to satisfy rely on a 'look through' pursuant to LR 8.6.7AG, a new an applicant for sponsor approval or existing sponsor unable to meet LR 8.6.7R(1)(a), should retain relevant employees who understand the process behind a sponsor declaration, what our expectations are in terms of reaching a reasonable opinion after due and careful enquiry, and what obligations apply to a sponsor before submitting a declaration. This should be evidenced at least through an employee's appropriate level of involvement in submitting a sponsor declaration at their previous employer (being an approved sponsor), thereby demonstrating an understanding of these requirements.

We would therefore not consider the following examples, by themselves, to demonstrate an appropriate level of involvement:

- *Signing a sponsor declaration:* sponsor declarations are given by firms, not individuals. Declarations are required to be signed by a duly authorised officer of the sponsor, ~~although~~; individuals completing the form on behalf of the sponsor may not have been involved in the execution of any of that sponsor service and may have been providing an executive or peer-review function at their previous employer. While the expectation is that the individual signing the declaration has sufficient understanding of the sponsor regime to provide sufficient comfort that the sponsor requirements have been complied with, we would not assume this is the case based solely on the execution of that declaration.
- *Submitting documents to the ~~UKLA department~~FCA:* we recognise that someone making submissions to the ~~UKLA department~~ FCA during the course of a sponsor service may not have the requisite skills in order to satisfy this requirement, and therefore we cannot make the assumption that being a contact for a transaction will satisfy this requirement.

Similarly to LR 8.6.7AG, LR 8.6.7CAG recognises that a sponsor or applicant for sponsor approval that is seeking to demonstrate its experience and expertise by meeting the requirements in LR 8.6.7R (1)(b), may look through to the involvement of its employees in the provision of relevant corporate finance advisory services. In particular, the FCA will expect the relevant employees to have had a material involvement in the relevant services. LR 8.6.7AA G describes the factors the FCA may consider when a sponsor or applicant for sponsor approval seeks to rely on the corporate finance advisory experience of its employees to satisfy LR 8.6.7R (1)(b). The FCA is likely to want to understand the precise involvement of employees in the relevant services, with specific reference to the tasks and responsibilities referred to in LR8.6.7AA G (2)(a), (b) and (c). Practically speaking, a senior individual who has little involvement in the detailed consideration of rules and guidance of, or interactions with, a regulator or exchange may not meet this requirement. Equally, an employee

performing due diligence or verification tasks but with no responsibility for making material judgements on the relevant service may also not meet this requirement.

New applicants will also need to consider how they intend to satisfy LR 8.6.7R(1) (submission of a sponsor declaration in the last three years) and may need to recruit employees to meet these requirements by applying the provisions of LR 8.6.7AG as discussed in question (i) above. Employees capable of meeting this requirement may also be able to meet the key contact requirements in LR 8.6.19R:

LR 8.6.20G sets out our expectation that key contacts will have undertaken a sponsor service in the last three years. This is because we do not expect key contacts to be able to meet these requirements through training alone, particularly the need for key contacts to be knowledgeable in relevant parts of the Handbook and applicable guidance referred to in LR 8.6.19R(d). We would therefore expect a sponsor or new applicant to contact us to discuss whether an individual should be identified as a key contact where they have limited or no practical experience of providing sponsor services to certain types of companies:

**(m) We only want to provide sponsor services to premium listed investment companies. Can we still apply? We have experience in relation to a particular specialist industry sector or company type. Is it possible to be approved as a sponsor on the basis of providing sponsor services on a limited basis?**

LR 8.6.7CG explains that the FCA will take into account a range of factors relating to a sponsor's or applicant for sponsor approval's business and operations when assessing whether a sponsor meets the competence requirements. This is because the FCA expects that sponsors will have expertise that is relevant to the scale and nature of the sponsor services it expects to perform.

In April 2013, the FCA received powers ((s88(3)(e) FSMA) that enabled us to approve sponsors with restrictions or limitations. LR 8.6.5CG provides for firms who wish to apply on a limited approval basis. We recognise that one area where firms may wish to specialise is by providing sponsor services only to premium listed investment companies only to which the sponsor regime applies. The competence requirements set out in LR 8.6.7R are the same for any new applicant or sponsor. However, recognising that the regime for listed investment companies differs significantly from premium listed commercial companies in some areas, we have provided separate guidance on the competency sets in TN/714.1 for persons wishing to provide sponsor services solely to premium listed investment companies or premium listed commercial companies we expect a firm wishing to provide sponsor services only to investment companies to request a limitation on its approval. Further guidance in relation to limitations and restrictions can be found in TN712.2. A new applicant wishing to provide sponsor services solely to premium listed investment companies should refer to Section B of TN/714.1. Otherwise, the FCA expects that most sponsors will provide a full range of sponsor services, and consequently that sponsors or applicants for

sponsor approval will demonstrate experience, expertise, skills and knowledge across a wide range of company and transaction types when satisfying the competence requirements in LR 8.6.7R. The FCA will consider on a case-by-case basis whether a sponsor or applicant for sponsor approval might be able to meet the competence requirements on a more limited basis, and whether a limitation or restriction using our powers is appropriate.

**(n) We have experience of providing sponsor services to premium listed investment companies to which the sponsor regime applies but have only acted for commercial companies in corporate advisory roles other than a sponsor role. We wish to apply for sponsor approval. Can we meet the criteria for approval without being subject to a restriction or limitation?**

Should an applicant for sponsor approval be able to demonstrate that it has submitted a declaration in the previous three five years on a sponsor service for a premium listed investment company, either on a firm basis or on a 'look-through' basis, it will meet the requirements of LR 8.6.7R (1)(a). However, we would need to be satisfied that the firm has the necessary skills, knowledge and expertise to meet the competence requirements in LR 8.6.7R(2) and that it has a sufficient number of key contacts who can meet the requirements of LR 8.6.19R:

LR 8.6.7CG explains that the FCA will take into account a variety of factors relating to a sponsor's or applicant for sponsor approval's business and operations when assessing whether a sponsor meets the competence requirements. This is because the FCA expects that sponsors will have expertise that is relevant to the scale and nature of the sponsor services it expects to perform. An applicant for sponsor approval with only investment company experience is expected to request a limitation of its approval.

However, an applicant for sponsor approval may be able to demonstrate that it has a sufficient body of experience providing relevant corporate finance advisory services to a wider range of company types such that it can satisfy LR 8.6.7R (1)(b).

The FCA would also need to be satisfied that the firm has the necessary skills and knowledge to meet the competence requirements in LR 8.6.7R (2) and that it has a sufficient number of key contacts who can meet our expectations set out in LR 8.6.7DG.

In our experience, given the specialist and expert nature of our regime, experience obtained in other corporate advisory work is unlikely, by itself, to demonstrate that the applicant is able to meet the competence requirements for sponsors. For instance, premium listed companies are subject to requirements applying to significant and related party transactions in LR 10 and LR 11. Furthermore, different regimes do not require the same consideration of areas of due diligence that LR 8 requires of sponsors. We believe the nature of the relationship between the FCA and sponsors is not replicated by any other regime, in terms of both operational matters and issues of responsibility. Therefore, should we believe that an applicant has limited or no

experience in providing sponsor services of a particular type or to a certain type of company, we may consider the applicant to be unable to meet LR 8.6.5R(2), and seek to impose restrictions under LR 8.6.5AR as envisaged through LR 8.6.5BG.

Should an applicant be seeking approval as a sponsor without restriction or limitation, we would also expect its employees acting as key contacts to have had experience of providing sponsor services to companies in both premium listed segments in order to demonstrate an ability to comply with LR 8.6.19R.

### **(o) Can we have more than one key contact on a transaction?**

In relation to a live sponsor service, the sponsor should allocate only one key contact to that service. As the allocated key contact will have the authority to make representations for and on behalf of the sponsor, we believe it is important that we are able to place reliance on, and ensure continuity through, the use of that one named key contact. However, we recognise that key contacts may need to draw on other experience within the sponsor firm during the course of the sponsor service.

Should sponsors consider there to be a need to use an alternate key contact, it is up to the sponsor to notify the ~~UKLA department~~ FCA as and when they consider appropriate as to the identity of the alternate contact. For instance, there may be circumstances, such as sickness or holiday absence, where the allocated key contact may not be available. In any event, the sponsor should inform the FCA of an alternate key contact as soon as possible to ensure that the sponsor is able to comply with LR 8.6.19R during the provision of a sponsor service.

We do not prescribe that all communications with the ~~UKLA Department~~ FCA must be through the key contact identified for a particular matter – for more guidance on this, please refer to ~~(o)~~ question (p) below.

### **(p) Do we need to identify key contacts on an annual basis or on a transaction basis?**

Each time a sponsor provides a sponsor service requiring the submission of a document or contact with the FCA, it must identify a key contact (LR 8.6.19R (1)). However, in order to ensure a suitable level of resource at all times, sponsors are required to retain a sufficient number of employees who are able to meet the requirements of LR 8.6.19R in light of the expected pipeline of sponsor work (LR 8.6.7R (2)(c) and LR 8.6.7CG). Our expectation is that sponsors will be able to identify employees capable of acting as key contacts on an ongoing basis and provide details of those individuals in each AN submitted. As set out in LR 8.6.7DG, as a minimum, we would expect a sponsor to identify two employees who are qualified to carry out the key contact role. Sponsors may identify more employees in their AN and may, at any point, notify the FCA of additional key contacts. This can be communicated directly to the Sponsor Supervision Primary Market Specialist Supervision team. Where the FCA considers that more key contacts are required than the number identified in the AN, we may seek to challenge

and discuss this with the sponsor. It should be noted that, as a key contact is required to be sufficiently knowledgeable about the client and the transaction or matter that is the subject of the sponsor service, our expectation is that the key contact is drawn from the transaction or client team providing the sponsor service.

**(q) What level of involvement do you expect from a key contact on a sponsor service?**

The purpose of the key contact requirements set out in LR 8.6.19R is to ensure that when a sponsor acts on a sponsor service, it is communicating with us through appropriately skilled and experienced staff who have the authority to make representations on behalf of the sponsor. LR 8.6.19R sets out the specific requirements for key contacts, highlighting that they must be knowledgeable about the issuer and matter under consideration, that they should be available to answer queries from the FCA during specified hours, are authorised to make representations to the FCA for and on behalf of the sponsor and that they are able to demonstrate an understanding of two specified competency sets. ~~We have also set out our expectation that key contacts have previous recent experience of providing sponsor services:~~ In selecting an individual to act as a key contact on a sponsor service, we would expect a sponsor to take into account the nature of the transaction or service being provided when putting staffing arrangements in place, including the identification of a key contact.

We expect a key contact to be involved in communications with the ~~UKLA department~~ FCA that require, or may require, the sponsor to provide confirmations or explanations on which we will rely in order to determine compliance with the LRs, PRRs and DTRs. For example, this could include calls to discuss comments raised by the document vetting process that relate to matters covered by the sponsor declaration such as working capital, or questions concerning the issuer's compliance with a necessary disclosure in a public document, or discussions in relation to eligibility matters. We would also expect the key contact to play a role in the preparation or review of any written submissions to the FCA as that individual will need to be available to answer any queries we may have on these types of communications. However, as key contacts are required to be able to make representations on behalf of the sponsor, our expectation is that they will be likely to hold a more senior position in the firm. We would not expect a key contact to be involved in every call or communication with the FCA, as we recognise that some discussions may be more administrative in nature or relatively straightforward and, as such, capable of being dealt with by other members of the team. We will endeavour to ensure that calls where a key contact should be in attendance are flagged to the sponsor. However, ultimately we will expect sponsors to use judgement when considering whether a key contact should be involved in a particular communication.

**(r) What happens if employees providing sponsor services, including key contacts, leave the firm? Will we still be competent?**

The number of employees who are capable of meeting the key contact requirements must be proportionate to a sponsor's business and operations (LR 8.6.7CG), with the caveat that we expect all sponsors to retain at least two employees capable of acting as a key contact (LR 8.6.7DG). Sponsors may be able to replace an employee who is a key contact from existing staff in which case they will continue to satisfy LR 8.6.7R (2)(c).

However, should any employee providing sponsor services leave a firm, whether or not they are a key contact, the sponsor must consider whether they are staffing sponsor services in a way that allows them to continue with fewer personnel or whether they need to consider recruiting further staff in order to satisfy the requirements set out in LR 8.6.7R (2).

A sponsor must notify the Sponsor Primary Market Specialist Supervision team of any material changes in personnel under LR 8.7.8R (1) should the departure impact on the sponsor's ability to satisfy the criteria for approval (LR 8.6.5R). Where we believe that remedial steps can be taken in the short term, a sponsor may seek to suspend its sponsor activity until such time as it can recruit further staff or take other steps in order to satisfy these requirements. Where it is unlikely that a sponsor will meet these requirements, a sponsor may need to consider seeking a cancellation of its approval.

*Editor's note: The order of the questions set out in this version of Technical Note 715 Sponsors: Practical implications of competence requirements for sponsors and applicants, differs from earlier versions, due to the addition of new questions.*

## Appendix 5

# **Proposed changes to Technical Note 'Sponsors: Guidance on the competence requirements set out under LR 8.6.7R(2)(b)'**



# ~~UKLA~~ FCA Technical Note

## Sponsors – Guidance on the competence requirements set out under LR 8.6.7R(2)(b)

LR 8.6.7R,  
LR 8.6.7R(2)(b)

LR 8.6.7R sets out the competence criteria for firms wishing to apply to become a sponsor and for existing sponsors to ensure ongoing approval. LR 8.6.7R(2)(b) requires a sponsor to have a sufficient number of employees with the skills; and knowledge ~~and~~ expertise necessary for it to understand:

1. The rules; and guidance ~~and~~ ESMA publications directly relevant to sponsor services.
2. The procedural requirements and processes of the FCA.
3. The due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4.
4. The responsibilities and obligations of a sponsor ~~set out~~ in LR 8.
5. Specialist industry sectors and/or certain types of company, if relevant to the sponsor services it provides or intends to provide.

We refer to these areas of knowledge as 'competency sets' in this note. To assist sponsors, we explain below the types of skills; and knowledge ~~and~~ expertise that we expect a sponsor to consider when assessing its ability as a firm to demonstrate an understanding of each competency set. We expect sponsors to take into account training received, experience obtained on sponsor and non-sponsor services ~~and~~ including other corporate finance experience, both transactional and non-transactional, when seeking to demonstrate compliance with LR 8.6.7R(2)(b).

The following is not intended to be exhaustive; sponsors may wish to consider other matters under each competency set when considering their own business and clients.

**Note:** This Technical Note describes our expectations in relation to the competency sets for sponsors offering services to premium listed commercial companies (see Section A); and, sponsors that specialise in advising premium listed investment companies (see Section B). Sponsors offering sponsor services to the full range of premium listed companies will need to consider the most appropriate way to incorporate aspects of both Sections A and B when considering whether they are able to meet the requirements of LR 8.6.7R(2)(b).

## Section A – Sponsors – premium listed commercial companies

### 1) Rules, and guidance and ESMA publications directly relevant to sponsor services

We expect sponsors to demonstrate technical knowledge of the regulatory requirements applicable to the provision of sponsor services to a premium listed issuer or an applicant for premium listing any issuer to which the sponsor regime applies.

Accordingly, we expect sponsors to be able to demonstrate a working knowledge of the Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and *disclosure requirements*, as well as any guidance published on this, including FCA guidance in the UKLA FCA Knowledge Base and ESMA publications. In particular, we expect sponsors to have a detailed working knowledge understanding of aspects of these rulebooks that are pertinent to their role, such as the listing/premium listing principles, related party and significant transaction provisions, relevant disclosure requirements set out under PR Appendix 3 and the various triggers for and exemptions from publishing a prospectus. Where a sponsor acts for companies in specialist industry sectors and/or certain types of company, we would expect the sponsor to demonstrate knowledge of the listing and disclosure requirements relevant to companies of that type when considering eligibility and disclosure requirements. For example, a sponsor that expects to act for listed investment companies to which the sponsor regime applies, should be able to demonstrate that it understands how the rules apply in relation to investment policies, diversification and spread of risk. Where it is relevant to providing a sponsor service, we will also expect sponsors to have an understanding of the wider UK regulatory framework such as Part VI FSMA, in particular, considerations of investor detriment in light of section 75(5). In addition, we expect sponsors to be aware of market practice around the application of the relevant rulebooks and guidance set out above, as appropriate.

### 2) The procedural requirements and processes of the FCA

The UKLA FCA operates processes and procedures that are designed to facilitate interactions with sponsors. As such, we expect sponsors to be proficient in those procedures and processes of the UKLA FCA that a sponsor would undertake, such as those relating to document vetting, the Sponsor Service Enquiry Line, and the listing application process. Sponsors should also be familiar with the Procedural Notes in the UKLA FCA Knowledge Base, which are FCA guidance. We also expect sponsors to be aware of the reliance placed by the UKLA FCA on sponsor responses and confirmations provided during these processes.

### **3) The due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4**

We expect sponsors to understand not only the scope of due diligence required for sponsor services to be conducted in accordance with the Principles for Sponsors in LR 8.3 but also what is reasonably expected by the FCA of sponsors before submitting declarations or confirmations to the FCA.

Sponsors are required to submit declarations to the FCA in the terms set out in LR 8.4: the Listing Rules require sponsors to come to a reasonable opinion on relevant matters having made due and careful enquiry. In providing these declarations, and other services, sponsors must comply with the Principles for Sponsors in LR 8.3, including acting with due care and skill, ensuring directors understand their obligations, and identifying and managing potential or perceived conflicts.

We recognise that sponsors may appoint their own advisers and will receive comforts from their client and its advisers as part of carrying out due diligence into the issuer and the transaction or matter being considered. In light of this, we expect sponsors, when considering the declarations required under LR 8.4, to carry out due and careful enquiry by, inter alia:

- ensuring the scope of due diligence is sufficient to allow sponsors to meet their obligations under LR 8.3 and LR 8.4
- reviewing drafts of any reports intended to be relied on either directly or indirectly by the sponsor and challenging any relevant findings
- considering whether the conclusions reached in any relevant third-party reports are consistent with the nature of the declarations being provided to the UKLA FCA in accordance with LR 8.4, and
- considering industry guidance issued by relevant bodies, such as the Financial Reporting Council (FRC), the Royal Institution of Chartered Surveyors (RICS), the Joint Ore Reserves Committee (JORC) (or equivalent) or the Petroleum Resources Management System (PRMS) (or equivalent)

### **4) The responsibilities and obligations of a sponsor set out in LR 8**

~~LR 8 contains rules and guidance that apply to both sponsors and companies with or seeking a premium listing.~~ We expect that a sponsor will be aware of its obligations under LR 8 when providing sponsor services. In particular, sponsors should be aware of and consider how principles set out in LR 8.3 apply to the sponsor service being provided, particularly exercising due care and skill.

We also expect sponsors to have a good understanding of their firm's risk appetite in relation to the provision of sponsor services to a premium listed issuer, any issuer or applicant to which the sponsor regime applies, as well as an understanding of what constitutes a sponsor service, and the application of LR 8 to the service.

## 5) Specialist industry sectors and/or certain types of company, if relevant to the sponsor services it provides or intends to provide

Where a sponsor intends to provide sponsor services to an issuer in a specialist industry sector such as the mineral or property sectors, or that is a specialist type of company, such as a fund, it is important that the sponsor is able to demonstrate a sufficient understanding of that sector or company type to be able to provide sponsor services effectively. Whilst it will not be necessary for a sponsor to be an expert in every possible sector or company type, a sponsor should have sufficient understanding of specialist industry sectors and company types to be able to interpret the application of the requirements of the Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and *disclosure requirements* when it provides a sponsor service. Further, the sponsor should be able to understand when specialised due diligence may be appropriate to support the assurances it provides, and have sufficient understanding to assess the scope and output of that due diligence, including of any specialist third-party reporting.

To advise clients on appropriate disclosure or structures that meet our eligibility requirements for premium listing, or when carrying out a transaction for premium-listed companies, we consider it necessary for a sponsor to understand the industry sector in which their client operates. This competency set seeks to ensure that sponsors are aware of the specific guidance or rules for specialist industry sectors and company types, the particular challenges or risks that a sector may face, and the impact these may have on eligibility, document disclosure and/or continuing obligations of their client.

Specialist industry sectors will include but are not necessarily limited to:

- property companies
- start-ups
- shipping companies
- oil and gas companies
- mining companies
- financial institutions and other authorised firms, and
- scientific research-based companies

Specialist types of company will include but are not necessarily limited to:

- Investment companies (for example, closed-ended investment funds)
- Shell companies
- Overseas companies

### **1) Section B – Sponsors – premium listed investment companies Rules, guidance and ESMA publications directly relevant to sponsor services**

We expect sponsors to demonstrate technical knowledge of the regulatory requirements applicable to the provision of sponsor services to a premium listed investment company or an applicant for premium listing under LR 15 or LR 16. Accordingly, we expect sponsors to be able to demonstrate a working knowledge of the Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and *disclosure requirements*, as well as any guidance published on this, including ESMA publications and FCA guidance published in the UKLA Knowledge Base. In particular, we would expect sponsors to have a detailed working knowledge of aspects of these rulebooks that are pertinent to their role, such as the listing/premium listing principles, related party and significant transaction provisions, LR 15, LR 16, relevant disclosure requirements set out under PR Appendix 3 (in particular Annex XV), and the various triggers for and exemptions from publishing a prospectus.

We will also expect sponsors to understand the specific disclosure requirements relevant to premium listed investment companies and to understand the challenges faced by these companies in considering eligibility and disclosure requirements. In particular, this is in relation to areas such as investment policies, diversification and spread of risk.

Where it is relevant to providing a sponsor service, we will also expect sponsors to have an understanding of the wider UK regulatory framework such as Part VI FSMA, in particular, considerations of investor detriment in light of section 75(5). In addition, we would expect sponsors to be aware of market commentary around the application of the relevant rulebooks and guidance set out above, as appropriate.

### **2) The procedural requirements and processes of the FCA**

The UKLA operates processes and procedures that are designed to facilitate interactions with sponsors. As such, we expect sponsors to be proficient in those procedures and processes of the UKLA that a sponsor would undertake, such as those relating to document vetting, the Sponsor Service Enquiry Line, and the listing application process. Sponsors should also be familiar with the Procedural Notes published within the UKLA Knowledge Base, which are FCA guidance. We also expect sponsors to be aware of the reliance placed by the UKLA on sponsor responses and confirmations provided during these processes.

### **3) The due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4**

We expect sponsors to understand not only the scope of due diligence required for sponsor services to be conducted in accordance with the Principles for Sponsors in LR 8.3 but also what is reasonably expected by the FCA of sponsors before submitting declarations or confirmations to the FCA.

Sponsors are required to submit declarations to the FCA in the terms set out in LR 8.4: the Listing Rules require sponsors to come to a reasonable opinion on relevant matters having made due and careful enquiry. In providing these declarations, and other services, sponsors must comply with the Principles for Sponsors in LR 8.3, including acting with due care and skill, ensuring directors understand their obligations and identifying and managing potential or perceived conflicts.

We recognise that sponsors may appoint their own advisers and will receive comforts from their client and its advisers as part of carrying out due diligence into the issuer and the transaction or matter being considered. In light of this, we expect sponsors, when considering the declarations required under LR 8.4, to carry out due and careful enquiry by, inter alia:

- ensuring the scope of due diligence is sufficient to allow sponsors to meet their obligations under LR 8.3 and LR 8.4
- reviewing drafts of any reports intended to be relied on either directly or indirectly by the sponsor and challenging any relevant findings
- considering whether the conclusions reached in any relevant third-party reports are consistent with the nature of the declarations being provided to the UKLA in accordance with LR 8.4, and
- considering industry guidance issued by relevant bodies, such as the Accounting Practices Board (APB), the Financial Reporting Council (FRC), the Royal Institution of Chartered Surveyors (RICS), the Joint Ore Reserves Committee (JORC) (or equivalent) or the Petroleum Resources Management System (PRMS) (or equivalent)

#### **4) The responsibilities and obligations of a sponsor set out in LR 8**

LR 8 contains rules and guidance that applies to both sponsors and companies with, or seeking, a premium listing. We expect that a sponsor will be aware of its obligations under LR 8 when providing sponsor services. In particular, sponsors should be aware of and consider how principles set out in LR 8.3 apply to the relevant service being provided, particularly exercising due care and skill.

We also expect sponsors to have a good understanding of their firm's risk appetite in relation to the provision of sponsor services to a premium listed issuer, or an applicant for premium listing, as well as an understanding of what constitutes a sponsor service, and the application of LR 8 to the service.

## Appendix 6

# Proposed changes to Technical Note 'Sponsor transactions – Adequacy of resourcing'

# ~~UKLA~~ FCA Technical Note

## Sponsor transactions – Adequacy of resourcing

LR 8

A sponsor is required at all times to demonstrate it is **competent** to perform sponsor services and it has **appropriate systems and controls** in order to carry out the role of sponsor in accordance with LR 8 (LR 8.6.6R). Since each sponsor is different and each sponsor transaction gives rise to different issues, the onus is on sponsor firms to assess their ability to act each time they are considering an appointment to act as sponsor. LR 8.6.7R, LR8.6.7CG, LR 8.6.12G and LR 8.6.13G will be relevant to sponsors in this regard.

**Competence** In assessing the competence of a sponsor for the purposes of LR 8.6.7R, the UKLA will have regard to, amongst other things, the matters set out in LR 8.6.9AG. LR8.6.7R requires a sponsor or an applicant for sponsor approval to have a sufficient amount of relevant experience and expertise, and a sufficient number of employees with the skills and knowledge necessary for it to provide sponsor services in accordance with LR8.2. LR8.6.7CG further explains that the FCA will take into account a range of factors relating to a sponsor's or applicant for sponsor approval's business and operations when assessing whether a sponsor meets the competence requirements, including the nature, scale and complexity of its business, the volume and size of the transactions it undertakes, and the degree of risk associated with them. This is because the FCA expects that sponsors will have expertise that is relevant to the scale and nature of the sponsor services it expects to perform.

Prior relevant experience of providing sponsor services remains of paramount importance in this context and the UKLA is of the view that the relevance of experience should be measured a valuable form of evidence, when demonstrating competence and the ability to staff and oversee sponsor services appropriately. This experience is also likely to be a relevant consideration when a sponsor considers the staffing arrangements for specific sponsor services. We expect sponsors or applicants for sponsor approval to measure the relevance of past sponsor service experience by reference to a number of factors, including how recently the relevant sponsor services were provided and the extent to which those services are congruent with the range of services a sponsor or applicant for sponsor approval typically expects to provides.



The UKLA FCA acknowledges that sponsor experience resides in individuals at firms as well as the firm itself and that there are various methods by which such experience can be stored and transmitted within a firm, including through training or knowledge management systems. ~~Whether or not a firm has prior sponsor experience is an important consideration in relation to whether or not the firm meets the competence criteria of LR 8.6.5R(2).~~

**Systems and controls** LR 8.6.12G R makes it clear that a sponsor is generally regarded as having appropriate and effective systems and controls where, amongst other things, it can ensure that it has appropriate staffing arrangements for the performance of sponsor services with due care and skill, and the appropriate supervision of those staff. LR 8.6.13G recognises that the nature and extent of the systems and controls which a sponsor will need to maintain depends on factors including the nature, scale and complexity of its business, the volume and size of the transactions it undertakes, and the degree of risk associated with them. Therefore, when considering whether staffing and supervisory arrangements in relation to a sponsor service are appropriate, important factors will be whether the firm has experience relevant to the proposed sponsor service and how such experience will be applied.

**Practical considerations** Although listed companies, or applicants, are most likely to appoint advisers with experience relevant to the type of transaction contemplated, there could be instances where sponsors are approached to carry out sponsor services in the following circumstances (please note this list is not exhaustive):

- for companies in sectors where the sponsor firm or the staff allocated to the transaction have little to no relevant or recent experience
- where existing staff are overstretched and, therefore, at risk of not carrying out services with due skill and care, or
- at a time where the firm may be exposed to a key ~~man~~ person risk in relation to sponsor expertise, for instance because key or experienced individuals have left the firm.

A sponsor which historically provides sponsor services in respect of a particular size of transaction or particular types of transactions, for example transactions to which LR 15 applies or LR 16 ~~apply~~ applied (rather than trading company transactions), and wishes to take on a transaction of a different type, size or complexity, ought to consider whether it has the appropriate systems and controls in place to do so. The sponsor should ensure that it can appropriately staff the transaction so that it is performed with due care and skill. It should also ensure it has the relevant experience and expertise required by LR 8.6.7R (1); in other words that it is competent to provide that sponsor service. This is particularly important where the sponsor may not have undertaken a transaction of this type or nature within a recent timeframe since experience can become less relevant with time.

***Sponsor Primary Market Specialist Supervision's approach*** The Sponsor FCA's Primary Market Specialist Supervision team monitors carefully the transactions to which sponsors are appointed. Exceptionally, where we are of the view that firms have limited or no relevant experience in carrying out the type of transaction being submitted to the UKLA FCA, or in working with a listed company in a certain sector, Sponsor Primary Market Specialist Supervision have expedited discussions with the sponsor as to the arrangements they have put in place to ensure they are able to comply with LR 8 requirements as regards appropriate staffing.

Sponsors are strongly encouraged to assess carefully whether or not they have relevant experience and the appropriate systems and controls to carry out sponsor services in accordance with LR 8.6.7R, LR8.6.7CG, LR 8.6.12G and LR 8.6.13G. Sponsor Primary Market Specialist Supervision considers that, should a mandate be accepted in circumstances where a sponsor cannot demonstrate sponsor competence in the relevant area or appropriate resource for the type of transaction, there is a risk to the integrity of, or market confidence in, the sponsor regime.

Sponsor firms should therefore contact the Sponsor Primary Market Specialist Supervision team before accepting a sponsor mandate where they feel they may lack the necessary staff or relevant expertise in a certain area to complete a sponsor transaction. The team will continue to monitor sponsor appointments and will be prepared to take action to require firms to review their ability to act on transactions in circumstances where, in our view, the risks to the integrity of the sponsor regime are considered high.

It is not the intention of the UKLA FCA to assess a sponsor's ability to comply with LR 8.6.5R and LR 8.6.6R on a transaction-by-transaction basis. However, sponsors should be aware of the possibility of an intrusive approach taken by the UKLA FCA in this regard. The FCA's powers to suspend a sponsor's approval or to impose limitations or restrictions on the services a sponsor can provide are discussed in UKLA/TN/712. 12 – Additional powers to supervise and discipline sponsors.

