Reforming the Listing Regime

The UK Listing Review report by Lord Hill has been published today (Wednesday 3 March 2021), which can be accessed here. The review proposes some significant reforms to the rules that govern how companies raise finance on public markets to ensure that the UK remains an attractive location for companies to list and grow.

This brief provides an overview of the background to the review, the QCA's response to the call for evidence, a summary of the recommendations, the QCA's position and a comparison table.

Background

In November 2020, Lord Jonathan Hill, former EU financial services commissioner, published a call for evidence on the UK's listing regime at the request of the Chancellor, Rishi Sunak. The call for evidence sought to stimulate debate about how we can encourage deeper capital markets and improve the flexibility of our regulatory system in order support growth and innovation. In particular, the call for evidence had a focus on:

- Free float requirements;
- Dual class share structures;
- Track record requirements;
- Prospectuses; and
- Dual and secondary listings.

QCA Response to the Call for Evidence

The QCA submitted a detailed response to the call for evidence at the beginning of the year. You can find a brief presentation here that provides an overview of the response and the full response can be found here.

In our response, we highlighted the need for significant reform of the UK's equity markets due to the steady and concerning decline in the number of companies listing over the past twenty years.

We proposed that the solution to this was to re-brand and re-invent the current Standard Listing segment that would seek to emulate the success of Nasdaq in the US. To do so, this market would fill an important gap in the UK's current offering by focusing on flexibility and dynamism in order to attract growth-focussed businesses from a broad range of sectors. It is in this new market that we believe changes to free float requirements, dual class share structures, track record requirements, prospectuses and dual and secondary listings should be made.

Implementing rule changes in the new, re-branded and more fit for purpose Standard Listing segment would encourage specific types of growth companies to remain in the UK and create jobs and wealth, whilst ensuring that the "gold-plated" nature of the Premium Listing segment remains the same.

Overview of the Recommendations

Below, we provide an overview of the key recommendations contained in the report:

<u>Monitoring and delivering results</u>

The review proposes that:

1. The **Chancellor should present an annual report to Parliament** on the 'State of the City', including setting out the steps taken/being taken to promote the attractiveness of the markets for companies to list and grow.
2. HM Treasury should consider charging the **FCA in its operating objectives with a duty to take into account the UK's attractiveness as a place to do business**.

<u>Improving the environment for companies to go public in London</u>

The review proposes to:

3. **Permit dual class share structures** on the Premium Listing segment but apply certain conditions to maintain high corporate governance standards, including a maximum duration of five years and a maximum weighted voting ration of 20:1, amongst others.
4. **Re-brand and re-market the standard listing segment**. This includes changing its name and allowing companies on the segment to be index-eligible.
5. Free float requirements will be reassessed to ensure more choice for companies. This includes **lowering the absolute requirement for free float to 15%** and allowing more choice for companies of different sizes to use measures of liquidity other than an absolute free float percentage.
6. Revise the Listing Rules which can require trading to be suspended in the **shares of special acquisition companies** (SPACs).

<u>Re-designing the prospectus regime</u>

The review proposes that:

7. HM Treasury conducts a **fundamental review of the prospectus regime** so that it is more fit for purpose for UK markets. This includes:
    - Changing prospectus requirements so that admission to a regulated market and offers to the public are treated separately;
    - Changing how the prospectus exemption thresholds function;
    - Use of alternative listing documentation where appropriate.
8. **Maintain the existing regime for secondary and dual listings** but consider whether prospectuses drawn up under other jurisdictions can be used to meet UK requirements.

<u>Tailoring information to meet investor needs</u>

The review proposes to:

9. **Amend the liability regime** to facilitate the provision of forward-looking information.
10. **Maintain the three-year track record requirement** for the Premium Listing segment but review provisions regarding revenue earning requirements for innovative growth companies.
11. **Amend the requirement for historical financial information covering 75%** of an issuer's business so it is only applicable to the most recent financial period.

Empowering retail investors and improving capital raising for existing listed issuers

The review proposes that:

12. Consideration should be given on how **technology can be used to enhance retail investor involvement**.
13. Consideration should be given to improve the efficiency of further capital raisings by **re-establishing the Rights Issue Review Group**.

Improving the efficiency of the listing process

The review proposes that:

14. A **review of the conduct of business rules in the FCA Handbook** should take place.

Wider financial ecosystem

The review proposes that:

15. Consideration should be given to wider industry concerns, including:
    - **Unlocking pension investment** – the assets linked to defined benefit pensions and defined contribution pensions could be better deployed.
    - **Creating a competitive tax environment** – ensuring a competitive tax environment to encourage longer-term investment, such as the equalisation of debt and equity funding.
    - **Enhancing SME research provision** – the detrimental impact of MiFID II on the provision of SME research should be considered as a priority by the FCA.

QCA's position

Broadly, the QCA welcomes the findings and recommendations contained within Lord Hill's Listing Review report. Having engaged with Lord Hill on several occasions following the submission of our response to the call for evidence, we are encouraged to see that many of our proposals have been taken forward and our concerns taken into account.

Reforms are a welcome step

Individually, the recommendations contained within the report are a welcome step in increasing the attractiveness of the UK's public equity markets. These recommendations, combined with the proposal that the Chancellor accounts to Parliament on an annual basis on the State of the City, will ensure a deeper understanding of the importance of public equity markets. We believe this should go one step further to provide an analysis of the wider social benefits of equity markets.

The much-needed overhaul of the Standard Listing

Regarding the specific recommendations, we are particularly pleased to see that the review accepted our proposal that the Standard Listing segment is re-branded and re-marketed to provide flexibility. The Standard Listing segment needs to be reinvented and re-framed to provide additional choice and flexibility.

Reforms need to be targeted to the right market

However, we believe that the Review provides an opportunity to build on the success of the Premium Listing segment together with the proposed re-branded Standard Listing segment. In doing so, there should be no muddying of the waters between the two markets, such that there is significant overlap between the requirements of the two markets and a lack of distinct risk profiles.

There is much to build on. The QCA will continue to work with HM Treasury, the FCA and LSEG to help create attractive public equity markets in the UK.

Comparison to QCA's Response

Areas for Reform	QCA Proposal	Lord Hill Response	QCA Reaction
Overall/general	Re-inventing the Standard Listing segment	Re-brand and re-market the Standard Listing segment	Positive: directly aligned with the QCA view Negative: potential reforms to be made in Premium List not new Standard List
Free float requirements	Have a flexible free float, allowing companies to issue as low as 10% of their shares	Lowering the absolute requirement for free float to 15%	Positive: allows companies choice on free float
Dual class share structures	Allow companies with dual class share structures on the Premium Listing segment, with a sunset clause to be agreed upon	Permit dual class share structures for a maximum duration of 5 years	Positive: however, companies would have to move segment to maintain dual class shares for a longer period
Track record requirements	Additional flexibility should be provided for companies that are seeking a listing and can evidence robustness in other ways	Maintain three-year track record requirement but review requirements for innovative growth companies	Positive: retains the high standards whilst allowing possible relaxations
Prospectuses	An alternative offering document should be made available for smaller growth companies and the thresholds should be amended	A fundamental review of the prospectus regime should be conducted	Positive: the QCA has argued for reform for many years
Dual and secondary listings	Dual and secondary listings should be allowed but not on the Premium Listing	Maintain the existing regime for dual and secondary listings	Positive
Other	Greater corporate governance flexibility needed in Premium Listing	Not addressed	Neutral
	Proxy Adviser Code of Conduct	Not addressed	Neutral
	Retail investment prioritised and given greater access	Specific section dedicated to empowering retail investor participation	Positive
	Reform MiFID II to increase investment research for smaller companies	FCA should consider MiFID II reform a priority	Positive
	End the preferential tax treatment of debt vs equity	Ensuring a competitive tax environment	Positive