

Consultation Paper **CP23/10*****

Primary Markets Effectiveness
Review: Feedback to DP22/2 and
proposed equity listing rule reforms

May 2023

How to respond

We are asking for comments on this Consultation Paper (CP) by **28 June 2023**.

You can send them to us using the form on our [website](#).

Or in writing to:

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Foreword

As a regulator focused on making markets work well and innovation, we want to make the UK Listing Regime more accessible, effective, easier to understand and competitive. This will benefit both issuers and investors.

This is part of our work to achieve a UK wholesale market which supports both the domestic economy and growth and is open to innovation, underpinned by high standards of market integrity and consumer protection.

We want to make sure that the UK public markets remain an attractive and trusted place to list companies to support growth and innovation.

We have already made changes and will do more if we think it will help achieve our broader aims.

Within months of leaving the European Union, we significantly reformed our listing regime and stand ready to do more on wider wholesale markets regulation once the requisite legislative decisions are agreed.

The market is an ecosystem that needs many interacting measures and a supportive business and risk culture to thrive. This requires ongoing and sustained effort from a wide range of participants.

Economic and institutional stability is critical to encourage confidence to invest and so is robust supervision and enforcement to maintain market integrity and investor protection.

In this document, we set out a blueprint for changes to the rules that apply to issuers who wish to list in the UK to attract a more diverse range of applicants and bolster UK competitiveness while maintaining high standards of disclosure and transparency.

Access to a potentially wider range of companies listing will provide greater opportunities for investors in UK markets and help create jobs and growth.

But we must be upfront that these changes we are proposing to the listing regime will mean passing greater investment risk to investors and greater responsibility on to shareholders to hold the companies they own to account.

While we think there is strong and pressing case for change to refocus UK listed markets, we want and encourage further views and evidence on the benefits and costs these proposals may have, or any alternative approaches.

Importantly, changing the listing rules can only be one part of making the UK's capital markets work better and will involve collective action to embrace greater risk.

It requires a sustained commitment to improve aspects such as the availability of risk capital and depth of investor base, valuations and presence of comparable peers in the UK, and wider consideration of factors such as taxation, indexation, and remuneration.

Even then, founder preferences, home market bias or company-specific considerations, such as the location of operations, customers, or investors, may still sway decisions on whether and where companies choose to list.

Sustainable growth requires all policymakers and stakeholders, to consider their roles across all the ecosystem. We as the regulator will always play our part.

Nikhil Rathi, Chief Executive Officer, Financial Conduct Authority

Sarah Pritchard, Executive Director of Markets and Executive Director of International, Financial Conduct Authority

Chapter 1

Summary

Why we are consulting

- 1.1** One of the FCA's commitments, as set out in our 3-year strategy, is to strengthen the UK's position in global wholesale markets. We want the UK to continue to be regarded as one of the leading global markets of choice for issuers, intermediaries and investors, when compared to other high-quality markets. Following extensive engagement on our listing regime and the recommendations from the UK Listing Review, we are now putting forward, and inviting feedback on, significant reform proposals to improve our framework for listing commercial companies' equity shares.
- 1.2** We propose to replace standard and premium listing share categories with a single listing category for commercial company issuers of equity shares. The proposed framework aims to be more straightforward with a clear purpose. It would be sufficiently flexible to cater for a diverse range of companies, while maintaining transparency for investors to support market integrity and oversight. We have engaged at length with companies, advisors and investors to understand what is truly valuable to market participants and how those outcomes can be achieved proportionately (see DP22/2).
- 1.3** We make these proposals in the context of widely discussed concerns around the long-term decline in number of UK listed companies, which the UK Listing Review found had fallen by 40% since 2008 (see Chapter 2), and to capture the opportunities of a shift towards 'new economy' technology companies as drivers of growth. A sizeable decline in the number of listed companies was also experienced in US and EU markets over the last 2 decades, while by contrast Hong Kong and China saw substantial increases over this period. We moved quickly to make specific changes to our listing rules in 2021. We consider that these proposed additional reforms to our listing rules would further reduce actual or perceived regulatory barriers or costs for companies, while still giving investors the information they need to make informed decisions. Therefore, making our markets work better overall. We recognise that replacing the current premium listing and standard listing categories for commercial company equity shares with a new framework would represent a shift in the balance of risk and scrutiny for companies and investors, however, so we continue to welcome evidence that may support any alternative approaches or supporting measures.
- 1.4** At the same time, a company's decision on both whether to list and, if so, where to list is driven by a range of factors, including whether staying private or accessing non-listed markets can provide more efficient access to capital. If a company does decide to go public, its choice of listing location may be driven by factors such as valuations, depth and liquidity of capital markets and breadth of investor base, comparable peers, investor / analyst expertise, taxation, director remuneration requirements, indexation, founder preferences, location of main operations, customer base or competitors now or in the future, political support and media coverage, among other things.

- 1.5** There is already a broader debate about whether a far wider package of reforms is required to enhance the attractiveness of UK public markets. Change to FCA regulation is part of that debate but will not on its own necessarily result in more listings in the UK, which requires much broader consideration and collective action.

Further context: the case for change

- 1.6** The FCA's strategic objective includes making sure public markets function well. This requires us to carefully balance the needs of companies wishing to access the UK's capital markets with the appropriate protection of the investors that provide that capital while protecting and enhancing the integrity of UK markets and promoting competition in the interests of consumers. We should ensure that the burden imposed by our regulation is commensurate with the benefit it brings.
- 1.7** We have had feedback from a range of market participants, including through the UK Listing Review, that our premium listing standards are regarded as overly burdensome and are deterring some companies from listing in the UK, even when allowing for the benefits of index inclusion. Based on what we have heard from stakeholders to date, it does not appear the incremental investor protection premium listing provides compared to other international capital markets is viewed as a significant factor in investment decisions. Furthermore, feedback indicates that while the standard listed segment offers much greater flexibility, by contrast, it is poorly understood and seen as an inferior 'brand' by companies. Our proposals aim to address this feedback by rebalancing the regime and so improve the competitiveness of the UK equity market by creating a more attractive and compelling option for companies considering a listing in the UK.
- 1.8** The reformed listing regime would set internationally competitive standards that make our regime more straightforward for issuers and advisors. It should help to encourage a more diverse range of companies to list and grow on UK markets, especially earlier stage and more innovative or acquisitive companies. In addition to benefitting from a greater flow of investible opportunities, by focusing on transparency we are putting forward a regime where investors will be equipped with the decision-useful information they need. This will create greater flexibility for investors to agree with companies the terms on which they are prepared to invest and interact. For exchanges, our proposals should provide an opportunity to innovate in creating their own market segments and standards; and for index providers to tailor inclusion criteria to meet the different objectives of their users – with less dependence on more rigid regulatory standards.
- 1.9** This document sets out a blueprint for significant reform to our Listing Rules. We welcome feedback including any alternatives that stakeholders believe would help to ensure that our financial markets function well. We recognise that some stakeholders may be concerned by our proposed removal of certain long-standing investor protections built into our premium listing segment, such as rules requiring companies to seek shareholder approval for certain transactions. We have considered this carefully and, on balance, we are not convinced there is sufficient evidence that these regulatory protections are either properly valued or essential to ensure well-functioning markets, particularly when we take into account international comparisons, the fact that UK investors deploy significant capital in these markets, and the data that is available on the benefit that the current UK systems delivers.

- 1.10** A significant strength of the UK equity market is the predominance of sophisticated and deeply knowledgeable institutional investors, both domestically and internationally based. According to ONS, the proportion of the value of shares in UK incorporated companies quoted on the London stock exchange held outside the UK has risen to more than 56%, compared with 12% held by individuals (see Chapter 2). Our proposals would allow investors to form their own judgement in making investment decisions based on issuers' disclosures and use their considerable negotiating power with companies raising capital to secure appropriate terms as shareholders. Effective scrutiny and engagement by large investors to secure better terms should have secondary benefits for smaller 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. Index providers can set criteria that deliver the outcomes required by their users and further influence the decisions made by companies coming to list. Therefore, market forces should ensure that capital is allocated to issuers whose overall business proposition and governance is acceptable to investors, tailored to the nature, scale and strategy of the company. By contrast, where some argue for the preservation of our regulatory requirements because they offer valuable investor protections, UK listed companies adhering to those higher standards do not generally see a benefit in terms of their valuation, and instead sometimes trade at a discount when compared with companies listed elsewhere without those standards, though this may be due to a wide range of factors.
- 1.11** We recognise the proposed approach would place a greater onus on investors to carry out due diligence on companies before investing and on shareholders to secure sufficient engagement with companies on key transactions. There may be increased risk for minority shareholders that companies pursue deals they do not support and that could lead to a loss in value of the company and their investment. However, most institutional investors already invest in other markets where this is the normal arrangement. In addition, institutional investors have told us that they already undertake such due diligence on prospective UK listed companies as part of their standard investment processes and often have existing relationships with issuers. We do recognise that smaller investors may have less influence. 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), or through divestment.
- 1.12** Under our proposals, investors would 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. This would be supported by retained annual reporting requirements on compliance with the UK Corporate Governance Code. We will also continue to lead the way in ongoing disclosures on sustainability matters. We have already implemented climate change and diversity disclosure rules, and continue to work closely with global bodies to develop further international sustainability standards. With investment mandates having an increasing focus on environmental, social and governance (ESG) factors, companies will face increasing market scrutiny in these areas.
- 1.13** Our wider regime includes financial reporting based on international financial reporting standards (IFRS), prospectuses for admissions to trading, and a strong market abuse

regime requiring companies to disclose inside information as soon as possible. Company law of the jurisdiction the listed company is incorporated in – the UK’s company law in the majority of cases - will continue to establish certain rights of shareholders, while a listed company’s constitution may also confer other rights, including reserving certain matters for shareholder approval. The FCA also retains powers to refuse listing on investor detriment grounds and to cancel or suspend listing, as well as investigate and enforce against misleading statements and breaches of Market Abuse Regulations. All of these provisions will remain, and we will therefore continue to ensure integrity and transparency that promotes confidence and participation in UK listed markets. We recognise that our proposed reforms may result in an increased risk of failure, but we consider that on balance this risk would be outweighed by the wider benefits that could be gained from reform.

- 1.14** This publication provides a detailed overview of the core aspects of our intended policy approach to creating a single UK listing category for equity shares in commercial companies (ESCC). At this stage, we are not consulting on the detail of the proposed rule changes that may be needed or on specific drafting for this approach. Instead, we wish to get views on our proposed overall approach through this consultation ahead of embarking on the rule drafting process, which we would undertake on an accelerated timetable. We invite your feedback and views on our proposals both overall and on the specific provisions. See ‘next steps’ section at paragraph 1.43 for more detail on the consultation process.
- 1.15** We are not proposing any material changes to the listing rules for non-equity securities (e.g., bonds, for which the Prospectus Review will offer an opportunity for re-examining the rules), nor for the majority of other standard listed instruments (e.g., open-ended investment companies (OEICs) and depositary receipts).
- 1.16** We expect our approach to closed-ended investment funds (CEIFs), which are currently within the premium segment, to remain largely unchanged. However, where we are proposing changes to premium listing rules for commercial companies, we will consider if similar changes are also needed for CEIFs. We will also consider if, in light of our proposals, it is necessary to retain a separate listing category for Sovereign Controlled Commercial Companies (which are also currently in the premium segment).
- 1.17** We will bring forward draft handbook rules, full cost-benefit analysis, and wider proposals to address consequential and transitional issues related to these proposals in autumn 2023, taking into account responses to this paper. We are aiming for an accelerated timetable, with substantial progress by the end of 2023 – subject to the amount of feedback we receive through the consultation process.

Who this applies to

1.18 The following should read this whole document:

- UK listed companies
- companies considering a UK listing
- existing and prospective investors in UK listed companies, including institutional and individual 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
- intermediaries who may facilitate, including providing execution and/or marketing of investments to issuers, whether at IPO or in secondary markets

1.19 The following will also be interested in this consultation:

- trade associations representing the various market participants above
- wider financial market participants, such as research analysts

1.20 The above list is not exhaustive and other groups or parties may also be interested in this consultation paper.

What we want to change

1.21 We are consulting on a single listing category for equity shares in commercial companies which would involve (by comparison to premium listing rules):

- The removal of eligibility rules requiring a three-year financial and revenue earning track record as a condition for listing, and no longer requiring a 'clean' working capital statement.
- Modified and simplified eligibility and ongoing rules requiring that a company has an independent business and has operational control over its main activities, to create a more permissive approach to accommodate a range of business models and corporate structures.
- Modified rules requiring listed companies to conclude a shareholder agreement with a controlling shareholder to ensure flexibility by moving to a comply or explain and disclosure-based approach, again to create a more permissive approach for a wider range of business models and corporate structures.
- A more permissive approach to dual class share structures (DCSS).
- The removal of compulsory shareholder votes and shareholder circulars for significant transactions.
- The removal of compulsory shareholder votes and shareholder circulars for related party transactions (RPT), including where a controlling shareholder is involved and a controlling shareholder agreement is not in place.
- The potential merger of the rules for Sovereign Controlled Commercial Companies into the single category for equity shares, subject to modifications if required.
- A single set of Listing Principles and related provisions.

1.22 Transitional arrangements e.g., for existing issuers of equity shares in commercial companies (in the current premium or standard listed categories), and for other issuers of equity shares in the standard listed category (such as special purpose acquisition companies (SPACs)) are discussed in Chapter 8.

1.23 We intend to retain:

- A modified sponsor regime to support companies at application stage and for certain disclosure or reporting obligations.
- Other controls on RPTs in the existing regime, including the requirement for a fair and reasonable opinion for larger RPTs.
- Rules controlling the discount at which further shares can be offered where they are not offered pre-emptively to shareholders and rules relating to share buy-backs.
- Rules protecting shareholders from the cancellation of a listing without a takeover offer or approval by a super-majority of shareholders.
- Separate listing categories and rules for equity shares issued by investment vehicles, including CEIFs (although exploring commensurate changes to those proposed for equity shares in commercial companies), OEICs, SPACs and potentially for other types of investment companies.
- Separate listing categories and rules that currently exist for non-equity securities including other share-types such as preference shares and deferred shares that are currently eligible to list under the standard listing shares category.

1.24 Please see further details in Chapter 7 for our proposed approach to issuers not eligible for the proposed new listing category for equity shares issued by commercial companies.

1.25 These proposals primarily impact issuers of equity shares in commercial companies, but some have a wider scope.

Table 1: Simple overview of single equity category proposal

	Key Listing Rules	Standard listing	Premium listing	New single category proposals
Overarching (Chapter 6)	Listing principles	Two principles	Additional principles apply	Combined and enhanced principles
	Co-operation and information gathering	Existing application	Existing application	New requirements to enhance access to information
	Sponsor regime	Does not apply	Applies	Applies – subject to changes to significant transaction and related party transaction rules
Eligibility / gateway (Chapter 3)	Minimum market capitalisation	£30m	£30m	£30m
	Historical financial information on 75% of business covering 3 years	Not required	Required	Not required
	3-year revenue track record	Not required	Required	Not required
	Clean working capital statement	Not required	Required	Not required
	Prospectus disclosure	Required	Required	Required

	Key Listing Rules	Standard listing	Premium listing	New single category proposals
Initial / ongoing (Chapter 4)	Free float	10%	10%	10%
	Independence	Not required	Required	<ul style="list-style-type: none"> • Amended rules or guidance to reduce uncertainty for 'franchise' type companies and strategic investment companies with a view to including within the new commercial company category • Existing prospectus disclosure should continue to identify any relevant risks to independence or control of business • Maintain expectation that issuers of listed securities have adequate information flows, including from investee companies, to meet Listing and Transparency Rules and MAR obligations
	Control of business	Not required	Required	
	Controlling shareholder regime	Does not apply	Apply	<ul style="list-style-type: none"> • Applies but on an amended basis • Comply or explain and disclosure-based approach to controlling shareholder agreements indicating where these agreements are in place • Retain requirements on election of independent board members • No enhanced oversight of RPTs for failure to comply with controlling shareholder regime
Dual class share structures (i.e. enhanced voting rights)	No restrictions, any permitted	Targeted form involving: <ul style="list-style-type: none"> • Takeover deterrent or use to prevent director removal • 5-year sunset clause • 20:1 cap on voting ratio • Restrictions on transfer 	<p>Broadly permitted subject to 1 exception, i.e. in relation to the approval of discounted share offers where enhanced voting shares revert to one share one vote:</p> <ul style="list-style-type: none"> • 10-year expiration ('sunset') clause • Shares with enhanced voting rights can only be held by a director, and are subject to transfer restrictions 	

	Key Listing Rules	Standard listing	Premium listing	New single category proposals
Continuing obligations (Chapter 5)	TCFD and D&I disclosures	Required (comply or explain)	Required (comply or explain)	Required (comply or explain)
	UK corporate governance code disclosure	Disclose if an issuer is subject to, or opts to follow, any code	Required (comply or explain)	Required (comply or explain) <ul style="list-style-type: none"> Seeking views on revising how 'explain' applies to issuers following an overseas corporate governance code
	Related party transaction rules	At value $\geq 5\%$ (based on rules in DTR 7.3): <ul style="list-style-type: none"> Announce key details and further information to enable market to assess whether terms are fair and reasonable Board approval excluding conflicted director(s) 	$\geq 0.25\%$ value ('smaller RPT'): <ul style="list-style-type: none"> Board to obtain sponsor fair and reasonable opinion Announce brief details on entering into transaction $\geq 5\%$ value: <ul style="list-style-type: none"> Independent shareholder approval with FCA-approved circular required prior to vote Includes board fair and reasonable statement confirmed by sponsor 	$\geq 5\%$ value: <ul style="list-style-type: none"> Disclosure of key details Fair and reasonable statement by board and sponsor confirmation Board approval (excluding conflicted directors) No shareholder vote or circular required Seeking views on the merits of any further disclosure enhancements, including: <ul style="list-style-type: none"> Ex ante timing to support shareholder engagement (subject to market abuse considerations) Requiring additional financial or other information in market notifications that is currently required in a shareholder circular

	Key Listing Rules	Standard listing	Premium listing	New single category proposals
Continuing obligations (Chapter 5)	Significant transaction rules	None apply	<p>≥5% value ('Class 2'):</p> <ul style="list-style-type: none"> • Prescribed announcement of key transaction details at time of entry <p>≥25% value ('Class 1'):</p> <ul style="list-style-type: none"> • Shareholder approval with FCA-approved circular required prior to vote 	<p>≥25% value (review 'class tests' as well):</p> <ul style="list-style-type: none"> • Prescribed announcement of key transaction details • No shareholder vote or circular required • Seek views on the merits of any further disclosure enhancements, including: <ul style="list-style-type: none"> – Ex ante timing to support shareholder engagement (subject to market abuse considerations) – Requiring additional financial or other information in market notifications that is currently required in a shareholder circular
	Shareholder vote on reverse takeovers	Not required	Reverse takeover subject to similar shareholder approval and information requirements as 'Class 1' significant transaction	Keep votes (and the requirements for a class 1 circular) on reverse takeovers, subject to refining definition
	Shareholder vote to de-list	Not required	Required (75% approval) and controlling shareholder regime applies	Required and controlling shareholder regime applies. <ul style="list-style-type: none"> • Seek views on de-listing process and timing
	Shareholder vote on discounted share offers	Not required	Required	Required

More detail on the proposals summarised in this table can be found in the relevant chapters, where we also explore additional or alternative ideas on which we seek views.

Structure of this consultation paper

- 1.26** We summarise the feedback to DP22/2 in Chapter 2 and provide more details of the feedback in Annex 2. Therefore, we have generally not covered feedback elsewhere in the document.
- 1.27** We set out our proposals in relation to a single listing category for equity shares in commercial companies first, which we cover in Chapters 3, 4 and 5. These chapters also include details of the proposed role of sponsors, within the context of the proposals discussed. But more generally we discuss sponsors in Chapter 6.
- 1.28** As well as sponsors, in Chapter 6, we discuss the proposed changes that arise from consequence of moving away from a listing structure based on premium and standard listing segments. We set out a high-level overview of a new proposed approach to the listing regime structure. We have also included details of specific proposals that will be cross-cutting, in that they will impact other issuer and security types (i.e., not limited to ESCC).
- 1.29** Chapter 7 considers how we might accommodate other issuer and security types under our proposed reforms. However, further detail on our proposals will be provided in our autumn consultation.
- 1.30** We have sought to identify the main areas where transitional arrangements may be needed as a result of our proposed reforms, in Chapter 8. Again, this is a subject on which we will provide more detail in the autumn consultation.
- 1.31** Finally, we provide a preliminary cost benefit analysis (CBA) in Chapter 9, and we will publish a full CBA (along with the proposed draft instrument) in the autumn. This preliminary CBA should therefore be considered highly uncertain.

How it links to our objectives

Investor protection

- 1.32** Our proposals seek to balance investor protection with access to a potential 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. We acknowledge, however, that the changes will mean our rules no longer impose requirements on companies to seek shareholder approval for certain transactions, which may reduce e.g., retail investors' ability to have a say on such matters, assuming they may be less able to engage a company otherwise. Investors will, instead, 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.

- 1.33** Our aim is to secure an appropriate degree of protection for investors, to ensure well-functioning markets, and which take into account international comparisons and changes in global investor behaviour and preferences.
- 1.34** The proposals may mean investors who previously invested in premium listed shares need to enhance their approach to due diligence and risk assessment, since the single equity category would include more diverse types of businesses, including those with a limited track record. The proposed changes would also place an onus on companies and shareholders to find ways to engage effectively on transactions without FCA intervention. We acknowledge that this may mean corporate transactions face less direct shareholder scrutiny, and as a result this could increase risks of deals that erode shareholder value. However, we consider that the benefits of wider access for companies and more opportunities for investors may outweigh the benefits of the protections currently offered which may dissuade certain companies from listing in the UK.
- 1.35** 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 to different risk tolerances or preferences.

Market integrity

- 1.36** 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. 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.
- 1.37** 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 the UK listed markets and the reputation of UK listing. Improving the effectiveness of primary markets helps us to protect and enhance the integrity of the UK financial system and encourage greater liquidity.

Competition

- 1.38** Our measures aim to improve access to listed public markets, simplifying a company's choice where they consider listing in the UK by creating one category for commercial company equity shares, and giving investors more access to diverse investment opportunities on transparent UK public markets.

Measuring success

1.39 We aim 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.

1.40 While regulation is not necessarily a key driver in listing choices by issuers and there are significant impacts on listing trends due to macroeconomic and other factors, over time we aim to consider the impact of our proposed changes 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 diversity in the types of commercial companies listing their equity shares in the UK (i.e., 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

Equality and diversity considerations

1.41 We have considered the equality and diversity issues that may arise from the proposals in this consultation paper.

1.42 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. 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 initial assessment.

Next steps

- 1.43** We are consulting for 8 weeks on these preliminary policy proposals, with a closing date of 28 June 2023.
- 1.44** Please respond by completing the form on our website or by sending a response to cp23-10@fca.org.uk.
- 1.45** We are keen to engage with interested groups of market participants during the consultation period, for example, via roundtable meetings. Please contact the above inbox in the first instance if you wish to discuss the consultation with us in this way.

Further consultation

- 1.46** As a follow-up to the preliminary proposals set out in this consultation paper, we aim to issue a further consultation on these proposals and the wider proposed changes to our listing regime in the autumn. We have not included a draft instrument in this consultation given the preliminary nature of our proposals. However, a draft instrument setting out the proposed revised listing rules in full will be included in the second consultation paper, as will a full cost benefit analysis.
- 1.47** Our follow-up consultation, subject to the feedback received, will include the following:
- summary of responses to this consultation paper and any resulting modifications to our proposals
 - our proposed approach to other issuers of equity shares that are not commercial companies e.g., CEIFs and SPACs, even though we have provided an initial indication in this document
 - proposals on minor or distinct issues requiring clarification that are not linked to our proposals for a single listing category for equity shares in commercial companies (ESCC)
 - proposals for transitional arrangements
 - proposals for consequential changes related to the proposals in this consultation paper (or that may be needed for other reasons e.g., to reflect changes in company law)
 - proposed FCA process changes and supervisory approach
 - a full draft legal instrument
 - CBA and compatibility statement
- 1.48** Longer term topics for later consideration (beyond our autumn consultation) may include other security types e.g., bonds, and changes dependent on prospectus reforms (for example, approach to further issuances).
- 1.49** Subject to consultation feedback and FCA Board approval, we are aiming for an accelerated timetable, with substantial progress by the end of 2023.

Chapter 2

Wider context and feedback to DP22/2

2.1 In this chapter, we set out the detailed wider context to this work as part of CP21/21 and feedback to DP22/2. We also provide further context on market developments following DP22/2.

Discussions in CP21/21 and DP22/2

2.2 In July 2021 in [CP21/21](#) we opened a discussion on the purpose listed markets should serve within the wider ecosystem of public capital markets. Based on feedback received, we published a further discussion paper ([DP22/2](#)) in May 2022. DP22/2 set out a possible single listing segment model to replace the current standard listing and premium listing segments for issuers of equity shares in commercial companies (ESCC). In summary, our aim was to explore how the listing regime could:

- Be simpler to understand (e.g., removing unnecessary complexity that isn't serving a genuine and defined purpose).
- Promote broad access to listing for a wider range of companies.
- Empower investors' decision-making over suitability of investments.
- Allow flexibility for issuers and investors to agree where additional shareholder engagement, overseen by the FCA, is appropriate for them.

2.3 The ESCC single category model discussed in the DP focused on reducing certain 'quality' criteria under our premium listing rules at the gateway, while considering a more flexible approach based on premium listing requirements by way of ongoing obligations, with more optionality around certain provisions that enhanced shareholder engagement with issuers. It included:

- **One set of eligibility criteria:**
 - removing premium listing eligibility requirements to have:
 - a 3-year representative revenue earning track record (LR 6.3)
 - three years of audited historical financial information that represents at least 75% of the issuer's business (LR 6.2)
 - a 'clean' or unqualified working capital statement (LR 6.7) but
 - including a requirement to appoint a sponsor at the gateway and for certain transactions once listed.
- **One set of mandatory continuing obligations:** based on current premium listing requirements, except for certain circumstances requiring a shareholder vote. This included retaining the premium listing 'one share one vote' principle, and only allowing the current premium listing temporary and limited form of dual class share structure (DCSS).

- **The ability for issuers to opt into a set of supplementary continuing obligations:** based on certain premium listing shareholder vote requirements which trigger regulatory oversight.

2.4 We also asked for feedback on the role of and rules for sponsors. The DP noted that we would consider other types of instruments and issuer in due course.

Feedback to DP22/2

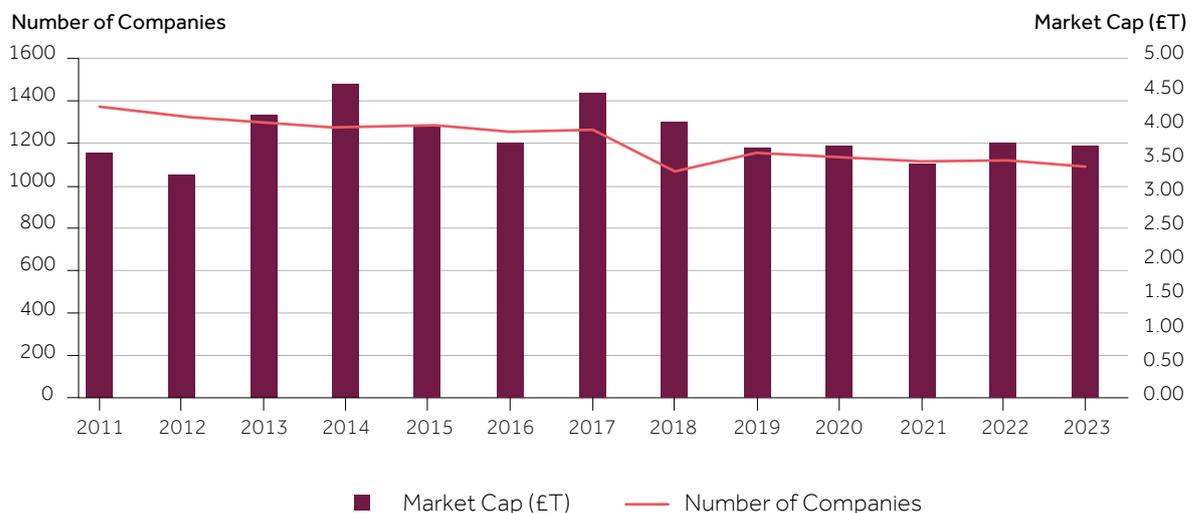
2.5 We received 38 responses to DP22/2, representing a wide spectrum of market participants. We provide a more detailed summary of these responses in Annex 2, but key views were as follows:

- There was strong support for our overall objectives, but limited support for the single segment concept we had outlined at that time.
- Most felt that the DP model remained complex, and the intended flexibility would not be realised because market practice and criteria linked to index inclusion would dictate behaviour towards either 'mandatory' or 'supplementary' standards.
- A majority supported removing (compared to premium listing) eligibility rules requiring a 3-year track record and historical financial information, but views were more mixed on removing the requirement for a clean working capital statement.
- A majority of respondents, generally representing 'sell-side' participants and issuers or advisors, favoured developing a 'genuine' single segment – although the views on the specific rules we should set for this differed.
- Among those respondents, there was a recognition this would likely require an increased focus on disclosure or use of 'comply or explain' mechanisms to achieve sufficient flexibility, rather than prescriptive continuing obligations.
- There remained a preference among key buy-side respondents (i.e., asset managers) to retain the two-segment approach, on the basis it provides flexibility to maintain higher standards many buy-side firms prefer, but gives the alternative option for issuers of a more accessible standard segment. However, buy-side responses also provided feedback on how a prospective single segment might work in practice.
- There was support for increasing the Class 1 significant transaction percentage threshold – which triggers a shareholder vote – with a small minority suggesting more radical reform towards a disclosure-based approach instead of votes.
- We received less explicit feedback on RPT rules, although some suggested streamlining of rules or increasing the threshold for shareholder votes in this context as well, while others saw this as an important protection.
- Views differed on permitting dual class share structures in the context of a single equity category – some felt we should be more permissive, noting the lack of restrictions for standard listed issuers, whereas others felt the changes we have made to permit a targeted form in premium listing rules were sufficient.
- There was majority support for the sponsor regime and role of sponsors. However, some suggested more transparency of the fees and services provided would be helpful, while others felt sponsors could have a reduced role beyond eligibility (partly linked to potential changes around shareholder votes for transactions).

Wider engagement and market context

- 2.6** We have continued to engage with key groups following DP22/2. In particular, we have engaged further with the FCA's Listing Authority Advisory Panel and Markets Practitioner Panel. We have also had further discussions with individual asset managers to understand how our Listing Rules impact their investment decisions. From that engagement, we have received further representations as to some of the perceived or actual barriers our existing Listing Rules may present to certain companies versus other markets, and discussed the merits of a more flexible, disclosure-led framework. By contrast, those asset managers we spoke to expressed limited awareness of, or reliance upon, our listing rules when making decisions on their investment strategy or in engaging with companies (i.e., on transactions being contemplated). Instead, portfolio managers focused on fundamental analysis and more direct, ongoing engagement and dialogue with issuers. In the event a company changed strategy or took action(s) they disagreed with and could not influence, they would typically look to disinvest.
- 2.7** Building on our analysis presented in Chapter 2 of CP21/21, we have also considered further the data on UK listed markets. This does show a persistent decline over recent years in the number of UK listed companies as shown in Figure 1 below.

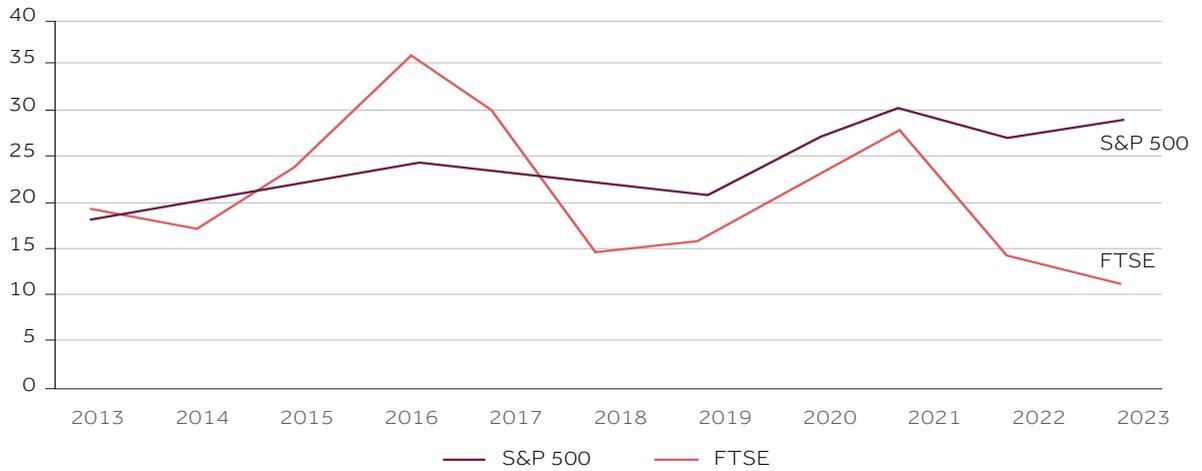
Figure 1: number of UK listed companies 2011 to 2023



Source: FCA analysis of LSE data

- 2.8** The market capitalisation of UK listed equity as a proportion of global equity markets has also declined by nearly half in the last 10 years from 5.8% to 3.1% (source: Bank of international Settlements, World Federation of Exchanges). While this mirrors a long term decline in the UK economy's GDP as a share of global GDP, the continued strength of US markets, and a growth in Chinese listed markets, nonetheless it suggests our markets could work better. We have also seen a 'valuation gap' develop between UK and US listed markets over recent years as shown in Figure 2 below. Part of the gap can be attributed to differences in sectoral composition, but it may also highlight investors' different attitudes and a lower risk appetite for UK assets (factors such as economic and institutional stability and currency volatility may feed into this).

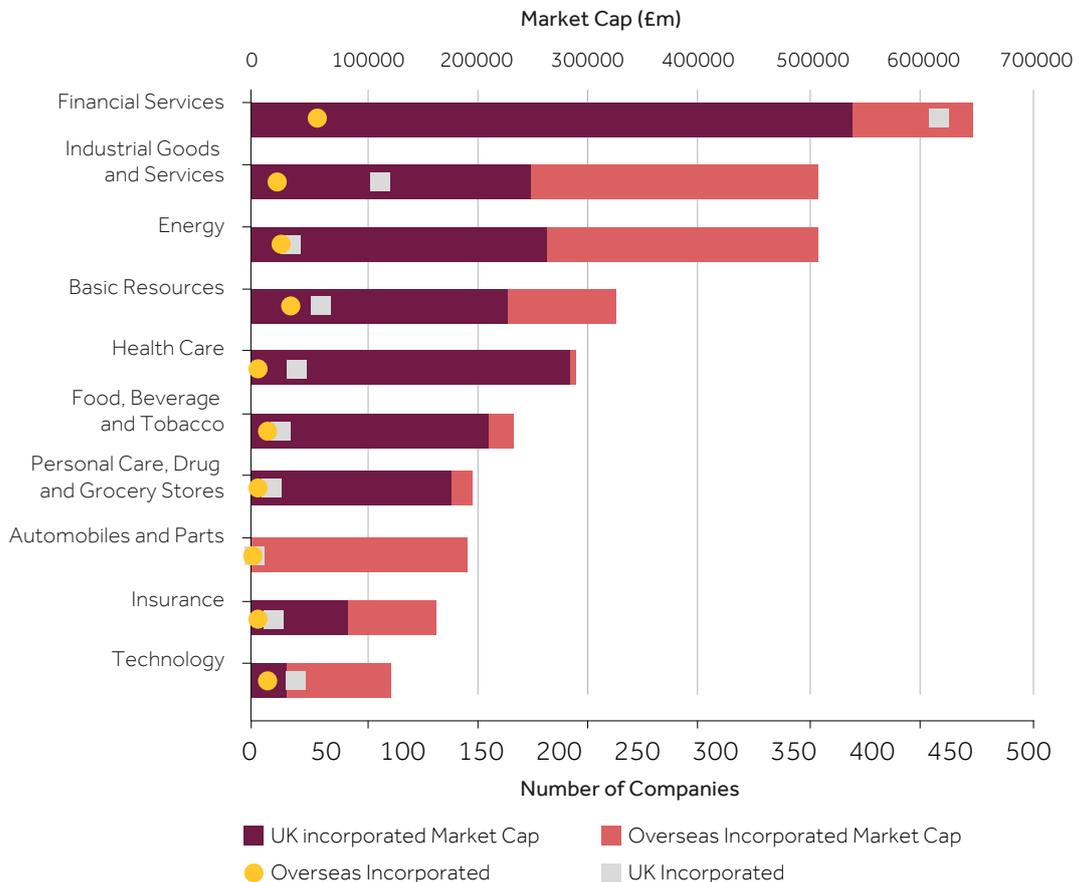
Figure 2: FTSE index (all companies) versus S&P 500 total market capitalisation to price earnings ratio: 2013-2023



Source: FCA analysis of data from website sources.

2.9 In terms of the sectors of companies listing in the UK, we have seen a reasonable number of technology companies listing in recent years. However, this has not been enough to address the fact that the listed market capitalisation of high-tech companies remains low in the UK, with financial services, industrials, consumer goods, energy and basic materials remaining much higher by market capitalisation than technology companies.

Figure 3: Market capitalisation of UK listed companies by sector (£000s)

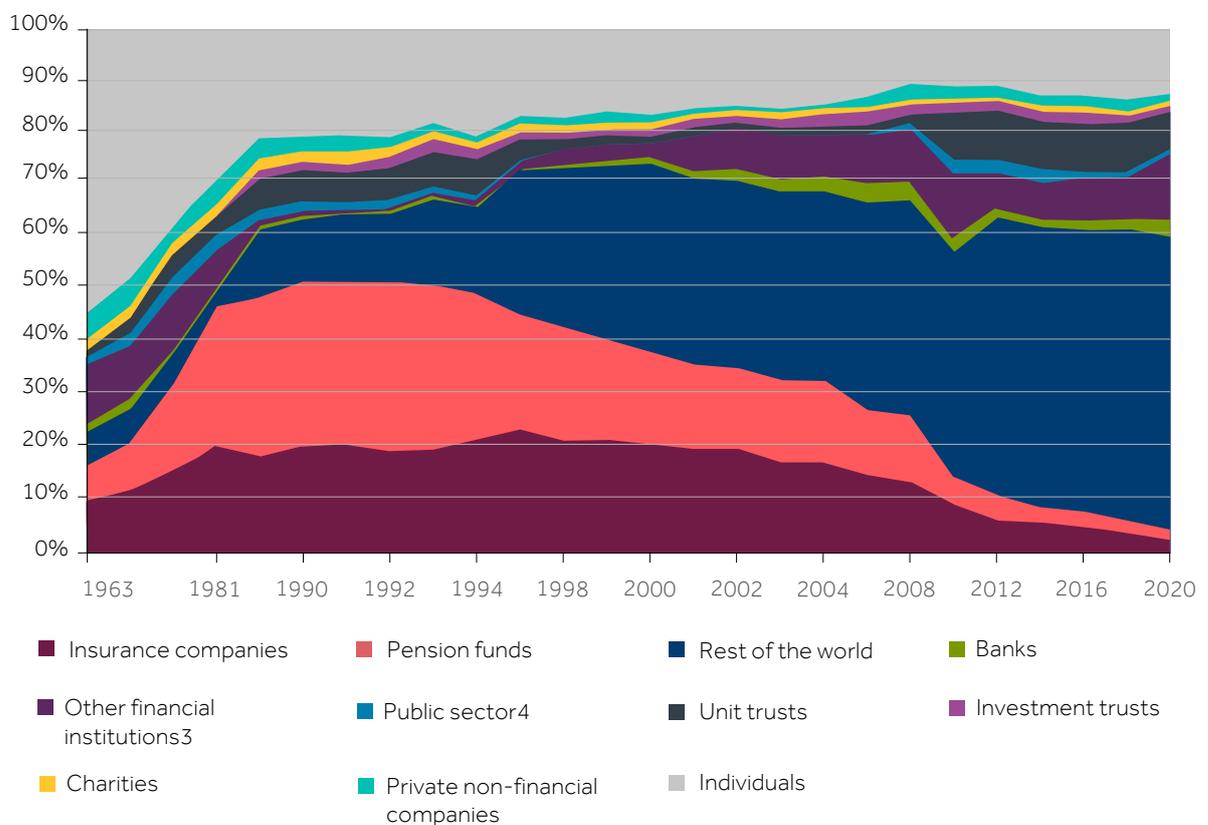


Source: FCA analysis of LSE data

2.10 More recent market developments and media commentary have also focused attention on the UK’s attractiveness as a listing destination and the role listing rules play in this. Such coverage has often accompanied reporting on individual listing decisions by high profile companies. The Treasury Select Committee also raised questions on this issue in March 2023, and has gathered its own evidence on the topic. However, many commentators recognise that regulation is not necessarily a determining factor in such decisions. Other factors – such as valuation, taxation, or depth of capital markets for example – weigh more heavily, some commentators suggest. While the FCA agrees with analysis that our listing rules are unlikely to be a sole determinant in a decision to list, we also recognise the potential for regulation to impact the balance of such considerations, and to impact wider market sentiment. As such, in designing our proposals we have sought to recognise the benefits of creating regulatory conditions that reduce disincentives to list while focusing instead on aspects that are essential to make markets work well. In addition, there has also been a material shift in the ownership of the value of ordinary shares held in UK incorporated companies listed on the London Stock Exchange since the 1990s, with over 56% of this now held outside the UK, while UK pension funds and insurers are at c.2% each, and individuals at 12% based on [ONS data](#).

Figure 4: Ownership of UK incorporated companies shares listed on the UK stock exchange

Percentage of total market value of UK quoted shares by sector of beneficial owner, 1963 to 2020 with pooled and excluded shareholdings allocated across the other sectors



Source: [ONS](#)

2.11 In considering proposed changes to the listing rules we have weighed up the potential benefits for companies raising capital and the diversity of investment opportunities for those looking to invest on UK markets with preserving market integrity and appropriate

investor protections. This is ultimately a judgement. In putting forward these proposals, we recognise there are trade-offs and risks in choices to remove or retain certain rules that some will see as protecting shareholder interests, while others see them as a burden to companies and consider market participants can be left to negotiate their own investment terms.

Other related UK initiatives

- 2.12** There are several other reports and regulatory initiatives that interact with the proposed reforms considered in this consultation paper. The UK Listing Review published in March 2021 informed our initial Listing Rule changes later that year, which we confirmed in PS21/10 and PS21/22. The proposals we are now putting forward speak to further areas addressed by the UK Listing Review. Indeed, we are going further by proposing to remove rules requiring 3-year historical financial information and revenue track record (recommendations 10 and 11) and proposing to make more fundamental changes to the existing standard and premium listing categories for commercial companies (recommendation 4).
- 2.13** The UK Listing Review has also resulted in the further independent UK Secondary Capital Raising Review (SCRR) and HM Treasury's further work to consult and then propose draft legislation to create a new public offers and admission to trading regime, to replace the UK Prospectus Regulation. The main SCRR recommendations for the FCA will be further considered as part of our work to introduce rules under the new public offer and admissions to trading framework, although we recognise there are some smaller proposals related to the Listing Rules. We may address these as part of our second consultation paper or revisit these at a later date. We are also continuing to engage with the Digitisation Taskforce launched following the SCRR.
- 2.14** Finally, there are wider regulatory changes being considered under the ongoing Wholesale Markets Review as well as reforms being considered by the Department for Business and Trade to restore trust in audit and corporate governance. Of particular relevance to our proposals are plans by the Financial Reporting Council to consult on updates to the UK Corporate Governance Code later this year, to effectively implement certain proposals from the Brydon Review. The Government also plans to legislate in due course for further changes to audit, corporate reporting and corporate governance requirements.
- 2.15** We continue to work closely with all relevant parties as these initiatives progress and will consider any interactions with our listing rules as we progress our reforms.

International comparisons

- 2.16** We have also considered comparative requirements to our Listing Rules in other jurisdictions. We consider these in relation to key areas under consideration in this paper including RPTs, and DCSS. We look at requirements in the UK compared to those in the US, Hong Kong and certain EU markets. We focus in this consultation paper on what could be considered to be international comparators to UK capital markets, recognising that other jurisdictions such as Singapore, Australia and different EU member states could also have been considered.
- 2.17** In practice, it is difficult to draw direct conclusions from this analysis which necessarily does not include a detailed consideration of the interaction between these regulatory requirements and other domestic requirements such as corporate governance law or (for example in the US) the different requirements, including those in state law and in market practice, below national level. What may appear to be lower requirements than in the UK may not in practice work in that way. We understand also that differences in national regulatory approaches, and investment and risk culture, may not be captured by this analysis.

Wider effects of this consultation

- 2.18** Our proposed removal of standard and premium listing segments will also impact other issuer types aside from commercial companies, as other types of issuers are also listed according to these segments (as set out in diagram 1 in Chapter 6), even if subject to modified or tailored rules. This paper seeks to identify those impacts and indicates an initial approach where possible. More detail of our proposals for all listed securities will follow in our second consultation later this year.
- 2.19** Some index providers currently set inclusion criteria for listed companies linked to the rules for our premium listing segment. Our proposals would therefore mean those providers would need to consider what criteria they or their users consider most appropriate to determine constituents of a given index. The outcome, which would be a matter for the index provider to decide, may align more closely with criteria used for other global indices. It will remain open to index providers to set higher or different standards to our listing rules, or create alternative indices reflecting different users' preferences, should they wish to supplement standards required by our reformed listing rules.
- 2.20** In a similar way, UK 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. On the basis we intend our rules to encourage a more diverse range of companies to consider UK listing, by reducing regulatory disincentives or barriers, UK exchanges should benefit from these reforms. Strong competition and innovation by UK-based exchanges should then provide a further impetus to encourage companies to list on UK markets.

Alternative options

- 2.21** We have purposefully focused in this paper on a detailed proposition for a single listing category for ESCC, seeking to reflect feedback, market developments and our own analysis to date. As discussed in CP21/21, there remain alternative models of maintaining a two-segment approach to equity shares, setting requirements for a single equity category closer to current premium listing rules in places, or going further towards our standard listing regime, for example by removing the sponsor regime. These would all vary the balance of flexibility and costs for companies accessing UK markets, level of complexity in our rules, and the extent to which our rules afford certain protections to shareholders. In turn, this may drive the overall attractiveness to companies of listing in the UK, and investor choice and confidence in our markets.
- 2.22** We have sought to strike a balance that can best address the current perceived challenges to UK listed markets and meet investors and companies' interests, taking into account the FCA's statutory and operational objectives. However, we ask specific questions under certain proposals around whether alternative or supplementary changes could be considered to address perceived risks or gaps created by the proposals we set out, while not unduly constraining any benefits. We also set out our preliminary CBA considerations in Chapter 9. We very much welcome evidence and data wherever possible 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.

Chapter 3

Introduction to the equity shares in commercial companies category & eligibility requirements

Introduction

- 3.1** In this section we introduce the proposed new listing category for equity shares in commercial companies (ESCC). We also set out proposals on eligibility requirements in the context of the proposed new category, in line with our aim to improve the accessibility of listing and to make the UK listing regime more competitive with other jurisdictions. For information on the proposed role of sponsors at the listing gateway for this new category, please see Chapter 6. Please also see Chapter 6 for proposed new eligibility criteria that would be applicable to commercial companies listing equity shares, and other issuer types.

Equity shares in commercial companies - single listing category

- 3.2** The main proposals set out in this consultation paper relate to the creation of a new single listing category for ESCC, for new applicants for listing and for commercial companies with equity shares currently listed in our premium and standard listing segments. The new listing category will have requirements specifically tailored to equity listings for such companies. But we recognise certain other types of premium and standard listed shares may still require a discrete category.
- 3.3** We will consider whether there is a need to retain the Sovereign Controlled Commercial Companies category (LR 21) or whether it should be removed and incorporated into the new ESCC category (please refer to Chapter 7). We would also generally assume non-UK incorporated companies should be able to meet the standards of the new category for ESCC, but welcome views on this point.
- 3.4** There will be a core set of eligibility and ongoing listing obligations, that currently apply to all equity share listings in premium and standard listing, that we are not proposing to change and that we therefore do not discuss in any detail in this consultation paper, (for example, requirements regarding shares in public hands and minimum market capitalisation). The proposals discussed in this paper primarily focus on those areas that we want to change to facilitate a single listing category to replace the premium and standard categories. We address the specific additional requirements for the new ESCC category in this Chapter and in Chapters 4 and 5.

3.5 We set out in Chapter 7 how we initially propose to address other issuer or instrument types, as well as other matters that we will provide more detail on in our follow-up consultation paper, including:

- shares issued by CEIFs (LR15 and LR14 for listing additional share classes)
- shares issued by OEICs (LR16A, and LR14 for some legacy listings)
- equity shares issued by SPACs or shell companies (mostly Standard Listed issuers (LR14))
- shares which are non-equity shares or non-voting shares (e.g., preference shares and deferred shares)
- debt and debt like securities (LR17)
- certificates representing certain securities (i.e., depositary receipts) (LR18)
- securitised derivatives (LR19)
- miscellaneous securities (including warrants, options and other similar securities) (LR20)
- shares in the current standard listing shares category that currently benefit from a Transitional Provision (LR14)

Eligibility requirements for ESCC - existing financial information requirements

3.6 In the current Listing Rules, standard listing applicants currently have no specific eligibility requirements related to financial information, aside from those applicable in relation to producing a prospectus. By contrast, premium listing applicants are required to meet specific provisions in our Listing Rules to demonstrate their financial position and performance over time, as outlined in LR 6.2 and LR 6.3. Applicants to premium listing are also required to satisfy the FCA that they have sufficient working capital (LR 6.7).

3.7 In DP 22/2, we proposed as part of the concept for a single equity segment that we would remove certain eligibility criteria related to financial information currently required in the premium listing segment and instead rely on disclosure. Please refer to paragraphs 3.23 to 3.46 of DP 22/2 for a discussion of the rationale for removing these requirements.

Proposed approach for the ESCC listing category

3.8 In line with the rationale set out in Chapter 1, we have considered whether these requirements are valued by the investors and if they are acting as a deterrent to companies considering listing. Where not valued and acting as a deterrent, we believe there is a strong case to remove/review these requirements.

- 3.9** We propose to move forward with removing the following from the rules that will apply for the ESCC category:
- historical financial information requirements set out in LR 6.2
 - revenue earning track record requirements set out in LR 6.3
 - related 'specialist exemptions' to these sections contained in LR 6.10, LR 6.11 and 6.12, since these 'concessions' will no longer be necessary
 - requirement that an applicant has to satisfy the FCA that they have sufficient working capital as set out in LR 6.7
- 3.10** We note that some of the feedback we received on these topics is contingent on an assumption that requirements for financial information contained in the prospectus will remain, which includes specific provisions for issuers with complex financial histories and requirements for working capital statements.
- 3.11** We also recognise that, if we removed historic financial information requirements in our Listing Rules as described above, there may be potential information gaps in terms of the recency of financial information required by prospectus rules versus LR 6.2. We will consider this as part of future work on the proposed new Public Offers and Admissions to Trading Regime.
- 3.12** However, we assume that otherwise financial history disclosures in a prospectus will remain substantively similar since the new framework maintains a principle that investors should have all necessary information needed to make an investment decision. If we do explore changes to prospectus requirements in due course, we will consider how this interacts with our Listing Rules as they stand at that time.
- 3.13** We acknowledge concerns have been raised that not requiring that new applicants for listing satisfy the FCA that they have sufficient working capital may create additional risks for investors, particularly retail investors. However, on balance, we consider that this prescriptive requirement is not justified by these potential risks. There are examples in standard listing where issuers have attracted investors despite qualified working capital statements in their prospectuses, which suggests investors have been prepared to consider information on working capital as provided in a prospectus and make an informed investment decision based on their own risk tolerance. During the pandemic, substantial equity capital was raised even when there was considerable financial uncertainty in relation to companies. Investors can also use other issuer disclosures such as going concern disclosures. This approach is also in line with the approach set out in Chapter 1, providing more flexibility for investors to make these types of decisions.

Q1: Do you agree with the proposal to remove specific financial information eligibility requirements for a single ESCC category? If not, please explain why and any alternative preferred approach.

Chapter 4

Equity shares in commercial companies category - initial and continuing obligations

- 4.1** This chapter considers key provisions contained within our premium listing rules which take effect as both initial (eligibility) requirements (in LR 6) and as ongoing continuing obligations (in LR 9). For standard listed equity issuers, there are no corresponding requirements. These include provisions on:
- independence of business
 - control of business
 - controlling shareholders, and
 - dual class share structures (shares with enhanced voting rights).
- 4.2** We consider each of these areas in further detail and set out a proposed approach for the single equity category.

Independent business and control of business

Existing requirements

- 4.3** Our current premium listing rules in LR 6.4.1R and LR 9.2.2AR require an applicant and a listed company to demonstrate that it carries on an independent business as its main activity. Further Handbook guidance and TN/103.1 set out factors that may indicate where this is not the case. However, it typically requires the FCA to take a considered view on applications based on the facts of a specific issuer's business model and representations made to us by the issuer or its sponsor. The stated intention of this rule is to ensure that the protections afforded to holders of equity shares by the premium listing requirements are meaningful.
- 4.4** LR 6.6 and LR 9.2.2IR require a premium listing applicant and a listed company to demonstrate that it exercises operational control over the business it carries on as its main activity. The stated purpose of this rule is the same as for LR 6.4, and, in practice, it allows a differentiation between commercial companies and funds. The rule also effectively prevents an issuer ceding control of a business post admission, which is substantiated by the ongoing requirements in LR 9.2.2IR.
- 4.5** Again, the rule is supported by guidance on factors the FCA will consider in adjudging whether there is a potential lack of control (LR 6.6.3G). One of these factors is where a business only owns minority stakes in other enterprises.
- 4.6** Both LR 6.4 and LR 6.6 help to define what we expect of and mean by a 'commercial company'. In addition, LR 6.13 addresses related issues around externally managed

companies, to ensure an applicant's board retains decision making capability to guide the strategy of the business and is not reliant on external parties. This is also a continuing obligation in LR 9.2.20R.

4.7 We have no similar requirements for issuers of shares in standard listing.

Proposed approach

4.8 As a general approach, we consider the single category for equity shares in commercial companies (ESCC) should be sufficiently flexible to accommodate issuers that have operational businesses that generate, or have the prospect of generating, revenue from their own activities or ventures. We recognise from feedback that existing premium listing rules can create perceived uncertainty, and at times require nuanced judgements, for certain business models, including franchise-type models or companies making minority investments in other entities. We have also had to create 'concessions' within our rules for mineral companies where control of assets and activities may vary and often be structured to allow joint ventures, such as in oil companies.

4.9 While we take careful account of case-by-case specificities of such companies and have often listed them, we recognise subjective criteria and a complex assessment may be unhelpful for new applicants, and result in a longer or more resource-intensive application process (both for applicants, sponsors and the FCA).

4.10 As a starting point, we propose to explore a modified form of these obligations for the new ESCC category. While we would retain the underlying principle of ensuring a business is capable of complying with our listing, disclosure and transparency requirements, we will consider amending existing provisions to be clearer that we are open to diverse business models and, potentially, more complex corporate structures. In general, we want our rules to provide a clear basis for companies and their sponsors and advisors to understand when, and in which category, issuers would be listed, i.e.:

- a.** the proposed ESCC listing category for companies that own and operate a business (with assets, employees, actual or prospective revenue generation etc)
- b.** CEIFs or OEICs that are structured as such, which would retain discrete listing categories (currently, LR 15 and 16A respectively)
- c.** companies that act as strategic investors in investee companies by taking non-controlling positions, but which are not diversified fund vehicles
- d.** SPACs or shell companies, which do not have operating activities per se and (potentially) have less complex corporate group structures (prior to any acquisition or investment)

4.11 With regard to those companies described in (c), we would start from an assumption that companies with substantive corporate structures should be accommodated in the ESCC category (as described in this paper), assuming they can meet the proposed package of continuing obligations. If a more bespoke set of requirements was necessary, we would consider a separate category, as we are proposing for SPACs and shell companies (see Chapter 6).

- 4.12** We are not proposing to change our existing position on undiversified CEIFs that do not meet the requirements of LR15, which we would not propose to list. Other non-listed options, such as the Specialist Fund Segment, remain available to such funds.
- 4.13** We will retain the power to refuse an application for listing (based on s75(5) FSMA) if, for a reason relating to the issuer, the FCA considers that granting it would be detrimental to the interests of investors. A hypothetical example might be a vehicle that seeks to list shares providing undiversified exposure to a single asset via a minority interest and without an ability to provide the investors with information on that asset.
- 4.14** We would seek to ensure that any revised approach allows for businesses that use arrangements common to sectors such as extractive industries, where we currently have a specific carve out in relation to LR 6.6 (see LR 6.10.3R), to be considered as commercial companies.
- 4.15** We will consider if LR 6.13 remains relevant in the context of ESCC to prevent separation of effective control from the applicant's board to a third party such as an external management company.
- 4.16** For investment entities, we would aim to retain discrete categories based on current obligations. In our autumn consultation paper, we will set out our proposals for these issuer types, and for other equity share issuers that are out of scope of the ESCC category, although we outline some initial thinking in Chapter 7.
- 4.17** While we wish to improve certainty for prospective listed companies and ensure a single equity listing category for commercial companies is widely accessible, we recognise that complex corporate structures could also be more opaque and pose risks to the quality of market disclosures. In some cases, investors will be able to clearly discern the interlinkages (and potential risks) from an issuer whose business is, in practice, either dependent on a relationship to another company or relies on investing in other companies. This would be detailed, for example, in a prospectus. However, there will be additional risks from such businesses due to the link between their value and the actions or circumstances of a third party. If this crystallises, it may undermine market integrity and market confidence.
- 4.18** We would therefore welcome views on how to balance this desire for consistency and simplification with potential risks to investors and explore whether, for example, more specific and explicit disclosure or assurance (i.e., by sponsors) should be considered in certain cases to support investors to make informed decisions and ensure risks are clearly stated.

Q2: Do you agree with a proposal to explore a modified approach to the independence of business and control of business provisions for a single ECSS category, with a view to enhancing flexibility, alongside ensuring clear categories for funds and other investment vehicles?

- Q3: Do you have views on what rule or guidance changes may be helpful, and whether certain disclosures could also be enhanced to support investors and market integrity, or any alternative approaches we should consider?**

Dual class share structures

Existing requirements

- 4.19** In December 2021, we finalised rules to introduce a targeted and time limited form of DCSS within premium listing. This was intended to allow founders of innovative companies to exercise enhanced voting rights in relation to the removal of the holder as a director and after a change of control of the company on any matter, to enable them to implement their vision and keep control of the company (see LR 9.2.22AR to 9.2.22FR). The current DCSS framework in the premium segment is akin to a poison pill mechanism and enhanced voting rights expire after 5 years (also referred to as a 'sunset' clause).
- 4.20** At the same time, there are no rules that preclude the listing of shares in commercial companies with dual or multiple share structures in the standard segment.

Proposed approach

- 4.21** Feedback to DP22/2 suggests this is a critical area to get right to improve the attractiveness of a UK listing. Potential applicants from newer industries are keen to take advantage of DCSS but some viewed the current DCSS concession in premium listing as too restrictive. While some buy-side respondents viewed the one-share one-vote approach as the ideal arrangement in public markets, no respondent advocated prohibiting DCSS in a single segment.
- 4.22** We agree that without meaningfully moving away from the premium listing approach, a single segment is unlikely to prove sufficiently flexible to allow the full range of company models to list in the UK. We have considered evidence from US markets that show a higher prevalence of DCSS particularly among companies in the technology sector. In 2021, around 45% of tech companies listing in the US had DCSS structures, and close to 25% of non-tech US IPOs.¹ The same data also suggest average 3-year buy-and-hold returns are better for companies with dual class share structures across 1980-2022, particularly for technology companies, although this does not prove causation. However, we consider some boundaries may still be appropriate to prevent 'excessive' forms of enhanced voting structures that may undermine market integrity. We also expect market dynamics will act to constrain such structures, since at admission the 'negotiation' between a company and prospective institutional investors has typically moderated issuer behaviour – as seen in forms of DCSS in UK standard listing.

¹ See Jay Ritter, [Initial Public Offerings: Dual Class Structure of IPOs Through 2022](#)

4.23 To address the risk and potential harm that a single ESCC category might be too narrow in its eligibility requirements, and hence insufficiently appealing, and to ensure that investors contribute towards and obtain the benefits of a dynamic economy capable of nurturing high growth sectors that might currently be less prevalent in UK listed markets, we propose to introduce a more flexible approach to DCSS with the following features:

- **Enhanced voting rights would be able to be exercised on all matters and at all times**, not just to stop a change of control or to protect a founder's position as a director, subject to one exception. The exception would be a requirement that enhanced voting rights shares revert to 1 share, 1 vote to approve the issuance of new shares at a discount in excess of 10%. Where the ESCC category would otherwise require shareholder approval, then enhanced voting rights would be able to be exercised on those matters, subject to the controlling shareholder provisions. We will also consider, and welcome views on, whether we need to clarify the definition of 'controlling shareholder' to account for potential control due to enhanced voting rights and in relation to rules requiring votes by shareholders to approve the appointment of independent directors and cancellation of listing (see below).
- **Enhanced voting rights should cease to be exercisable after 10 years** and enhanced voting rights shares would convert to ordinary shares with one share, one vote. Currently, we set a maximum sunset period of 5 years. 10 years is at the high-end of the time ranges within which empirical research has shown the positive effects of DCSS to decrease in other markets. We consider, however, that a longer timeframe is appropriate in the context of a single ESCC category and propose to extend it to allow more time for founders to implement their vision, albeit shorter periods can be applied. We propose that DCSS can only be put in place at admission, i.e., for a maximum of 10 years from the date on which the company first had a class of ordinary shares admitted to listing. A group restructuring or a reverse takeover or another similar transaction should not have the effect of artificially extending the period within which holders of specified enhanced rights shares may exercise those voting rights. As is currently the case in premium listing, it would need to be demonstrated through the company's constitutional arrangements prior to listing that this requirement can be met.
- **Restrictions on transfer:** We propose to maintain a modified form of the transfer-based sunset provision currently permitted in premium listing. This would mean that shares with enhanced voting rights will automatically convert to ordinary listed shares upon the holder ceasing to be a director. This would entail tightening the existing transfer-related sunset which currently allows the transfer of enhanced voting rights shares to the beneficiaries of a director's estate.
- **Enhanced voting rights shares can be held only by directors of the company:** In line with the existing premium listed rules, we propose that enhanced voting rights can only exist as long as an individual remains involved in setting the strategic direction of the company for which we use being a director as a proxy.
- **No specified voting ratio or weighting limits:** We propose removing limits on the maximum enhanced voting ratio that can be attached to enhanced voting rights shares and leave it to the market to negotiate a suitable level. We also considered requiring a holder of shares with enhanced voting rights to retain a minimum level of economic interest in the company so that if they disposed of enough shares to drop below the relevant threshold, their shares would convert into one share, one

vote to ensure there remains some economic incentive for a holder to act in a way that adds value to a company. We, however, considered on balance that ratios or thresholds add complexity, are difficult to monitor and may limit forms of DCSS, which tend to be fairly bespoke in design.

4.24 The most important safeguard for minority shareholders in the single ESCC category would be the 10-year time-related sunset provision. We continue to consider a time-related sunset provision to be the most effective safeguard against the entrenchment of enhanced voting rights and the permanent exposure to moral hazard by minority shareholders. Listed companies wishing to extend the sunset beyond 10 years could do so by de-listing. We are not minded to propose changes to the requirements for cancellation of listing when there is a controlling shareholder. Enabled by suitable transparency, we consider that market mechanisms and the discipline imposed by market participants at IPO and in secondary markets will be able to lead to differentiated pricing outcomes depending on the fact-specific features of a company's arrangements.

4.25 We see the proposed DCSS framework in the single ESCC category as a set of outer boundaries and protections that will allow the market to develop more bespoke arrangements based on market dynamics and risk appetite. This appears to be the case with recent UK DCSS experience. The FCA's LR don't place any restrictions on DCSS for standard listed companies. There have been some recent high-profile standard listings (THG, Deliveroo, Oxford Nanopore and Wise) with DCSS in the last few years. While these pre-date our introduction of the existing targeted form of DCSS in premium listing, we note that the forms of DCSS implemented by these new applicants were relatively targeted, which might be a sign of genuine negotiation taking place between the issuer and prospective investors. We also consider the proposed limits would sit somewhere between other international approaches (see below).

Table 2: international approaches to dual class share structures in selected markets

US NYSE	US Nasdaq	Hong Kong	EU
Equity securities of companies with dual class shares allowed but there might be specific requirements at State level where companies are incorporated.	Equity securities of companies with dual class shares allowed but there might be specific requirements at State level where companies are incorporated.	<ul style="list-style-type: none"> Limited to innovative and high-growth companies (applicants must demonstrate this) with minimum market cap of HK\$40 billion, or at least HK\$10 billion combined with a revenue of at least HK\$1 billion. Sunset provisions including weighted voting rights ceasing on transfer (effectively limiting to 'founders'). 10:1 cap on ratio of weighted voting shares to ordinary shares. Certain matters reserved for one vote per share, including changes to constitutional documents, variation of class rights, appointment/removal of independent directors/ auditors and winding-up 	Requirements vary across the EU e.g.: <ul style="list-style-type: none"> In the Netherlands Loyalty shares allowed but non-voting shares not allowed. In France, there is the option for listed companies to change their bylaws to give double voting rights to shareholders holding their shares for more than two years. In Sweden, DCSS is permitted.

Q4: Do you agree with our proposed approach to dual class share structures for the single ESCC category and the proposed parameters? If you disagree, please explain why and provide any alternative proposals.

Controlling shareholders

Existing requirements

4.26 Controlling shareholders are among the most actively engaged in the governance of the companies in which they hold a significant share and usually favour a long-term and strategic approach to managing companies. Our existing approach seeks to address the risk that the interests of minority shareholders are overridden by controlling shareholders. The current controlling shareholder regime in premium listing is set out in LR 5, 6, 9, 11 and 13 and principally includes the following provisions:

- An applicant or listed company must be able to demonstrate that despite having a controlling shareholder, it is able to carry on an independent business as its main activity. LR 6.5.3G sets out factors that may indicate that an applicant does not satisfy this requirement, including that 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.
- A legally binding agreement with its controlling shareholder must be in place in writing at admission and on an ongoing basis.
- Additional voting power is given to minority shareholders on the election of independent directors where there is controlling shareholder.
- The protections for minority shareholders are enhanced where an issuer wishes to cancel its premium listing, transfer between listing categories, or enter into a transaction with or for the benefit of a controlling shareholder (under our RPT rules) through specific refinements to rules on shareholder voting.
- Inclusion in its annual financial report of:
 - details of any contract of significance between the listed company, or any of its subsidiary undertakings, and a controlling shareholder,
 - details of any contract for the provision of services to the listed company or any of its subsidiary undertakings by a controlling shareholder, and
 - a statement made by the board:
 - a. That the listed company has entered into an agreement with a controlling shareholder as required by the LR.
 - b. Where the listed company has not entered into an agreement with a controlling shareholder as required by the LR, a statement that the FCA has been notified and a brief description of the reasons for the failure to enter into the agreement that enables shareholders to evaluate the impact of non-compliance on the listed company.
 - c. That the listed company has complied with the required undertakings set out in the agreement, and, as far as the listed company is aware, that the controlling shareholder and any of its associates have done the same during the relevant period.
 - d. Where an undertaking or a procurement obligation included in any agreement has not been complied with during the period under review, a statement that the FCA has been notified and a brief description of the reasons for the failure to comply that enables shareholders to evaluate the impact of non-compliance on the listed company.
- Where an independent director declines to support a statement made under (a) or (c), the statement must record this fact.

4.27 As noted above, the LR require a company with a premium listing to put in place a relationship agreement with shareholders that meet the definition of a "controlling shareholder". The agreement will typically contain a number of undertakings but, as a minimum, it must stipulate that:

- a. transactions and relationships with the controlling shareholder (and/or any of its associates) will be conducted at arm's length and on normal commercial terms

- b. neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules and
- c. 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

4.28 These rules were introduced in May 2014 ([PS14/8](#)) following several cases where overseas-based UK listed issuers had controlling shareholders, and later de-listed (see [CP13/15](#)). However, by contrast, we have no such rules in standard listing. Wider changes proposed to key shareholder voting elements (see below) for the single ESCC category would also impact the intended functioning of the current controlling shareholder rules.

Proposed approach

- 4.29** We received relatively little specific feedback to our suggestion in DP22/2 that in a single segment the provisions around controlling shareholders should be one of a set of 'supplementary' continuing obligations that issuers could decide to opt in to.
- 4.30** LR requirements on the interaction between a premium listed company and a controlling shareholder are premised on the idea that it is necessary to impose a standard of behaviour for the independent operation of the listed company and, in conjunction with rules around RPTs, give minority shareholders a veto on all transactions between the company and a controlling shareholder when the relationship between the company and the controlling shareholder is such that the risk of harm to independent shareholders is increased.
- 4.31** As explained in more detail in Chapter 5, we propose to stop requiring a shareholder vote to approve related party transactions, including when the related party is a controlling shareholder. This has prompted us to question the effectiveness of a controlling shareholder agreement without the 'stick' of a shareholder vote, while acknowledging that other avenues, including litigation, would still be open to seek remedy. It is in this context that we want to ask stakeholders to consider instead whether an adequate alternative could be a disclosure mechanism that puts the onus on shareholders to satisfy themselves that the nature of the relationship between the company and a controlling shareholder is within the parameters of their risk appetite.
- 4.32** We propose to reframe the requirement for a controlling shareholder agreement under a comply or explain approach whereby a lack of a controlling shareholder agreement would require specific disclosures and a discussion of risk factors in the prospectus and annual financial report, potentially accompanied by a standardised warning. Any changes to prospectus requirements will be considered in the context of the prospectus review reforms. We also propose to introduce a requirement for a market notification if such an agreement is altered post-listing. We would also welcome views on how the requirements for reporting details around controlling shareholders matters in annual financial reports set out in LR 9.8 and described above could be modified to work within a comply or explain approach to controlling shareholders agreements and, in particular, when independent directors are concerned over the relationship between the company and a controlling shareholder.

4.33 The proposal to introduce a more permissive DCSS framework would increase the reliance of our listing rules on the specific voting arrangements that the controlling shareholder regime mandates for the election of independent directors, cancellation of listing and transfer between categories of listing.

4.34 Under the current rules, where a premium listed commercial company has a controlling shareholder, it must have in place at all times a constitution that allows the election and re-election of independent directors to be approved by both the shareholders of the listed company and the independent shareholders of the listed company. 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 must not be voted on within a period of 90 days from the date of the original vote
- ensure the further resolution is voted on within a period of 30 days from the end of that 90-day period, and
- secure approval by the shareholders of the listed company

4.35 In the case of a cancellation of listing of equity shares, an issuer must obtain, at a general meeting, the prior approval of a resolution for the cancellation from both a majority of not less than 75% of the votes attaching to the shares voted on the resolution and a simple majority of the votes attaching to the shares of independent shareholders voted on the resolution. The same requirements apply in relation to a transfer between categories of listing.

4.36 We would also propose to retain an equivalent provision to LR 6.5.3(1), in conjunction with LR 6.5.1 R, to the effect that we might consider refusing listing where an applicant has granted or may be required to grant security over its business in connection with the funding of a controlling shareholder or member of a controlling shareholder's group. This risk of complete loss of the applicant's value and control due to rights ceded to a third party poses a clear risk of detriment to investors' interests. We are interested in views as to how the FCA should approach the other factors in LR 6.5.3G(2)-(4).

Q5: Do you agree with our proposed approach to the controlling shareholder regime for a single ESCC category? Do you have any views on the suitability of alternative approaches to the one proposed?

Q6: Do you agree that our proposals as regards controlling shareholders align with our need to act, as far as is reasonably possible, in a way which is compatible with our strategic objective of ensuring markets work well and advances our market integrity and consumer protection objectives? If you don't agree, how do you believe these should be balanced differently?

Chapter 5

Equity shares in commercial companies category - continuing obligations

- 5.1** This chapter outlines our considerations on setting key continuing obligations for a single ESCC category, by contrast to our existing standard and premium listing approaches.
- 5.2** In particular, we focus on the significant and RPT regimes that currently apply to commercial companies with premium listed equity shares, although we also address other matters at the end of the chapter.

Significant transactions

Existing rules

- 5.3** Our listing rules for standard listed shares (of any share type) do not set any specific rules for larger transactions entered into by companies, although the Market Abuse Regulation (MAR) will require disclosure of inside information around relevant events.
- 5.4** By contrast, premium listing rules set out specific requirements for significant transactions in LR 10, which are in addition to MAR (and compliance with the relevant LR might not necessarily discharge MAR obligations). For transactions that are in scope of LR 10, we require the company to assess the size of the proposed transaction relative to the company using specified metrics. This calculation will determine whether further LR requirements will apply.
- 5.5** In summary, these requirements involve:
- For non-ordinary course transactions at 5% or more ('Class 2'), rules require an announcement of specified transaction details as soon as possible after the terms of a transaction are agreed (LR 10.4).
 - For non-ordinary course transactions at 25% or more, and certain other transaction types for which we have different thresholds ('Class 1'), in addition to a notification above at the point a transaction is agreed, the company must also send an explanatory shareholder circular and obtain prior shareholder approval of the transaction at a general meeting (LR 10.5).
 - Further requirements (in LR 13) set out the required content of the Class 1 circular, which may impact significantly on the pre-transaction due diligence that the company undertakes to meet our requirements, particularly around historical financial information and the company's working capital position.
 - The Class 1 circular requires prior FCA review and approval before it can be sent to shareholders.

5.6 The sponsor regime also applies to Class 1 transactions. In summary:

- The company must obtain the guidance of a sponsor to assess the application of the LR, DTR and MAR whenever it is proposing to enter into a transaction which due to its size or nature could amount to a Class 1 transaction (LR 8.2.2R)
- The sponsor must not submit a Class 1 circular for FCA approval on behalf of the company unless it has come to a reasonable opinion on (1) the company's compliance with our rules on Class 1 circulars, (2) the proposed Class 1 transaction not adversely impacting the company's ability to comply with the listing rules, transparency rules and MAR, and (3) the company's directors having a reasonable basis on which to make the working capital statement in the Class 1 circular (LR 8.4.12R)
- The sponsor must submit to the FCA a completed 'sponsor's declaration' providing assurance to the FCA on the above and a range of other matters, on the day the Class 1 circular is submitted to the FCA for approval, and before it has been approved (LR 8.4.13R)

Proposed approach

5.7 As with other aspects, a single ESCC category requires us to consider whether (and if so what) requirements to set in relation to large transactions undertaken by a listed commercial company equity issuer.

5.8 We propose to include an amended form of the significant transactions regime in the ESCC category for the purpose of supporting transparency in markets for listed equity shares, complementing other disclosure obligations under the DTR and MAR, but without a mandatory shareholder approval or shareholder circular.

5.9 The proposed approach carries forward certain disclosure elements of the current premium listing regime to preserve market integrity, while achieving the flexibility and proportionality that many stakeholders say is necessary but currently missing. Overall, the rules would be less disruptive than the current premium listing rules for companies seeking to create shareholder value through transactions that are, for example, 'non ordinary course' transactions.

5.10 We are therefore proposing to:

- Preserve the requirement to make a 'Class 2 announcement' when a transaction is entered into but only at the current Class 1 threshold of 25% and other Class 1 thresholds, rather than also at the current Class 2 threshold of 5%, and
- Except for a significant transaction that constitutes a reverse takeover, remove the current Class 1 obligations to obtain prior shareholder approval of the transaction on the basis of information provided in a detailed shareholder circular approved by the FCA.

5.11 We also propose that:

- The same transaction types would continue to be in scope, including non-ordinary course transactions (i.e., as for the current premium LR).
- The company should continue to 'classify' these transactions in accordance with the LR class tests and 'aggregation' rules to assess whether further LR requirements apply.

5.12 These proposals mean that the company would not be required under ESCC rules to announce significant transactions that would fall below the current Class 1 thresholds, nor to seek prior shareholder approval or publish a shareholder circular at any level. However, as discussed later in this chapter, we are considering a different approach for transactions that would have the characteristics of a 'reverse takeover' or are Class 1 and proposed by the company because it is in financial difficulty.

5.13 For the sponsor role, we propose that:

- Where a company is intending to enter into a transaction that may be required to be announced under the proposed ESCC significant transaction rules due to its size and type, it must obtain the guidance of a sponsor to assess the application of the LR, the DTR and MAR where the company is in any doubt about the correct application of our rules and its obligations. This is to seek to ensure that potentially notifiable transactions are identified and correctly classified, particularly in borderline cases. This is a change from the current premium listing obligation in LR 8.2.2R for the listed company to obtain a sponsor's guidance in any case where the proposed transaction may be Class 1.
- We do not propose to require sponsors to 'sign off' the announcement as compliant with ESCC category rules, in line with our current rules that do not require sponsors to sign off Class 2 announcements, or for the FCA to pre-approve it. The disclosure requirements in LR 10.4 do not include such matters as historical financial information or a working capital statement. The listed company should in all cases disclose any inside information in order to meet its MAR obligations and we want to avoid creating delay or conflicting announcement timetables when it needs to disclose information on the same transaction to the market to meet its MAR obligations.
- We would not carry over the mandatory and private declaration from the sponsor to the FCA in relation to the Class 1 transaction in its current form in the 'Sponsor Declaration for the Production of Circular' under LR 8.4.12R(1). We consider this a proportionate change for ESCC category rules. In particular, some of the sponsor confirmations in the declaration may no longer be relevant in the context of the proposed changes to the company's obligations on Class 1 transactions and corresponding changes to the sponsor's role. For the sponsor confirmations on the company's broader compliance with our rules, we note that the company should always conduct itself in a manner, and seek appropriate advice, to ensure it can adhere to the Listing Principles at all times (see discussion in Chapter 6) and meet its obligations.

- 5.14** We are proposing to make some ancillary changes to how transactions are classified:
- Removing the 'profits test', based on feedback and our own experience that it frequently produces anomalous results. We expect to carry over the remaining class tests and tailored provisions for classifying transactions by certain company types (for example, property companies and mineral companies) and joint ventures as set out in LR 10.
 - Allowing sponsors more discretion to apply appropriate modifications to the class tests (including substituting the specified tests with other appropriate measures), using their experience and expertise, without having to submit a request for the FCA to modify the tests (although they will still have this option) – we consider this proportionate given the purpose of the class tests will be to determine if a transaction is to be announced under LR, not whether a shareholder approval is required, and MAR obligations may apply irrespective of the LR classification.
- 5.15** We consider that this proposed approach strikes 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 as a whole.
- 5.16** We also consider that these are important incremental benefits that support retaining a disclosure regime in the ESCC category that would complement (but not necessarily satisfy) the company's disclosure obligations under other rules (such as under MAR). Our proposals offer a predictable and consistent approach to market disclosures among listed commercial company equity issuers, ensuring that the market as a whole is sighted on significant transactions, thus supporting price formation.
- 5.17** Our experience is that, in some marginal cases, there is a degree of judgement in whether a transaction is non-ordinary course for the purposes of the premium listing requirements on significant transactions. In making its assessment, the FCA currently will have regard to the size and incidence of similar transactions the company has entered into, as set out in LR10.1.5G. Sponsors can continue to assist companies with these considerations and liaise with the FCA as appropriate. We are not proposing to change our approach to 'ordinary course' - we expect the new announcement threshold will make this less of an issue going forwards. However, we would welcome views.
- 5.18** These proposals would considerably reduce the regulatory burden on existing premium listed companies who wish to enter into significant transactions. Conversely, they would increase burdens on standard listed companies who are not currently subject to a significant transaction regime, although they may make disclosures related to transactions under MAR. We consider that standard listed companies should ultimately benefit from there being a predictable and consistent approach to disclosure and the enhancements to market integrity noted above. The sponsor has the expertise to guide unfamiliar companies through their obligations to support compliance when necessary. Proposed transitional arrangements for the implementation of any new rules are discussed in Chapter 8.
- 5.19** We are aware that the effect of these proposals on existing premium listed companies would be that they might not continue to disclose the full suite of information that is

currently required to be included in a Class 1 circular. Alternatively, they may decide to disclose additional information post event, which could be much later (in the annual financial report for example).

5.20 We are not currently minded to impose disclosure requirements in relation to significant transactions in the ESCC category over and above the current Class 2 notification requirements. This is because:

- As mentioned above, listed companies should always have regard to their MAR obligations and have appropriate systems and controls in place to ensure compliance.
- The company will have to include appropriate information on the transaction in its next financial statements under applicable accounting standards.
- We have not heard strong views that a listed company should publish a Class 1 shareholder circular (or specific elements of it) in the absence of seeking shareholder approval for the transaction. We have not typically had to exercise our powers to suspend a listing for proposed Class 1 transactions (those that do not have the characteristics of a reverse takeover per LR 5.6) before the shareholder circular is published. However, we have our powers to do so if the smooth operation of the market is, or may be, temporarily jeopardised or it is necessary to protect investors.

5.21 However, we welcome views on whether any aspects of information currently required in Class 1 circulars may be beneficial to investors, and whether disclosure could be considered prior to a deal being concluded, to enable shareholders to apply some scrutiny and engage a company even in the absence of a vote – while not reintroducing the same level of frictions that some feel shareholder approval requirements create.

5.22 We are aware that these proposed changes may have an impact on existing investors in currently premium listed companies. They may need to adjust their risk-profiling methodologies and engagement strategies with companies for their investments in premium listed shares to factor in the removal of some of the current Class 1 requirements, including the changes to the sponsor's involvement. There would be increased risk for all shareholders that companies may pursue large transactions over which the ESCC category rules (in comparison to premium listing) would provide much less opportunity to influence and scrutinise prior to conclusion. Investors will therefore be more reliant on the experience, skill and effectiveness of the board to undertake deals that add value over time, as opposed to those that may erode it.

5.23 While removing a requirement for shareholder approval in our rules would not prevent a company choosing to engage its shareholders, including offering a vote on key deals, a company would no longer be compelled to do so. This may impact company behaviours if e.g., boards pursue riskier deals without concern that shareholders can potentially block their proposals. However, this assumes that a requirement for shareholder approval has a positive impact on e.g., whether a transaction happens and on what terms. It can be argued conversely that our current premium listing rules may mean companies miss out on, or choose not to pursue, deals that may add value, or face higher costs and delays where a transaction would have been approved by shareholders anyway.

5.24 Overall, our proposals err on the side of flexibility for listed companies to pursue transactions subject to appropriate market disclosure, leaving companies and shareholders to determine a preferred level of engagement. Investors will need to price in perceived risk where they consider a board may not act in accordance with their own views on a significant transaction, and if this crystallises, either signal disapproval post-transaction (e.g., via a general meeting / election of directors) or divest. We recognise, however, this will not prevent negative impacts on returns for an investor if the market has similarly negative sentiments on a transaction and the issuer's share price is lower as a result when an investor exits.

Q7: Do you agree with the proposed approach to significant transactions for a single ESCC category? If not, please explain why and any alternative proposals.

Q8: Do you consider that additional disclosure could be considered to further support transparency to shareholders on significant transactions and, if so, what (e.g., considering current circulars)?

Q9: Should we consider further mechanisms prior to a significant transaction being formally completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed commercial company equity issuers in place of shareholder approval? What should those mechanisms be and why?

Q10: Should the sponsor’s advisory role in assessing whether a potentially significant transaction meets the proposed disclosure threshold be mandatory or optional, and what are your reasons? Do you agree with our proposal that sponsors have more discretion to modify the class tests, including substituting the tests with alternative measures, without seeking formal FCA agreement to the modifications? If you disagree, please provide your reasons and alternative proposals.

Q11: Should we consider expanding the sponsor’s role further on any aspects of significant transactions?

Related party transactions

Current requirements

- 5.25** Our existing requirements around RPTs seek to prevent a related party from taking advantage of its position and any perception that it may have done so. They are intended to address the potential harm and loss of value to the company and its shareholders that can arise from a conflict of interest most commonly where a director or substantial shareholder is in a position to influence the company’s entry into a transaction or arrangement, or the terms on which they enter, where they may have a competing financial or other interest.
- 5.26** We currently have two regimes for RPTs that are not in the ordinary course of business.
- 5.27** For standard listed issuers of equity shares, the rules in DTR 7.3 apply. DTR 7.3 also applies to premium listed issuers. However, in addition, premium listed issuers must also comply with rules in LR 11. LR 11 is long-established and reflects provisions inherited by the FSA from the London Stock Exchange; DTR 7.3 dates from 2019 and implemented the requirements from the EU Shareholder Rights Directive.

Table 3 Summary of current requirements on related party transactions

Issuers with equity shares admitted to trading on a UK regulated market (DTR 7.3, LR 9.2 and LR 14.3) - In practice, these rules mostly apply to issuers of standard listed equity shares	Premium listed issuers (LR 11)
<5% - no requirements (but MAR will apply as relevant)	<0.25% - no requirements (but MAR will apply as relevant)

<p>Issuers with equity shares admitted to trading on a UK regulated market (DTR 7.3, LR 9.2 and LR 14.3) - In practice, these rules mostly apply to issuers of standard listed equity shares</p>	<p>Premium listed issuers (LR 11)</p>
<p>5% or above (12 month aggregation) - DTR 7.3 applies:</p> <ul style="list-style-type: none"> • RIS announcement before or when the terms of the transaction are agreed which sets out: <ol style="list-style-type: none"> a. the nature of the related party relationship; b. the name of the related party; c. the date and the value of the transaction or arrangement; and d. any other information necessary to assess whether the transaction or arrangement is fair and reasonable from the perspective of the issuer and of the shareholders who are not a related party, including minority shareholders. • Board approval for the transaction or arrangement before it is entered into, with any director who is, or an associate of whom is, the related party, or who is a director of the related party being excluded from discussions and vote on the board resolution. • Issuer required to have adequate procedures, systems and controls to assess whether a transaction or arrangement with a related party is in the ordinary course of business and has been concluded on normal market terms, and prevent any involvement of the related party or any person who is an associate, director or employee of the related party in the assessment. • Certain exceptions apply; in addition, premium listed issuers complying with LR 11 are effectively deemed to comply with the equivalent requirements in DTR 7.3. 	<p>All transactions that may be RPT (no de-minimis threshold):</p> <ul style="list-style-type: none"> • If proposing to enter into an RPT, obtain the guidance of a sponsor in order to assess the application of the LR, DTR and MAR to the transaction <p>>0.25%, but < 5% - LR 11.1.10R:</p> <ul style="list-style-type: none"> • before entering into the transaction or arrangement, obtain 'fair and reasonable' confirmation from a sponsor • make an RIS announcement as soon as possible upon entering into the transaction or arrangement, which sets out: <ol style="list-style-type: none"> i. the identity of the related party; ii. the value of the consideration for the transaction or arrangement; iii. a brief description of the transaction or arrangement; iv. the fact that the transaction or arrangement fell within LR 11.1.10 R; and v. any other relevant circumstances.
	<p>5% or above (LR 11.1.7R, and cross reference to LR 10 and LR 13):</p> <p>Notification as per Class 2 significant transactions (LR 10.4), and also the name of the related party and details of the nature and extent of the related party's interest in the transaction or arrangement</p> <p>Shareholder circular containing the information required by LR 13</p> <p>Shareholder approval prior to completion, excluding the related party and its associates</p>
<p>Meaning of related party – derived from IFRS</p>	<p>The LR definition of "related party" is set out in LR 11.1.4 R</p>

5.28 Under the DTR 7.3 requirements, the potential conflict of interest risk is addressed via specific governance and transparency interventions. In practice, the transaction must first be approved by unconflicted board members, following which the company must announce the transaction to the market no later than when the terms have been agreed. This announcement must include all necessary information to enable investors to reach their own conclusion as to whether a transaction is fair and reasonable.

5.29 LR 11 uses additional mechanisms, requiring the Board to obtain from an FCA-approved sponsor a written confirmation that the terms of a proposed transaction are fair and reasonable from the perspective of the shareholders. Furthermore, at or above the 5% threshold, the premium listed company must obtain the approval of the independent shareholders based on an FCA-approved circular with specific content requirements. The board is also required to take all reasonable steps to ensure that related party's associates do not vote on the resolution. If the company has a controlling shareholder but does not have a controlling shareholder agreement in place or the controlling shareholder or its associates are not complying with undertakings in the agreement, then (among other restrictions) all proposed RPTs with that shareholder require shareholder approval. The requirement for shareholder approval therefore provides a check on a company against the possible erosion of shareholder value, incentivising engagement between the listed company and shareholders through the general meeting and allowing shareholders to potentially stop a transaction.

Proposed approach

5.30 In practice, however, such shareholder votes are relatively infrequent, and usually result in approval. Over the 2017-2022 period, we found 19 instances of shareholder approval being required for a related party transaction by a premium listed commercial company undertaking a conventional transaction (i.e., excluding ratifications of actions by the board). This represents only a few instances a year, although it may be that the prospect of having to seek shareholder approval deters companies from considering some transactions from the outset.

Table 4: Related party transactions requiring a vote, 2017-2022, by size

Transaction size (class test analysis)	Number of transactions
5 – 9%	5
10 – 14%	4
15 – 19%	4
20%+	2
Uncapped consideration	4
Total	19

Source: FCA internal data

5.31 It has been suggested by some market participants that these figures are not properly representative and obscure the unintended consequences of the current related party transactions requirements and, even more so, of the current significant transactions regime. According to these stakeholders, there is a significant portion of firms who regard the inclusion of a requirement for shareholder approval in general meeting in current RPT rules as such a significant burden that they simply do not pursue consideration of a UK listing in the first place as a consequence. Therefore, these companies and their RPTs do not appear in our data.

Table 5: Related party transactions requirements in other key jurisdictions

US NYSE*	US Nasdaq*	Hong Kong	Netherlands
The audit committee or another independent body of the board of directors is required to conduct a reasonable prior review and approve all "related party transactions" that are material and required to be disclosed by the Company pursuant to Item 404 of regulation S-K or Item 7.B of the annual report on Form 20-F. Public disclosure under the SEC regulations will continue to apply	Company must conduct an appropriate review and oversight of all related party transactions, as defined by Item 404 of Regulation S-K or Item 7.B of the annual report on Form 20-F, for potential conflicts of interest on an ongoing basis by the company's audit committee or another independent body of the board of directors.	A company may be required to obtain approval of its shareholders for any 'connected transaction' (unless such transaction is exempted from shareholders' approval under the HKSE listing rules). Connected transaction may need to be announced publicly and information circular must be sent to shareholders. If in doubt as to whether a proposed transaction is 'connected', it is advisable that a company consult with HKSE.	Material related party transactions by listed companies have to be publicly announced but will not require shareholder approval.

*We recognise that US requirements are supplemented by legal fiduciary duties on a company (and potentially controlling shareholders) and court-based processes should a transaction be disputed that seek to ensure a company has taken steps to ensure either the 'fairness' of the price of a transaction, or otherwise the fairness of the process in approving a transaction. This can drive additional accountability and may mean a company offers shareholders an opportunity to vote on a transaction as one mechanism to discharge potential liability.

5.32 Having carefully considered the various issues and trade-offs, we are proposing that under the ESCC category rules for proposed RPTs (as currently defined in the LR) meeting the 5% threshold on the class tests, which are the same tests as those applicable to significant transactions (potentially without the profit test as noted above but including aggregated transactions over a 12-month period):

- the listed company must announce the transaction to the market no later than the time when the terms of the transaction or arrangement are agreed
- the announcement must include full particulars of the RPT, including the name of the related party concerned, and of the nature and extent of the interest of the related party in the RPT and the fact that the transaction is an RPT under LR, plus the additional information (where relevant) under the current class 2 notification regime (LR 13.6)
- the announcement must also include a statement by the board that the RPT is fair and reasonable so far as the security holders of the company are concerned and that the directors have been so advised by the sponsor (LR 13.6)
- for the purposes of the board's fair and reasonable statement, any director who is, or an associate of whom is the related party, or who is a director of the related party, should not have taken part in the board's consideration of the matter, and

the board's statement in the announcement should also specify that such persons have not taken part in the board's consideration of the matter (LR 13.6)

5.33 We propose to remove the requirements for:

- a.** a mandatory independent shareholder approval of RPTs at or above the 5% threshold, or for RPTs involving a controlling shareholder where circumstances require a vote below this level (as set out in LR 11)
- b.** b.related requirements for shareholder circulars, FCA pre-approval of a circular, and excluding a related party or its associates from voting on a shareholder resolution, and
- c.** modified RPT requirements for smaller transactions above 0.25% and below 5%

5.34 Given the potential harm of RPTs to shareholders, we propose to retain a requirement that a company proposing to enter into a transaction which is or may be a RPT should obtain the guidance of a sponsor in order to assess the application of the relevant LR, the DTR and MAR (current LR 8.2.3R). We welcome views on whether stakeholders agree this should be mandatory. For the same reason, we consider that sponsors should first consult with the FCA to agree any potential modifications to the class tests and resulting classification of the proposed RPT. This is a less flexible approach than we have proposed for significant transactions, as it will have a direct impact on the 'fair and reasonable' assurance model for RPTs, but again we would welcome views.

5.35 We would also propose to retain the current approach under premium listing requirements in LR that the responsibility for publishing, on time, a complete and accurate announcement on RPTs in accordance with the LR requirements ultimately lies with the listed company. We are not proposing that the sponsor should formally sign off the announcement, nor that the FCA would vet and pre-approve it.

5.36 We recognise that some stakeholders will consider the proposed removal of mandatory independent shareholder approval on RPTs reduces investor protection and, as a consequence, more emphasis may be placed on investors to assess a company's individual risk profile. However, it remains unclear as to how far the shareholder approval requirement, in practice, prevents loss of value that could arise from RPTs, over and above the transparency and sponsor assurance model that we are proposing.

5.37 Our rules cannot prevent every risk to shareholder value or be a substitute for investors carrying out their own analysis to support investment decisions. We would expect that investors would take into account much broader considerations in assessing the risk profile and valuation of an investment in a particular company that may transact with related parties, and not simply rely on the requirement for an independent shareholder vote and approval. These might include, for example, the composition and performance of the company's board, its governance practices and conflicts management policies, who its major shareholders are, and the applicable company or corporate law it is subject to (depending on its country of incorporation). This would be supported by annual reporting on corporate governance against the UK Corporate Governance Code (under current premium listing LR9 requirements). As indicated in Chapter 1, we recognise that investment mandates and indexation criteria may drive market practice in this area.

- 5.38** Also, in line with the approach set out in Chapter 1, which puts transparency at the heart of the regime, we are proposing to maintain the separate disclosure regime on RPTs under DTR 7.3, as this has a slightly different scope and is not limited to listed companies. As is currently the case, where a potential RPT would be in scope of both DTR7.3 and the ESCC requirements for RPTs at and above the 5% threshold, we propose that compliance with LR will be deemed sufficient to comply with the provisions in DTR 7.3.
- 5.39** Overall, these proposals will reduce obligations on premium listed companies for RPTs at and above the 5% threshold. Existing investors in premium listed shares will lose disclosure and sponsor assurance on transactions between 0.25% and 5%, and the requirement for independent shareholder approval supported by the requisite shareholder circular at or above 5%. However, it is hard to assess the value of this lost benefit to investors (including the disciplining effect on a listed company's behaviour due to the possibility of a vote) and any incremental increase in costs investors may incur due to the low frequency of such RPT arising and also that existing or enhanced engagement with companies may allow investors to compensate for this. We welcome any evidence on these points, noting that one alternative option could be to consider requiring shareholder approval at a higher level than the current 5% threshold in LR11 to improve flexibility, but not remove the requirement completely. However, given instances of votes on RPTs are already low, an even more limited occurrence would limit benefits to investors, while retaining a degree of complexity and prescription in our LR that may be unattractive to issuers.
- 5.40** For existing standard listed commercial companies, they would have to consider LR requirements in addition to DTR 7.3 requirements, specifically the proposed obligations to obtain the guidance of a sponsor, and a sponsor's 'fair and reasonable' opinion ahead of entering into a transaction at or above 5%. This would increase the regulatory burden on these companies, but enhances assurance on any transactions they undertake to the potential benefit of investors and market integrity. A requirement to obtain the guidance of a sponsor at the outset would help unfamiliar companies understand their new obligations. Proposed transitional arrangements for the implementation of any new rules are discussed in Chapter 8.

Q12: Do you agree with the proposed approach to RPTs for a single ESCC category, which is based on a mandatory announcement at and above the 5% threshold, supported by the 'fair and reasonable' assurance model which includes the sponsor's confirmation as described above? If not, please explain why and any alternative proposals in the context of a single ESCC category.

- Q13:** Do you consider that additional disclosure requirements could be considered to further support transparency to shareholders on RPTs, and should we consider requiring certain mechanisms prior to a deal being completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed companies to replace the requirement for independent shareholder approval?
- Q14:** Should it be mandatory for a listed company in the single ESCC category to obtain guidance from a sponsor on the application of the LR, DTR and MAR whenever it is proposing to enter into a related party transaction (irrespective of the size of the transaction), or should it be at the company's discretion?
- Q15:** Should it be mandatory for the sponsor to consult with the FCA and agree any modifications to the class tests and classification of a proposed RPT, or should the sponsor have more discretion? Please explain your reasons.
- Q16:** Are there any broader, alternative mechanisms that existing shareholders or prospective investors would want to see in place of, or made use of, in order to strengthen shareholder protection in relation to RPTs in the event that these changes are made to our LR? If so, would these be matters for inclusion in our LR or are they found, for example, in legislation or market practice?

Other matters requiring shareholder approval

Cancellation of listing

- 5.41** Premium listed companies must currently obtain shareholder approval before seeking to cancel their listing, which requires a 75% majority (and additional requirements where a controlling shareholder is involved) and a circular approved by the FCA to be sent to shareholders. The circular must include the anticipated date of cancellation which must be not less than 20 business days' following the passing of the shareholder resolution. Market notification is required when the circular is sent and upon the outcome of the shareholder vote (see LR 5.2.6R). There are applicable exemptions to the requirement (e.g., LR 5.2.7R in relation to a precarious financial position, or LR 5.2.12R for certain scheme of arrangements and circumstances where the issuer is subject to certain insolvency measures, amongst others).

- 5.42** For companies with standard listed shares, the company must only give 20 business days' notice of the intended cancellation.
- 5.43** Given the significant impact de-listing has on the transparency and liquidity available to shareholders, and the risk a larger shareholder may exploit their position to 'take private' a company to the detriment of other shareholders, we propose retaining the requirement for a shareholder vote to cancel listings of shares in the single ESCC category, including the 75% majority requirement (and additional requirements where a controlling shareholder is involved). We would also propose to retain this being supported by a circular approved by the FCA and retain the existing notice period of 20 business days following shareholder approval, but welcome views on whether we should consider any other changes to the process.
- 5.44** International approaches to de-listings vary, both in terms of the timing and processes involved:
- In Hong Kong, companies with a primary listing are required to gain approval for de-listing via a shareholder vote, followed by a 3 month notice period.
 - In the US, exchange rules generally require 10 days' notice before issuers file a required form (Form 25) with the SEC, which then triggers a further 10-day notice period before de-listing occurs. Issuers remain subject to obligations to make financial reporting disclosures up to 90 days from the filing of Form 25, i.e., up to 80 days after delisting, which appears designed to ensure financial periods during which an issuer was listed are subject to required reporting.
 - The Netherlands limits scenarios in which an issuer can de-list related to whether there is an 'exit arrangement' in place for investors, e.g., an option to be bought out the ability to continue to access a liquid market for their shares, or the shares have been listed for at least 12 months on another regulated and sufficiently liquid market. Any de-listing proposal requires approval from the Euronext Listing Board, subject to which delisting will occur 20 trading days after publication of a decision.
- 5.45** We are interested in views as to whether there may be merit in considering enhancing further our own de-listing requirements, for example by setting a longer notice period for cancellations. This may encourage companies to retain their listing, or give shareholders more time to consider the de-listing decision or more opportunities to exit their investment if a cancellation is pursued. We are also conscious that the current approach to unilateral cancellation of listing by the FCA where a listing has been suspended for over six months is overly cumbersome and see merit in amending the process for doing so (potentially via DEPP and within the constraints of what is set out in section 78 of FSMA). Companies that are 'returning to listing' from suspension after such a prolonged period tend to be materially different from that which was the case prior to suspension and it may be appropriate for such companies to be required to reapply for listing in such circumstances.

- Q17:** Do you agree with the proposed approach to cancellation of listing for the single ESCC category, and do you have any views on other possible changes to the existing cancellation process?
- Q18:** Do you think that the notice period proposed for the single ESCC category for de-listing should be extended (taking the approach of other jurisdictions) and if so to what? What would the benefits be?
- Q19:** Do you consider the policy for cancellation of listing by the FCA after a long suspension should be revisited? If so, how?

Reverse takeovers

- 5.46** Notwithstanding the proposals above on significant transactions, we are proposing in the single ESCC category to retain the requirement for shareholder approval for transactions that constitute a reverse takeover (under LR 5.6), including requirements for an FCA approved circular and the related content requirements. This ensures shareholders retain a vote where a company is contemplating a transaction that will transform its business, potentially creating a new company. We would also continue to require the company to cancel its existing listing on completion of the reverse takeover and to re-apply for admission with a new prospectus.

Companies in financial difficulty

- 5.47** A premium listed issuer in financial difficulty must also have regard to our Listing Rules when it is proposing to undertake a transaction. This might include a reconstruction or refinancing (LR 9.5.12R) or a large disposal that would be a Class 1 transaction under the current significant transactions regime in premium listing (LR 10). The transactions might be required to be approved by shareholders (under LR or other rules). For premium listed companies, where a circular is sent to shareholders, our current rules require the appointment of a sponsor and a prescribed form of shareholder circular that includes a working capital statement and must be approved by the FCA.
- 5.48** We will set out proposals for transactions undertaken by companies in financial difficulty in the ESCC category in our later consultation paper.

Voting provisions on other matters

- 5.49** Current premium LR require shareholder approval in certain other situations, including for certain share issuance or re-purchase situations. For example, under LR 9, discounted non pre-emptive share offers where the offer price represents a discount of more than 10% to the current share price must be subject to shareholder approval. LR 12 also contains provisions governing share buy-backs which require shareholder approval in certain circumstances.

5.50 As a general approach, we would propose to keep shareholder approval provisions in the single ESCC category that provide shareholders with a say over potentially material dilution or other impacts on the capital structure of the company. In general, we have not heard views that votes on these matters pose particular burdens for issuers and, in some instances, they will be less time-sensitive. They also support the broader principle of pre-emption rights, which is a key feature of UK markets and one which other external reviews, such as the Secondary Capital Raising Review, have identified should be retained.

Q20: Do you agree with retaining shareholder approval provisions on discounted share issuance and on share buy-backs, as currently required by the premium LR, as part of a single ESCC category, or would these be problematic for certain issuers?

Pre-emption rights

5.51 We propose to apply the existing premium listing continuing obligations concerning pre-emption rights to issuers in the new single ESCC category (as per LR 9.3.11R-LR 9.3.12R).

Annual reporting requirements

UK Corporate Governance Code compliance disclosures

5.52 As part of our proposals to create a single ESCC category, we propose 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) to companies within that category. In summary this requires a listed company incorporated in the UK to include additional items in its annual financial report, such as:

- a.** Statements by the directors on the appropriateness of adopting the going concern basis of accounting (Provision 30 of the UK CGC) and their assessment of the prospects of the company (Provision 31 of the UK CGC). This must also be subject to auditor review.
- b.** A statement of how the listed company has applied the Principles set out in the UK CGC.
- c.** 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. Elements of this must also be subject to auditor review.

5.53 For overseas companies, the current premium listed approach is also proposed to be adopted (LR 9.8.7R), i.e., the annual report and accounts must include, among other things, the information on b) and c) above. Good standards of corporate governance are

generally viewed as a strength of the UK and promote confidence in markets. Corporate governance controls will also be more important in the context of our proposals outlined above (e.g., for related party transactions, board oversight will be a crucial component in lieu of requiring shareholder approval).

- 5.54** However, we welcome views on whether there may be any potential barriers or frictions for overseas companies that also follow codes set in their own jurisdictions, particularly in relation to (c). For example, if a code differs from the UK CGC provisions, does this create a material burden to issuers to explain their approach compared to the UK CGC provisions, and does this support investor decision-making (versus e.g., disclosing that an alternative code is followed with a link to the relevant code).
- 5.55** We will liaise with the Financial Reporting Council (FRC), who set the UK CGC, as part of our consideration of this matter. We will also consider any proposed updates to the UK CGC itself, or consequential changes which may be required to the UK CGC if we proceed to remove the concept of premium listing.

Q21: Do you agree with our proposed approach to reporting against the UK Corporate Governance Code for companies listed in the single ESCC category, and are there any other mechanisms the FCA could consider to promote corporate governance standards?

Climate related financial disclosures and diversity disclosures

- 5.56** We propose to retain in the single ESCC category key disclosure and comply or explain requirements, which are already applied in common to standard and premium listings of equity shares in commercial companies, such as recent introductions of 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). This is consistent with our intention to have a highly transparent, disclosure-based approach to ensure investors have the information they need. It is also consistent with the single ESCC category focus on commercial companies, i.e., with meaningful operational activities.

Other annual disclosure requirements

- 5.57** Further to those areas discussed in more detail above, we would start from a presumption of maintaining other annual reporting requirements contained in LR 9.8 for the ESCC 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 or UK CGC. However, we welcome views on whether these are appropriate for the single ESCC category, or if any adaptation is needed e.g., for certain non-UK incorporated issuers who are commercial companies.

Q22: Do you have any views on the proposed application of reporting requirements under LR 9.8 (i.e., premium LR requirements) as the basis for the single ESCC category?

Chapter 6

Overview of proposed new listing regime structure & cross cutting proposals

- 6.1** In this section we set out a high-level overview of our new proposed approach to the listing regime structure.
- 6.2** We have also included proposals in relation to the sponsor regime (which are in addition to the sponsor proposals included in previous chapter), and details of specific proposals that will be cross-cutting, in that their impact may be wider and not limited to issuers of ESCC.

Removing Premium and Standard Listing segments

- 6.3** We propose to remove the current two-segment approach to listing i.e., premium listing and standard listing, and replace it with categories tailored to different issuer and security types. Diagrams 1 and 2 below show the proposed change in our overarching approach to the listing regime structure.

Diagram 1: Current listing structure

Current UK Listing Regime Structure

Listing Segments	Premium			Standard					
Listing Categories	Equity Shares – Commercial Companies	Equity Shares – Closed Ended Investment Funds	Equity Shares – Sovereign Controlled Commercial Companies*	Shares (incl. ESCC, secondary listings, preferences shares and deferred shares)	Equity Shares – Open Ended Investment Companies	Debt & Debt Like Securities	Certificates Representing Certain Securities	Securitised Derivatives	Miscellaneous Securities

* Including global depositary receipts representing equity shares in sovereign controlled commercial companies

Diagram 2: Proposed listing structure

Proposed UK Listing Regime Structure

	NEW				NEW	NEW				
Proposed Listing Categories	Equity Shares – Commercial Companies (including strategic investment companies)	Equity Shares – Closed Ended Investment Funds	Equity Shares – Sovereign Controlled Commercial Companies*	Equity Shares – Open Ended Investment Companies	Equity shares - SPACs and cash shells	Other Shares (incl. secondary listings, preference shares and deferred shares)	Debt & Debt Like Securities	Certificates Representing Certain Securities	Securitised Derivatives	Miscellaneous Securities

* Including global depositary receipts representing equity shares in sovereign controlled commercial companies. Plus, we will consider as part of our autumn consultation whether the Sovereign Controlled Commercial Companies category can be merged with the proposed new ESCC category

Overarching provisions for issuers of listed securities

- 6.4** This section includes proposals for addressing certain rules that would be impacted by the removal of the premium and standard listing segments. As such, many of the proposals in this section will be of interest to all issuers and are not limited to issuers listing in the proposed new ESCC category. It covers our proposed approach to the Listing and Premium Listing Principles, and also to the sponsor regime. In addition, we include proposals that we consider to be necessary to enhance existing provisions designed to ensure co-operation and improve FCA access to relevant information and records.

Single set of Listing Principles

- 6.5** We propose setting one set of Listing Principles to underpin a reformed listing regime, by combining the current Listing Principles and Premium Listing Principles. The intention is to create a clear and consistent set of principles for listed companies that are easy for both issuers and investors to understand. In creating a common set of principles, where necessary modifications or exceptions would be tailored to address differences between issuer and security types, and not because of a premium or standard categorisation. We are also proposing some modifications to clarify expectations and promote good corporate governance and accountability. Our intention is also to clarify the role that the board of directors can play in relation to ensuring a listed company meets its regulatory obligations, which we consider would help to improve compliance and deter misconduct. Our proposals aim to set a common baseline for issuers in the ESCC category in particular.
- 6.6** In developing our proposals further, for our follow-up consultation in the autumn, we will consider how our proposals interact with UK company law and directors' fiduciary duties.
- 6.7** We summarise the proposed changes in the table below (but as mentioned the intention would be to remove references to 'premium' throughout), but more detail on the application of the combined set of principles and where modifications and exceptions would apply will be provided in our follow-up consultation).

Table 6: Overview of proposed changes to our Listing Principles

	Existing Listing Principles	Proposal	
Listing Principles	A listed company must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations.	Unchanged, but we propose to clarify the role directors can play in relation to the listed company's compliance with these listing principles	
	A listed company must deal with the FCA in an open and co-operative manner.		
Premium Listing Principles	A listed company must take reasonable steps to enable its directors to understand their responsibilities and obligations as directors.	Unchanged, but we propose to clarify the role directors can play in relation to the listed company's compliance with these listing principles	
	A listed company must act with integrity towards the holders and potential holders of its premium listed securities.		
	All equity shares in a class that has been admitted to premium listing must carry an equal number of votes on any shareholder vote. In respect of certificates representing shares that have been admitted to premium listing, all the equity shares of the class which the certificates represent must carry an equal number of votes on any shareholder vote.	We propose, where possible, to clarify what acting with integrity includes	
	Where a listed company has more than one class of securities admitted to premium listing, the aggregate voting rights of the securities in each class should be broadly proportionate to the relative interests of those classes in the equity of the listed company.		
	A listed company must ensure that it treats all holders of the same class of its premium listed securities and its listed equity shares that are in the same position equally in respect of the rights attaching to those premium listed securities and listed equity shares. ²		We propose to convert these two principles into rules (to apply as eligibility requirements and as well as continuing obligations), applicable to issuers of equity shares. Further modifications to reflect our proposed approach to dual class share structures (discussed further in Chapter 4) may also be necessary.
	A listed company must communicate information to holders and potential holders of its premium listed securities and its listed equity shares in such a way as to avoid the creation or continuation of a false market in those premium listed securities and listed equity shares.		
	Unchanged, but we propose to clarify the role directors can play in relation to the listed company's compliance with this listing principle		
	Unchanged but we propose to clarify the role directors can play in relation to the listed company's compliance with this listing principle		

² Extend application to all listed companies (with modifications or exceptions where appropriate)

Q23: Do you agree with our proposed changes to the LR principles? If not, please explain why and provide details of any alternative suggested approach.

Q24: We are considering applying the principles as eligibility criteria, to clarify expected standards and reflect the fact that in practice these requirements need to be complied with at the point of listing. Please provide details if you foresee any issues with this approach.

Strengthening co-operation and information gathering

Harm identified

- 6.8** As we noted in Chapter 1, we intend to retain all of our current powers to oversee and enforce issuers' obligations under the wider regulatory regime. This is an important component of the regime to ensure high standards of market integrity are achieved and wrongdoing is punished.
- 6.9** Some listed companies may have complex arrangements and structures, meaning operations and information can be based outside of the UK that is relevant to their UK listing obligations. In addition to this, members of an issuer's board of directors may also be based outside of the UK. In these circumstances a listed company's obligations remain applicable.
- 6.10** All listed companies, irrespective of their arrangements and structures, must comply with the obligations to put in place the necessary measures to ensure they can comply with their continuing obligations, to co-operate with the FCA and ensure they retain relevant records in an appropriately accessible way. To reinforce and clarify what this means in practice, we propose the following rule changes.
- New eligibility and continuing obligations requirements for an applicant/listed company to have in place appropriate record keeping 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 record keeping arrangements to be appropriate the issuer must explain where relevant information is held and how it can be accessed.
 - Such arrangements should include information retained in the UK and information that may be held outside the UK, e.g., because that is where the company is incorporated. We propose that information held outside the UK must be easily accessible from the UK, by the applicant or listed company, so that it can comply with the information gathering requirements in LR 1.3.1R, and provide information to the FCA on request.
 - A new eligibility requirement that an applicant must confirm as part of the application process its ability to comply with the applicable LR continuing obligations and transparency and disclosure obligations more generally. This will

be in addition to the sponsor confirmation of the same, which is current only a premium listing requirement.

- New eligibility and continuing notification obligation 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. For example, to provide FCA with a postal address or email address in the UK for the purposes of service of notices and provide details of contacts authorised to accept service of process and notices on its behalf in the UK.
- New eligibility and continuing notification obligation requirements for an issuer to provide the FCA with contact details of key persons within the company e.g., the CEO, CFO and COO.

- 6.11** We will consider any data protection issues in relation to the provision to, and retention and use of personal data by the FCA.
- 6.12** Sponsor due diligence would therefore need to consider the above proposed requirements as part of any assessment and assurance of an applicant's eligibility to list, and ability to comply on an ongoing basis.
- 6.13** We also propose to clarify existing rules (LR 6.15.1R, LR 14.2.4R, LR 15.2.1AR, LR 21.6.21R) stating that 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. We also propose to consider adding guidance in relation to this rule, that we will consider an applicant's place of incorporation and place of central management and control and whether, for example, it is in a jurisdiction that is a full signatory to the IOSCO MMOU.

Q25: Do you agree with our proposed changes to strengthen co-operation and information gathering provisions as outlined in this section? If not, please explain why and any alternative suggested approach to addressing the issue identified.

Q26: In relation to our proposal to ask issuers to provide contact details of their key persons, do you think this should include details of the CEO, CFO and COO? Do you have any other suggestions as to other key roles that we should consider? Also, are there circumstances where it would be appropriate for an issuer to nominate a third party (such as an FCA authorised advisor), as a key person and, if so, why?

Q27: Are there specific considerations we need to take into account for different issuer or security types, in relation to our proposals in this section, that we should take into account as we develop our proposals further?

Sponsor regime

6.14 In DP22/2 we set out a summary of the role and purpose of the sponsor regime. We sought views on the role of sponsors within a single category for ESCC, as well as on whether there were inefficiencies in the current sponsor regime rules and guidance that we should consider as part of our wider reforms. The feedback received is summarised in Chapter 2 and Annex 2.

Proposed sponsor role in a single category for commercial companies

6.15 As part of our proposals for a new single category for ESCC, we propose to apply the sponsor regime. The sponsor regime would be applied to all new commercial companies applying for a listing of equity shares after a specified date, and to all existing listed commercial companies that transition to the new single category. This approach seeks to ensure consistency of treatment of listed commercial companies, removing any perceived quality differential in the current multi-segment approach. The benefits of the sponsor regime to supporting well-functioning markets can then be realised for all commercial companies. Benefits such as helping 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 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. Please see Chapter 9 for more details of our preliminary cost benefit analysis.

6.16 The role of a sponsor would largely mirror the role sponsors have at IPO under premium listing currently i.e., that is providing key assurances at the listing gateway. However, a sponsor's due diligence would need to extend to take account of the new eligibility requirements proposed in this consultation. Post listing, the need for a sponsor to be appointed would be reduced, subject to our final proposals on other relevant areas.

Proposed sponsor role for other issuers

6.17 The sponsor regime would continue to apply to CEIFs. In Chapter 7, we also explain that we will consider if it is appropriate to extend our proposals further e.g., apply the sponsor regime to other issuer types, such as SPACs.

Sponsor services

6.18 The sponsor's role at the listing gateway would remain largely unchanged, except where we are proposing to remove certain premium listing eligibility criteria (see Chapter 3) and introduce some new ones as described in this chapter. A sponsor will no longer be required to assess those elements we are proposing to remove, in terms of the specific requirements in the rules. Despite the removal of certain premium listing eligibility criteria, a sponsor's assessment may nonetheless remain comparable to assessments

currently carried out, to ensure the relevant disclosures around a company's arrangements are compliant and to allow it to comply on an ongoing basis.

- 6.19** A sponsor would still be required to make confirmations to FCA after having made due and careful enquiry (albeit for a potentially wider range of issuer types). In addition, the sponsor would be required to submit a sponsor declaration for an applicant (LR 8.4.3R). We will consider what changes will need to be made to the declarations as a result of the proposals set out in this consultation and include further detailed in our follow-up consultation paper.
- 6.20** While we think sponsors are likely to be familiar with a broad range of types of companies and share structures, there may be an additional degree of complexity that sponsors need to consider when undertaking due diligence to satisfy themselves regarding a company's eligibility and when assessing a company's compliance and ability to comply on an ongoing basis, as well as investor detriment matters.
- 6.21** Proposed changes on significant transactions and RPTs (discussed in Chapter 5) will mean that while we propose retaining the sponsor's advisory role to issuers on these transaction types, the sponsor would no longer have a role on Class 1 circulars or RPT circulars if we remove the current premium listing requirement to obtain shareholder approval. Potentially focusing instead on assisting the company with the appropriate 'classification' of the transaction to determine whether it must be announced under LR, and whether additional rules apply to a proposed related party transaction. This was discussed in more detail in Chapter 5.
- 6.22** In relation to RPTs in particular, we also propose to maintain aspects of the current sponsor regime that provide public confirmation that an expert third party, accountable to the FCA, considers the transaction to be on such terms as to enable the company to issue 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. For the purpose of advising the directors of the company, a sponsor may take into account but not rely on commercial assessments of the directors.
- 6.23** The proposed changes would likely mean less frequent assurance on a company's ongoing compliance with our Listing Rules will be provided to the FCA by sponsors. This could increase the risk of non-compliance. However, listed companies are likely to continue to engage professional advisors (in a non-sponsor capacity) as appropriate to support them.
- 6.24** We also propose to maintain the current requirement for a sponsor to be appointed (LR 8.2.1AR) for transfers between listing categories, e.g., an issuer would need to appoint a sponsor if it wanted to transfer into the single category for ESCC from other categories for equity shares such as CEIFs. In addition, in Chapter 8, we explain that we envisage that sponsors would have a role in assisting issuers transitioning to a new category as a result of the implementation of our proposed new listing regime structure. Further details will be included in our autumn consultation.

6.25 We are also considering the scope of requirements for a prospectus for secondary issuances, including the role of the sponsor, as part of our wider consideration of how best to exercise our greater discretion under the proposed new regime for public offers and admissions to trading. In this context we note the recommendations of the Secondary Capital Raising Review to substantially reduce the scope of requirements set under the previous regime.

Q28: Do respondents have any concerns about the availability of sponsor services as a result of the proposed changes to the listing regime and the sponsor role?

Q29: We welcome views from sponsors on whether they would be able to adapt or willing to provide services to a potentially wider and more diverse range of issuers? We particularly welcome any information or data on the implementation and ongoing costs sponsors may incur as a result of our proposals.

Q30: Do sponsors have any concerns about performing the sponsor role and providing sponsor assurances within the model proposed? Please provide details.

Sponsor competence

6.26 Currently, sponsors must have submitted a sponsor declaration to the FCA within the previous 3-year period, in order to meet our sponsor competence requirement (LR 8.6.7R(1)(b)). In addition, a competent sponsor is required to have a sufficient number of employees with the requisite skills, knowledge and expertise to provide sponsor services, and meet our key contact requirements (LR 8.6.7R(2)).

6.27 We are aware that our proposals are likely to lead to a reduction in the number of transactions post IPO that require the appointment of a sponsor for the purposes of providing a declaration to the FCA. As such, it may become harder for sponsors to retain competence based on the current requirement to have submitted a sponsor declaration with the past 3 years. Therefore, we are likely to propose amending this requirement to make it clear that when assessing competence we will likely consider transactions a sponsor has advised on that have not required a sponsor declaration. This could include advising ESCC issuers but also other companies such as those admitted to AIM. The requirement to have a sufficient number of employees with relevant skills, knowledge and experience would remain. This may mean that a more case by case assessment of competence may be needed, based on the nature and frequency of the sponsor services, as well as other relevant advice provided, that a specific sponsor provides.

Q31: Do you have any concerns that sponsors will be able to demonstrate continued competence under our proposed approach? What matters should the FCA take into account when assessing sponsor competence?

Record keeping

6.28 Feedback to DP22/2 and sponsor engagement suggests that the risk of regulatory action may be driving an overly cautious approach to record keeping by some sponsors. There were no specific issues raised in relation to the rules and guidance in this area, which were generally considered to be sufficiently flexible to accommodate proportionality depending on the transaction being overseen, but there have been some calls for more clarity of FCA's expectations in practice. We are keen to ensure that the regime is proportionate and strikes the right balance between safeguarding our ability to consider a sponsor's actions ex post and preventing the creation of a huge administrative burden for sponsors. We will consider further the feedback received to DP22/2 and how we can best assist sponsors to ensure they are taking a proportionate approach to record keeping. We will include further details in our autumn consultation.

Chapter 7

Approach for other issuers

- 7.1** The standard listing segment and premium listed segment include issuers that are not commercial companies and securities that are not equity shares. This chapter considers how we might accommodate such issuers and such securities under our proposed reforms. Further detail on our proposals will be provided in our autumn consultation.

Overview

- 7.2** Removing the concept of premium and standard listing for ESCC would have a wider impact on the structure of the listing regime. Our proposed reforms would essentially mean that the idea of premium and standard listing and of listing segments would fall away, and instead our focus would be on different issuer and security types, and therefore on listing categories. We want our rules to be proportionate and consistent across different issuer or security types, but also to recognise differences where different issuer or security types pose different types of risk to markets and investors.
- 7.3** Chapters 3 to 5 discuss the proposals for a single ESCC category. In this chapter we explain the potential impact of our proposals on the remaining categories of issuers and securities and elaborate on our proposals for a new category for SPACs and shell companies and for a category for other shares currently able to be standard listed (including secondary listings, preference shares and deferred shares).

Diagram 3: Proposed listing structure (repeat of diagram 2 in chapter 6)

Proposed UK Listing Regime Structure										
	NEW				NEW	NEW				
Proposed Listing Categories	Equity Shares – Commercial Companies (including strategic investment companies)	Equity Shares – Closed Ended Investment Funds	Equity Shares – Sovereign Controlled Commercial Companies*	Equity Shares – Open Ended Investment Companies	Equity shares - SPACs and cash shells	Other Shares (incl. secondary listings, preference shares and deferred shares)	Debt & Debt Like Securities	Certificates Representing Certain Securities	Securitised Derivatives	Miscellaneous Securities

* Including global depository receipts representing equity shares in sovereign controlled commercial companies. Plus, we will consider as part of our autumn consultation whether the Sovereign Controlled Commercial Companies category can be merged with the proposed new ESCC category

7.4 While not repeated in this chapter, please note that the proposals set out in Chapter 6 include cross cutting proposals that are not limited to ESCC.

Proposed approach for other Premium Listing categories

Sovereign Controlled Commercial Companies

7.5 Given the reforms proposed for ESCC, we consider it may be appropriate for commercial company equity issuers that are controlled by a sovereign shareholder to be included within the scope of the proposed new listing category for ESCC. As such, we are minded to delete the separate premium listing category for these issuer types (LR 21).

Equity Shares of Closed-Ended Investment Funds

- 7.6** We expect our approach to CEIFs (LR 15) would remain largely unchanged.
- 7.7** Where we are proposing changes to premium LR for commercial companies that are also applicable to CEIFs, we will consider if similar changes for CEIFs are also needed to ensure consistency and proportionality.
- 7.8** Where there are existing bespoke rules, or carveouts and modifications within the premium LR for CEIFs, we envisage retaining these unless we identify a need for tailored adjustments.
- 7.9** Some premium listed CEIFs also have further classes of shares in the current standard listed segment (LR14), and we will take this into account in our further considerations.

Proposed approach for Standard Listing categories

New category for equity shares for SPACs and cash shells

- 7.10** Part of our aim is to ensure targeted rules where it may be appropriate to set different obligations depending on the type of issuer or security, and to ensure clarity for both issuers and investors.
- 7.11** Therefore, we are also proposing a new listing category to recognise that the standard listed segment has a diverse range of issuers within it. At this stage, we are considering a category specifically for shell companies, including SPACs. SPACs are formed to raise money from investors, which they then use to acquire an operating business, but given their limited corporate structure and activity prior to finding a target, we consider the ESCC obligations would not be appropriate. A discrete category would also allow us to consider more bespoke rules in future if appropriate for SPACs and avoid them being caught by new rules designed for companies with commercial operations.
- 7.12** While we will consider if certain other types of 'investment entity' might be considered for this category, for example strategic investment companies or private equity companies seeking to list their businesses, we consider the ESCC category should be sufficiently flexible and set appropriate standards for those types of issuer in most cases (see Chapter 4).
- 7.13** With regard to a category for SPACs and cash shells, we may also propose extending the sponsor regime to this category, so that issuers would be required to appoint a sponsor to assist with applications to list and reverse takeover transactions thereafter. Given SPACs are a complex investment, it is important for them to have clear prospectus disclosures and for their management team to understand their listing obligations prior to listing, which the application of the sponsor regime could support.
- 7.14** We are aware that there is a risk that this category may be perceived as a re-branded standard listed segment and that we are replicating a multi segment model. However, our intention is to ensure listing categories that recognise and sufficiently delineate between issuer types and security types that are substantively different in their nature

and in terms of their offering to investors. As part of this model, we would look to ensure that the delineation between categories is clear and also monitored to ensure, for example, that commercial companies list in the ESCC category.

Other shares category (equity and non-equity)

- 7.15** We consider that a category for those existing standard listed issuers not eligible to transfer to either the single ESCC category or the category for shell companies may also be needed. For the purposes of this consultation, we will refer to this as the 'other shares' category.
- 7.16** We envisage the category would include certain issuers that are currently in the standard listing segment for legacy purposes only, such as OEICs to which LR 16A does not apply. We are also considering overseas incorporated issuers currently in standard listing because their listing in the UK is a secondary listing.
- 7.17** It would also include non-equity shares such as preference shares and deferred shares, that are currently eligible to list under the standard listed shares category (LR14). This category would remain open to new applicants for these share types. We may consider whether any further tailoring of the criteria for this other shares category is appropriate, specifically considering preference and deferred shares.

Approach for other current Standard Listing categories

- 7.18** We expect the remaining categories will remain largely the same, although we will no longer refer to the term 'standard listing':
- Debt and Debt Like Securities (LR 17)
 - Certificates Representing Certain Securities (LR 18)
 - Securitised Derivatives (LR 19)
 - Miscellaneous Securities (LR 20)
- 7.19** LR 18 (Certificates Representing Certain Securities) sets out the obligations of issuers of depository receipts (DRs). We recognise that depository receipts provide an important mechanism by which issuers admitted to an overseas market can seek additional investment via UK listed securities markets and provide investors with exposure to the equity of such companies. We want to ensure this feature of UK listed markets is maintained and not disrupted. We will include further details in our autumn consultation paper on DRs.

Q32: We welcome views on proposed restructure of the listing regime set out above. In particular, do you agree with our preliminary proposals for dealing with issuers that are not issuers of equity share in commercial companies?

Q33: Have we identified the impacts on different issuer types and sufficiently delineated between them? If you have alternative suggestions that we should consider, please provide details.

Listing Rules sourcebook approach

7.20 Our proposals will require significant changes to and re-structuring of the LR sourcebook, and we plan to also take the opportunity to simplify and restructure the sourcebook as part of our autumn consultation. As an indication of how the structure of the LR sourcebook may look, we have included a proposed approach in Annex 4. Given the scope of the changes proposed, this will involve replacing the current LR sourcebook with a new LR sourcebook.

7.21 In undertaking this simplification and restructuring, we will aim to ensure that:

- Investors are able to easily identify the protections afforded to them, and
- Issuers and sponsors (and their advisors) are able to easily navigate the rules and understand what is required of them

7.22 In re-structuring the new listing regime and LR sourcebook, our intention will be to:

- Place holistic or cross cutting requirements in one place (to simplify and aid navigation), but retaining separate sections for eligibility and continuing obligations for clarity
- Retain separate chapters for specific issuer/security types to set out tailored provisions applicable to them

Q34: We welcome views and suggestions on our proposed approach as outlined above and in Annex 4, for updating the LR sourcebook.

Chapter 8

Transitional arrangements for implementation of the proposed reforms

8.1 This chapter sets out the high-level proposals for transitional arrangements that we will work up in more detail and set out for consultation in our autumn consultation.

Transitional arrangements

8.2 To facilitate the creation of a single ESCC category and a new category for SPAC and shell companies, and to maintain market integrity during implementation of the proposed changes, we propose to ensure arrangements are in place to:

- Enable existing issuers of equity shares in commercial companies to transfer from the current standard and premium listing categories to the new single ESCC category.
- Enable existing issuers of equity shares which are shell companies, such as SPACs, to transfer from standard listing to the new SPACs and cash shell company category.
- Enable remaining issuers listed under LR 14 to transfer to the new other shares category.
- Allow issuers that will be affected by our proposals sufficient time to prepare and implement necessary changes.

8.3 We do not propose to require these issuers to comply with the requirements in LR 5.4A on transfer of listing categories.

8.4 In particular:

- Proposed changes to existing rules and proposed new provisions would take effect from a specified date (which may involve the need for transitional provisions in certain areas).
- While our expectation is that existing standard listed issuers of equity shares that are commercial companies should transfer to the new ESCC listing category, we will consider if such issuers that are not willing or able to do so should be permitted to transfer to the other shares category, potentially on a time limited basis.
- We will give specific consideration to transitional arrangements for SPACs, e.g., where they are listed before any final rules come into effect, and where any new application to list resulting from a reverse takeover transaction may be subject to the new single ESCC category requirements.
- Existing premium listed commercial company issuers – although we envisage less impact for this group and that transfer to the new single ESCC category would be more straight forward than for existing standard listed issuers, some period between the final rules being made and the coming into force date may also be appropriate, to adjust to new requirements.

- We envisage that sponsors would have a role in assisting issuers transferring to a new category under our proposed reforms and will provide further details as part of our autumn consultation.
- We will also set out transitional arrangements for applicants for listing that are in the application pipeline at the point our proposed rule changes are finalised.

8.5 We will also engage with exchanges and index providers, recognising that they will also likely need to make changes to implement or respond to the proposed new approach.

8.6 In relation to sponsors, changes would come into effect on a specified date, which would also be dependent on the date of implementation of any new rules that invoke the need to appoint a sponsor, and the related transitional arrangements for those rules.

8.7 We will also take into account any existing transitional arrangements that are currently in place.

Q35: If you have views on what transitional arrangements may be required, please provide details.

Q36: How long do you think issuers may need to prepare for and implement the various changes proposed in this consultation? For example, how long would commercial company issuers of standard listed equity shares need to prepare to ensure they could meet additional obligations proposed under the ESCC listing category, such as those relating to significant transactions and related party transactions (discussed in Chapter 5). Please also provide reasons.

Chapter 9

Initial cost benefit analysis considerations

Initial cost benefit analysis considerations

- 9.1** FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138l 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'.
- 9.2** As this consultation paper does not include proposed draft rules, we are not required to prepare a CBA. However, we are setting out our initial thoughts on the potential costs and benefits of the key proposals set out in the consultation paper in order to facilitate feedback. These are necessarily highly uncertain.
- 9.3** We will undertake and publish a full CBA together with proposed draft rules later this year. The chapter sets out a summary of where we consider the individual and overall impact of the costs and benefits to issuers, advisors, investors and the FCA will occur.

Impact of our proposals on issuer type

- 9.4** The table below sets out the approximate number of existing issuers, by type, that could be impacted by our proposals. In addition, our proposals will impact future listings, but it is not possible to estimate the number of future listings.

Table 7: Market data

Issuer type	Data from the Official List end 2022
Premium Listed commercial companies	416
Premium Listed Closed Ended Investment Funds	359
Premium Listed Sovereign Controlled Commercial Companies	0
Standard Listed shares (includes ESCC share and non-ESCC shares)	328 Estimated 167 are ESCC (96 of which are UK companies and remainder overseas) Estimated 161 are non-ESCC At least 5 use a form of DCSS
Standard Listed Debt (non-shares)	10,572
Standard Listed Open-ended Investment Companies	522

Issuer type	Data from the Official List end 2022
Standard Listed Global Depository Receipts (non-shares)	140
Standard Listed Misc Securities (non-shares)	10
Standard Listed Securitised Derivatives (non-shares)	2,508
Total	14,855 Approximately 6,950 are international

Expected costs to issuers, advisors or sponsors

- 9.5** The tables below set out where we have identified costs may be incurred as a result of our proposals. These are the costs we will consider further in completing our full CBA.
- 9.6** Listing is a choice, as such a company can choose to avoid these costs by remaining private or applying for admission to an unlisted market. Existing listed companies also have the choice to de-list. However, where listed companies remain listed, the tables below identify costs that may be incurred, which will vary depending on whether an existing issuer is premium or standard listed issuers.

Table 8: Identified costs for the proposed new ESCC category

Proposals	Compliance costs to issuers or sponsor firms	Indirect costs to issuers or sponsor firms	Other considerations
Eligibility criteria: Removal of HFI, 3-year revenue track record and clean WCS	<ul style="list-style-type: none"> No additional familiarisation and implementation (F&I) costs for applicants over those under the current rules For sponsors, F&I costs plus potential changes to their processes 	<ul style="list-style-type: none"> Potentially reduced corporate governance standards related to 'start-ups' (e.g., due to a potential lack of experience) 	<ul style="list-style-type: none"> Reliance instead on prospectus financial information requirements

Proposals	Compliance costs to issuers or sponsor firms	Indirect costs to issuers or sponsor firms	Other considerations
<p>Require sponsor to be appointed for new applicants</p>	<ul style="list-style-type: none"> • Marginal additional familiarisation costs for applicants and sponsors <ul style="list-style-type: none"> – No change re F&P and implementation costs vs current premium listing (PL) applications – Marginal familiarisation costs for firms which would have listed in standard listing (SL) and for sponsors • Additional implementations costs vs current SL ESCC applicants (i.e., cost of appointing a sponsor). However, potentially mitigated somewhat by reduced costs at gateway as issuer is supported by experienced sponsor 	<ul style="list-style-type: none"> • Sponsors may feel they have greater liability risk if they act for 'less mature' issuers who may have otherwise opted for SL (but can choose not to act or recover costs in fees) 	
<p>Dual class share structures i.e., weighted votes allowed with limited restrictions (DCSS)</p>	<ul style="list-style-type: none"> • Additional familiarisation costs for applicants and sponsors <ul style="list-style-type: none"> – Marginal costs for PL and sponsor – Modest additional costs for SL, which need to take note of the DCSS restrictions • Implementation costs for issuers will be minimal and dependent on their desire to avail themselves of this option 		<ul style="list-style-type: none"> • Impact may be mixed on overall number of listed firms given this is a wider approach compared to current PL, but narrower compared to SL

Proposals	Compliance costs to issuers or sponsor firms	Indirect costs to issuers or sponsor firms	Other considerations
<p>Modified independent business & operational control of business (at admission and ongoing)</p>	<ul style="list-style-type: none"> • Familiarisation costs for applicants <ul style="list-style-type: none"> – No change for PL – Marginal cost vs current SL (i.e., of providing extra assurances at application, which will be higher if issuer makes changes to meet criteria) • For sponsors, F&I costs plus potential changes to their processes 	<ul style="list-style-type: none"> • May curtail SL issuer post admission freedoms to enter into transactions 	<ul style="list-style-type: none"> • A small number of business models may be unable to list in the new ESCC category compared with the current SL rules (though may be eligible to list in alternative new category)
<p>Apply modified Premium Listing requirements for mandatory shareholder vote, controlling shareholder regime</p>	<ul style="list-style-type: none"> • Familiarisation costs for applicants <ul style="list-style-type: none"> – Minimal change vs current PL – Potential new cost vs SL, of entering into relationship agreement with controlling shareholder (where there is one) pre IPO and any necessary constitutional changes • New ongoing monitoring obligations, and further costs to remain LR compliant if new controlling shareholder post IPO admission • Sponsors: Marginal F&I costs 		<ul style="list-style-type: none"> • Impact may be mixed on overall number of listed firms – some firms will now consider a UK listing more favourably given the absence of a shareholder vote. Some firms, specifically those who may have been previously considering a standard listing, may regard the changes as adding cost

Proposals	Compliance costs to issuers or sponsor firms	Indirect costs to issuers or sponsor firms	Other considerations
Applying modified Premium Listing significant transactions rules (and with no modifications to reverse takeovers, reconstructions or refinancings)	<ul style="list-style-type: none"> • Familiarisation one-off costs for all <ul style="list-style-type: none"> – Additional costs vs current SL for new monitoring processes and announcement obligations albeit mitigated by MAR overlap on announcements, and new sponsor fees – Reduced cost for current PL as no shareholder vote – No new costs for sponsors, F&I costs will be minimal. – Advisors: F&I costs (to ensure their advice reflects the rules) 	<ul style="list-style-type: none"> • No material indirect costs identified for SL issuers 	<ul style="list-style-type: none"> • Consideration of non ESCC in SL also needed
Applying modified Premium Listing related party transaction (RPT) rules	<ul style="list-style-type: none"> • Familiarisation one-off costs for all <ul style="list-style-type: none"> – Reduced costs for current PL due to removal of shareholder vote – Additional costs vs SL, of obtaining sponsor guidance on all potential RPTs (no de-minimis threshold), obtaining fair and reasonableness opinion from sponsor at 5% – For sponsors and advisors F&I costs will be minimal 		<ul style="list-style-type: none"> • Impact may be mixed on overall number of listed firms – some firms will now consider a UK listing more favourably given the absence of a shareholder vote. Some firms, specifically those who may have previously had or were considering a standard listing, may regard the changes as adding cost
Applying existing PL provisions relating to the UK Corporate Governance Code	<ul style="list-style-type: none"> • Familiarisation and one-off costs for SL issuers • Additional costs for SL issuers to either comply or explain against the UK CGC provisions 		<ul style="list-style-type: none"> • Liaison with FRC

- Q37:** Have we identified the areas where cost to issuers, advisors or sponsors may be increased as a result of our ESCC single segment proposals? If not, please explain the additional costs that we should consider in our CBA.
- Q38:** Please provide estimates for familiarisation costs and implementation costs for the different policy elements of the proposed new ESCC category, if possible.
- Q39:** To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs that might arise to issuers, advisors or sponsors.
- Q40:** Are there any other considerations we should take into account?

Table 9: Identified costs for the proposed overarching provisions

Proposals	Compliance costs to issuers or sponsor firms	Indirect costs to issuers or sponsor firms
Strengthening co-operation, new requirement to retain records/ information in the UK or on facilities accessible from the UK, and new notification requirement for a services address	<ul style="list-style-type: none"> • Familiarisation costs for all market participants (largely expected to be minimal, as largely clarification) • Potential exception in relation to proposed requirement to retain records/information in the UK or on facilities within reach of UK authorities (but optionality provided as to how this is achieved), i.e. familiarisation and compliance costs to comply with those 	<ul style="list-style-type: none"> • May be perceived to impact accessibility to UK markets by overseas issuers

- Q41:** Have identified the areas where cost to issuers or sponsors may be increased as a result of our overarching proposals? If not, please explain the additional costs that we should consider in our CBA.
- Q42:** Please provide estimates for familiarisation costs and implementation costs for the proposed new overarching provisions, if possible.
- Q43:** To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to issuers, advisors or sponsors.
- Q44:** Are there any other considerations we should take into account?

Expected costs to investors

9.7 The table below sets out where we have identified costs may be incurred by investors as a result of our proposals. These are the costs we will consider further in completing our full CBA.

Table 10: Identified costs for the proposed new ESCC category, change in index composition, and overarching provisions

Proposals	Costs to investors
Eligibility criteria: Removal of HFI, 3-yr revenue track record and clean WCS	<ul style="list-style-type: none"> Investors may conduct more due diligence and this may increase investor search costs Potentially increased information asymmetry between issuers and investors could increase investor risks related to investments (e.g., if no clean WCS) However, this is offset by 'necessary information test' in the prospectus and by financial information requirements. In some cases also mitigated by other sources of information such as disclosure under the Market Abuse Regulation and published accounts for Companies House
Require sponsor to be appointed for new applicants	<ul style="list-style-type: none"> Marginal risk of reduced investment opportunity if some prospective issuers choose not to list due to sponsor cost However, this is offset by benefit of sponsor assurance

Proposals	Costs to investors
Dual class share structures i.e., weighted votes allowed with limited restrictions (DCSS)	<ul style="list-style-type: none"> • Potential increase in search costs and ongoing monitoring costs for investors (e.g., by requiring more analysis of individual securities, including specific DCSS structures, quality of management, etc.). For some investors, these costs might be lowered if benchmark administrators provide new index products offering options based on investor preferences for passive investors. • Some investors may consider an issuer with DCSS less attractive (due to potential reduction in ability to influence founder for duration of structure) • Potential for investors to lose out on potential returns from takeovers while the DCSS regime is active if DCSS has 'poison pill' effect
Modified independent business & operational control of business (at admission and ongoing)	<ul style="list-style-type: none"> • Very marginal risk of reduced investment opportunity if SL prefer to de-list/remain private (although may be possible to accommodate in a separate new listing category) • Issuer may no longer be LR compliant if becomes controlled by a large shareholder
Apply modified Premium Listing requirements for mandatory shareholder vote, controlling shareholder regime	<ul style="list-style-type: none"> • Indirect cost to controlling shareholder vs SL issuer – voting power reduced on specified matters
Applying modified Premium Listing significant transactions rules	<ul style="list-style-type: none"> • Investors vs current PL would have fewer formal 'checks' on large company transactions (i.e., general meeting and shareholder vote) • Investors in current SL may have more transparency on large transactions but may be a costs implication for the issuer from the new announcement obligation and sponsor role
Applying modified Premium Listing related party transaction (RPT) rules	<ul style="list-style-type: none"> • Investors vs current PL would have no mandatory shareholder votes to pre-approve transactions, which may place more emphasis on investors to assess a company's individual risk profile
Strengthening co-operation, new requirement to retain records/information in the UK or on facilities accessible from the UK, and new notification requirement for a services address	None
Other	<p>If index providers decide to change their criteria for index inclusion as a result of our proposed reforms, costs may arise as a result of, for example:</p> <ul style="list-style-type: none"> - funds switching indices - investors understanding the changes to indices

- Q45:** Have we identified the areas where our proposals may impose additional costs on investors? If not, please explain the additional costs that we should consider in our CBA.
- Q46:** To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to or other impacts on investors.
- Q47:** We do not know how index providers will react to our proposals, but we invite feedback on estimated impacts and costs associated with any re-balancing of indices that may arise.

Expected FCA costs

- 9.8** FCA supervisory approach will be set out in detail in our further consultation later this year. In terms of potential additional costs to the FCA, we will consider:
- the implication of monitoring a wider variety of ESCC issuers (e.g., newer companies, or companies with different DCSS models)
 - potential additional costs of:
 - processing a possible increase in sponsor applications
 - assessing competence of and supervising a potentially wider range of sponsor firms
 - supervising the proposed modified sponsor regime, including consideration of the implications of fewer sponsor services post listing
 - FCA systems changes, including to the Official List
- 9.9** In considering the supervisory approach and potential costs to the FCA, an important consideration will be the role of the sponsor regime in the new listing structure. The sponsor regime is 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 at admission and at certain points thereafter. Without the sponsor regime, even in the modified form proposed in this consultation paper, the FCA would need to consider alternative means of obtaining the necessary comfort that an issuer meets the relevant requirements. This may involve the FCA carrying out some of the roles performed by a sponsor which would likely require additional resources and higher FCA fees.

Expected costs to parties in relation to indexation

- 9.10** Index providers may incur marginal, consequential costs of rebranding indices where eligibility for inclusion is currently restricted to premium-listed shares.

9.11 They may incur further costs, at their discretion, should they review and change their criteria for inclusion in their indices in response to our proposals. If index providers do change their eligibility criteria, this might have consequential costs for investors and issuers. For example, passive funds that seek to track the performance of indices for premium-listed shares may need to consider changes to their investment mandates or investment strategies in response to changes made by the index providers. Issuers with listed equity shares may also wish to review their eligibility for index inclusion if new criteria are applied.

Q48: Have we correctly identified the costs to parties in relation to indexation as a consequence or follow-on from our proposals? To assist us to quantify these costs or any other costs we should consider, please provide data or additional information to explain the additional costs or other impacts.

Benefits

9.12 In general, we consider that the proposals will result in consistent and proportionate standards across ESCC issuers. We consider the proposals have the benefit of removing the misperception of the extent of the quality differential between the current standard and premium listing segments, and the view that standard listing lacks a clear purpose and premium listing requirements are too onerous. It also achieves a more optimal calibration of rules for ESCC issuers.

9.13 In relation to applicants and issuers, we have identified the following expected benefits:

- 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 may not demonstrate sufficiency of working capital (i.e., is less restrictive and onerous LR), including a reduction in costs and uncertainty for prospective listings at IPO vs premium listing around meeting the '75%' threshold
 - vs standard listing (i.e., it removes the stigma attached to 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.
- Additional support provided by sponsors vs standard listing. This brings the main markets for listed securities more in line (although there are still difference) with other (junior) UK markets (AIM and AQSE) that require a NOMAD or corporate advisor (on an ongoing basis) and should improve the quality of applications we receive and issuer readiness and ongoing compliance with listing and transparency rules.
- Reduced indirect costs for issuers from advisors e.g., accountancy firms in creation of HFI data, extent of sponsor assurances (although may be marginal due to prospectus content).

- As compared to PL, a significant reduction in costs at gateway and imposed by continuing obligations, and rules more efficient e.g., allows issuers to act faster when undertaking transactions and removes regulatory deterrents to deal-making and growth.
- Fewer sponsor associated costs as fewer circumstances when a sponsor needs to be appointed post IPO vs premium listing.
- The LR are simpler and easier for issuers to understand, providing a clearer understanding 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, to remaining listed for those currently with a standard or premium listing.

9.14 In relation to investors, we have identified the following benefits:

- Increased accessibility to listing potentially leads to increased and more varied investment opportunities for investors (investors 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 LR 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.

Q49: Do you agree with the benefits of our proposals that we have identified above? If not, please explain why.

Q50: Are there any additional benefits that we should consider in our CBA?

Q51: What do you consider to be the most important factors in deciding where to list (for example, regulation, valuations, depth of capital markets, comparable peers, investor / analyst expertise, taxation, director remuneration requirements, indexation, location of main operations). Please rank your factors in order of importance.

Q52: Do you have any suggestions as to how we might quantify the benefits of our proposals? And can you provide any evidence of the cost savings to issuers that might arise from our proposals to no longer obtain shareholder approval for certain significant transactions and RPTs?

Annex 1

Questions in this paper

- Q1:** Do you agree with the proposal to remove specific financial information eligibility requirements for a single ESCC category? If not, please explain why and any alternative preferred approach.
- Q2:** Do you agree with a proposal to explore a modified approach to the independence of business and control of business provisions for a single ECSS category, with a view to enhancing flexibility, alongside ensuring clear categories for funds and other investment vehicles?
- Q3:** Do you have views on what rule or guidance changes may be helpful, and whether certain disclosures could also be enhanced to support investors and market integrity, or any alternative approaches we should consider?
- Q4:** Do you agree with our proposed approach to dual class share structures for the single ESCC category and the proposed parameters? If you disagree, please explain why and provide any alternative proposals.
- Q5:** Do you agree with our proposed approach to the controlling shareholder regime for a single ESCC category? Do you have any views on the suitability of alternative approaches to the one proposed?
- Q6:** Do you agree that our proposals as regards controlling shareholders align with our need to act, as far as is reasonably possible, in a way which is compatible with our strategic objective of ensuring markets work well and advances our market integrity and consumer protection objectives? If you don't agree, how do you believe these should be balanced differently?
- Q7:** Do you agree with the proposed approach to significant transactions for a single ESCC category? If not, please explain why and any alternative proposals.
- Q8:** Do you consider that additional disclosure could be considered to further support transparency to shareholders on significant transactions and, if so, what (e.g., considering current circulars)?

- Q9:** Should we consider further mechanisms prior to a significant transaction being formally completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed commercial company equity issuers in place of shareholder approval? What should those mechanisms be and why?
- Q10:** Should the sponsor's advisory role in assessing whether a potentially significant transaction meets the proposed disclosure threshold be mandatory or optional, and what are your reasons? Do you agree with our proposal that sponsors have more discretion to modify the class tests, including substituting the tests with alternative measures, without seeking formal FCA agreement to the modifications? If you disagree, please provide your reasons and alternative proposals.
- Q11:** Should we consider expanding the sponsor's role further on any aspects of significant transactions?
- Q12:** Do you agree with the proposed approach to RPTs for a single ESCC category, which is based on a mandatory announcement at and above the 5% threshold, supported by the 'fair and reasonable' assurance model which includes the sponsor's confirmation as described above? If not, please explain why and any alternative proposals in the context of a single ESCC category.
- Q13:** Do you consider that additional disclosure requirements could be considered to further support transparency to shareholders on RPTs, and should we consider requiring certain mechanisms prior to a deal being completed (for example, a mandatory period of delay between exchange and completion) to support shareholder engagement with listed companies to replace the requirement for independent shareholder approval?
- Q14:** Should it be mandatory for a listed company in the single ESCC category to obtain guidance from a sponsor on the application of the LR, DTR and MAR whenever it is proposing to enter into a related party transaction (irrespective of the size of the transaction), or should it be at the company's discretion?
- Q15:** Should it be mandatory for the sponsor to consult with the FCA and agree any modifications to the class tests and classification of a proposed RPT, or should the sponsor have more discretion? Please explain your reasons.

- Q16:** Are there any broader, alternative mechanisms that existing shareholders or prospective investors would want to see in place of, or made use of, in order to strengthen shareholder protection in relation to RPTs in the event that these changes are made to our LR? If so, would these be matters for inclusion in our LR or are they found, for example, in legislation or market practice?
- Q17:** Do you agree with the proposed approach to cancellation of listing for the single ESCC category, and do you have any views on other possible changes to the existing cancellation process?
- Q18:** Do you think that the notice period proposed for the single ESCC category for de-listing should be extended (taking the approach of other jurisdictions) and if so to what? What would the benefits be?
- Q19:** Do you consider the policy for cancellation of listing by the FCA after a long suspension should be revisited? If so, how?
- Q20:** Do you agree with retaining shareholder approval provisions on discounted share issuance and on share buy-backs, as currently required by the premium LR, as part of a single ESCC category, or would these be problematic for certain issuers?
- Q21:** Do you agree with our proposed approach to reporting against the UK Corporate Governance Code for companies listed in the single ESCC category, and are there any other mechanisms the FCA could consider to promote corporate governance standards?
- Q22:** Do you have any views on the proposed application of reporting requirements under LR 9.8 (i.e., premium LR requirements) as the basis for the single ESCC category?
- Q23:** Do you agree with our proposed changes to the LR principles? If not, please explain why and provide details of any alternative suggested approach.
- Q24:** We are considering applying the principles as eligibility criteria, to clarify expected standards and reflect the fact that in practice these requirements need to be complied with at the point of listing. Please provide details if you foresee any issues with this approach.

- Q25:** Do you agree with our proposed changes to strengthen co-operation and information gathering provisions as outlined in this section? If not, please explain why and any alternative suggested approach to addressing the issue identified.
- Q26:** In relation to our proposal to ask issuers to provide contact details of their key persons, do you think this should include details of the CEO, CFO and COO? Do you have any other suggestions as to other key roles that we should consider? Also, are there circumstances where it would be appropriate for an issuer to nominate a third party (such as an FCA authorised advisor), as a key person and, if so, why?
- Q27:** Are there specific considerations we need to take into account for different issuer or security types, in relation to our proposals in this section, that we should take into account as we develop our proposals further?
- Q28:** Do respondents have any concerns about the availability of sponsor services as a result of the proposed changes to the listing regime and the sponsor role?
- Q29:** We welcome views from sponsors on whether they would be able to adapt or willing to provide services to a potentially wider and more diverse range of issuers? We particularly welcome any information or data on the implementation and ongoing costs sponsors may incur as a result of our proposals.
- Q30:** Do sponsors have any concerns about performing the sponsor role and providing sponsor assurances within the model proposed? Please provide details.
- Q31:** Do you have any concerns that sponsors will be able to demonstrate continued competence under our proposed approach? What matters should the FCA take into account when assessing sponsor competence?
- Q32:** We welcome views on proposed restructure of the listing regime set out above. In particular, do you agree with our preliminary proposals for dealing with issuers that are not issuers of equity share in commercial companies?
- Q33:** Have we identified the impacts on different issuer types and sufficiently delineated between them? If you have alternative suggestions that we should consider, please provide details.

- Q34:** We welcome views and suggestions on our proposed approach as outlined above and in Annex 4, for updating the LR sourcebook.
- Q35:** If you have views on what transitional arrangements maybe required, please provide details.
- Q36:** How long do you think issuers may need to prepare for and implement the various changes proposed in this consultation? For example, how long would commercial company issuers of standard listed equity shares need to prepare to ensure they could meet additional obligations proposed under the ESCC listing category, such as those relating to significant transactions and related party transactions (discussed in Chapter 5). Please also provide reasons.
- Q37:** Have we identified the areas where cost to issuers, advisors or sponsors may be increased as a result of our ESCC single segment proposals? If not, please explain the additional costs that we should consider in our CBA.
- Q38:** Please provide estimates for familiarisation costs and implementation costs for the different policy elements of the proposed new ESCC category, if possible.
- Q39:** To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs that might arise to issuers, advisors or sponsors.
- Q40:** Are there any other considerations we should take into account?
- Q41:** Have identified the areas where cost to issuers or sponsors may be increased as a result of our overarching proposals? If not, please explain the additional costs that we should consider in our CBA.
- Q42:** Please provide estimates for familiarisation costs and implementation costs for the proposed new overarching provisions, if possible.
- Q43:** To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to issuers, advisors or sponsors.
- Q44:** Are there any other considerations we should take into account?

- Q45:** Have we identified the areas where our proposals may impose additional costs on investors? If not, please explain the additional costs that we should consider in our CBA.
- Q46:** To assist us to quantify the costs of our proposals, please provide data or additional information to explain the additional costs to or other impacts on investors.
- Q47:** We do not know how index providers will react to our proposals, but we invite feedback on estimated impacts and costs associated with any re-balancing of indices that may arise.
- Q48:** Have we correctly identified the costs to parties in relation to indexation as a consequence or follow-on from our proposals? To assist us to quantify these costs or any other costs we should consider, please provide data or additional information to explain the additional costs or other impacts.
- Q49:** Do you agree with the benefits of our proposals that we have identified above? If not, please explain why.
- Q50:** Are there any additional benefits that we should consider in our CBA?
- Q51:** What do you consider to be the most important factors in deciding where to list (for example, regulation, valuations, depth of capital markets, comparable peers, investor / analyst expertise, taxation, director remuneration requirements, indexation, location of main operations). Please rank your factors in order of importance.
- Q52:** Do you have any suggestions as to how we might quantify the benefits of our proposals? And can you provide any evidence of the cost savings to issuers that might arise from our proposals to no longer obtain shareholder approval for certain significant transactions and RPTs?

Annex 2

Summary of feedback to DP22/2

1. We received 38 responses to DP22/2 from a wide range of respondents. This chapter summarises the feedback we received. Subsequent to DP22/2 we have also received further input from market participants, which we also summarise in this section.

Single segment concept

2. There was support for improving the efficiency and effectiveness of the LR, but the specific single segment model concept discussed in DP22/2 was largely not supported. It was seen by around half of respondents as comparable in complexity to the current standard and premium listing regime, and that the 'mandatory' and 'supplementary' concept would be a perceived proxy for 2 different 'quality' standards. As a result, there was concern that index inclusion would attach to one of the two options, embedding the perception of a quality differential, which in turn would not drive the intended outcomes.
3. Around a quarter of respondents (mostly sell-side) called for a 'genuine' single segment for commercial companies. However, there were differing views on what that might mean in practice i.e., where to set the common standards, and how to balance access and flexibility for companies while maintaining appropriate investor protections. A small number of respondents felt the UK faces a challenge to remain relevant to company listings post Brexit and proposed removing requirements that are more onerous than US or EU markets, versus the mainly buy-side desire to preserve safeguards.
4. Only a few respondents (including representations from the buy-side) supported the current multi-segment approach as they consider it provides flexibility and clarity.
5. Some respondents thought a single segment more in line with premium listing standards would not facilitate broader access – as it would exclude those that would otherwise have opted for the standard listing segment. This is a significant concern for some respondents.

Dual class share structures

6. As part of the single segment concept discussed in DP22/2, we asked for views on how permissive a single segment should be of DCSS.
7. There were mixed views on the form on the form of DCSS that should be permitted in a single segment model. Twelve respondents felt a single segment should be permissive of different forms of DCSS (e.g., more akin to the current standard listing segment approach). While 13 thought the premium listing 'one share one vote' principle with only a limited form of DCSS permitted should be the approach on a single segment model, to ensure investor confidence in UK markets.

Eligibility criteria

- 8.** DP 22/2 followed consultation on a proposal to retain historical financial information in CP 21/21 which had a mixed response from respondents who expressed the following specific concerns about the impact of our current requirements:
- That requirements for audited historical financial information are onerous for companies or impractical for companies with smaller acquisitions that were not material enough to be audited. In practice this can create barriers to these companies listing and/or qualified audits. Auditing these acquisitions retrospectively can be costly and burdensome and, in some cases, it is not possible to do this meaningfully.
 - Information that is 3 years old including that on acquisitions is too out-of-date to have any value to investors.
 - It is also difficult for companies with operations overseas to recreate Group/business unit accounts to meet different global standards e.g., IFRS and GAAP.
 - Uncertainty about meeting requirements can also lead to issuers abandoning UK IPOs
- 9.** In DP 22/2 we asked respondents whether they agreed that these financial eligibility requirements can be replaced by disclosure in listing documentation such as prospectuses and if there are any elements of the listing regime that should be incorporated into future changes to the prospectus regime.
- 10.** There was general support for a single set of eligibility criteria, more akin to standard listing e.g., removal of premium listing requirements that demonstrate that an issuer's business is already 'established' and having reached a minimum level of maturity (i.e., it has a 3-year revenue-earning track record (LR 6.3) and 3-year published Historical Financial Information (LR 6.2)).
- 11.** Those expressing concerns did so mostly on the basis that they were not clear about what disclosure based approach would involve. There was also a minority against removing the requirement to satisfy the FCA that an applicant has sufficient working capital (LR 6.7), which was seen as an important investor protection, and on the basis that such a proposal may not be effective as issuers with a qualified Working Capital Statement would not receive investors. There was also a proposal that we should consider replacing revenue track record with an 'operational existence' requirement.

Continuing obligations

- 12.** As part of the single segment concept discussed in DP22/2, we invited feedback on whether the premium listing 'significant transactions' regime (LR10) should form part of a package of optional ('supplementary') provisions. We also asked (Q10) what factors we should take into account when considering the level of the threshold for Class 1 transactions within the significant transactions regime, and what threshold would be appropriate.

- 13.** We received feedback from around 19 respondents offering a broad range of perspectives and views on the inclusion of a significant transactions regime in a single segment and in what form. While most respondents were sceptical that the 'mandatory' and 'supplemental' approach was workable, the majority of those who fed back on the significant transaction regime were in favour of keeping at least some elements of it. A few proposed that we abolish it.
- 14.** Those who were most in favour of keeping it said it was an important shareholder protection. However, many were concerned that the regulatory burden associated with Class 1 transactions (which trigger a shareholder vote, the appointment of a sponsor, and prescriptive rules for the shareholder circular which must be pre-approved by the FCA) should only bite at a higher threshold to ensure proportionality. Currently, the current class 1 regime adds undue friction to transactions (delay, costs, uncertainty) that places UK-premium listed issuers at a competitive disadvantage to other prospective buyers and even deters these companies pursuing deals. The regime might also put off new applicants seeking a UK listing, particularly those with an acquisitive growth strategy. It was noted that similar rules do not apply in other listing jurisdictions in the EU or the US.
- 15.** Respondents proposed a range of modifications that would materially increase issuer flexibility, particularly for smaller-cap issuers, and reduce the number of transactions that would be in scope of the Class 1 requirements, thus reducing regulatory burden and removing potential obstacles to deal making.
- 16.** There was no clear consensus on where the higher threshold for Class 1 transactions should be set. Most supported increasing it significantly or allowing shareholders to vote on an alternative threshold or to disapply the obligation to seek prior shareholder approval. It was also suggested that the more onerous Class 1 obligations should only apply to larger cap issuers (FTSE100). Alternatively, to reduce burden, a scalable model could apply to the financial information required to be included in the shareholder circular, depending on the relative size of the transaction to the issuer and other qualitative features of the deal.
- 17.** Some respondents preferred to remove the shareholder vote all together and only retain only a disclosure-based regime. Even then, some queried whether the current class 2 notification regime (which requires issuers to announce certain deals on non-ordinary course transactions at the 5% threshold) adds any incremental value to MAR.
- 18.** While we did not ask a specific question on the LRs Related Party Transaction Regime (LR 11), some respondents from the buy-side said this is an important investor protection, but with others suggesting these rules could be simplified or more proportionate (similar to the views expressed about 'Class 1' significant transactions). Some suggested it could be abolished, given that RPTs should still be announced to the market under DTR7.3.

Sponsor regime

- 19.** In DP22/2 we asked about the role of the sponsor regime (LR 8) in a single segment, and also more generally about potential reforms to the Sponsor Regime. Around 20 responded to our questions on this topic. In general, there was support for the role of the sponsor but also views that it could be more proportionate, particularly in relation to significant transactions, related party transactions or in relation to secondary fundraising.
- 20.** In relation to applying the sponsor regime to a single segment, some respondents questioned if the current number of approved sponsors could accommodate an increase in the provision of services that might arise, on the basis that a single segment would be open to a wider range of issuers than premium listing currently. Some also noted that challenges may arise regarding the ability of sponsors to maintain their knowledge and experience if the result of reforms is that sponsors generally end up having to be appointed for fewer transactions.
- 21.** More generally, some also called for transparency of fees charged, a reduced sponsor role once listed, and clarification regarding Sponsor record keeping requirements.

Annex 3

List of non-confidential respondents to the report

The Association of European Independent Research Providers
Aquis Stock Exchange
BDO LLP
British Private Equity and Venture Capital Association
BNY Mellon
Bobby Reddy
City of London Law Society
Council of Institutional of Investors
Dowgate Capital
Ernst and Young LLP
Herbert Smith Freehills LLP
Institute of Chartered Accountants in England and Wales
The Investment Association
Investor Coalition for Equal Votes
Jardine Matheson Ltd
Listing Authority Advisory Panel and Markets Practitioner Panel
Linklaters LLP
Numis Securities Ltd
Personal Investment Management and Financial Advice Association
Schroders Investment Management Ltd
UK Equity Markets Association
UK Finance and Association for Financial Markets in Europe
White and Case
World Federation of Exchanges

Annex 4

Example of possible new structure of the Listing Rules sourcebook

Chapter	Type	Application
1. Preliminary (Current chapter 1)	Overarching requirements	All issuers including applicants Sponsor firms Firms applying to be sponsors
2. Listing Principles (Current chapter 7)	Overarching requirements	All listed companies (Apply also as an eligibility criterion)
3. Sponsors (Currently chapter 8)	Sponsors	Sponsor firms Firms applying to be sponsors Listed companies and applicants
4. Admission to listing: Eligibility criteria (all) (Current chapter 2)	All - Eligibility	All applicants for admission to listing (unless rule disapplied for certain applicant or security type)
5. Admission to listing: Eligibility criteria (ESCC) (Current chapters 6, and part of 14 and 21)	Shares (ESCC) - Eligibility	Companies in the ESCC category
6. Listing continuing obligations (Currently chapters 9 and part of 14)	Shares (ESCC) - Continuing Obligations	Companies in the ESCC category
7. Transactions (Current chapters 10 and 11)	Shares (ESCC) - Continuing Obligations	Companies in the ESCC category
8. Dealing in own securities and treasury shares (Current chapter 12)	Shares (ESCC) - Continuing Obligations	Companies in the ESCC category
9. Closed-Ended Investment Funds (Current chapter 15)	Shares (CEIFs) - Eligibility & Continuing Obligations	Closed-ended investment funds (With cross references also to Chapters 5, 6, 7, 8 and 10 as required)
10. Contents of circulars (Current chapter 13)	Shares (ESCC) - Continuing Obligations	Companies in the ESCC category
11. Other shares (Current chapter 14)	Shares (non-ESCC) – Eligibility and Continuing Obligations	Existing standard listed issuers not able to transfer to the ESCC category

Chapter	Type	Application
12. Open-ended investment companies (Current chapter 16A)	Shares (OEICs) - Eligibility & Continuing Obligations	Open-ended investment companies
13. Open-ended investment companies (Current chapter 16A)	Shares (non- ESCC) - Eligibility & Continuing Obligations	An open-ended investment company
13. SPACs and shell companies (Current chapter 14)	Shares (non- ESCC) - Eligibility & Continuing Obligations	Special purpose acquisition companies and shell companies
14. Certificates representing certain securities (Current chapter 18)	Non-shares - Eligibility & Continuing Obligations	As per current application
15. Sovereign Controlled Commercial Companies (Minded to delete current chapter 21)	Shares (ESCC) - Eligibility & Continuing Obligations	A sovereign controlled commercial company (With cross references also to Chapters 5, 6, 7, 8 and 10 as required)
16. Debt and debt-like securities (Current chapter 17)	Non-shares - Eligibility & Continuing Obligations	As per current application
17. Securitised derivatives (Current chapter 19)	Non-shares - Eligibility & Continuing Obligations	As per current application
18. Miscellaneous Securities (Current chapter 20)	Non-shares - Eligibility & Continuing Obligations	As per current application
19. Admission to listing: Processes and procedures (Currently chapter 3)	Regulatory process	Applicants for the admission of securities
20. Suspending, cancelling and restoring listing, transfer between listing categories and reverse takeovers (Current chapter 5)	Regulatory process	All securities
21. Listing particulars for professional securities market and certain other securities (Current chapter 4)	Listing particulars requirements	As per current application

Annex 5

Abbreviations used in this paper

Abbreviation	Description
AIM	Alternative Investment Market
AGM	Annual general meeting
CBA	Cost benefit analysis
CEIF	Closed ended investment fund
CP	Consultation Paper
DCSS	Dual class share structure
DEPP	Decision Procedure and Penalties Manual
DR	Depository receipts
DTR	Disclosure Guidance and Transparency Rules sourcebook
ESCC	Equity shares in commercial companies
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
IFRS	International Financial Reporting Standards
GDR	Global depository receipts
IPO	Initial public offering
LR	Listing Rules sourcebook
MAR	Market Abuse Regulation
OEIC	Open ended investment company
RPT	Related Party Transaction

Abbreviation	Description
SCRR	UK Secondary Capital Raising Review
SPAC	Special purpose acquisition company
TCFD	Taskforce for Climate-related Financial Disclosures
UK CGC	UK Corporate Governance Code

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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