

FCA Listing Rule Changes

22 December 2021

Introduction. The Financial Conduct Authority (FCA) has confirmed certain changes to its Listing Rules as part of the ongoing reform of the UK listing regime. The latest changes aim to reduce barriers and costs for companies considering listing in the United Kingdom, while protecting the high standards of market transparency and integrity of the London Stock Exchange and the reputation of UK listings. The new rules came into force on 3 December 2021, with other minor changes becoming effective from 10 January 2022.

These changes to the Listing Rules follow certain recommendations made by Lord Hill in the UK Listing Review in March 2021 and made in the Kalifa Review of UK Fintech. These reviews focused on improving the UK listing regime and removing some elements that are seen as barriers to companies listing in the United Kingdom, thereby ‘closing the gap’ with other markets post-Brexit. The UK Listing Review was followed by the FCA’s ‘Primary Markets Effectiveness Review’ consultation paper in July 2021. As a result, certain changes to rules relating to SPAC listings, such as the removal of automatic suspension of trading upon the announcement of a business combination, were introduced in August 2021.

In this update, we summarise the key takeaways from this month’s changes and the potential implications for issuers and investors.

Key Changes. The key changes confirmed in the FCA’s [policy statement](#) include:

- **Introducing dual class share structure (DCSS) to premium listing.** To facilitate innovative growth companies listing at an earlier stage of their development by granting founders more control after going public, a company with a DCSS (having a class of shares with weighted voting rights) is now allowed to list on the premium listed segment of the London Stock Exchange. This is a departure from the ‘one share-one vote’ principle and may offset some of the attractiveness of U.S. and some Asian exchanges that already permit dual class share structures. However, adopting a DCSS is subject to certain conditions, which are intended to protect investor rights and limit the scope of founders’ enhanced voting rights:

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- a time limit or “sunset” on the DCSS of five years from the date of admission;
 - weighted voting rights only being available on (a) a vote on the removal of the holder as a director and (b) any matter following a change of control to operate as a takeover deterrent;
 - a maximum weighted voting right ratio of 20:1;
 - the holder of weighted voting rights must also be a director; and
 - restricted transfer of weighted voting shares, other than to a beneficiary of a director’s estate.
- **Reducing the free float requirement from 25% to 10%.** The number of shares to be in public hands at listing on the premium and standard listing segments, and as an ongoing requirement, is now set at 10%. Further, the FCA will no longer have discretion to change the rule and accept a lower level. The 25% free float requirement was seen as a barrier to listings on the London Stock Exchange compared to other venues, given that rules in the United States, where they use a combination of different metrics for a float, do not preclude free floats as low as 10%. In explaining their previous reasoning for the proposal, the FCA considered that any resultant drop in liquidity following the free float reduction would likely be minor and temporary.
 - **Increasing the minimum market capitalisation threshold for listing to £30 million from £700,000.** This lifts the minimum market capitalisation applicable to companies (other than certain investment funds or vehicles) required for listing on the premium and the standard segments of the London Stock Exchange’s main market. This shift should encourage small and medium-sized enterprises to list on alternative appropriate venues, such as AIM or Aquis Growth Market. It will also give investors greater confidence, as the FCA notes that at least 80% of companies with persistent non-compliance or misconduct are those with low market capitalisations. The previous threshold of £700,000 will continue to apply to certain companies that applied for listing previously and will list in the next 18 months and to existing SPACs that can list their business combination target by 1 December 2023. Notably, the revised threshold is a departure from the FCA’s proposals in July, in which the FCA had consulted on a £50 million figure that was considered too high by market participants.

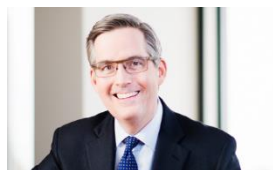
Looking Ahead for Issuers and Investors. These changes are welcomed by asset managers and are expected to attract issuers to the London Stock Exchange, including those in technology and biotechnology companies, helping London to compete with

other global stock exchanges. Further reforms are expected next year as the FCA is currently consulting on the prospectus regime, secondary offerings and the listing regime structure. Indeed, in the policy statement, the FCA determined that further consultation is required on track record requirements for premium listing applicants. Overall, however, the FCA's commitment towards flexibility is promising and may steer London towards becoming a more competitive venue.

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Please do not hesitate to contact us with any questions.

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