

UKLA Technical Note

Sponsors: Guidance on the competence requirements set out under LR 8.6.7R(2)(b).

Ref: UKLA / TN / 714.1

LR 8.6.7R,
LR 8.6.7R(2)(b)

LR 8.6.7R sets out the competence criteria for firms wishing to apply to become a sponsor and for existing sponsors to ensure ongoing approval. LR 8.6.7R(2)(b) requires a sponsor to have a sufficient number of employees with the skills, knowledge and expertise necessary for it to understand:

1. The rules, guidance and ESMA publications directly relevant to sponsor services.
2. The procedural requirements and processes of the FCA.
3. The due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4.
4. The responsibilities and obligations of a sponsor set out in LR 8.
5. Specialist industry sectors, if relevant to the sponsor services it provides or intends to provide.

We refer to these areas of knowledge as 'competency sets' in this note. To assist sponsors, we explain below the types of skills, knowledge and expertise that we expect a sponsor to consider when assessing its ability as a firm to demonstrate an understanding of each competency set. We expect sponsors to take into account training received, experience obtained on sponsor services and other corporate finance experience, both transactional and non-transactional, when seeking to demonstrate compliance with LR 8.6.7R(2)(b).

The following is not intended to be exhaustive; sponsors may wish to consider other matters under each competency set when considering their own business and clients.

Note: This Technical Note describes our expectations in relation to the competency sets for sponsors offering services to premium listed commercial companies (see Section A); and, sponsors that specialise in advising premium listed investment companies (see Section B). Sponsors offering sponsor services to the full range of premium listed companies, will need to consider the most appropriate way to incorporate aspects of both Sections A and B when considering whether they are able to meet the requirements of LR 8.6.7R(2)(b).

Section A – Sponsors – premium listed commercial companies

1) Rules, guidance and ESMA publications directly relevant to sponsor services

We expect sponsors to demonstrate technical knowledge of the regulatory requirements applicable to the provision of sponsor services to a premium listed issuer or an applicant for premium listing.

Accordingly, we expect sponsors to be able to demonstrate a working knowledge of the Listing Rules, Prospectus Rules, Disclosure Rules and Transparency Rules as well as any guidance published on this, including FCA guidance in the UKLA Knowledge Base and ESMA publications. In particular, we expect sponsors to have a detailed working knowledge of aspects of these rulebooks that are pertinent to their role, such as the listing/premium listing principles, related party and significant transaction provisions, relevant disclosure requirements set out under PR Appendix 3 and the various triggers for and exemptions from publishing a prospectus. Where it is relevant to providing a sponsor service, we will also expect sponsors to have an understanding of the wider UK regulatory framework such as Part VI FSMA, in particular, considerations of investor detriment in light of section 75(5). In addition, we expect sponsors to be aware of market practice around the application of the relevant rulebooks and guidance set out above, as appropriate.

2) The procedural requirements and processes of the FCA

The UKLA operates processes and procedures that are designed to facilitate interactions with sponsors. As such, we expect sponsors to be proficient in those procedures and processes of the UKLA that a sponsor would undertake, such as those relating to document vetting, the Sponsor Service Enquiry Line, and the listing application process. Sponsors should also be familiar with the Procedural Notes in the UKLA Knowledge Base, which are FCA guidance. We also expect sponsors to be aware of the reliance placed by the UKLA on sponsor responses and confirmations provided during these processes.

3) The due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4

We expect sponsors to understand not only the scope of due diligence required for sponsor services to be conducted in accordance with the Principles for Sponsors in LR 8.3 but also what is reasonably expected by the FCA of sponsors before submitting declarations or confirmations to the FCA.

Sponsors are required to submit declarations to the FCA in the terms set out in LR 8.4: the Listing Rules require sponsors to come to a reasonable opinion on relevant matters having made due and careful enquiry. In providing these declarations, and other services, sponsors must comply with the Principles for Sponsors in LR 8.3, including acting with due care and skill, ensuring directors understand their obligations, and identifying and managing potential or perceived conflicts.

We recognise that sponsors may appoint their own advisers and will receive comforts from their client and its advisers as part of carrying out due diligence into the issuer and the transaction or matter being considered. In light of this, we expect sponsors, when considering the declarations required under LR 8.4, to carry out due and careful enquiry by, inter alia:

- ensuring the scope of due diligence is sufficient to allow sponsors to meet their obligations under LR 8.3 and LR 8.4
- reviewing drafts of any reports intended to be relied on either directly or indirectly by the sponsor and challenging any relevant findings
- considering whether the conclusions reached in any relevant third-party reports are consistent with the nature of the declarations being provided to the UKLA in accordance with LR 8.4, and
- considering industry guidance issued by relevant bodies, such as the Financial Reporting Council (FRC), the Royal Institution of Chartered Surveyors (RICS), the Joint Ore Reserves Committee (JORC) (or equivalent) or the Petroleum Resources Management System (PRMS) (or equivalent)

4) The responsibilities and obligations of a sponsor set out in LR 8

LR 8 contains rules and guidance that apply to both sponsors and companies with or seeking, a premium listing. We expect that a sponsor will be aware of its obligations under LR 8 when providing sponsor services. In particular, sponsors should be aware of and consider how principles set out in LR 8.3 apply to the sponsor service being provided, particularly exercising due care and skill.

We also expect sponsors to have a good understanding of their firm's risk appetite in relation to the provision of sponsor services to a premium listed issuer, or an applicant for premium listing, as well as an understanding of what constitutes a sponsor service, and the application of LR 8 to the service.

5) Specialist industry sectors, if relevant to the sponsor services it provides or intends to provide

To advise clients on appropriate disclosure or structures that meet our eligibility requirements for premium listing, or when carrying out a transaction for premium listed companies, we consider it necessary for a sponsor to understand the industry sector in which their client operates. This competency set seeks to ensure that sponsors are aware of the specific guidance or rules for specialist industry sectors, the particular challenges or risks that a sector may face, and the impact these may have on eligibility, document disclosure and/or continuing obligations of their client.

Specialist sectors will include but are not necessarily limited to:

- property companies
- start-ups
- shipping companies
- oil and gas companies
- mining companies
- financial institutions and other authorised firms, and
- scientific research-based companies

Section B – Sponsors – premium listed investment companies

1) Rules, guidance and ESMA publications directly relevant to sponsor services

We expect sponsors to demonstrate technical knowledge of the regulatory requirements applicable to the provision of sponsor services to a premium listed investment company or an applicant for premium listing under LR 15 or LR 16. Accordingly, we expect sponsors to be able to demonstrate a working knowledge of the Listing Rules, Prospectus Rules, Disclosure Rules and Transparency Rules as well as any guidance published on this, including ESMA publications and FCA guidance published in the UKLA Knowledge Base. In particular, we would expect sponsors to have a detailed working knowledge of aspects of these rulebooks that are pertinent to their role, such as the listing/premium listing principles, related party and significant transaction provisions, LR 15, LR 16, relevant disclosure requirements set out under PR Appendix 3 (in particular Annex XV), and the various triggers for and exemptions from publishing a prospectus.

We will also expect sponsors to understand the specific disclosure requirements relevant to premium listed investment companies and to understand the challenges faced by these companies in considering eligibility and disclosure requirements. In particular, this is in relation to areas such as investment policies, diversification and spread of risk.

Where it is relevant to providing a sponsor service, we will also expect sponsors to have an understanding of the wider UK regulatory framework such as Part VI FSMA, in particular, considerations of investor detriment in light of section 75(5). In addition, we would expect sponsors to be aware of market commentary around the application of the relevant rulebooks and guidance set out above, as appropriate.

2) The procedural requirements and processes of the FCA

The UKLA operates processes and procedures that are designed to facilitate interactions with sponsors. As such, we expect sponsors to be proficient in those procedures and processes of the UKLA that a sponsor would undertake, such as those relating to document vetting, the Sponsor Service Enquiry Line, and the listing application process. Sponsors should also be familiar with the Procedural Notes published within the UKLA Knowledge Base, which are FCA guidance. We also expect sponsors to be aware of the reliance placed by the UKLA on sponsor responses and confirmations provided during these processes.

3) The due diligence process required in order to provide sponsor services in accordance with LR 8.3 and LR 8.4

We expect sponsors to understand not only the scope of due diligence required for sponsor services to be conducted in accordance with the Principles for Sponsors in LR 8.3 but also what is reasonably expected by the FCA of sponsors before submitting declarations or confirmations to the FCA.

Sponsors are required to submit declarations to the FCA in the terms set out in LR 8.4: the Listing Rules require sponsors to come to a reasonable opinion on relevant matters having made due and careful enquiry. In providing these declarations, and other services, sponsors must comply with the Principles for Sponsors in LR 8.3, including acting with due care and skill, ensuring directors understand their obligations and identifying and managing potential or perceived conflicts.

We recognise that sponsors may appoint their own advisers and will receive comforts from their client and its advisers as part of carrying out due diligence into the issuer and the transaction or matter being considered. In light of this, we expect sponsors, when considering the declarations required under LR 8.4, to carry out due and careful enquiry by, inter alia:

- ensuring the scope of due diligence is sufficient to allow sponsors to meet their obligations under LR 8.3 and LR 8.4
- reviewing drafts of any reports intended to be relied on either directly or indirectly by the sponsor and challenging any relevant findings
- considering whether the conclusions reached in any relevant third-party reports are consistent with the nature of the declarations being provided to the UKLA in accordance with LR 8.4, and
- considering industry guidance issued by relevant bodies, such as the Accounting Practices Board (APB), the Financial Reporting Council (FRC), the Royal Institution of Chartered Surveyors (RICS), the Joint Ore Reserves Committee (JORC) (or equivalent) or the Petroleum Resources Management System (PRMS) (or equivalent)

4) The responsibilities and obligations of a sponsor set out in LR 8

LR 8 contains rules and guidance that applies to both sponsors and companies with, or seeking, a premium listing. We expect that a sponsor will be aware of its obligations under LR 8 when providing sponsor services. In particular, sponsors should be aware of and consider how principles set out in LR 8.3 apply to the relevant service being provided, particularly exercising due care and skill.

We also expect sponsors to have a good understanding of their firm's risk appetite in relation to the provision of sponsor services to a premium listed issuer, or an applicant for premium listing, as well as an understanding of what constitutes a sponsor service, and the application of LR 8 to the service.