Primary Markets Effectiveness Review: Feedback to the discussion of the purpose of the listing regime and further discussion

Discussion Paper
DP22/2

May 2022

How to respond

We are asking for comments on this Discussion Paper (DP) by **28 July**.

You can send them to us using the link to our website at: https://www.fca.org.uk/publications/discussion-papers/dp22-2-primary-markets-effectiveness-review

Or in writing to:
Capital Markets Policy
Financial Conduct Authority
12 Endeavour Square London E20 1JN

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1 Introduction

1.1 As part of the FCA's wider strategy to promote competition and positive change with greater regulatory open-mindedness, we are continuing our work reviewing the effectiveness of our primary markets. Well-functioning public markets enable companies to finance their businesses, which in turn create growth and jobs for the UK economy.

1.2 Trusted public markets provide opportunities for investors in a well understood environment with high standards of disclosure and FCA oversight. More companies listing at an earlier stage in their life cycle means more opportunities for investors to share in the returns of those companies as they grow.

1.3 Following publication of Policy Statement (PS) 21/22, which brought in new rules including those on dual class shares structures in the premium listing segment and reducing free float, this Discussion Paper (DP) summarises the feedback we received to elements of Consultation Paper (CP) 21/21 (chapter three).

1.4 We now want to continue the discussion by setting out our response to that feedback and by seeking views on how the listing regime could be further reformed.

What we are seeking views on

1.5 Numerous industry studies, independent reviews and feedback from a broad range of issuers, advisors and investors cite concerns around the complexity of the UK Listing regime, as well as the on-going costs associated with being listed. While investors recognise the benefit of investing in listed companies and appreciate the additional transparency, corporate governance and shareholder engagement in comparison with investing in private companies, reform is needed to better align the costs of being listed with these benefits.

1.6 The objectives of the reforms discussed in this DP are:

- to ensure that the value of being **listed** is simpler to understand by removing complexity that is not serving a genuine and defined purpose
- to promote broad **access** to listing for a wider range of companies, while continuing to set clear, simple and robust minimum ongoing standards for listed companies, providing greater investment opportunities for investors on UK markets
- to empower investors to conduct their own decision-making over the suitability of listed issuers to meet their investment needs through clear, high-quality **disclosures**
- to allow issuers and investors **flexibility** to agree where additional shareholder engagement, overseen by the FCA, is appropriate

1.7 To deliver these objectives we have developed a possible regime based on having a single segment for equity shares in commercial companies where issuers would list under a single set of eligibility criteria, and would require a sponsor. Issuers would then have to follow one set of mandatory continuing obligations. They would choose whether to opt into a second set of supplementary continuing obligations. Whether the supplementary continuing obligations were appropriate to each issuer would be decided by them, following discussion and input from their shareholders.

1.8 We also set out our view of the role and purpose of the sponsor regime, along with further questions for discussion designed to explore if inefficiencies exist in the current regime and, if they do exist, if changes to the current rules and guidance could be made. We also explore how the sponsor regime could fit within the wider reforms we are considering.

The wider context

Market Trends

1.9 In CP21/21, we presented analysis that showed a reduction in the number of companies being admitted to both the LSE Main Market and the Alternative Investment Market (AIM) over the past two decades. We also noted that, while this trend was common globally, other markets had continued to attract larger numbers of new entrants to their public markets. Most notably we cited research by New Financial that showed that the UK's share of global IPOs had reduced from 10% in 2006, to just 5% in 2018.

1.10 The importance of access to public markets was shown when private capital became constrained during the pandemic, when those companies that were public were able to raise emergency funding swiftly. In the first half of 2020, £23.7 billion was raised in new capital with 327 transactions in the UK, more than three times the next busiest European markets in both volume and number. Immediately following this, in 2021, £16.9 billion was raised in UK IPOs, more than in any year since 2007, including 126 companies admitted to the London Stock Exchange.

1.11 This increase in fundraising activity on public markets has shown how useful they are but also increased the focus on the barriers that exist for certain companies accessing markets, and some inherent inefficiencies. Both the UK Listing Review and the Kalifa Review of UK FinTech highlighted specific elements of our listing regime that act as barriers to companies listing especially for high growth and fintech companies. This reduces the diversity of investment and opportunities available on UK markets for investors.

1.12 Many different factors influence a companies' decision on **whether** and **when** to go public. These range from access to enough capital in private markets and biases in taxation policy, to macro-economic conditions and the wider geopolitical context. Similarly, the decision on **where** to list can be driven by non-regulatory factors such as depth and liquidity of markets, access to an investor base with specific expertise, developed over time or presence of competitors. Nonetheless regulation clearly does play a part in those decisions.

The UK Listing Review chaired by Lord Hill

1.13 The UK Listing Review made 14 recommendations as well as noting broader reforms related to the wider financial ecosystem. Of these recommendations, we acted at pace to introduce those related to Special Purpose Acquisition Companies (SPACs) in

CP21/10 and PS21/10. We then acted to make targeted changes to our Listing Rules for dual class share structures in the premium listing segment and a reduction in the required level of shares in public hands (or free float) in CP21/21 and PS21/22. This was alongside other reforms to improve the effectiveness of primary markets.

1.14 Of Lord Hill's recommendations, the fourth related to the structure of the listing regime:

> Recommendation four: Rebrand and re-market the standard listing segment. Its name should be changed, for example to the Main Segment, or by simply referring to companies being admitted to the Official List either by way of a Chapter 6 listing (current premium) or a Chapter 14 listing (current standard). Encourage investor groups to develop guidelines on areas they see as particularly important to allow for companies on the rebooted segment to be index-eligible.

1.15 Underpinning recommendation four, was an intention that listing should be open to all types of companies, that the FCA should set minimum standards of eligibility for listing to ensure quality is maintained and pointed to a need for flexibility. Further it noted the importance of index inclusion in driving the behaviour of issuers.

1.16 As a result of this recommendation, we opened a wider discussion on the purpose of listing in CP21/21, to understand what features a rebranded standard listing segment should have. Feedback from that CP is included in chapter two. We have taken on board this feedback and, following stakeholder engagement, expanded upon the central principles behind the recommendation of the UK Listing Review.

1.17 We now want to continue that discussion and are seeking views on an alternative structure for the listing regime in this paper.

Recent Developments

1.18 There are several other regulatory initiatives that are currently being undertaken that interact with the reforms considered in this discussion paper. These relate to the review of the UK Prospectus Regime by HM Treasury, the independent UK Secondary Capital Raising Review, the ongoing Wholesale Markets Review as well as reforms being considered by BEIS to restore trust in audit and corporate governance.

1.19 We continue to work closely with all relevant parties as these initiatives progress and will consider any interactions if we proceed to consult further as a result of the feedback to this DP.

How it links to our three year strategy and the outcomes we are seeking

1.20 In our recently published strategy, under focus three: Promoting competition and positive change, we set out how we intend to strengthen the UK's position in wholesale markets. We seek 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. This will be achieved if the UK continues to be regarded as one of the leading global markets of choice for issuers, intermediaries and investors, when compared to other high-quality markets.

1.21 The reforms considered here are linked to this broader vision for regulating wholesale markets. Improving the effectiveness of primary markets helps us to protect and enhance the integrity of the UK financial system through greater liquidity and greater stability. We aim to support markets that are:

- Open and accessible – A market that supports the real UK economy by providing access to capital for a wide range of issuers and their financing needs, and opportunities for a range of participants to use capital efficiently.
- High standards focussed on outcomes – A market that is characterised by robust proportionate standards that are focused on outcomes rather than prescriptive rules. These standards are effectively enforced, setting the international example without unnecessary friction and costs.
- Transparent and trusted – A market where the quality of information supports capital raising and liquidity. Market participants can operate within it with confidence in the market's integrity and cleanliness.
- World-leading and innovative – A market that is at the forefront of positive, global capital market trends, such as sustainability, and supports and adapts to entrepreneurship and technology which allows for competition across market functions.
- Serves the public interest – A market that helps support sustainable growth, jobs and wealth generation across society including Environmental, Social and Governance (ESG) considerations.
- Accountable – A market that protects shareholder rights, promotes stewardship, and encourages good corporate governance by companies publicly traded in the UK.

Who should respond to this Discussion Paper?

1.22 This DP will be of interest to:

- listed companies
- companies considering a UK listing
- existing and prospective investors in listed companies, including institutional and individual investors
- law firms, investment banks and other advisors, including sponsors, who may assist issuers
- exchanges or venue operators
- intermediaries who may facilitate, including providing execution and/or marketing of, investments into listed companies, whether at initial public offering (IPO) or in secondary markets
- trade associations representing the various market participants above
- wider financial market participants, such as research analysts

Equality and diversity considerations

1.23 We have considered the equality and diversity issues that may arise from this DP. We do not consider that it adversely impacts any of the groups with protected characteristics ie age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. We will keep this under review as we develop any proposals for consultation.

Next steps

1.24 We welcome feedback on the topics discussed by 28 July 2022.

1.25 We will then provide feedback and consider whether to issue a consultation paper in due course or whether a further discussion paper is appropriate.

1.26 Please respond by completing the form on our website.

2 Summary of feedback and our response

2.1 In this chapter we provide a summary of the feedback received regarding the structure of listing regime in the discussion chapter of CP21/21 and our response to that feedback.

2.2 We are still considering our response to feedback with regards to removing duplication between admission to the Official List and admission to a trading venue, it will therefore be dealt with separately.

2.3 For ease of understanding we have used the term **'company'** to refer to all companies, **'issuer'** to refer to companies that are listed and applicants for listing and **'listed company'** to refer to companies that are already listed.

Discussion on the purpose of the UK listing regime

2.4 In chapter three of CP21/21 we opened a discussion on the purpose of the UK listing regime. We provided an overview of the UK's primary markets regulatory framework including how it had evolved from being operated by the London Stock Exchange until the early 2000s and had then been influenced by various EU Directives and Regulations since then.

2.5 Our intention in opening the discussion was to establish how we could maximise the effectiveness of the listing regime for both companies and investors, with a particular focus on equity shares in commercial companies. We set out that we wanted to understand:

- what companies and investors value in the current listing regime
- the balance between our role and oversight, versus that of operators of trading venues
- the benefits and weaknesses of our regime as currently structured

2.6 Most of the 40 respondents to questions 1-18 of CP21/21 chose to submit their views as one reply rather than answer individual questions. We have therefore grouped feedback to the discussion chapter across a number of themes, highlighting which questions relate to each theme.

Segmentation in the structure of the listing regime

2.7 We described four different models of how the listing regime could be structured. These models were not intended to be discrete 'options'; instead, they sought to draw out views on what value the listing regime and our oversight of listed companies currently has for investors, companies and wider market participants.

2.8 The below table summarises the four models:

Model	Comparison existing regime	Benefits	Negatives
Model 1: Create a single segment for UK listed companies and set the minimum possible requirements for eligibility for listing.	Requirements set at current level in the Standard Segment	Easier access by issuers to listing and less ongoing cost (sponsors) or FCA intervention Minimum standards maintained	Trading venues may compete to offer lower admission requirements risking shareholder protections Lower corporate governance standards and FCA influence to encourage other higher standards (eg climate-related financial reporting) Removes a defining feature of the UK as a listing destination of choice for international companies
Model 2: Create a single segment for UK listed companies and raise standards for all UK listed companies to that in premium.	Requirements set at current level in the Premium Segment	High standards of shareholder protection and governance Simple and clear for issuers and investors	May reduce the number of companies listing Reduces choice for issuers should alternative unlisted markets be inappropriate Increase rigidity in the system
Model 3: Maintain 2 broad segments for UK listed companies	Enhanced version of the status quo	Strong role of the FCA Strong shareholder protection and governance Alternative listing segment for issuers	Difficult for issuers to understand the purpose of different segments Rigidity of approach by trading venues/indices
Model 4: Maintain 2 segments for UK listed companies but allow the market to set minimum standards for the 'alternative' segment.	Similar to the status quo Based on UK Listing Review proposal	Strong role of the FCA in premium segment Strong shareholder protection and governance Choice for issuers between the listing segments More flexibility in structures for issuers)	May be difficult for issuers to understand the purpose of different segments Additional flexibility brings less predictability ie what investors will require of them, reaction of trading venues/indices in introducing additional rules Lack of certainty on how the market will develop

2.9 We asked:

Q1: ***Would a single segment for equity shares in commercial companies meet the needs of both issuers and investors?***

Q6: ***What types of issuers would find it hard to comply with the standards within the existing premium listing segment and why?***

Q7: ***Do unlisted markets provide a suitable alternative to listed markets? Would a gap emerge for any particular type of issuer? Do you consider there would be any particular benefits or drawbacks to this approach?***

Q8: ***What types of companies or strategies should the 'alternative' segment be aimed at?***

Q9: ***Do the existing provisions in the standard segment need to be changed to suit these companies, either through relaxation or to provide additional shareholder protections?***

Q11: ***Do you consider the alignment between admission to the index and admission to the 'senior' segment to be important? Should the indices consider setting more objective admission criteria?***

Summary of feedback received

2.10 As intended, the description of four different, extreme models elicited strong reactions from respondents.

2.11 Investor groups tended to prefer a two segment model. They highlighted the existing flexibility provided by the standard listing segment. They saw it as a suitable second segment that issuers could choose to list in as an alternative if they were unable to meet the high standards required in the premium listing segment. However, many respondents stated that the standard listing segment needed to be rebranded and given clarity of purpose and scope.

2.12 While there was considerable support for such rebranding of the standard listing segment among both investors and some trade associations to make it more attractive to high growth and innovative companies, only one respondent put forward a proposal for what this rebranding would look like. They suggested 'a new and reinvigorated middle-tier format would act as a competitive alternative to the premium listing segment and would supress the stigma that currently surrounds the standard listing regime'. However, the only practical change from the existing standard listing regime was to suggest requiring a 'light touch sponsor' to provide greater investor confidence.

2.13 Some exchanges highlighted the flexibility that currently exists between the listed and unlisted space but also highlighted concerns about the requirements in the standard listing segment as being too lax, for example by not requiring the appointment of an advisor which is required by the unlisted junior markets.

2.14 Two representatives of groups of issuers made a case for additional differentiation by different standards of corporate governance, noting that this could be achieved either via multiple segments or differentiation within a single segment via an opt in approach.

2.15 The concept of opting into additional standards or requirements was supported by two additional groups from the advisory and exchange community. They asserted that this would be a more flexible approach for issuers.

2.16 One respondent noted that other globally respected venues had multiple segments with different sets of requirements that did not cause confusion to investors. They cited the example of Nasdaq that has three distinct market segments, the Nasdaq Global Select market, which has the most stringent listing requirements, the Nasdaq Global Market, and the Nasdaq Capital Market, which has the least stringent listing requirements.

2.17 Three advisory firms raised strong concerns regarding investor protection within a single segment model based upon the requirements in the standard listing segment. This was generally echoed in almost all responses. One investor trade association thought one listing segment model would necessarily result in the lowest common denominator of standards, out of step with recent developments which are in line with investor expectations (eg on climate change reporting and diversity targets). They believed that lower standards could lead to less capital flowing into the UK, meaning less liquid markets and fewer issuers attracted to the UK.

2.18 One trade body went into detail of the types of issuers that found it most difficult to meet the eligibility requirements of the premium listing segment. They noted that those issuers who used the standard listing segment did so due to eligibility requirements regarding revenue track record, a need for additional flexibility in governance structures, acquisitive issuers, complex related party arrangements, being issuers of Global Depository Receipts, and international issuers more broadly. Similar points were raised by one investor group that noted international small cap, growth (start-up), and acquisitive companies find certain aspects of the premium listing requirements difficult to comply with.

2.19 Two listed companies and one technology trade association noted strong concerns about a multiple segment model and its use by indices. They stated clearly that, as long as indices continued to use premium listing as an entry criterion, a rebranded standard listing segment would continue to be unattractive.

2.20 One group that represents retail investors strongly disagreed with the assertion that multiple segments or additional flexibility within the requirements would be difficult for investors to understand.

2.21 Two further respondents cited the flexibility of the standard listing segment as being essential to international issuers.

2.22 Two respondents stated that no change was needed to the existing segments.

Our response

We took seriously the recommendation put forward by the UK Listing Review and supported by some respondents of rebranding the standard listing segment.

We first considered the nature of those entities that are currently listed in the standard segment, so as to understand what such branding might need to encapsulate.

At the end of Q1 2022, of the nearly 14,000 securities listed in the standard listing segment, over 10,000 are debt securities. Just over 300 are shares and, of these, just over a third are ordinary shares and many of these are secondary listings. Just over 30 were ordinary shares in commercial companies.

We went on to consider what was necessary to make such a segment attractive to both companies and investors. We considered rebranding the segment as being for 'dynamic companies' focusing in on high growth and/or innovative companies.

However, we found no practical way of making changes in our existing regulatory regime for standard listing that would address the key reasons cited by these types of companies for disliking existing arrangements – for example, the lack of index inclusion and the poor perception of issuers who choose to list in the standard segment rather than the premium segment.

In our Listing Rules we explain the difference between standard listing and premium listing simply as: 'a standard listing sets requirements that are based on the minimum standards set out in the United Kingdom's provisions which implemented the Consolidated Admissions and Reporting Directive (CARD) and the Transparency Directive (TD). A listing that is described as a premium listing will include requirements that exceed those required under the United Kingdom's provisions which implemented CARD and the TD.' Since leaving the EU, this no longer seems relevant to a future 'brand' for the standard listing segment.

We therefore considered other possible purposes for the standard listing segment for equity shares in commercial companies, perhaps as a steppingstone to premium listing for less mature companies. However, analysis shows that only six issuers of equity shares in commercial companies have moved from standard to premium listing since 2017.

In the UK we have vibrant junior markets in the form of AIM and Aquis. These markets are regulated by the FCA as Multilateral Trading Facilities and set their own admission requirements, typically setting higher standards in some respects than that of the standard listing segment, for example, by requiring Nominated Advisors (NOMADs) or Corporate Advisers. These already provide a public market alternative to listing, that is a suitable steppingstone to the listed markets.

For this reason, we have taken on board the feedback from respondents and developed a regime based on having a single segment for discussion that addresses the key conclusions from this:

- first, that high growth/innovative companies need flexibility to accommodate different business strategies as exemplified by the difficulties they face in meeting premium listing eligibility criteria such as revenue track record, a point that was further confirmed in responses to chapter eight of CP21/21 as noted in the feedback contained within PS21/22.
- second, that both issuers and investors value the high standards of corporate governance that characterise the premium listing regime and would consider it a considerable loss in investor protection standards if these were not retained.
- third, that flexibility within the regime is important to companies and complexity can be managed via transparency and clear labelling to ensure investors are aware of nuances within the regime.
- finally, that international companies, may struggle to meet the same requirements as UK companies.

The role of the FCA versus the market in setting standards for listing

2.23 In two of the models we described (model one and model four), it was put forward that trading venues and indices combined with market discipline would set minimum standards for eligibility rather than the FCA. Under model one this was for the entire listed market, for Model four it was only for a second 'alternative' segment.

2.24 Rather than the FCA setting and policing eligibility criteria in model one, we suggested that this could be done by trading venues setting their own admission criteria. This could involve the establishment of specific market segments for certain types of companies with admission requirements tailored to their needs and those of their investors.

2.25 Under model four, we suggested that market discipline would likely set the standard for a second 'alternative' segment, citing the example of the Pre-emption Rights Group's guidelines that have become a market convention. Under this model, issuers would voluntarily adopt elements of the premium listing regime into their own articles of association to show higher levels of governance.

2.26 We cited the reaction of indices as of more relevance to this model than to the others as by highlighting that companies listed in the 'alternative' segment may include additional corporate governance measures and may ultimately be similar to the 'senior' segment, we suggested that admission to the 'senior' segment might no longer be a suitable criterion for index inclusion.

2.27 We asked:

Q4: ***What would be the benefit of being admitted to the Official List rather than just admission to a trading venue?***

Q5: ***Should we have a role in approving the admission criteria set by trading venues and/or indices? Could adequate investor protection be maintained if different trading venues compete on admission requirements?***

Q10: ***How important is our role in setting additional admission standards to listing in the 'alternative' segment? Are there any benefits to this role being performed by us rather than a trading venue, or market discipline?***

Summary of feedback received

2.28 No respondents explicitly supported the idea of a more market-based approach to setting standards. Instead, most respondents highlighted various ways in which the role of the FCA should be maintained within the listing regime.

2.29 Beyond this, investor groups cited concerns that further competition on admission requirements by trading venues was unlikely to be in the best interest of investors. One trading venue agreed with this approach making clear that they saw the FCA's role as ensuring that admission criteria set by trading venues did not fall below a certain level.

Our response

We wanted a wider discussion on the FCA's role within the listing regime due to representations made that some issuers were listing in other jurisdictions but voluntarily including provisions that aimed to replicate the shareholder protections in the premium listing regime. These would obviously not be monitored by a securities markets regulator.

Due to the feedback received, we do not intend to pursue a route in which trading venues or industry groups set standards. Instead, we intend to find ways to allow additional flexibility within a regime that is still set and monitored by the FCA.

Views on the existing premium listing segment requirements

2.30 In putting forward one model that only contained the premium listing requirements we were keen to understand from both companies and investors whether any areas of our existing regime could be adapted or removed to improve the efficiency of the regime.

2.31 We asked:

> **Q2:** ***Which elements of the existing listing regime would you consider it most difficult or least desirable for companies and/ or investors to operate without? Are there any particular elements you would reinstate? ie, the controlling shareholder regime, or the free float requirements***

Summary of feedback received

2.32 There was wide support from most respondents for most of the features of the premium listing regime. One issuer trade association noted that it enhances London's reputation as a prestigious international listing venue that upholds the highest standards of governance, investor protection and market integrity.

2.33 One investor trade association placed high value on disclosures related to both the prospectus regulation and transparency rules, the related party transactions regime, the ability to vote on significant transactions, the controlling shareholder regime, the UK corporate governance code comply or explain regime as well as climate change reporting.

2.34 However, many respondents noted the difficulties high growth companies had in meeting the revenue track record requirements. One noted that these did not tend to be sector specific aside from the view that most high growth companies in recent years have been in the technology sector.

2.35 The most cited premium listing requirement that was seen to introduce a competitive disadvantage to the regime, was the significant transactions regime, with five respondents including various trade associations citing concerns. It was noted that premium listed companies are often at a disadvantage compared to international competitors in acquisitions that involve a competitive auction process. This is due to the conditionality that is introduced into these transactions by the requirement for shareholder approval of Class 1 transactions. Others noted that the Class 1 transaction rules are too wide in scope, too complex and found the contents of a Class 1 circular too onerous, requiring significant time and cost to produce.

2.36 One trade association cited data from its members showing that, since September 2013, around 17% of the Class 1 transactions they were involved in fell within the 25% to 34% class test range. Their members were therefore of the view that there would be significant flexibility offered to listed companies in raising the threshold for Class 1 transactions from 25% to 33% while still offering substantive protection to shareholders.

2.37 Another trade association suggested that, while both the controlling shareholder regime and the related party transaction regime were valuable, they could both be simplified.

Our response

We have considered these responses when developing the discussion that follows in chapter three as well as those responses to chapter eight of CP21/21 that considered the appropriateness of existing requirements around track record. In particular, we have recognised and reflected in our thinking the potential benefit of having additional flexibility both in eligibility requirements and in how the continuing obligations operate.

In response to concerns regarding the significant transactions regime, we are interested in understanding further whether the levels of the class test thresholds should be revised.

Other securities

2.38 Following on from our more detailed discussion of the listing regime for equity shares, we made clear we were keen to understand whether additional measures were needed to take into account the features of different kinds of securities such as debt and debt-like securities, but also for other types of securities.

2.39 We asked:

Q12: ***How can the process for listing debt and debt-like securities be improved for issuers without jeopardising investor protection?***

Q13: ***Should there be a separate listing segment for debt and debt-like securities?***

Q14: ***Which particular elements of the listing regime could be tailored to improve their effectiveness for other types of securities? In what way?***

Summary of feedback received

2.40 Of the 40 respondents to chapter three of CP21/21, only seven addressed these questions in their responses.

2.41 No respondent thought there were any specific issues with the current arrangements for debt and debt-like securities that would be addressed by creating a separate listing segment. However, four respondents thought there could be benefit in creating one in order to consolidate rules applicable to debt into one area of the rulebook thereby creating a greater focus on debt with distinct disclosure requirements.

2.42 Two respondents noted that, should any measures be taken for debt, it would be important to ensure that the quoted eurobond exemption from UK withholding tax continued to be available for debt securities listed in such a segment.

2.43 One respondent cited concerns about the proliferation of segments, stating that it may lead to a lack of clarity on the market. For this reason, they preferred to minimise segmentation.

2.44 Another respondent questioned whether given the legal nature of securitised derivatives they could be included within a future separate debt segment, in that they create indebtedness in the issuer.

2.45 Few respondents raised concerns regarding other non-equity securities. However, three respondents commented on Depository Receipts (DRs).

2.46 Three respondents commented on 2018 reforms allowing DRs to be listed in the premium listing segment in connection with shares in sovereign controlled commercial companies. They noted various issues with converting standard listed DRs into a premium listing that they saw as costly, time consuming and of adverse impact to DR investors. One suggested establishing an international segment of the premium listing segment that would be open to all issuers irrespective of product type to achieve the listing.

2.47 Another respondent raised concerns about specific rules made under MiFID II and changes to the Prospectus regime that had adversely impacted the use of DRs also noting that admission to the premium listing segment may be appropriate for these instruments.

Our response

While acknowledging the points raised by respondents with regards to the benefits of a separate segment for debt, we consider that as the disclosure requirements are predominately set under the Prospectus regime that further action in this area should be taken in parallel to future reforms of the Prospectus regime.

Noting only a small group of respondents raised issues with regards to Depository Receipts, we are keen to get further feedback on this and have included additional questions in chapter three.

The sponsor regime

2.48 In CP21/21, we asked the following general question about the sponsor regime:

Q3: ***Would the role of the sponsor be a significant loss? Is their role under any specific element of existing requirements considered significantly beneficial to issuers or investors currently?***

Summary of feedback received

2.49 We received 18 responses to this question from a range of investment companies, law firms, trade bodies, industry groups and market participants. Most respondents were supportive of the sponsor regime and were of the view that it does add value. Broadly, the feedback received can be summarised as follows:

- Six respondents (consisting primarily of trade associations and industry groups) felt that the sponsor regime provides value to investors and issuers. Especially with overseas companies and small/mid-cap companies.
- A further ten respondents (including companies, trade associations, market participants and law firms) also thought the regime added value but felt there was scope for it to be more efficient, proportionate, or principles based. Some of these responses also felt that a sponsor regime, or something similar to it, could add value beyond premium listing.
- Three respondents (two investment companies and a law firm) said the benefits provided by the regime did not outweigh the costs to issuers.

2.50 More detailed suggestions made by respondents included the following:

- Five respondents (including law firms, an industry group, and a market participant) highlighted the need for the role and purpose of the sponsor regime to be better understood, especially by investors. In addition, it was queried how this might change within the context of any wider reforms to the listing regime.
- Five respondents (including law firms and an investment bank) highlighted that, in the absence of the sponsor regime, due diligence would be required to be undertaken by alternative means, with the FCA potentially needing to undertake that function itself.
- Three respondents (a market participant and trade associations) suggested removal and/or clarification of some of the record keeping obligations, where they consider FCA's approach to be overly burdensome.
- Two respondents (a trade association and a market participant) mentioned sponsor fees. One suggested there should be better alignment of sponsors' fees with the long-term interests of an issuer to help avoid conflict of interests, with the fee based on the success of the IPO for the market and company share price

(as opposed to being based, for example, on money raised at IPO for the seller). The other suggested that sponsor firms providing multiple services to a company should differentiate the sponsor and non-sponsor fees for transparency.

- One respondent suggested that summary information on the themes and conclusions arising from individual guidance provided by the FCA be published on an anonymised basis, with the purpose of reducing the risk of duplication of guidance requests and information asymmetries amongst sponsors.

2.51 A small number of respondents also suggested other areas where we could focus our attention to improve the efficiency of the sponsor regime and where additional guidance would be helpful.

Our response:

Feedback generally supported the sponsor regime as a key aspect of the premium-listed segment rules that helps support its reputation as having high standards of governance and compliance with regulatory obligations, including with the Market Abuse Regulation. We have suggested it be applied in the single segment regime, set out in chapter three for discussion, in generally the same way it currently applies to the premium listed segment. We discuss this further in chapter four.

We do not consider there is sufficient evidence from the feedback received to suggest the sponsor regime should be removed or its role and purpose materially changed. It provides important investor protections, which increase confidence and participation in the market by reducing the risk of harm to investors from market misconduct.

However, we will consider the suggestions of efficiencies that could be gained under the current regime, while maintaining the benefits it provides. We explore this further in chapter four, and specifically discuss record keeping, conflict of interests and fees structures. We have also sought to clarify the role and purpose of the sponsor regime in chapter four, given some feedback highlighted that this is not well understood by some.

Finally, we do clarify our rules or provide guidance, through Primary Market Bulletins and Technical Notes, to address generic themes arising from individual guidance requests. We will continue to consider where benefits can be gained from doing this. However, in some cases individual guidance provided will not be relevant or beneficial more generally, as it will be based on a specific set of circumstances.

Actions and next steps on the purpose of the UK listing regime

2.52 Having considered the varied and wide range of responses on the purpose of the listing regime we have developed a clearer understanding of what is valued by companies and investors in the current regime and where barriers are arising.

2.53 We have used this input, as well as extensive additional engagement with stakeholders directly, to develop the desired outcomes of any reform of the listing regime. These are discussed in the next chapter along with consideration of more specific possible reforms.

3 The structure of the listing regime

3.1 This chapter sets out a discussion on a regime for a single segment for equity shares in commercial companies. We are seeking views on the possible reforms we describe.

Current Listing Framework

3.2 In CP21/21, we gave an overview of how the listing regime fits within the broader range of primary markets in the UK, noting that these are extremely diverse, catering for the needs of a wide range of companies and investors, ranging from crowdfunding platforms to premium listed IPOs by mature issuers.

3.3 Admission to the FCA's Official List (also referred to as 'listing') is distinct from admission to a trading venue. We set the Listing Rules and admit securities to the Official List – in either the premium segment or the standard segment. In parallel, for securities to be publicly traded they need to be admitted to trading on a regulated market or a Multilateral Trading Facility (MTF). In some cases, this admission requires admission to the Official List, but it is not required for admission to all markets.

3.4 When we refer to the structure of the listing regime, it is the divisions, or segments, within the FCA's Official List that we are referring to. These are set out in the Listing Rules.

Segment	Securities	Listing rules
Premium	Equity Shares in commercial companies	LR 6 LR 9-13
	Equity shares in closed-ended investment funds	LR 15
	Sovereign controlled commercial companies (equity shares or DRs)	LR 21
Standard	Shares in companies, subject to some exceptions for investment entities and certain types of preference shares	LR 14
	Equity shares in OEICs	LR 16A
	Debt and Debt-like securities	LR 17
	Certificates representing securities	LR 18
	Securitised derivatives	LR 19
	Miscellaneous securities - includes warrants and options and other similar securities	LR 20

3.5 Currently, we divide the Official List into two segments. However, within each segment there are also a number of listing categories. Different rules govern these different categories and set both eligibility criteria for being admitted to the Official List for the first time and additional obligations that are applicable on an ongoing basis. For example, the continuing obligations for commercial companies with a premium listing are set out in chapters 9-13 of the Listing Rules. These rules, as well as those that apply to standard listed companies also cross refer to additional obligations in the Disclosure Guidance and Transparency Rules sourcebook (DTRs).

3.6 Under the existing framework equity shares in commercial companies can be listed in either the premium or the standard segment. Most other instruments can only list in one of the two listing segments.

3.7 As noted, the primary reason for having two listing segments is as result of EU minimum standards that were set under the Consolidated Admissions and Reporting Directive (CARD) and the Transparency Directive (TD). When the two segment model was introduced there was strong support for the super equivalent standards that characterised a so-called 'London listing', and so these were retained within the premium listing segment.

Identified concerns with the existing structure of the listing regime

3.8 Having two listing segments available for one type of security as well as multiple unlisted public markets for the same type of security creates complexity. This is not necessarily a bad thing if each market and segment has a specific and defined purpose with a regulatory framework that reflects that purpose. However, attempts to define a purpose for the standard listing segment quickly cross into the space occupied by unlisted junior markets.

3.9 Junior markets in the UK have low (or no) minimum market capitalisation requirements and require advisors to assist less mature companies in following all of the regulation and obligations that go along with being a public company. This assists them in complying with their obligations regarding the Market Abuse Regulation in particular. It is accepted by both companies and investors that these markets are designed to support a specific type of company at a specific stage in its growth cycle.

3.10 In the absence of a requirement to have a listing venue that is based on EU mandatory minimum standards it is no longer clear what purpose multiple listing segments serve for equity shares in companies.

3.11 Although many elements of the premium listing regime are valued by investors for promoting good corporate governance and shareholder engagement, some of the requirements lack the flexibility required by high growth and/or innovative companies to accommodate different and evolving valuation methods as well as different business structures.

3.12 Eligibility requirements that have been in place since the early 1980s, subject to minor revisions in response to certain market circumstances, may no longer meet the needs of new economy companies or more sophisticated investors. This is clear when compared with listing requirements in other jurisdictions.

3.13 Beyond this, any multiple segment model suggests a hierarchy within listed markets, where one segment is considered superior to another. It should be possible for the flexibility that companies see as lacking in the existing premium listing segment to be accommodated alongside the high level of shareholder protection that investors expect in the listed space.

Outcomes for reform of the structure of the listing regime

3.14 In considering reforms, we intend to uphold the principle that listed markets should represent the highest standards of transparency, corporate governance and shareholder engagement available on UK public markets.

3.15 However, we intend to address the concerns identified with the existing structure of listed markets to:

- ensure that the value of being listed is simpler to understand by removing complexity that isn't serving a genuine and defined purpose
- promote broader access to listing for a wider range of companies, by continuing to set clear, simple and robust minimum ongoing standards for listed companies, providing greater investment opportunities for investors on UK markets
- empower investors to conduct their own decision-making over the suitability of listed companies to meet their investment needs through clear, high quality disclosures
- allow issuers and investors flexibility to agree where additional shareholder engagement, overseen by the FCA, is appropriate

3.16 We consider that these outcomes could be achieved through a regime based on having a single segment for equity shares in commercial companies, sitting alongside unlisted markets.

3.17 In some cases, this would mean reaffirming features of the existing listing regime and broadening their application - for example the sponsor regime. In others, like the financial information required at the point of listing, it would mean considering whether different methods, like disclosure, can be used to provide additional flexibility but still maintain high standards.

A single segment for equity shares in commercial companies

Overview of a single segment regime

3.18 We are considering whether to reform the listing regime by establishing one listing segment for equity shares of commercial companies, which would feature:

a. a single set of eligibility criteria, and
b. a robust, minimum set of continuing obligations ('mandatory') with issuers having a choice to adopt further additional obligations ('supplementary')

3.19 We are seeking to broaden access to listing for a wider range of companies but we would still expect high standards of disclosure and for companies to be capable of meeting continuing obligations under the Listing Rules, with sponsors providing a key assurance role over a company's documentation and capability at the gateway. We would intend that all listed companies in the new segment would require a sponsor in the same way as the current premium listing regime. Chapter four discusses the application of the sponsor regime in a single segment regime in more detail.

3.20 The eligibility criteria would be accompanied by two sets of continuing obligations for listed companies: one that is mandatory and one that is supplementary, opted into by the listed company. These would be based upon the existing continuing obligations for premium listed companies. The mandatory obligations would be set at such a level as to ensure an appropriate level of investor protection was maintained for all listed companies.

3.21 Issuers would decide at the point of listing whether the supplementary continuing obligations were suitable for them and their prospective shareholders. Whether they choose to use the flexibility within the regime would be a decision they would take based on what suits the specific characteristics of their business or the needs of their shareholders. Once listed, moving in and out of the supplementary regime would be analogous to moving listing segments currently, and require shareholder approval where appropriate.

3.22 We would retain the regime that currently applies to standard listed companies for securities other than equity shares in commercial companies, as well as for secondary listings of equity shares in commercial companies that are incorporated overseas. We would include transitional provisions for companies currently listed in the standard segment so they would not be obligated to move to the single segment (see the section on 'Transition to a single segment regime' below for further details).

Indicative overarching structure of the single segment

Equity Shares in commercial companies

Eligibility

- One set of eligibility criteria so there is no "quality" differential between different issuers.
- Prospectus Disclosures to allow investors to set their own quality criteria on revenue track record etc.
- Sponsor required to provide assurance, maintain standards and protect investors

Continuing Obligations

Mandatory

- **Transparency**
- **Protecting shareholders:** where management or a significant shareholder's interests may be different to that of ordinary shareholders.
- In particular where lack of transparency and accountability could result in **investor detriment** – for example dilution.

Supplementary

- Issuers would choose whether to opt into this part of the regime.
- These provisions would provide an **enhanced role for shareholders** in holding the company to account on an on-going basis.

Q1: Do you think that a single segment regime would meet the outcomes we have described? Are there any changes or enhancements that could be included to enhance the effectiveness of a future regime?

Overview of the eligibility criteria for a single segment regime

3.23 Some companies, often in technology and bioscience, who would benefit from the value that listing provides, including the additional corporate governance features, are unable to meet the financial eligibility criteria of the premium listing segment, described further below. This can mean these companies list on other markets with different ways of assessing companies' financial positions on admission often making it more difficult for UK investors to access these companies.

3.24 We are considering removing these financial eligibility requirements and, instead, moving to a regime based upon disclosure, allowing investors to decide whether to invest based on the disclosures in the prospectus about the quality of the issuer. This is not intended to reduce standards but instead allow investors to consider the characteristics of each issuer on an individual basis, setting their own criteria. It may still be that these requirements continue to be identified as important by investors, but this regime would allow for investors to make the decision.

3.25 These requirements are:

- a three 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)

3.26 LR 6.10, LR 6.11 and LR 6.12 provide for alternatives to the three year revenue track record and/or three years' historical financial information for certain types of specialist companies ie mineral companies, scientific research based companies and property companies.

3.27 Other existing differentiating requirements between the eligibility requirements for the premium and standard segments relate to how an issuer and its business is structured and how the issuer operates on an ongoing basis. These aim to ensure shareholders are able to hold the company to account in the way they would expect of a public company.

3.28 These include requirements relating to control of the business, carrying on an independent business, controlling shareholders, externally managed companies and constitutional arrangements related to the company's share structure and the rights associated with it.

3.29 Currently the Listing Rules duplicate these requirements as both eligibility criteria and continuing obligations. This leads to unnecessary complexity in our rulebook – especially as an issuer has to be able to comply with the continuing obligations as soon as they are listed. In order to eliminate the duplication and complexity in our rulebook, we are considering whether to remove as explicit eligibility criteria those existing premium eligibility requirements which are also continuing obligations.

3.30 We would instead incorporate them into the two sets of continuing obligations and add an explicit eligibility requirement that the company must confirm its ability to comply with the applicable continuing obligations. This is not intended to change the eligibility process an issuer goes through with the FCA. For example, although control of business would no longer explicitly be an eligibility criterion, a company would need to confirm its ability to comply with this continuing obligation in order to be eligible. This approach would not apply to the financial eligibility criteria which we discuss below.

Revenue Earning Track Record

3.31 The UK Listing Review recommended that we review the track record requirements, especially the provisions for scientific research-based companies, noting that the existing provisions are not fit for purpose, notably for biotech companies. It suggested we broaden the existing exemptions to include 'other high growth innovative companies from other sectors, who are also able to show they are sufficiently mature in ways other than having positive revenue earnings.' It also raised the proposition that we consider moving to a more disclosure-based system when reforming the prospectus regime.

3.32 The Listing Rule requirements regarding track record do not just state that there must be a three year revenue track record, but also require it to be representative of the business for which admission is sought so that an investor can make an informed assessment of that business and a reasonable assessment of what the future prospects of that business might be. This means it is not just pre-revenue companies that may be ineligible, but also high growth companies.

3.33 In assessing these recommendations, we considered recent admissions to other markets where it is possible to list without a revenue track record. In the last three months of 2021, approximately 13 companies, that were not SPACs, were admitted to Nasdaq without revenue track record. Of these, 11 were biotechnology companies and two were electric car/battery companies. This gives us insight into the types of companies that would be prevented from listing in the premium listing segment. Such companies may decide not to list on the standard segment under the current regime because in their view standard does not offer the same reputational advantage as premium listing.

3.34 Nasdaq maintains a complex set of different combinations of financial requirements for admission to its different markets, allowing for multiple different ways of companies meeting them. On its market for the most developed companies, Nasdaq Global Select Market, it has four sets of alternative entry standards with upwards of half a dozen criteria, these offer alternatives based on:

- earnings
- capitalisation with cash flow
- capitalisation with revenue
- assets with equity

3.35 While it may be possible to review the existing exemptions to the revenue track record requirements and develop suitably tailored criteria for specific sectors, using a complex combination of criteria as Nasdaq does, the existing tailored requirements in the Listing Rules for scientific research-based companies have not been used since 2018. We therefore considered more fundamentally whether we, the FCA, are best placed to do this and whether we have enough specialised knowledge of existing and emerging technologies to appropriately consider the specificities of each sector.

3.36 Any requirements we set would be based upon current perceptions of what constitutes a 'quality' company that may not be appropriate for more unique and unusual companies or be easily adapted as this view changes over time. For example, the requirements around consistent growth and revenue generation were last reviewed at the time of the dot-com bubble and seen as important to keep start-ups out of the listed space (this occurred prior to UK companies being allowed to list in what became the standard listing segment). While this was considered important at that time, it has had the effect of excluding companies that could have provided beneficial investment opportunities for the public in more recent years.

3.37 A suitable disclosure regime should allow for investors who do have such expertise to make these judgements – rather than the FCA. We consider that the appropriate place for such disclosures would be in the prospectus regime.

Historical Financial information

3.38 We received considerable feedback from CP21/21 on acquisitive companies that supported another of the UK Listing Review recommendations on the requirement for historical financial information covering at least 75% of an issuer's business over a three-year period.

3.39 Both cited overlap and uncertainty around the interaction between the Listing Rule requirements regarding historical financial information and the Prospectus Regulation requirements for complex financial histories. The intention behind both regimes is similar, ensuring that investors have adequate information about an issuer, yet considerable complexity is added by the two different methods that are applied under the two regimes and how they interact. Further, as noted in PS21/22, we have considered the concerns raised regarding the requirement for coverage of 75% of the business.

3.40 While the UK was a member of the EU, prospectus requirements were harmonised and did not generally allow for member states to require additional disclosures. For this reason, the UK listing regime included certain requirements that acted to supplement the EU prospectus regime. Since leaving the EU, HM Treasury have announced their intention to give the FCA rule making powers over the admission of securities to trading on a regulated market. This will allow us to streamline these requirements, where our rules require a prospectus for admissions to trading on a regulated market and develop a more appropriate disclosure regime, in one place.

3.41 For a disclosure-based regime to function effectively we would need to ensure that investors receive adequate information in order to allow them to make an informed investment decision. We consider the most appropriate place to do this to be under the new regime relating to admissions to trading, reducing the current complexity where similar rules are in two different sets of requirements.

3.42 This is likely to require a review of the financial disclosure requirements in the prospectus regime. As part of this review, we would consider specific places where the Listing Rules currently necessitate different materials being disclosed than the current prospectus requirements. These include:

- age of audited financial information, where prospectus requirements allow for information to be up to 16 months old at the time of issue of the prospectus and the prospectus is valid for 12 months. This means the audited financials could be significantly out of date at the time of listing, whereas premium listing rules require that the balance sheet date be not more than six months before the date of the prospectus, and nine months before the shares are listed.
- the prospectus disclosure provisions surrounding historical financial information, and in particular, the regime regarding the issuers with a complex financial history.

3.43 These areas would be considered as part of the wider ongoing review of the prospectus regime.

'Clean' Working Capital Statement

3.44 The requirement for a working capital statement is an important part of the prospectus regime. This includes provisions that set out what should be considered when assessing whether an issuer can state without qualifying wording that it has sufficient working capital to meet its present requirements and is therefore 'clean'. However, the eligibility criteria for the premium listing segment in LR 6.7 includes a requirement for it to be unqualified or 'clean'. As with revenue earning track record, it is included in the listing regime as an indicator of quality.

3.45 While we did not receive any specific feedback that the requirement for a 'clean' working capital statement was a barrier to issuers listing, it is possible for commercial companies to list with a qualified working capital statement in the standard listing segment currently.

3.46 It is unusual for issuers to seek a listing without a 'clean' working capital statement, but some issuers do use the current option under the standard listing regime to do so – for example pre-revenue mineral companies. So, consistent with the approach of a more disclosure-based regime and leaving investors to determine if they are willing to invest in a company coming to market, we are seeking views on whether to remove the requirement for a 'clean' working capital statement as part of the eligibility criteria for a single segment regime.

Q2: **Do you agree that revenue track record, historical financial information and the requirement for a 'clean' working capital statement can be replaced by disclosure in listing documentation such as prospectuses?**

Q3: **Under a disclosure-based regime, are there any elements of the listing regime that should be incorporated into future changes to the prospectus regime to ensure that investors receive appropriate information upon which to base their investment decisions?**

Listing Principles

3.47 While removing elements of the current listing regime that act as barriers to companies listing meets our objective of broadening the accessibility of listing to a wider range of companies, we remain committed to ensuring high standards on listed markets. We are therefore seeking views on whether to apply the Premium Listing Principles to all listed companies in a single segment regime. This would set one common set of listing principles that all issuers of equity shares in commercial companies must adhere to. This was the situation when the Listing Principles were first introduced.

3.48 Currently, standard listed companies must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable them to comply with their obligations, and deal with the FCA in an open and cooperative manner. The addition of the Premium Listing Principles would extend this, first to make sure that the principle of 'one shareholder one vote' is respected, but also with:

- taking reasonable steps to enable their directors to understand their responsibilities and obligations as directors
- acting with integrity towards the holders and potential holders of their listed equity shares
- communicating information to holders and potential holders of their listed equity shares in such a way as to avoid the creation or continuation of a false market in those listed equity shares
- ensuring that they treat all holders of the same class of their listed equity shares that are in the same position equally in respect of the rights attaching to those listed equity shares

3.49 This addition would be intended to maintain high standards for all issuers of equity shares in commercial companies and continue to maintain the principles that underpin our approach to the listing regime.

Q4: **Do you agree with extending the Premium Listing Principles to all issuers of equity shares in commercial companies under a single segment regime? Would any specific changes to the principles be necessary to do so?**

Dual class share structures (DCSS)

3.50 We are seeking views on how companies with dual class share structures should be treated under the new regime. One option, that would be in line with feedback we received to CP21/21, would be to permit the form of dual class share structure that we recently introduced in PS21/22 in the single segment, and therefore subject to the below conditions:

- a maximum weighted voting ratio of 20:1
- may only be held by directors of the company or beneficiaries of such a director's estate
- weighted voted rights only to be available in two limited circumstances:
  - a vote on the removal of the holder as a director, and
  - following a change of control, in relation to a vote on any matter (to operate as a strong deterrent to a takeover)
- time-limited to a five year period

3.51 However, this would remove some of the existing flexibility in the eligibility requirements of the standard listing segment.

3.52 While we recognise that some issuers may prefer to have the ability to implement different voting structures, we consider that feedback to CP21/21 on the targeted form of dual class share structures we proposed to include in the premium listing segment was very negative towards having fewer safeguards than those proposed and then implemented.

3.53 As our intention with the single segment regime described here would be to continue to maintain the high levels of transparency, corporate governance and shareholder protections that characterise the UK listing regime, it may not be appropriate to move to a more permissive form of DCSS.

3.54 Companies would still be able to use different share structures on other public, unlisted markets in the UK, subject to their rules.

> **Q5: Do you agree that we should consider allowing dual class share structures in the single segment? Do you agree that the only form of dual class share structure that should be permitted within a single segment regime should be the regime recently introduced in PS21/22?**

Summary of key eligibility criteria for the single segment regime (in addition to the requirements for all securities in LR 2 and LR 3)

- **Prospectus, including financial disclosure requirements such as audited accounts, working capital statement and complex financial histories**
- **Shares in public hands “Free float”: 10%**
- **Minimum market capitalisation: £30 million**
- **Sponsor**
- **Ability to comply with mandatory continuing obligations**
- **Ability to comply with supplementary continuing obligations, where appropriate**
- **Listing Principles and Premium Listing Principles**

> **Q6: Do you think the eligibility requirements for the single segment regime described will broaden access to listing to a wider range of companies? Please provide any evidence and examples where possible.**

Continuing Obligations - Mandatory and Supplementary

3.55 Currently both premium and standard listed issuers are subject to continuing obligations once they are listed. These include those specified within the Listing Rules for different listing categories but also the Market Abuse Regulation (MAR) and all or relevant parts of the Disclosure Guidance and Transparency Rules sourcebook (DTRs).

3.56 Under the single segment regime described here, we would recategorise the continuing obligations in the existing Listing Rules into two groups: one mandatory for all issuers, the second would be supplementary. Obligations under MAR and the DTRs would continue to apply as part of the wider continuing obligations requirements. The FCA would monitor and enforce against listed companies in relation to their adherence to all requirements that are applicable to the listed company, including the supplementary continuing obligations, where appropriate.

3.57 The supplementary continuing obligations would aim to address feedback that while some of the existing continuing obligations, and the FCA's oversight of compliance with them, is valued by investors, they can hinder certain business models. We would therefore seek to preserve these elements of value but consider introducing additional flexibility by allowing issuers to choose whether the supplementary continuing obligations are appropriate for them and their shareholders.

3.58 During its IPO process, an issuer would decide whether to opt into the supplementary continuing obligations. We would expect that issuers would make that decision based on the specific characteristics of their business and ownership, whether the supplementary obligations were suited to them and taking into account feedback from their existing and potential shareholders.

3.59 To avoid complexity, we consider that issuers would not be able to opt into individual parts of the supplementary continuing obligations. They would need to opt into all of them or none. An alternative to this would be to allow additional flexibility by allowing issuers to opt in and out of a wider range of requirements. However we have some concerns that this has the potential to lead to a lack of transparency over which shareholder protections apply to different issuers and could cause harm to investors. We would be interested in further views on this aspect of the regime discussed here.

3.60 Under this regime we would intend to make things clear for investors over whether an issuer is opted into the supplementary continuing obligations or not, by requiring disclosure in Annual Reports. This could be enhanced by a requirement for trading venues to include appropriate labelling, as well as clear demarcation on the Official List.

The division between the mandatory and supplementary continuing obligations

3.61 In order to facilitate discussion of the different elements of a possible single segment regime, the section that follows sets out one way that we could consider dividing the continuing obligations between those that are mandatory and those that are supplementary. We are seeking views on both the principles that we describe as underling this delineation, as well as the resulting division and any other aspects of the single segment regime described here.

Mandatory

3.62 We consider that the **mandatory continuing obligations** would consist of requirements that focus on:

a. transparency
b. protecting shareholders where management's, or a significant shareholder's, interests may be different to that of ordinary shareholders

3.63 These two principles would combine to cover areas where we consider transparency to be important to support market integrity and investor decision-making, and where we consider robust accountability is necessary to mitigate potential harm to investors – for example dilution. The mandatory standards should ensure markets work well for both issuers and investors.

3.64 We consider that the mandatory requirements would include those parts of the listing regime that already allow for flexibility for issuers in that they are 'comply or explain' provisions, such as the corporate governance code, diversity and inclusion provisions as well as climate change reporting.

3.65 In considering which requirements should be mandatory, in some cases we have prioritised investor protection notwithstanding that a more flexible approach would be welcomed by issuers. This is particularly the case with the related party transactions regime. Currently, standard listed issuers of equity shares have to make disclosures regarding related parties under the DTRs and LR 14, whereas related party transactions conducted by premium listed companies are subject to a broader set of provisions requiring FCA approved circulars and shareholder votes.

3.66 In responses to CP21/21, while many respondents pointed out the value of the premium listing provisions on related party transactions, few respondents cited them as a barrier to listing or as an area that needed reform. This contributed to our initial view that the premium listing related party requirements should be included as a mandatory continuing obligation.

Supplementary

3.67 The supplementary continuing obligations would be those premium listing requirements that provide an enhanced role for shareholders to have a greater role in holding the company to account on an on-going basis.

3.68 These obligations should be areas where potential shareholders are in a position to decide, when they invest, as to whether they are willing to accept a lower standard of shareholder involvement. So, for example, an investor would know when investing in a company that was not opted into the supplementary continuing obligations that, even if there was no controlling shareholder at that point, should one emerge in the future, they would not gain the additional protections of the controlling shareholder regime. This decision would be of more or less relevance for different types of investors.

3.69 Beyond this, the supplementary continuing obligations should also be those where an issuer is able to explain why they are choosing not to apply the additional requirements in the context of their overall business strategy to inform the potential shareholder's decision as to whether to invest. This is relevant to the significant transactions regime. An acquisitive issuer would need to be able to explain clearly what the principles are that underpin its overarching acquisition strategy to the extent that investors agree that approval of each individual transaction is unnecessary and may hinder that strategy.

3.70 The table below outlines initial thinking of how the continuing obligations could be split between mandatory and supplementary.

3.71 Our intention would be for the division between the mandatory and supplementary requirements to be narrower than that which currently exists between standard and premium listing. That way issuers would have a genuine choice, based on their business structure and strategy as to whether they choose to apply the supplementary continuing obligations.

3.72 The mandatory continuing obligations would be set at such a level as to ensure that an appropriate baseline of transparency, investor protection and corporate governance is assured, but listing is still accessible to different types of issuers, with the supplementary continuing obligations being available for issuers where they feel they would add value for them and their shareholders.

Mandatory		
Control of Business (retaining the adjusted regime for mineral companies)	Related Party Transactions (issuers of equity shares in standard listing already have to comply with separate RPT requirements in DTR 7.3)	Constitutional Arrangements (one share one vote provisions in various parts of the rules)
Shareholder approval for Cancellation of Listing	Rights issues/Open offers (including 10% discount rule)	Externally managed companies
Employee Share schemes	Discounted options arrangements	Dealing in own securities and treasury shares
Pre-emption Rights		
Already apply to issuers of equity shares in standard listing		
DTRs	Reverse takeover provisions excluding shareholder vote	MAR
Comply or explain provisions (in some cases already apply to issuers of equity shares in standard listing)		
UK Corporate Governance Code	Climate-related financial disclosures	Diversity and Inclusion
Supplementary		
Controlling Shareholder Regime	Independent Business	Significant Transactions (including shareholder vote for reverse takeovers)- additional consideration being undertaken regarding class test thresholds.

Q7: **Does the suggested division between the mandatory and supplementary continuing obligations provide enough flexibility for issuers, alongside appropriate investor protection?**

Q8: **Should more be done to ensure there is a genuine choice for issuers to decide whether the supplementary continuing obligations are suited to their business model and strategy?**

Q9: What sort of labelling would be most helpful to ensure investors are aware of whether an issuer is opted into the supplementary continuing obligations? eg Annual reports, noted on the Official List, or made clear by the trading venue.

Significant Transactions

3.73 The significant transactions regime set out in LR 10 currently applies only to premium listed companies. Its purpose is to ensure that shareholders are notified of certain transactions entered into by the listed company and, in certain circumstances, have the opportunity to vote on larger proposed transactions.

3.74 Class 1 transactions are those that reach the level of 25% under any of the four class tests set out in the Listing Rules:

- gross assets test
- profits test
- consideration test
- gross capital test

3.75 Should a proposed transaction be classified as Class 1, the listed company must send an explanatory circular, approved by the FCA, to shareholders and obtain their prior consent in a general meeting for the transaction.

3.76 Concerns around these requirements have generally focussed on the time it takes for the content of the circular to be prepared, including a working capital statement, but also for a general meeting and shareholder vote to be undertaken. Feedback to CP21/21 suggested this may be putting premium listed companies that are subject to these requirements at a disadvantage to private companies as well as to listed companies that are not subject to the regime.

3.77 While issuers were not opposed to being held to account by shareholders, they cited concerns around the length of time required to notify shareholders about a general meeting – a requirement that is set out in the Companies Act 2006 for UK companies, rather than the Listing Rules. They also cited concerns around the time it took to undertake the due diligence required for the working capital statement that needs to be included in the FCA approved circular.

3.78 While there was support for the concept of the significant transactions regime, largely from investors, there is merit in considering whether the thresholds are set at the right level. The current thresholds were set when the listing regime was operated by the London Stock Exchange and, although we have brought about changes to how the class tests are conducted, we have not reflected on the appropriate level of the thresholds since then.

3.79 As noted in feedback to CP21/21, one trade association found that around 17% of the Class 1 transactions the trade association's members were involved in since September 2013 fell within the 25% to 34% class test range. They suggested raising this threshold to 33%. We are interested in the views of other stakeholders on the appropriate threshold for Class 1 transactions.

3.80 Please also refer to chapter four, to see the potential impact on the role and application of the sponsor regime within a single segment regime.

> **Q10: What factors should we take into account when considering the level of the threshold for Class 1 transactions within the significant transactions regime? What threshold would be appropriate?**

Index inclusion

3.81 Although the FCA regulates benchmark providers we do not set the criteria for indices. This is done by the providers often following consultation with their users. Therefore, while many respondents to CP21/21 noted the relationship between the premium listing segment and the FTSE UK series, this is not a matter that is directly within the FCA's control to amend or maintain.

3.82 However, when considering the development of a single segment regime for equity shares in commercial companies, we have taken into account how index providers may react to such changes and have conducted ongoing open dialogue with index providers regarding these issues.

3.83 We acknowledge that it may be that indices choose to include criteria that require adherence to both the mandatory and supplementary continuing obligations or potentially other criteria beyond the listing regime. These are decisions index providers will make in line with their own processes. However, we hope that this paper will allow stakeholders to more clearly understand the purpose behind certain features of the single segment regime described here and therefore whether some or all are likely to be appropriate for the relevant index.

Scope of the single segment

3.84 The single segment would primarily be for equity shares in commercial companies. We would therefore retain separate listing requirements for those companies that are currently listed in the standard listing segment with its current eligibility requirements for:

- secondary listings by overseas companies of equity shares in commercial companies
- Special Purpose Acquisition Companies (SPACs)
- shares which are not equity shares (eg preference shares)
- debt and debt like securities
- certificates representing securities (ie, depository receipts)
- securitised derivatives
- certain shares of premium listed closed ended investment funds (ie those currently permitted to be listed under LR 14).
- Open Ended Investment Companies (OEICs)
- miscellaneous securities – includes warrants and options and other similar securities)

3.85 While the single segment would be available for overseas issuers, including those with listings in other jurisdictions, we understand that it may be difficult for them to meet all of the requirements we are considering for the single segment, based on feedback to CP21/21. We would therefore seek to maintain flexibility for these issuers to have a secondary listing in the UK so UK investors can access these investment opportunities within the UK regulatory framework.

3.86 We will consider whether we need to develop criteria to ensure that overseas issuers have a primary listing elsewhere before they are admitted under these conditions.

3.87 We consider it unlikely that Special Purpose Acquisition Companies (SPACs) would be able to meet the requirements of the single segment regime as described. We do not consider that it would be in the interests of investors to calibrate the regime to include them due to the specific risks that are inherent to this type of issuer. We would instead consider allowing them to continue to list under the provisions currently applicable in the standard listing segment. However, SPACs would need to carefully consider any acquisition they made, as, following an acquisition, the combined company would likely need to meet the new eligibility criteria for the single segment regime to list its equity shares on the Official List.

3.88 Depository Receipts are similar to equity shares in commercial companies. We are therefore interested in views as to whether these securities should be eligible for listing in the single segment and whether there are any of the requirements described might prevent them doing so.

Q11: Do you consider the scope of the single segment to be appropriate? Should any additional instruments be eligible to list there? eg Depository Receipts (DRs)

Closed ended investment funds

3.89 In contrast to equity shares in commercial companies, in general, shares in closed ended investment funds can only be listed in the premium segment. The eligibility criteria and continuing obligations for closed ended investment funds in LR 15 are tailored to be appropriate to the specific characteristics of those funds. Issuers seeking an alternative way to access public markets are either admitted to the Specialist Fund Segment of the main market of the London Stock Exchange, or AIM. Both are unlisted markets.

3.90 We have not identified any specific or fundamental concerns with these options, and therefore our intention under the new regime described here would be to maintain the content of the provisions in LR 15 and the substance of the existing regime. While it is currently labelled 'premium' the requirements within LR 15 could be maintained without the use of this label.

3.91 In general, we consider that the drivers behind the need for change in the listing regime for equity shares in commercial companies are not applicable to equity shares in closed ended investment funds, as the reasons for listing and the considerations regarding choice of markets are different. However, we would be interested in views as to whether there may be any benefits in considering some elements of the reforms described. For example, whether the removal of requirements related to 'clean' working capital statements to be replaced with a prospectus disclosure regime would also be beneficial. We are also interested in any other views on desirable changes to the regime in LR 15.

Q12: Do you think the current regime for listing closed ended investment funds is fit for purpose?

Overview of how the single segment regime compares to the existing regime

3.92 We recognise that the changes to the listing regime described in this chapter would be a considerable change to the status quo.

Securities	Listing Rules
Equity Shares in commercial companies	New eligibility LRs New continuing obligation LRs
Equity shares in closed ended investment funds	LR 15
Sovereign controlled commercial companies (equity shares or DRs)	LR 21
Secondary listings, SPACs, certain preference shares, certain shares of closed ended investment companies (shares in commercial companies subject to transitional arrangements)	LR 14
Equity shares in OEICs	LR 16A
Debt and Debt-like securities	LR 17
Certificates representing securities	LR 18
Securitised derivatives	LR 19
Miscellaneous securities - includes warrants and options and other similar securities	LR 20

3.93 Removing the option of listing equity shares in commercial companies in the standard segment would represent an increase in the requirements for issuers that would previously have used this segment to access public markets. However, this option has not proven hugely attractive to issuers of equity shares in commercial companies, possibly due to lack of index inclusion, but also because investors have sometimes shown an unwillingness to support listings without the additional shareholder protections of the premium listing segment. This suggests that the perceived flexibility of the standard listing segment may be of more theoretical than practical value to either companies or investors, especially given the success of junior markets in attracting new admissions in recent years.

3.94 When comparing the single segment regime described here to the premium listing segment some may interpret it as a lessening in standards. However, moving to a disclosure-based regime for some eligibility requirements is not intended to reduce standards. Instead, it should be seen as a move away from a one-size-fits-all quality standard set by the regulator, which is inflexible to business model or where the business is in its lifecycle. It would be a move towards an approach that allows investors to consider each issuer based on its own specific characteristics and decide what measure and level of quality is important to them.

3.95 We recognise that providing more flexibility than currently available for companies listed in the premium segment to opt into the supplementary elements of the continuing obligations could also lead to a reduction in shareholder protections in comparison to the existing regime. However, if it makes listing more attractive to issuers that would previously have listed in the standard segment, or in other jurisdictions with lower standards, it would represent, overall, an increase in the requirements and shareholder protections that would apply.

3.96 Further, we consider that the structure of the investor base in the UK, with active engagement of institutional investors who take their stewardship responsibilities seriously, means that a regime that places an emphasis on investor engagement with issuers about whether a certain set of obligations is appropriate to them is possible and desirable.

3.97 When taken together as a package, we consider that the single segment regime described in this chapter has the potential:

- to ensure that the value of being listed is simpler to understand by removing complexity that is not serving a genuine and defined purpose
- to promote broad access to listing for a wider range of companies, while continuing to set clear, simple and robust minimum ongoing standards for listed companies, providing greater investment opportunities for investors on UK markets
- to empower investors to conduct their own decision-making over the suitability of listed issuers to meet their investment needs through clear, high-quality disclosures
- to allow issuers and investors flexibility to agree where additional shareholder engagement, overseen by the FCA, is appropriate

Branding of listing segments – 'A UK Listing'

3.98 When we restructured the listing regime into two segments in 2010 (DP08/1 , CP08/21, CP09/24, CP09/28 and PS10/2) it was to denote the more stringent super-equivalent requirements of the premium listed segment from those based on EU minimum standards in the standard segment. The main aim was to alleviate 'concern that market participants may, wrongly, attribute the higher quality status to Secondary Listing or Listed GDRs because they are all loosely referred to as a 'London Listing''.

3.99 Under the single segment regime described here, differences in the regulatory requirements would be based on the type of issuer and/or the type of instrument that is listed, which would determine which listing rules applied. In general terms, there would not be a two tier market as is currently the case.

3.100 As before, listing would be synonymous with the high standards of transparency, corporate governance and shareholder engagement that would be embodied in the single set of eligibility criteria and the mandatory continuing obligations. While one group of listed companies would be able to opt to enhance their listing in the form of the supplementary continuing obligations, and we would ensure this is clearly labelled, this would not be the step change that currently exists between the premium and the standard listing requirements.

3.101 Companies would simply be listed in the UK or denoted as having a 'UK Listing'.

Q13: Do you agree that 'UK listing' could be used to describe the possible regime described?

Transition to a single segment regime

3.102 If we were to proceed to consult on the regime discussed in this chapter, we would need to consider how to transition to the new regime. This would include consideration of existing premium listed companies as well as existing standard listed companies.

Existing standard listed issuers of equity shares in commercial companies

3.103 It would not be in the interests of shareholders to de-list those standard listed companies who were unable to meet the obligations within the new single segment, or those who chose not to change their business structure in order to do so. Initial analysis suggests there are just over 30 issuers of equity shares in commercial companies which would theoretically be eligible for the new single segment – in that they are not secondary listings, have a market capitalisation above £30 million and are not SPACs.

3.104 It is therefore likely that we would include transitional provisions that would allow these issuers to retain their listing in the standard listing segment. Alternatively, those standard listed issuers who wanted to move to the new segment, could undergo an eligibility assessment with the FCA and do so.

Existing premium listed companies

3.105 Moving all companies listed in the premium segment as a block to either the mandatory only or mandatory and supplementary continuing obligations is unlikely to be appropriate. To ensure the new regime encourages the genuine flexibility we intend, we would encourage shareholders and listed companies to have an open conversation about whether the supplementary continuing obligations are appropriate for each listed company.

3.106 One way of achieving this, would be to require a shareholder vote in each premium listed company, to determine whether the supplementary continuing obligations are appropriate for them. We could specify a period for listed companies to consider what they would prefer and then propose a resolution be put forwards at the listed company's AGM. We would be interested in any views on this approach.

Q14: Are there any other factors we should take into account when considering the treatment of existing standard listed issuers?

Q15: What transition arrangements should we put in place for premium listed companies in order to optimise the benefits of a single segment regime?

4 The sponsor regime – forward looking approach

4.1 Following the feedback received on this subject in response to CP21/21 (set out in chapter two), this chapter includes a summary of the role and purpose of the sponsor regime along with further questions for discussion. The questions are designed to explore if inefficiencies exist in the current regime and, if they do exist, if any changes could be made to the current rules and guidance in LR 8.

4.2 We also explore how the sponsor regime could apply within a single segment regime.

Overview of the role and purpose of the sponsor regime

Role and purpose

4.3 Sponsors currently have a dual-facing role, involving the provision of services to issuers in the premium listing segment (under a commercial arrangement) and regulatory obligations owed to the FCA. Sponsors:

- provide expert advice and guidance to help ensure premium listed issuers, and applicants, understand and comply with the regulatory framework
- provide the FCA with certain key confirmations and assurances, including that the issuer has procedures, systems and controls in place to enable it to comply with its listing obligations

4.4 The FCA's strategic objective is to ensure that relevant markets function well. The sponsor regime, which requires the appointment of a sponsor at key points during the life of a premium listed issuer, is a fundamental part of meeting that objective. It 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 to listing and on certain significant transactions or corporate actions thereafter (such as related party transactions or a reverse takeover), and for a wide range of issuers to obtain advice and guidance from appropriate experts. For example, prior to admission, a sponsor will assess and provide assurance to the FCA that an issuer has met all relevant listing and prospectus requirements and has established procedures to be able to comply with the listing obligations going forward.

4.5 The dual role of sponsors helps to facilitate access to listing for companies but also to maintain market standards and protect investors, which increases confidence and participation in the market by helping to reduce the risk of harm derived from misconduct. More specifically, the regime reduces risk of harm to investors by helping:

- to prevent companies unwilling or unable to meet our standards becoming publicly listed (including companies where the admission of their securities would be detrimental to investors' interests)
- issuers, and their directors, to understand their regulatory obligations and to put in place adequate resources, procedures, systems and controls to comply with their ongoing regulatory obligations

4.6 Without the sponsor regime, the FCA would need to consider alternative means of obtaining the necessary comfort that an applicant or listed company meets the Listing Rule 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.

4.7 While the FCA may be able to fulfil some of the sponsor's role, it would not be possible for the FCA to fully replace them. For example, a sponsor seeks to ensure that an application for listing is only submitted when a company is able to meet the required regulatory standards. This is an important part of the sponsor regime, as it reduces potential harms arising from companies that may struggle to meet our requirements at listing or thereafter. It would not be appropriate for the FCA to advise and support individual prospective applicants for listing in the same way as a sponsor does. A consequence of not having this important sponsor gateway function is that applications to list could be made prematurely or inappropriately and as a result FCA may need to spend considerable additional resource assessing and processing such applications.

4.8 In addition, there are efficiencies that are gained by the FCA dealing with a sponsor as part of the application process and in relation to transactions requiring a sponsor thereafter, as sponsors are experts in our rules and guidance. Sponsors have experience of dealing with the FCA and of our processes, and also develop a depth of knowledge gained from dealing with different issuers over time.

4.9 It is important to note that issuers themselves are responsible and accountable for compliance with our rules and MAR. Appointing a sponsor does not dilute that responsibility or accountability in any way. Sponsors are responsible and accountable for compliance with the rules applicable to sponsors (LR 8).

How the sponsor regime benefits issuers and their investors

4.10 Sponsors help to ensure that a company is supported and receives high-quality expert advice during the preparation and submission of an initial application for premium listing. Post admission to listing, a sponsor provides support and expert advice to the company for certain transactions or corporate actions outlined in our rules. The sponsor regime focuses on the need for a company to appoint a sponsor at those times where the risk of harm, especially to investors, may be heightened.

4.11 There are, of course, costs associated with appointing a sponsor at the time of listing, but the cost thereafter will be determined by an issuer's actions and the degree to which they undertake an action that requires the appointment of a sponsor under our rules. Some listed companies may never need to appoint a sponsor post listing, as they may never carry out one of the transactions or corporate actions that would require them to do so.

4.12 Alongside a sponsor an issuer will also need to appoint other advisers at key points throughout their life on public markets, such as financial advisers, accountants, and legal advisers. It may be the case that the due diligence undertaken by a sponsor is due diligence also carried out by an issuer's other advisers to support a specific action or transaction or to meet other non-FCA regulatory or legal obligations. This is not necessarily duplication, but a recognition that robust processes may serve more than one purpose.

4.13 The sponsor regime enables investors to be able to take comfort that a designated entity, which has been approved and is supervised by the FCA, is performing a role that has been designed specifically to help to ensure that the risk of harm to investors is minimised.

4.14 The support and high-quality advice provided by sponsors to issuers helps to safeguard market integrity and helps to protect investors. Feedback to CP21/21 indicates that this is a valued part of the listing regime, and that it is beneficial to both companies and investors.

Key duties of a sponsor

4.15 In forming its opinions of a company and to be able to provide the necessary assurances to the FCA, a sponsor needs to make due and careful enquiry that relevant requirements have been satisfied and that the directors of the issuer have put in place procedures which enable it to comply with relevant requirements on an ongoing basis.

4.16 This process will involve the sponsor working closely with an issuer and relevant individuals within it to ensure that the company and relevant individuals understand their regulatory obligations and to ensure the sponsor has sufficient information on which to base its opinions. We expect that a sponsor's engagement with a company will be a robust, thorough, and challenging process.

4.17 In carrying out its role a sponsor will also likely need to consult with and consider information from third parties (for example, where a specialist report is commissioned). Where this is the case, a sponsor needs to use its own knowledge, judgement and expertise to review and challenge the information provided by a third party.

Legislative underpinning

4.18 The sponsor regime is underpinned by legislation. Section 88 of the Financial Services and Markets Act 2000 gives the FCA the power to approve sponsors and to make rules to require issuers to appoint a sponsor to provide certain services. Given the specialist nature of the role, only an authorised firm or a member of a designated professional body can become a sponsor, and they need to apply to the FCA for approval to provide sponsor services.

4.19 Our rules applicable to sponsors are set out in LR 8, and the criteria for approval is set out in LR 8.6. To be approved as a sponsor, firms must be able to demonstrate they are competent to provide sponsor services and that they have appropriate systems and controls in place to do so. Sponsors that are also authorised firms will also be subject to various other FCA rules, including the Principles for Businesses.

FCA Supervision of sponsors

4.20 The Primary Market Specialist Supervision team (PMSS) at the FCA is responsible for maintaining the list of approved sponsors. The team approves new sponsor applicants and, where appropriate, takes action to remove a sponsor from the list (eg where the firm no longer complies with the approval criteria). PMSS uses a variety of supervisory tools to monitor whether a sponsor continues to satisfy the criteria for approval and remains in compliance with all applicable Listing Rules. The team makes programmed and reactive supervisory visits to sponsors, typically reviewing the sponsor's work on a recent sponsor transaction. The team provides feedback to sponsors following such reviews, which may include observations on the efficacy of a firm's systems and controls for the provision of sponsor services. Given the expert nature of the sponsor regime, the team places emphasis on sponsors continuing to comply with the approval criteria and maintains a relationship with all sponsors which is considered mutually beneficial.

Exploring scope for possible improvements

4.21 As explained in chapter two, sponsor record keeping requirements and sponsor remuneration were highlighted by some respondents to CP21/21 as areas the FCA could review to reduce burdens on issuers or to better align a sponsor's incentives with the long-term interests if an issuer. We discuss these two topics below and explore where it may be possible to make some improvements within the context of our package of potential reforms and the desired outcomes as set out in chapter one.

Record keeping

4.22 The record keeping obligations on sponsors are designed to ensure sponsors retain information in a way that demonstrates how they have met their regulatory obligations, including the basis for any opinions or assurances they provide as a sponsor. This is an important part of us being able to rely on the confirmations and assurances sponsors provide to us and allows us to effectively supervise them (both with performance on individual sponsor services and their compliance with their obligations under LR 8).

4.23 A sponsor's records, which must be retained for six years, must be capable of demonstrating the basis of any:

- declaration submitted to the FCA
- opinion, assurance or confirmation provided
- guidance given to a company
- the steps taken to comply with its obligations under the sponsor regime

4.24 Sponsors that are authorised firms will also be subject to record keeping requirements in SYSC 9 (Record-keeping).

4.25 Where sponsors fail to retain adequate records, this can impede our ability to assess matters such as whether the sponsor complies with the sponsor approval criteria, is identifying and adequately managing conflicts, or, for a specific transaction, undertook due and careful enquiry before providing assurance to the FCA. Poor record keeping can lead to an increased risk that non-compliance or poor performance by sponsors remains undetected, or that the listed companies that appoint them may not be meeting required standards. This could subsequently result in failures that cause harm to investors or damage to the reputation of the UK listing regime. A lack of adequate records could also prevent the FCA investigating suspected cases of serious misconduct.

4.26 We note suggestions in the feedback to CP21/21 for a lighter touch or principles-based sponsor regime. In the context of record keeping, a reduction in the requirements on sponsors could risk introducing inconsistencies in the standard of record keeping among sponsors and increase the risk of inadequate records and the problems outlined above. This could impact our ability to effectively supervise sponsors and to oversee the transactions or corporate actions of the listed companies that have appointed them. We are also conscious that some feedback asked for more guidance from us rather than less.

4.27 In 2017, we clarified our record keeping requirements in a Technical Note (entitled 'Sponsors: Record Keeping Requirements'). While we had seen significant improvements in the quality of most sponsors' records, at that time we explained that we had observed some areas of record keeping practices where further improvements were desirable. The purpose of the Technical Note was not to widen or increase the requirements, but rather to assist sponsors to understand the materiality threshold for matters that need to be recorded and the types of information that need to be recorded about material judgements.

4.28 We are conscious that complying with record keeping requirements can require a significant time commitment. We encourage sponsors to look for practical and efficient ways to meet the record keeping requirements. Some, but by no means all, sponsors have adopted relatively sophisticated control schedules which, can be an effective means of complying with our record keeping requirements. However, control schedules are not required by our systems and controls rules in LR 8.6.12R. We acknowledge that there is no 'one size fits all' and, when considering whether a sponsor meets the systems and controls requirement, we take into account various factors including the nature, scale and complexity of the firm's business as well as the size, volume and risk profile of the types of transactions it typically undertakes.

Q16: **Given the purpose of the record-keeping requirements, are there specific elements of the rules or the FCA's approach that you think could be more proportionate?**

Q17: **Do you think a reduction in record-keeping requirements could be achieved without undermining the benefits of the sponsor regime to the FCA, listed companies and investors? If yes, please explain how and why.**

Q18: **Is the record keeping guidance in our Technical Note (entitled 'Sponsors: Record Keeping Requirements') helpful or not in seeking to be clearer on the record keeping thresholds and the types of information that should be recorded about material judgements (noting that there will always be differences depending on the individual circumstances of a case)? If not, what would be helpful?**

Q19: **Is market practice aligned with the record keeping requirements or is market practice driving disproportionate record-keeping standards and costs? For example, by sponsors not adjusting their record keeping processes to reflect the circumstances of a specific transaction.**

Q20: **If you consider there is misalignment between the record keeping requirements and market practice, do you have any suggestions as to what changes could be made to meet the record-keeping requirements more efficiently?**

Conflict of interests and fee structures

4.29 As explained in chapter two, we received some feedback to CP21/21 which suggested conflict of interests could be addressed if there was better alignment of sponsors' fees with the long-term interests of an issuer. There was also a suggestion that sponsor firms providing multiple services to a company, should differentiate the sponsor and non-sponsor fees for transparency.

4.30 Sponsor conflicts is a subject we have sought views on in the past, and in 2017 we published a Technical Note (entitled 'Identifying and managing conflicts'). We recognise there is potential for conflicts and misaligned incentives to arise when a sponsor performs their function. For example, if a sponsor performs both sponsor and non-sponsor services on a transaction. A regulatory conflict can also arise if a sponsor prioritises its contractual duties to its clients over its regulatory obligations to the FCA. This risks a sponsor not delivering against its role and purpose to help maintain standards and protecting investors.

4.31 An investment bank, for example, that is also a sponsor may provide an issuer with a number of different services on a single transaction, including sponsor and non-sponsor services. The due diligence undertaken by the investment bank in this situation could be relevant to both the non-sponsor and sponsor services provided. If an issuer is required to appoint an independent sponsor, that firm would need to perform the same due diligence as the other advisers, leading to an increase in fees overall. Our approach recognises that there are synergies between the different roles played by investment banks on a transaction where a sponsor is required; the bank will perform substantially the same due diligence to support these different roles (for example, as underwriter and as sponsor). This is why our rules do not prevent sponsors playing multiple roles. Instead, they require sponsors to identify and manage conflicts of interest.

4.32 Given some of these complexities, it is important that the FCA knows not only who an issuer's sponsor contact is, but also that the line of responsibility and accountability within a sponsor, or sponsors, is clear.

4.33 Sponsors are required to take all reasonable steps to identify conflicts of interest that could adversely affect their ability to perform their functions under LR 8 properly (LR 8.3.7BR). In identifying conflicts of interest, sponsors should take into account circumstances that could:

- create a perception in the market that a sponsor may not be able to perform its functions properly
- compromise the ability of a sponsor to fulfil its obligations to the FCA in relation to the provision of a sponsor service.

4.34 Both of the above risk compromising the objective of the sponsor regime to help maintain market standards and protect investors.

4.35 Sponsors, when considering their potential conflicts, should consider whether the fees and commissions payable to them for the provision of sponsor and non-sponsor services could impact their ability to perform the sponsor function effectively or could be perceived to adversely affect their ability to perform the sponsor function effectively. This may happen, for example, where the sponsor fee is unusually high or structured in a way which is unusual for that sponsor for the type of sponsor service being provided.

4.36 We do not specify how sponsors charge issuers. This is generally a matter for issuers to discuss directly with their sponsor, as with any other commercial arrangement. However, we welcome views on whether more transparency or disclosure of how a sponsor's fees are derived would help to clarify the role of a sponsor or to avoid conflicts of interest that could adversely affect a sponsor's ability to perform its function.

Q21: **Would more transparency of how sponsor fees are calculated help issuers and investors to better understand sponsor services and the role of a sponsor?**

Q22: **Would it also help to be able to differentiate more clearly between the sponsor services and non-sponsor services that may be provided by the same provider? How might this clearer differentiation be achieved?**

Q23: **What more could be done to better align a sponsor's incentives with the long-term interests of an issuer, and the interests of their investors, to seek to maximise the benefits to be gained from the sponsor regime? Is there more information regarding the performance of a sponsor and of the performance of an issuer, at IPO and thereafter, that could be used to demonstrate this?**

The role of the sponsor regime within the wider reforms

4.37 Within the context of the wider reforms being discussed in chapter three, we consider the sponsor regime to be key to delivering our desired outcome of promoting broader access to listing for a wider range of companies, with different business models, in order to offer greater investment opportunities for investors on UK markets. It would provide a key role in helping to ensure that robust minimum standards are supported in a single segment regime. This will particularly be the case when an issuer first lists.

4.38 Therefore, based on the single segment regime described in chapter three, we are seeking views as to whether the role and purpose of the sponsor regime should generally remain the same as now but be expanded to all issuers of equity shares in commercial companies in the single segment. The companies listed within such a segment would then gain the benefit of the support provided by appropriately qualified experts at listing and for key transactions and corporate actions, and investors would have the additional protection that a sponsor provides.

4.39 A requirement to have a sponsor would help to clearly communicate the high standards expected of issuers in the segment to investors. Therefore, under this regime, issuers of equity shares in commercial companies that may have otherwise opted for standard listing currently, where the sponsor regime does not apply, would come under the scope of the sponsor regime for the purpose of initial listing. This would be a raising of standards for such issuers. While we acknowledge that this would increase costs, it would also provide the benefits of the sponsor regime to a wider population of issuers and investors. This will also increase the benefit to the FCA.

4.40 The extent to which a sponsor would be required after initial listing, as part of fulfilling the continuing obligations of issuers in the single segment, would depend on the chosen design of any new single segment regime for equity shares in commercial companies. For example, the division between mandatory and supplementary obligations, and the application of the sponsor regime within that.

4.41 The number of times that a sponsor would be required after initial listing could be reduced. For example, for the significant transactions regime:

- if the threshold for requiring shareholder approval for a significant transaction is increased, there would be fewer transactions requiring a sponsor
- if significant transaction obligations are not applied to all companies listed in the single segment regime but only those who opt into the supplementary continuing obligations, there may be fewer points during an issuer's lifecycle at which a company would need to appoint a sponsor

4.42 As a result, while the reforms discussed in chapter three would extend the sponsor regime to a wider range of issuers under a single segment regime, other changes may reduce the frequency of touchpoints that a sponsor and the FCA has with certain listed companies during their life cycle or mean that longer periods of time elapse between sponsor assurances being provided to the FCA.

4.43 We do not consider this would be a reduction in standards given that a sponsor would continue to play a role in ensuring that an issuer meets the required standards of eligibility for listing and would be required to provide assurance for related party transactions and, for some listed companies, significant transactions (wherever it may be deemed appropriate to set that threshold). As is the case currently, the sponsor regime would not be intended to provide general and ongoing assurance that a company is complying with our rules. However, we understand listed companies often, in practice, engage other advisers on an ongoing basis to advise on regulatory obligations.

4.44 We welcome views and suggestions on the role of the sponsor in a single segment regime.

Q24: **Are there any specific modifications to the role of the sponsor that you think would be needed, if the sponsor regime were applied to all issuers of equity shares in commercial companies under a single segment regime? For example, are there risks that may arise from longer periods of time between sponsor engagement with a company and the provision of assurances to the FCA and, if so, how might they be mitigated?**

Q25: **Are there circumstances where the role of a sponsor after initial listing could be reduced, without materially impacting the benefits gained from the sponsor regime? If so, please provide details and explain how investor protections would or would not be impacted.**

Q26: **Are there other circumstances in which the sponsor regime should be extended/applied more widely? For example, to any other issuers of securities currently listed in the standard listing segment**

Annex 1
List of non-confidential respondents to chapter three of CP21/21

Aquis Stock Exchange

BNY Mellon

British Private Equity and Venture Capital Association

City of London Law Society

Coca Cola Europacific Partners plc

Deloitte LLP

Ernst and Young LLP

Federation of European Securities Exchanges

GC100 Group

Herbert Smith Freehills LLP

International Capital Market Association

Jardine Matheson Ltd

McCarthy Denning

Personal Investment Management and Financial Advice Association

PricewaterhouseCoopers plc

Quoted Companies Alliance

Roliscon Ltd

Scale Up Institute

Schroder Investment Management Ltd

Several individual respondents

The 100 Group

The Association of Investment Companies

The Coalition for Digital Economy

The Institute of Chartered Accountants England and Wales

The Investment Association

The Investor Relations Society

UK Equity Markets Association

UK Finance & Association for Financial Markets in Europe

UK Individual Shareholders Society

Universities Superannuation Scheme Ltd

Annex 2
Questions in this paper

Chapter 3: The structure of the listing regime

Q1: **Do you think that a single segment regime would meet the outcomes we have described? Are there any changes or enhancements that could be included to enhance the effectiveness of a future regime?**

Q2: **Do you agree that revenue track record, historical financial information and the requirement for a 'clean' working capital statement can be replaced by disclosure in listing documentation such as prospectuses?**

Q3: **Under a disclosure-based regime, are there any elements of the listing regime that should be incorporated into future changes to the prospectus regime to ensure that investors receive appropriate information upon which to base their investment decisions?**

Q4: **Do you agree with extending the Premium Listing Principles to all issuers of equity shares in commercial companies under a single segment regime? Would any specific changes to the principles be necessary to do so?**

Q5: **Do you agree that we should consider allowing dual class share structures in the single segment? Do you agree that the only form of dual class share structure that should be permitted within a single segment regime should be the regime recently introduced in PS21/22?**

Q6: **Do you think the eligibility requirements for the single segment regime described will broaden access to listing to a wider range of companies?**

Q7: **Does the suggested division between the mandatory and supplementary continuing obligations provide enough flexibility for issuers, alongside appropriate investor protection? Please provide any evidence and examples where possible.**

Q8: **Should more be done to ensure there is a genuine choice for issuers to decide whether the supplementary continuing obligations are suited to their business model and strategy?**

Q9: **What sort of labelling would be most helpful to ensure investors are aware of whether an issuer is opted into the supplementary continuing obligations? eg Annual reports, noted on the Official List, or made clear by the trading venue.**

Q10: **What factors should we take into account when considering the level of the threshold for Class 1 transactions within the significant transactions regime? What threshold would be appropriate?**

Q11: **Do you consider the scope of the single segment to be appropriate? Should any additional instruments be eligible to list there? eg Depository Receipts (DRs)**

Q12: **Do you think the current regime for listing closed ended investment funds is fit for purpose?**

Q13: **Do you agree that 'UK listing' could be used to describe the possible regime described?**

Q14: **Are there any other factors we should take into account when considering the treatment of existing standard listed issuers?**

Q15: **What transition arrangements should we put in place for premium listed companies in order to optimise the benefits of a single segment regime?**

Chapter 4: The sponsor regime – forward looking approach

Q16: **Given the purpose of the record-keeping requirements, are there specific elements of the rules or the FCA's approach that you think could be more proportionate?**

Q17: **Do you think a reduction in record-keeping requirements could be achieved without undermining the benefits of the sponsor regime to the FCA, listed companies and investors? If yes, please explain how and why.**

Q18: **Is the record keeping guidance in our Technical Note (entitled 'Sponsors: Record Keeping Requirements') helpful or not in seeking to be clearer on the record keeping thresholds and the types of information that should be recorded about material judgements (noting that there will always be differences depending on the individual circumstances of a case)? If not, what would be helpful?**

Q19: **Is market practice aligned with the record keeping requirements or is market practice driving disproportionate record-keeping standards and costs? For example, by sponsors not adjusting their record keeping processes to reflect the circumstances of a specific transaction.**

Q20: **If you consider there is misalignment between the record keeping requirements and market practice, do you have any suggestions as to what changes could be made to meet the record-keeping requirements more efficiently?**

Q21: **Would more transparency of how sponsor fees are calculated help issuers and investors to better understand sponsor services and the role of a sponsor?**

Q22: **Would it also help to be able to differentiate more clearly between the sponsor services and non-sponsor services that may be provided by the same provider? How might this clearer differentiation be achieved?**

Q23: **What more could be done to better align a sponsor's incentives with the long-term interests of an issuer, and the interests of investors, to seek to maximise the benefits to be gained from the sponsor regime? Is there more information regarding the performance of a sponsor and of the performance of an issuer, at IPO and thereafter, that could be used to demonstrate this?**

Q24: **Are there any specific modifications to the role of the sponsor that you think would be needed, if the sponsor regime were applied to all issuers of equity shares in commercial companies under a single segment regime? For example, are there risks that may arise from longer periods of time between sponsor engagement with a company and the provision of assurances to the FCA and, if so, how might they be mitigated?**

Q25: **Are there circumstances where the role of a sponsor after initial listing could be reduced, without materially impacting the benefits gained from the sponsor regime? If so, please provide details and explain how investor protections would or would not be impacted.**

Q26: **Are there other circumstances in which the sponsor regime should be extended/applied more widely? For example, to any other issuers of securities currently listed in the standard listing segment**

Annex 3
Abbreviations used in this paper

Abbreviation	Description
AIM	Alternative Investment Market
CARD	Consolidated Admissions and Reporting Directive
CP	Consultation Paper
DCSS	Dual class share structures
DP	Discussion Paper
DR	Depository Receipt
DTRs	Disclosure Guidance and Transparency Rules sourcebook
ESG	Environmental, Social and Governance
FCA	Financial Conduct Authority
IPO	Initial Public Offering
LR	Listing Rule
MAR	Market Abuse Regulation
NOMAD	Nominated Advisor
OEIC	Open Ended Investment Company
PS	Policy Statement
TD	Transparency Directive
SPACs	Special Purpose Acquisition Companies

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