

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: UKLA Technical Note: UKLA/PN/907.2 Block listings

Lead regulator: FCA

Date of assessment: 7 February 2016

Commencement date: Guidance finalised November 2015

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? National

Brief outline of proposed new or amended regulatory activity

Companies listed on the Official List (and typically admitted to the London Stock Exchange's Main Market) are subject to a number of rules when joining the market, as well as continuing obligations governing conduct, disclosure rules on an ongoing basis and on an ad hoc basis when they issue further securities. The rules are set out in the FCA's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules. There are additional directly applicable requirements set out in European regulations, notably the Market Abuse Regulation (MAR).

The FCA's UK Listing Authority Department (UKLA) publishes Technical Notes and Procedural Notes, which are short guidance notes intended to provide additional clarity to listed companies and their advisers as to how the FCA interprets provisions in these rulebooks. The FCA typically issues these when it has received a number of questions on the same topic, or other market feedback. The guidance provided in these notes is new guidance, which was subject to public consultation and finalised in November 2015. The objective of this new guidance is to clarify our rules and help firms to have a better understanding about application of those rules.

A company that has its shares listed on the Official List and issues further shares must make an application to the FCA to have those further shares listed. Companies that frequently issue further shares, for example because they have an employee share scheme, can apply for a so-called block listing allowing them to only have to make an application periodically and not each and every time shares are issued. The purpose of the block listing is to reduce the administrative burden on frequent issuers.

The ability to request a block listing is only available to companies that are genuinely frequent issuers of shares.

We produced guidance to give companies clarity on when they may be regarded as a frequent issuer and how to make an application. The guidance was contained in Procedural Note PN 907.1.

The guidance, published in November 2015 in Primary Market Bulletin 12, amends the previous Procedural Note to make clear that a company may demonstrate to the FCA that it should be eligible for a block listing by providing evidence of a Net Asset Value (NAV) management programme if such a programme is the reason for the block listing application. This gives companies an additional mechanism by which to demonstrate eligibility for block listing; the options laid out in the previous Procedural Note remain available to companies. The additional guidance is only relevant to investment companies.

Which type of business will be affected? How many are estimated to be affected?

The change to the guidance is only relevant to closed-ended investment companies. In theory all companies with equity shares listed on the Official List (about 1700) can apply for a block listing, though the guidance will be of relevance to closed-ended investment companies (around 300). In practice only a subset of these [300] companies will apply for a block listing. In the calendar years 2015 and 2016, an estimated average of 36 closed-ended investment companies applied for a block listing.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2015	November 2015	10	-0.03	0	0

Please set out the impact to business clearly with a breakdown of costs and benefits

Note – for all cost estimates below we have assumed the guidance will be applied by experienced compliance staff at an estimated rate of £48/hour. The 2016 Robert Half salary guide estimates that a compliance manager in the risk and compliance function of a financial services company based in London earns between £70,000 and £104,000 per annum. Based on working 8 hours per day for 260 days each year our rate equates to £100,000 per annum and is therefore considered a suitably prudent figure for the purposes of our estimates.

Familiarisation cost

We expect that all companies with listed equity will need to briefly review the four page note, but on reading the brief guidance in the updated note, companies that are not closed-ended funds will immediately recognise that the guidance is not relevant to them. No further action will be required for approximately 1,400 companies, and as such the additional cost of this guidance is negligible.

The approximately 300 listed, closed-ended funds may wish to consider the guidance further, in particular those that do not yet have a block listing but wish to apply for one in order to understand all of the options available to them. This will be a smaller proportion of the estimated 300 companies in question. Although difficult to reliably quantify because the number of listed closed-ended funds that apply for a block listing in a given year is variable, in

the calendar years 2015 and 2016, an estimated average of 36 closed-ended investment companies applied for a block listing.

For the approximately 300 closed-ended investment companies who may find it helpful to familiarise themselves with the guidance, we would expect that the note would take less than two hours to read, digest, disseminate to relevant members of staff, and, if necessary, update the relevant procedure with the additional form of evidence available¹. The only change to the guidance is the addition of three sentences giving companies further latitude to demonstrate eligibility for block listing; it will be evident on first consideration whether or not this additional option is applicable. At the estimated rate of £48/ hour, the total estimated cost for all 300 closed-ended investment companies would be £28,800. If we consider the total cost for the estimated 36 closed-investment companies who might wish to apply for a block listing in a given year, that cost falls to £3,456.

Ongoing cost

We would expect the ongoing cost to be negligible because this change only increases a listed, closed-ended company's options to demonstrate eligibility for block listing. Once companies who seek a block listing are familiar with the range of options to apply, we would not expect any additional increase in the cost of making an application as a result of this change. There is no cost to companies who already have a block listing as the change does not impact them. Companies who seek a block listing benefit from an additional way to demonstrate eligibility for a block listing, although this benefit is difficult to quantify. The options made available in the previous guidance remain available, and so there is no opportunity cost to companies.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

The level of detail to which individual measures are scored is set to the nearest £100k. This means that where the total cost of measures is estimated at less than £50k they are scored as zero (both as EANDCB and BIT score) for reporting purposes.

¹ We arrived at the two hour estimate based on the following calculation. The four page technical note contains approximately 1200 words. The speed of reading technical text is 50-100 words per minute based on EFTEC (2013), "Evaluating the cost savings to business revised EA guidance - method paper" the time remaining to digest, disseminate the information and if necessary update the relevant procedures is based on our broader supervisory knowledge of how firms respond to our Technical Notes and also on supervisory conversations with firms about their procedures relating to this specific issue.