

DRAFT FOR CONSULTATION

September 2024 [Month Year] / Primary Market / TN / 714.56

Primary Market Technical Note

Sponsors: Guidance on the competence requirements set out under UKLR 24.4.12R(2)(b)

The information in this note is designed to help issuers and practitioners interpret our UK Listing Rules (UKLR), ~~Prospectus Regulation Rules~~ Prospectus Rules: Admissions to Trading on a Regulated Market (PRM), Disclosure Guidance and Transparency Rules (DTR), and related legislation. The guidance notes provide answers to the most common queries we receive and represent FCA guidance as defined in section 139A FSMA

Rules and guidance

UKLR 24.4.12R; UKLR 24.4.12R(2)(b)

Introduction

UKLR 24.4.12R sets out the competence criteria for firms wishing to apply to become a sponsor and for existing sponsors to ensure ongoing approval. UKLR 24.4.12R(2)(b) requires a sponsor to have a sufficient number of employees with the skills and knowledge necessary for it to understand:

1. The rules and guidance directly relevant to sponsor services
2. The procedural requirements and processes of the FCA

3. The due diligence process required in order to provide sponsor services in accordance with UKLR 24.2 and UKLR 24.3
4. The responsibilities and obligations of a sponsor in UKLR 24, and
5. Specialist industry sectors and/or certain types of company, if relevant to the sponsor services it provides or intends to provide.

We refer to these areas of knowledge as 'competency sets' in this note. To assist sponsors, we explain below the types of skills, and knowledge that we expect a sponsor to consider when assessing its ability as a firm to demonstrate an understanding of each competency set. We expect sponsors to take into account training received and experience obtained on sponsor and non-sponsor services including other corporate finance experience, both transactional and non-transactional, when seeking to demonstrate compliance with UKLR 24.4.12R(2)(b).

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

1) Rules and guidance directly relevant to sponsor services

We expect sponsors to demonstrate technical knowledge of the regulatory requirements applicable to the provision of sponsor services to any issuer to which the sponsor regime applies.

Accordingly, we expect sponsors to be able to demonstrate a knowledge of the UKLR Listing Rules, Prospectus Regulation Rules PRM and Disclosure Guidance and Transparency Rules DTR sourcebooks, as well as any guidance published on these, including FCA guidance in the FCA Knowledge Base. In particular, we expect sponsors to have a detailed understanding of aspects of these rulebooks that are pertinent to their role, such as: the Listing Principles, related party and significant transaction initial transaction and reverse takeover provisions, relevant disclosure requirements set out under Appendix 2 of the Prospectus Regulation Rules sourcebook the PRM Appendix 2 Disclosure Annexes, and the various

triggers for and exemptions from publishing a prospectus.

Where a sponsor acts for companies in specialist industry sectors and/or certain types of company, we would expect the sponsor to demonstrate knowledge of the listing and disclosure requirements relevant to companies of that type when considering eligibility and disclosure requirements. For example, a sponsor that expects to act for listed investment companies to which the sponsor regime applies, should be able to demonstrate that it understands how the rules apply in relation to investment policies, diversification and spread of risk. Where it is relevant to providing a sponsor service, we will also expect sponsors to have an understanding of the wider UK regulatory framework such as Part VI FSMA, in particular, considerations of investor detriment in light of section 75(5). In addition, we expect sponsors to be aware of market practice around the application of the relevant rulebooks and guidance set out above, as appropriate.

2) The procedural requirements and processes of the FCA

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

3) The due diligence process required in order to provide sponsor services in accordance with UKLR 24.2 and UKLR 24.3

We expect sponsors to understand not only the scope of due diligence required for sponsor services to be conducted in accordance with the Principles for Sponsors in UKLR 24.2 but also what is reasonably expected by the FCA of sponsors before submitting declarations or

confirmations to the FCA.

Sponsors are required to submit declarations to the FCA in the terms set out in UKLR 24.3: the ~~UK Listing Rules~~ UKLR require sponsors to come to a reasonable opinion on relevant matters having made due and careful enquiry. In providing these declarations, and other services, sponsors must comply with the Principles for Sponsors in UKLR 24.2, including acting with due care and skill, acting with honesty and integrity, ensuring directors understand their obligations, and identifying and managing potential or perceived conflicts.

We recognise that sponsors may appoint their own advisers and will receive comforts from their client and its advisers as part of carrying out due diligence into the issuer and the transaction or matter being considered. In light of this, we expect sponsors, when considering the declarations required under UKLR 24.3, to carry out due and careful enquiry by, inter alia:

- ensuring the scope of due diligence is sufficient to allow sponsors to meet their obligations under UKLR 24.2 and UKLR 24.3
- reviewing drafts of any reports intended to be relied on either directly or indirectly by the sponsor and challenging (where appropriate) any relevant findings
- considering whether the conclusions reached in any relevant third- party reports are consistent with the nature of the declarations being provided to the FCA in accordance with UKLR 24.3, and
- considering industry guidance issued by relevant bodies, such as the Financial Reporting Council (FRC), the Royal Institution of Chartered Surveyors (RICS), the Joint Ore Reserves Committee (JORC) (or equivalent) or the Society of Petroleum Engineers.

4) The responsibilities and obligations of a sponsor set out in UKLR 24

We expect that a sponsor will be aware of its obligations under UKLR

24 when providing sponsor services. In particular, sponsors should be aware of and consider how principles set out in UKLR 24.2 apply to the sponsor service being provided, particularly exercising due care and skill.

We also expect sponsors to have a good understanding of their firm's risk appetite in relation to the provision of sponsor services to any issuer or applicant to which the sponsor regime applies, as well as an understanding of what constitutes a sponsor service, and the application of UKLR 24 to the service.

5) Specialist industry sectors and/or certain types of company, if relevant to the sponsor services it provides or intends to provide

Where a sponsor intends to provide sponsor services to an issuer in a specialist industry sector such as the mineral or property sectors, or that is a specialist type of company, such as a fund, it is important that the sponsor is able to demonstrate a sufficient understanding of that sector or company type to be able to provide sponsor services effectively. Whilst it will not be necessary for a sponsor to be an expert in every possible sector or company type, a sponsor should have sufficient understanding of specialist industry sectors and company types to be able to interpret the application of the requirements of the ~~UKLR Listing Rules, Prospectus Regulation Rules~~ PRM and ~~Disclosure Guidance and Transparency Rules~~ DTR sourcebooks when it provides a sponsor service. Further, the sponsor should be able to understand when specialised due diligence may be appropriate to support the assurances it provides, and have sufficient understanding to assess the scope and output of that due diligence, including of any specialist third-party reporting.

This competency set seeks to ensure that sponsors are aware of how our rules and guidance apply to specialist industry sectors and company types, the particular challenges or risks that a sector may face, and the impact these may have on eligibility, document disclosure and/or continuing obligations of their client.

Specialist industry sectors will include but are not necessarily limited to:

- property

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- oil and gas minerals and mining, and
- financial services.

Specialist types of company will include but are not necessarily limited to:

- investment companies (for example, closed-ended investment funds)
- shell companies
- overseas companies