

## UKLA Procedural Note

### Block listings

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Ref: UKLA / PN / 907.12 Guidance Consultation

LR 3

#### **What is a block listing?**

A block listing is a facility that allows an issuer to admit to listing unallotted securities that are issued over an extended period of time. Block listed securities are admitted to the Official List when we release the 'Official List Notice'.

#### **Reasons for the block listing regime and our current approach**

Block listings were originally designed to reduce the administrative burden of routine, everyday admissions. Block listings enable us to process high frequency issues in an efficient and timely manner where we are satisfied that, due to the nature and circumstances of the issue, the regulatory risk is sufficiently contained.

Ordinarily, we operate on a presumption towards the usual application process (which represents most admissions), rather than block listings for all applications, as this enables us to properly scrutinise the individual circumstances of an issue.

Block listing is confined to limited circumstances so as to be compatible with our statutory duty under s.75(4) of FSMA to admit securities only where we are satisfied that relevant requirements have been met. Our rules relating to block listings are set out in LR 3.5.

In practice, the block listing regime is used predominantly for routine employee share schemes (which benefit from exemptions under the Prospectus Directive) and, less commonly, the exercise of warrants into equity securities and conversion of convertible securities (which are often accompanied by a document explaining the nature of the issuance) etc.

However, we recognise that there may be other circumstances in which the normal application process is unnecessarily onerous. We intend to balance our statutory obligations as the competent authority for listing, with the needs of issuers who have a reasonable and justifiable need to access the block listing regime.

#### **Practical issues regarding the block listing regime**

##### *How do issuers apply for a block listing?*

Issuers wishing to apply for a block listing should complete an Application for Admission of Securities to the Official List form and submit it, together with other supporting documents (as required under LR 3), 48 hours before the application is to be heard.

The application form can be found at: <http://www.fca.org.uk/firms/markets/ukla/information-for-issuers/official-list/listing-process>

### *When should you use a block listing?*

Although usually a normal application is required, LR 3.5.2G provides that an applicant may apply for a block listing where the normal admission process is likely to be 'very onerous due to the frequent or irregular nature of allotments'.

### *The 'very onerous' condition*

In practice, the 'very onerous' condition makes it unlikely that an issuer that is, for example, contemplating infrequent allotments, seeking flexibility for procedural convenience, seeking to limit fees or acting speculatively (e.g. anticipating future events/demand), would be able to meet this condition and therefore justify a block listing.

### *Transparency around block listing applications*

Block listing applications usually relate to the admission of securities that benefit from an exemption under the Prospectus Directive (PR 1.2.2R and PR 1.2.3R/s.85 and 86 of FSMA) or where listing particulars are not required.

With block listings we have much less visibility over the future allotments made under the issue. For this reason we require issuers to be entirely transparent about the precise nature and purpose of the block listing, for us to be able to assess the appropriateness of the case and to establish that the regulatory risk has been suitably contained.

### *How 'frequent' is frequent for the purposes of the Listing Rules?*

Frequency is an important element. However, it is not the defining characteristic about whether a block listing is warranted and the answer will vary depending on the circumstances of that particular application. Therefore, we do not set a specific hurdle regarding the frequency of allotments.

### *Investment companies*

The reasons for requesting block listings will vary depending on the type of issuer and the specific circumstances. In the case of investment companies, an example of where a block listing may be appropriate could be an investment company that is issuing shares to satisfy demand that cannot be met in the market.

We are aware that this situation may create a short position that could affect the share price, perhaps creating excessive premiums, which may prove detrimental to existing shareholders reinvesting, and to new investors trying to acquire shares. Of course in such situations, whilst there would potentially still be frequent allotments, there may be fewer allotments than in the case of employee share schemes.

We nevertheless recognise that the ability to use a block listing in situations such as these can be a useful legitimate tool for investment companies.

In this type of situation, issuers should include information to support their application, which we may consider when establishing whether the conditions under LR 3.5.2G have been met e.g.:

- evidence of a price premium
- ~~evidence of associated demand from third parties wishing to invest on a regular basis~~
- evidence of NAV management programme if such a programme is the reason for the application – investment companies wishing to use a block listing facility for NAV management purposes can demonstrate this by supplying us with some form of public statement that they will engage in NAV management. We consider that a suitable public statement would include a board resolution, an RNS announcement or a disclosure in a recently published prospectus
- where applicable, evidence of frequency of issues – evidence of where a meaningful time delay of having to make a one-off application would inhibit the ability to issue shares to investors etc, and
- any other relevant information that supports the issuer's application.

Issuers must of course bear in mind the market abuse regime when taking actions intended to influence market conditions.

### **What we expect of issuers and their advisers**

We do not intend to be prescriptive, nor can we provide absolute certainty around when a block listing may be appropriate.

The specific circumstances of each submission will vary from issuer to issuer and so it would be impractical to try to provide a one-size-fits-all approach. To do so could limit our discretion to consider other reasonable block listing applications.

Block listings are a concessionary route, so when issuers make representations to us it is important that they consider the practical issues set out above and in as much detail as possible:

- the circumstances around why a block listing would be appropriate
- the intended use of the block listing, and
- all the evidence necessary to support their application.

The decision about whether a block listing is appropriate will be based on the facts provided to us. We expect issuers and their advisers to be open and cooperative, to make only reasonable requests for block listings and to take due care and attention when producing an application.

### **Examples of instances where a block listing application might be refused**

Although we consider all block listing requests on a case-by-case basis, some examples of when a block listing application may typically be refused include:

- requests that fail to satisfy the conditions set out in LR 3.5.2G (i.e. onerous, frequent, irregular)
- requests that are solely for convenience

- requests that anticipate demand in the market rather than to meet actual demand
- for issuances that are likely to have very few allotments (e.g. Scrips, DRIPs etc.)
- solely to avoid certain fees, and
- to carry out a placing.

If you have any questions about this procedural note or block listings generally, please contact the UKLA Department on 020 7066 8352.