

NEW LISTING RULES FOR LONDON

KEY POINTS

- The FCA has today published the new UK Listing Rules, effective on 29 July 2024, which simplify the UK's listings regime, streamline eligibility requirements for listing and reduce shareholder approval requirements for existing listed companies.
- The new rules should facilitate founders and investors in achieving an IPO and UK listed companies in entering significant transactions and competing in M&A processes.

FINAL REFORMS

- While the new rules largely reflect the draft rules published by the FCA in December 2023 (our summary of which is available [here](#)), there are some new welcome reforms:
 - **Dual class share structures** continue to be permitted and **shares with enhanced voting rights may now be held by pre-IPO institutional investors** (in addition to individual founders / managers), subject to a 10-year sunset requirement – allowing VC / early stage investors to continue to participate post-IPO with weighted voting rights in respect of material matters.
 - **Less disclosure** is required in the announcement of a 'significant transaction' that a listed company is required to release at the time of signing, with further financial and non-financial information to be disclosed once ready, provided it's in advance of completion.
 - Controlling shareholders are **no longer required to enter into a relationship agreement** with listed companies in which they hold controlling stakes. However, the requirement for listed companies to be independent from any controlling shareholder is retained.

EXIT BY WAY OF IPO

These reforms should make it easier for sponsors to exit portfolio companies by way of an IPO.

- **Financial information eligibility.** Many of the extensive financial information requirements for listing have been removed – companies will no longer need to provide three-years of historical financial information, demonstrate a three-year revenue track record or provide a "clean" working capital statement to be eligible for a listing. While disclosures will still be required in the prospectus, these changes remove a key challenge for portfolio companies that have engaged in buy and build strategies, as well as for early-stage / growth companies.
- **Broader capital structures.** Listed companies and their shareholders can look at a broader range of capital structures post-IPO, including dual class share structures with enhanced voting rights for individuals and institutional investors. As a result, founders and/or institutional investors may consider raising capital for their businesses on the public market, whilst retaining operational and control over the business post-listing.
- **Independent business.** Listed companies no longer need to demonstrate that they operate an independent business or have operational control over the business – meaning that companies with franchise business models and those that rely on minority stakes or joint venture partnerships for significant revenue streams (including mineral, oil or other assets) – are now eligible for listing.

TRANSACTION OPPORTUNITIES WITH LISTED COMPANIES

The new rules may encourage listed companies to participate in significant M&A and competitive processes:

- **No shareholder approval for significant transactions (>25%):** Boards of UK listed companies will have the flexibility to determine whether to pursue strategic M&A or enter into material partnerships without a shareholder vote – only the 'significant transaction' announcements at signing and before/at closing will be required. This should de-risk carve-out transactions from UK plcs for sponsors and should mean that transaction agreements with listed companies will no longer be conditional on obtaining listed company shareholder approval or an FCA approved 'class 1' circular, which has limited deal certainty in processes involving listed companies.
- **Complementary arrangements/related parties:** The requirement for independent shareholder approval is no longer required for larger related party transactions ("RPTs") – listed companies can now execute RPT's with independent director approval and a third-party fair and reasonable opinion. This feature will facilitate complementary arrangements and transactions between listed companies and sponsor portfolio companies in which the sponsors holds respective stakes.
- **Break fees:** Listed companies will now be permitted to agree to substantial break fees when negotiating private transactions (previously limited to 1% of market cap).
- **Demergers, spin-offs and restructurings:** The ability for boards to pursue demergers or spin-offs of material assets without shareholder approval provides counterparties with more deal certainty. It will also give listed companies the ability to implement material divestments or restructurings on short notice or in circumstances where liquidity is needed on an accelerated basis.
- **Partial carve-outs / joint ventures:** These transactions should become more appealing both for sponsors and listed companies given that shareholder approval will no longer be required for the uncapped put option or drag right that a sponsor typically requires in the shareholders' agreement for the joint venture / when acquiring a minority equity interest in a listed company's subsidiary.