Hill review recommends major reform to UK listing rules

AT A GLANCE

March 2021

What's new?

- Lord Hill made a series of recommendations for reforms to the UK listing rules, in the UK Listing Review on 3 March 2021.
- Lord Hill, the UK's former European Commissioner for Financial Services, was commissioned to lead the review by HM Treasury (HMT) in November 2020.
- The recommendations aim to improve the global competitiveness of the UK and encourage investment in UK businesses, and will now be considered by HMT for consultation. Chancellor Rishi Sunak said he is 'keen to move quickly' on the recommendations, while the FCA said it will consult on changes to the listing rules this summer and make rules by late 2021.

What does this mean?

The review's recommendations include:

- Reducing free float requirements – the amount of a company's shares that are in public hands - from 25% to 15% and allowing companies to use other measures to demonstrate liquidity.
- Modernising listing rules to allow dual class share structures in the London Stock Exchange's (LSE) premium listing segment, giving directors (in particular, founders) enhanced voting rights on certain decisions, with safeguards to maintain high corporate governance standards. Both this proposed change and amendments to the free float requirements are designed to encourage high growth companies to list.
- Rebranding and repositioning the LSE's standard listing segment to increase its appeal to companies of all sizes and types.
- An annual report on the state of the City, and its competitive position, delivered to Parliament by the Chancellor.
- Considering how technology and other means can be used to increase retail investors' involvement in capital raising.
- A fundamental review of the Prospectus Regime so that in future, admission to a regulated market and offers to the public are treated separately - to ensure it reflects the breadth and maturity of UK capital markets and the evolution in the types of business coming to market.
- Liberalising the rules which can require the suspension of trading in special purpose acquisition companies (SPACs), with safeguards for investors.
- Updating (as part of HMT's Future Regulatory Framework review) the FCA's statutory objectives to include a duty to consider the UK's attractiveness as a place to do business.

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How will this impact firms?

- The publication of the Hill review, taken with the Kalifa Review of UK FinTech published on 26 February 2021, shows the intention from HMT and the regulators to create a regulatory framework which encourages growth in a post-Brexit environment.
- The proposal that the FCA should be given a duty to consider the attractiveness of the UK as a place to do business could lead to further changes in regulatory approach in the UK. However, so far HMT has not proposed changing the regulators' objectives to take into account competitiveness and the regulators have been opposed to such a step.
- The different measures will need to be consulted on, and implemented by different bodies on varying timescales. As such, it's important the financial services sector engages with these detailed consultations to ensure the intent of the Hill review is delivered in practice. It's also important to note that the proposals will be implemented gradually from the end of this year onwards, so there will not be an immediate impact.
- The review calls for fundamental reform of the content of prospectuses and when they are required, moving away from EU prospectus rules to more 'slimmed down' requirements. If accepted this recommendation would represent the first significant divergence between UK and EU regulation.

Next steps

The Government will consider the recommendations and set out next steps. Many of the recommendations, including changes to the listing rules, will require consultation by the FCA. In a statement, the FCA said it plans to consult on changes to the listing rules this summer, and make relevant rules by late 2021. Other recommendations, such as those relating to the Prospectus Regime, will require primary legislation and will therefore take longer to implement.

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