GlobalCapital

Fear of decline spurs 'significant evolution' of UK listing rules

Aidan Gregory May 04, 2023 08:02 PM

The FCA's idea to create one simplified listing category and make a more freewheeling UK stock market is seen as necessary to arrest its relative demise

The Financial Conduct Authority (FCA) opened a fresh consultation this week on UK listing rules that promises a shake-up of how the country's stock market operates, amid a growing feeling that it is falling behind its close competitors such as New York and continental European bourses.

The new consultation includes a radical proposal to abolish the premium and standard listing segments in favour of a single simplified listing category for commercial companies.

The UK financial regulator is also proposing a more permissive attitude to dual class shareholder structures, which allow company founders to maintain greater control, and to relax the rules on shareholder votes on major M&A deals and related-party transactions.

The fresh reforms come after the review in 2021 by former MEP Jonathan Hill, which led to the freefloat requirements on the London Stock Exchange being lowered and dual class shares being permitted on the main market for the first time. It has also been launched alongside a separate review into secondary capital raising and an examination of ways to convince UK pension funds to allocate more money to domestic stocks.

The FCA has gone even further than many expected, which has been welcomed by market participants amid growing anxiety about the UK equity market becoming a backwater and London's declining competitiveness as a financial centre since Brexit.

"The FCA has gone about as far as they possibly could have gone in terms of the package of reforms," said Michael Jacobs, a partner at Herbert Smith Freehills in London. "When you take into account the broader reforms that are happening in terms of listed companies being able to raise more money in the equity markets without a prospectus, taken together it represents a significant evolution of the UK listing regime."

The reforms raise corporate governance hazards, but a more freewheeling listing regime would bring London closer to New York, the world's premier stock market, and it is hoped would make it easier for those companies that are already listed in London to conduct business.

"Things like [not having to hold] shareholder votes for significant M&A transactions will make UK companies more competitive, particularly when they are up against private equity buyers and US companies for example," said Jacobs. "The shareholder vote on related-party transactions has also long been a bugbear of certain issuers and it will be welcomed by some companies, predominantly by those that are already listed."

The problems surrounding approvals on related-party transactions are believed to be a key reason why Arm chose New York over London to relist, alongside the fact that valuations in the US for technology companies tend to be much higher.

"There will hopefully be a reallocation towards the UK, but there is a broader question about changing UK buy-side behaviour which the government needs to address separately," said Jacobs. "New York is arguably a more liquid market and valuation perceptions are higher, but it really depends on the kind of company you are listing.

"The UK market will benefit a lot from these reforms, but it will not fully arrest the pull of New York."

Given the size and scale of the US market, London will always find it difficult to compete with. But the growing anxiety about decline is justified.

Just $1.5bn was raised via London IPOs last year amid a global downturn in new stock market listings, making 2022 the slowest year in the UK since 1992, according to Dealogic data.

London's IPO market has also suffered from the fact that foreign equity markets, particularly those in the Middle East, have become increasingly sophisticated, removing the need for companies there to list on a foreign exchange. Russia was also a major source of London IPOs before it invaded Ukraine last year and was put under sanctions.

As well as a drought of new IPOs, dozens of London-listed companies, including Flutter Entertainment and CRH, are considering delisting in favour of moving to another exchange in the US or Europe, and numerous others such as Dechra Pharmaceuticals are facing private equity takeover bids, as UK stocks have remained cheap relative to their peers ever since the UK voted to leave the EU in 2016.

"Delisting is a responsible conversation for boards to have and for some businesses it makes sense to have a look at the US," said a senior ECM banker in London. "For most issuers in the UK it is not as ultimately beneficial as it will be for a certain few."

A hollowing out of the UK equity market is not in the national interest and there is a widespread consensus within equity capital markets that change is needed.

"Doing a consultation process is the right way to find out what matters to participants in the market," said the senior ECM banker in London. "[The FCA] are doing the right thing in terms of thinking about and proposing an alternative and opening up a dialogue."

While the listing review has been welcomed as a sign that UK regulators are proactive and open to dialogue about ways to transform the fortunes of the London stock market, the UK still faces numerous structural challenges that will not be fixed by simply tinkering around with the listing rules.

The UK has faced political upheaval because of Brexit and had three prime ministers within the space of a few months last year, as well as stubbornly high inflation and a bleak economic outlook, being forecast to have the weakest economic growth in the G7 this year by the IMF.

"People chose a London listing because the UK is their primary market," said Steven Haywood, counsel, investment funds at McDermott Will & Emery. "A company coming from another jurisdiction does not necessarily have such a good reason to list in London.

"If we just tweak things slightly, we will not achieve anything," added Haywood. "There needs to be a broader emphasis on why people would want to be in the UK to begin with. If you look at the environment generally you have windfall taxes on oil majors, corporation tax which has just been increased to a level that is high versus peers, and general political uncertainty over the next couple of years, why would you choose to list in the UK?"

TAGS EQUITY IPOS | EQUITY PEOPLE AND MARKETS | UK | MARKET NEWS | COVER STORY | GOVERNANCE

AG

Aidan Gregory