

Outline of the Amendment to the Listing System in the United Kingdom by the Introduction of the New UK Listing Rules (UKLR)

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I Outline of the Amendment to the Listing System in the United Kingdom

On July 29, 2024, the new UK Listing Rules ("UKLR") came into effect, replacing the previous Listing Rules ("LR") and resulting in a major amendment to the UK listing system ("Amendment"). The main purpose of the Amendment is to increase the growth and competitiveness of the UK market by simplifying the UK listing system, reducing the burden of corporate regulatory compliance, and making the system attractive to and easy to use by a wide range of companies. The most significant change brought about by UKLR is that the main market of the London Stock Exchange ("LSE"), which formerly was divided into the premium market and the standard market, is no longer divided and has been replaced by a single new segment called equity shares (commercial companies) ("ESCC"). After introduction of UKLR, the LSE consists of (i) the ESCC (the main market) and (ii) the Alternative Investment Market ("AIM"), which is a market for growing small and medium-sized companies.

This newsletter reviews the primary changes to the main market due to introduction of the New UK Listing Rules (UKLR) (Section II), the main differences between the main market and AIM (Section III), and some points to be considered by Japanese companies (Section IV).

II Major Changes in the Main Market Due to Introduction of the New UK Listing Rules (UKLR)

Introduction of UKLR significantly changed the listing system for the LSE's main market. The following tables summarize the changes in the main items by comparing the prior to the Amendment (under LR) and after the Amendment (under UKLR).

UKLR amended LR to simplify listing regulations in the UK's main market, in order to reduce the burden of corporate regulatory compliance and to make it easier for companies to become listed and operate in the UK thereafter. In summary, UKLR eliminates the need for companies to publish historical financial information for the last three years, eliminates the need to secure sufficient working capital for the first 12 months after listing, simplifies regulatory requirements for Significant Transactions (previously classified as Class 1 Transactions and Class 2 Transactions) and increases structural flexibility for the Specified weighted voting rights shares. These regulatory changes are expected to have particular benefits for growing companies and founder-led companies.

Prior to the Amendment (under LR)	After the Amendment (under UKLR)
Classification of Official List	
Two segments: Premium Listing and Standard Listing. (LR 1.5)	Replaced by a single new segment called equity shares in commercial companies (ESCC) . (UKLR 1.1.1R)
Listing Principle	

Premium Listing Principles and Listing Principles (LR 7.2)	Replaced by a single listing principle called the Listing Principles . (UKLR 2.2)
Historical Financial Information	
Historical financial information for the last three years was required to be published. (LR 6.2)	Publication of historical financial information is no longer required.
Working Capital	
Required to have sufficient working capital for at least the next 12 months from the date of publication of the prospectus or listing particulars for the shares that are being admitted. (LR 6.7)	It is no longer necessary to secure the working capital mentioned in the left column.
Free Float (Minimum Percentage of Publicly Traded Shares)	
Under LR 6.14.1R and 6.14.2R, it was required to distribute at least 10% of the shares of a listed company to the public as Free Float.	No change (UKLR 5.5.1R and 5.5.2R)
Minimum Market Capitalization	
£30 million (LR 2.2.7R)	No change (UKLR 3.2.7)
Controlling Shareholders	
When a listed company had a controlling shareholder (a shareholder that exercises or controls, on its own or together with any person with whom it acts in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company), the listed company and the controlling shareholder were required to have a written and legally binding agreement in place prior to listing, to ensure that the controlling shareholder would comply with the independence standards set forth in the Listing Rules. (LR 6.5.4)	Even when a listed company has a controlling shareholder, it is no longer required to have a written and legally binding agreement between the listed company and the controlling shareholder in place. (UKLR 5.3)
Class 1 Transaction	
Class 1 Transactions were transactions by premium-listed companies in which the percentage ratio of either class test was 25% or more. ¹ (LR 10.2.2R and 10 Annex 1) For Class 1 Transactions, in accordance with LR 10.5 and 13.2, in addition to the notification to the Regulatory Information Service ("RIS") (giving RIS notice of the detailed terms of the transaction without delay after an agreement was reached), it was necessary to send an explanatory circular approved by the FCA to the shareholders and obtain prior approval of transactions at a general meeting.	The transactions formerly classified as Class 1 Transactions in LR are re-classified as "Significant Transactions" in UKLR, and unless the transaction qualifies as a Reverse Takeover (as described below), it no longer is required to send an explanatory circular approved by the FCA to the shareholders or to obtain prior approval of the transactions at a general meeting (as described in the left column). ² (UKLR 7.3) However, based on UKLR 7.3.1, the notification to RIS mentioned in the left column is still required. In addition, UKLR 7.3.4 and other provisions have strengthened the requirements for notice to the market, to provide key information including financial information. ³
Class 2 Transaction	
Class 2 Transactions were transactions by premium-listed companies in which the percentage	The concept of Class 2 Transactions has been eliminated, and a transaction that falls below the

¹ Under LR 10 Annex 1, four class tests were provided as tests for classifying transactions outside the normal course of business by premium-listed companies. Each class test calculates the ratio of transaction size to company size, and there were four tests: (i) the gross assets test, (ii) the profits test, (iii) the consideration test, and (iv) the gross capital test. The outcome of the class test was used to classify a transaction as a Class 1 Transaction, Class 2 Transaction, Related Party Transaction or Reverse Takeover in accordance with LR 10, 11, or 5.6.

² **Under UKLR, the concept of class test has been retained, but "the profits test" has been excluded from class test.**

³ However, they are not required to submit working capital statement or historical financial information.

<p>ratio of either class test was 5% or more but less than 25% (LR 10.2.2R and 10 Annex 1). In accordance with LR 10.4.1, it was necessary to provide notification to RIS of Class 2 Transactions (to give RIS notice of the detailed terms of the transaction without delay after an agreement was reached).</p>	<p>threshold to qualify as a Class 1 Transaction no longer requires notification to RIS.⁴</p>
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Related Party Transactions	
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<p>Related Party Transactions were transactions between a listed company and a related party (any person who is entitled to exercise, or to control the exercise of, 10% or more of the votes able to be cast on all or substantially all matters at general meetings of a company). (LR 11.1 and 11.1.4A) In accordance with LR 11 and 13, when a premium-listed company engaged in transactions with a related party, the company was required to (i) notify RIS of the detailed terms of the transaction, (ii) send an explanatory circular approved by FCA to the shareholders, (iii) obtain prior approval of the transactions at a general meeting, and (iv) take reasonable measures so that the related party would not exercise its voting rights on a proposal related to the Related Party Transaction at a general meeting.</p>	<p>A “related party” is defined as person who is entitled to exercise, or to control the exercise of, 20% or more of the votes able to be cast on all or substantially all matters at general meetings of the company. (UKLR 8.1.12R) Under UKLR, it no longer is required to send an explanatory circular approved by FCA to the shareholders (see (ii) in the left column) or to obtain prior approval of the transactions at a general meeting (see (iii) and (iv) in the left column). In accordance with UKLR 8.2.1R and 8.2.2R, the requirements for related party transactions with a percentage ratio of class test of 5% or more are as follows.</p> <ul style="list-style-type: none"> • A listed company must obtain the prior approval of the board. • Prior to executing an agreement, the listed company must obtain written confirmation from a sponsor that the terms of the transaction are fair and reasonable. • As soon as possible after the terms of transaction are agreed upon, the listed company must notify RIS of the detailed terms of the transaction. The notification must include a statement by the board that the transaction is fair and reasonable, and that the directors have been advised as such by a sponsor.
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Reverse Takeovers	
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<p>As defined in LR 5.6.4, a Reverse Takeover was a transaction consisting of an acquisition of a business, a company, or assets: (a) where the percentage ratio of class test is 100% or more, or (b) which in substance results in a fundamental change to the business or a change to the board or voting control of the issuer. In accordance with LR 5.6, listed companies were required to take the following actions in cases involving Reverse Takeovers:</p> <ul style="list-style-type: none"> • Selection of a sponsor (LR 5.6.6R and 5.6.17R) • Notification to RIS (giving RIS notice of the detailed terms of the transaction without delay after an agreement was reached) (LR 5.6.3R, 10.5.1R(1) and 10.4.1R) 	<p>No change (UKLR 7.5)</p>
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⁴ However, there are situations in which a public announcement of transactions is required in accordance with the disclosure requirements of listed companies under the UK Market Abuse Regulation.

<ul style="list-style-type: none"> • Send an explanatory circular approved by FCA to the shareholders and obtain prior approval of the transaction at a general meeting (LR 5.6.3R and 10.5.1R (2)). • Cancel the listing of a listed company (excluding cases to which exemptions applied, for example, where the target was listed in the same category) (LR 5.6.19G and 5.6.20G) • Re-apply for listing after the listing was cancelled (if applicable) (LR 5.6.21R) 	
Sponsor	
<p>A Sponsor is an institution, such as an investment bank, that has been authorized by the FCA to act as an advisor to a listed company when a listed company applies for listing on a premium market or upon the occurrence of certain subsequent events (LR 8.2 and 8.3).</p> <p>Under LR, a Sponsor was required at the time of an IPO. In addition, the services of a Sponsor after an IPO were comprehensive, including advising on the impact of significant transactions. (LR 8.3 and 8.4)</p>	<p>Under UKLR, a Sponsor is still required at the time of an IPO, and the role of a Sponsor has not changed significantly. (UKLR 24.2)</p> <p>However, under UKLR, the role of a Sponsor after an IPO has been limited, and a Sponsor is required only in the following cases: (UKLR 24.2 and 24.3)</p> <ul style="list-style-type: none"> • Requesting the FCA to modify, waive, or substitute a rule related to the Significant Transactions regime, or if a company wishes to request individual FCA guidance. • Reverse Takeovers • In the event an opinion is sought to the effect that the transaction terms of Related Party Transactions that exceed 5% of the percentage ratio of class test are fair and reasonable. • In the event of a further issuance of shares that requires issuance of a prospectus.
Specified weighted voting rights shares	
<p>Under LR 9.2.22, Specified weighted voting rights shares were permitted only if:</p> <ul style="list-style-type: none"> • The maximum weighted voting ratio of Specified weighted voting rights shares to ordinary shares was 20:1. • Specified weighted voting rights shares were held only by directors. • Specified weighted voting rights shares were permitted to exercise voting rights only in the following situations: (i) removal the holder of the shares from the board of directors; and (ii) changes of control (acquisition, etc.). • "Sunset" provision: Specified weighted voting rights shares could be exercised only for five years from the date of listing. 	<p>Under UKLR 5.4.5, a more permissive approach has been adopted with respect to Specified weighted voting rights shares, as follows:</p> <ul style="list-style-type: none"> • Elimination of the maximum limit on the voting ratio of Specified weighted voting rights. • Specified weighted voting rights shares may only be issued to (a) a director, (b) an investor or shareholder, (c) an employee, or (d) a person established for the sole benefit of, or solely owned and controlled by, a person specified in (a), (b) or (c), or (e) where the applicant is a sovereign controlled commercial company, a sovereign controlling shareholder. • "Sunset" provision: Specified weighted voting rights shares held by investors or shareholders who are not natural persons may be exercised only for a period of 10 years from the date of listing. • Increased opportunities for Specified weighted voting rights shares to be exercised in many matters, except for (i) approval of employee share schemes, long-term incentive plans, and discounted option

	agreements, (ii) issuance of new shares at a discount of more than 10%, (iii) approval of certain share buybacks, and (iv) cancellation a listing or transfer to a different listing segment.
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III Primary Differences Between the Main Market and AIM

As mentioned above, after the introduction of the new UK Listing Rules (UKLR), the LSE consists of the ESCC (the main market) and AIM. AIM is the LSE's global market for growing small or medium-sized companies. After the introduction of UKLR, UKLR applies to the main market, and the AIM Rules continue to apply to AIM. Historically, listing on the main market has been thought to be more prestigious and reputable than listing on AIM, and also had the advantage of being able to approach a broad base of potential investors, although it had the disadvantage of strict post-listing requirements. On the other hand, while listing on AIM had the disadvantage of reducing access to the investor base, compared with listing on the main market, it had the advantage of a relatively short timeline for listing and more flexible listing and post-listing requirements. With the introduction of UKLR, listing regulations in the main market have become simpler and the burden of corporate regulatory compliance has been reduced, so it is expected that a wider range of companies will decide to make use of the main market in the future.

IV Considerations for Japanese Companies

It is likely that the number of international companies that consider Initial Public Offerings (IPOs) or direct listings in the UK will increase, due to simplification of the listing system in the LSE's main market and the fact that the market has become more investor-friendly due to introduction of UKLR. We believe it is useful and important for Japanese companies to pay attention to these international trends. In addition, it should be noted that Japanese companies will need to check the new rules introduced by UKLR when considering cross-border M&As involving UK-listed companies.

Finally, it is necessary to perform proper and appropriate research on and consideration of relevant issues, on a case-by-case basis, when considering the details of IPOs or direct listing in the UK's main market or on AIM. Thus, it is advisable to consult with lawyers who specialize in and are familiar with the most recent laws and practices.

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