SLAUGHTER AND MAY/

CAPITAL MARKETS

CAPITAL FLOWS
Part of the Horizon Scanning series

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A year ago, the Chancellor launched the "Edinburgh Reforms" with the stated ambition of making the UK "the world's most innovative and competitive global financial centre". Regulatory zeal for reforming London's capital markets continued throughout 2023, most notably with the **FCA's proposed changes to the listing regime**, which were outlined in May and further developed in December, and the HM Treasury-commissioned **independent review of financial services investment research**.

The reiterated recognition in the Autumn Statement that improvements to the legal framework and broader financial markets ecosystem are necessary to attract new companies to list in the UK - and to encourage UK-listed companies to retain their UK presence - is shared across government departments and regulatory authorities. Encouragingly, in light of the upcoming UK election, the reform initiatives enjoy bipartisan support from the two main political parties.

The 2024 outlook is one of cautious optimism: with the expected introduction of long-awaited reforms, and continuing government support, we are hopeful of renewed equity capital markets activity in the coming year. Increased debt market activity is also expected to be generated by many of the companies that tapped into the equity markets during COVID-19 and now face increasing refinancing pressures in the coming 2024/25 financial year which cannot be met by shareholders again.

ATTRACTING AND RETAINING EQUITY LISTINGS

In late December the FCA announced that it will press ahead with the proposals it consulted on in May 2023 in respect of collapsing the premium and standard segments into a single segment for Equity Shares in Commercial Companies (ESCC). The ESCC rules will be based mainly on the current premium segment rules, but some requirements will be modified or dropped entirely. Final rules will be published "at the start of the second half of 2024" and come into force two weeks later. Existing listed companies will be "mapped" to one of the new listing categories that will be created.

In a move which will significantly improve London's competitiveness vis-à-vis other listing venues, there will be greater flexibility on dual class share structures, which are common in overseas markets and popular with founders who wish to retain post-IPO control of their creations. Companies that currently have a premium listing will no longer need to obtain shareholder approval for significant or related party transactions, which will improve the competitiveness of London-listed bidders for assets in cross-border transactions relative to peers around the world.

The new regime will place greater emphasis on disclosures driven by, and tailored to, the shareholder base and investor expectations for individual businesses by encouraging proportionate and thoughtful disclosures, rather than prescribing a "one-size-fits-all" approach. This may result in greater scrutiny on how directors discharge their duties in relation to decision-making on transactions. Until now, the need to obtain shareholder approval for significant and related party transactions has provided a measure of legal and practical protection; once such approval is no longer required, boards will need to decide for themselves whether a proposed transaction will be welcomed by shareholders and how much information should be publicly disclosed.

In addition, the positive impact of the FCA reforms in attracting both homegrown talent and overseas businesses seeking liquidity remains contingent on FTSE Russell concluding that the current eligibility criteria for inclusion in the FTSE indices will remain broadly the same for the new ESCC segment. No timeframe has been given for FTSE Russell's deliberations. Institutional investors are generally limited to investing in companies with a market indexation, and it remains to be seen whether the traditional strength of the UK FTSE regime over its less predictable US counterparts will be maintained.

Concerns in 2023 about the state of UK capital markets were fuelled, in part, by the decision of UK-grown and headquartered ARM to list in New York. Although a handful of companies announced they would transfer their primary listing to the US, each had business-specific reasons for doing so, and the vast majority of UK-listed companies have retained their primary listing in London.

SUPPORTING LISTED COMPANIES

The efficiency with which much-needed funds were raised by LSE-listed companies during COVID-19 prompted the Pre-Emption Group to update its Principles in November 2022 - as recommended by the Secondary Capital Raising Review (**SCRR**) - to allow companies to seek annual authority to issue up to 20% of their share capital on a non-pre-emptive basis (instead of the 10% previously permitted). While take-up of the additional headroom during the first year of implementation was cautious, particularly among FTSE 100 constituents, we expect take-up to increase during the 2024 AGM season.

Many other recommendations made by the SCCR are yet to be implemented. There is general consensus among listed companies, regulatory authorities, market practitioners and other stakeholders that, while London has a good track record of supporting equity capital-raisings, the documentation and process requirements for raising larger amounts of equity through a rights issue, an open offer or other documented placing structure is unnecessarily costly and burdensome. Consultation on reforms to the prospectus regime and other efforts by HM Treasury and the FCA to streamline the current framework is expected to continue in 2024.

DEBT CAPITAL MARKETS

The key area of focus for the debt capital markets will be the upcoming reforms to the prospectus regime. The draft statutory instrument, The Financial Services and Market Act 2000 (Public Offers and Admission to Trading) Regulations 2023 will, among other things, grant the FCA power to make rules about various prospectus-related matters: see our December briefing. We have been involved in preliminary discussions with the FCA on how it will use these powers, and a formal consultation is expected in 2024. As the current debt regime functions relatively well, the FCA will be seeking to make targeted improvements to the regime, with one of its more ambitious plans being proposals to revive the retail bond market in the UK (see our May briefing).

IMPROVING THE BROADER ECOSYSTEM

Through TheCityUK Capital Markets Group and The City of London Law Society, we are engaged in industry-led initiatives to nurture London's broader capital markets ecosystem. This includes improving the quality and availability of investment research and encouraging retail participation through PrimaryBid and other platforms, all of which contribute to valuation and the overall attractiveness of London as an investment prospect. We hope that 2024 is a positive year for confidence in the London capital market.

CONTACT US TO FIND OUT MORE

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