



## UK listing reform: Overview of final rules for listed funds

### PS24/6: Primary Markets Effectiveness Review - Feedback to CP23/31 and final UK Listing Rules

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#### Overview

On 11 July 2024 the FCA published [PS24/6](#) (Primary Markets Effectiveness Review: Feedback to CP23/31 and final UK Listing Rules) confirming the final form of the changes to be made to the UK listing regime. The new rules will come into effect on 29 July 2024 (subject to certain transitional provisions).

The final rules for funds differ from the proposals set out in [consultation \(CP 23/31\)](#) (Consultation) and subsequent draft rules in their approach to significant and related party transactions.

Once the revised rules come into force, existing premium listed funds will be transferred to the new closed-ended investment funds category which is described further below.

For a discussion of the rules for commercial companies, please see our separate briefing [UK listing reforms: Radical reset to take effect on 29 July 2024](#).

#### How will the new regime differ from the current rules?

The new regime is largely modelled on the current rules for premium listed funds. However, there are a number of differences to be aware of including:

- **Transactions:** The requirements around significant and related party transactions both differ from the current position as discussed in further detail below.
- **Board independence:** The rules on board independence have been amended to include new provisions in relation to alternative investment fund managers (AIFMs). These will (in summary) mean that notwithstanding an appointment to the board of more than one listed fund with the same AIFM (or another AIFM within the same group as the fund's AIFM), a director can be considered independent where the AIFM is independent of the fund's investment manager.
- **C shares:** Where a fund issues a new class of shares intended to convert into an existing class, under the new regime these can be listed either in the closed-ended funds category (if they carry voting rights prior to conversion) or in the new "non-equity and non-voting equity shares" category (if they do not).

#### Significant and related party transactions

An overview comparison of the new and existing rules for closed-ended funds is set out in the table below. As proposed in the Consultation the threshold at which a shareholder becomes a related party is being increased from 10% to 20% but the related party definition otherwise remains unchanged and continues to include the investment manager and members of its group.

It should be noted that the final rules differ materially from the position proposed by the FCA in the Consultation as shareholder approval will now only be required in respect of (a) reverse takeovers outside the scope of the investment policy and (b) certain transactions relating to the investment manager’s fees or other remuneration. The proposed requirement for a fund’s investment policy to enable an investor to identify whether related party transactions are within its scope has also been dropped.

For the avoidance of doubt, the requirement for funds to invest and manage their assets in accordance with their investment policy (and to obtain FCA and shareholder approval for material changes to the policy) will continue to apply as currently.

|                                             | <b>Current closed-ended investment fund category</b>           | <b>New closed-ended investment fund category</b>                                                                        |
|---------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Reverse takeovers</b>                    |                                                                |                                                                                                                         |
| Shareholder approval/FCA-approved circular? | Only if outside scope of investment policy                     | Only if outside scope of investment policy                                                                              |
| Sponsor required?                           | Yes – if outside scope of investment policy                    | Yes – if outside scope of investment policy                                                                             |
| <b>Significant transactions</b>             |                                                                |                                                                                                                         |
| Specific LR disclosure requirements?*       | Yes - if Class 2 (5%+) and outside scope of investment policy  | Yes - if a “significant transaction” (25%+) and outside scope of investment policy                                      |
| Shareholder approval/FCA-approved circular? | Yes - if Class 1 (25%+) and outside scope of investment policy | No                                                                                                                      |
| Sponsor required?                           | Yes - if Class 1 (25%+) and outside scope of investment policy | No                                                                                                                      |
| <b>Related party transactions</b>           |                                                                |                                                                                                                         |
| Specific LR disclosure requirements?*       | Yes at 0.25%+                                                  | Yes – at 0.25+ for “relevant related party transactions” <sup>***</sup> and at 5%+ for other related party transactions |
| Sponsor fair and reasonable confirmation?   | Yes at 0.25%+                                                  | Yes – at 0.25+ for “relevant related party transactions” <sup>***</sup> and at 5%+ for other related party transactions |
| Shareholder approval/FCA-approved circular? | Yes at 5%+                                                     | Only for “relevant related party transactions” <sup>***</sup> at 5%+                                                    |
| Required to also comply with DTR7.3 regime? | Yes                                                            | No                                                                                                                      |

\* Companies will also need to carefully consider their disclosure obligations under the UK Market Abuse Regulation, even in circumstances where a transaction is not specifically required to be disclosed under

the Listing Rules.

\*\* Relevant related party transaction has been defined as “a *related party transaction which relates to the fees or other remuneration payable by a closed-ended investment fund in connection with services rendered by an investment manager or a member of the investment manager’s group*”.

## **FTSE UK eligibility**

In [an article](#) published following PS24/6 FTSE Russell indicated that (subject to ratification by the FTSE Russell Index Governance Board) companies in the new ESCC and closed-ended funds categories will be index eligible once the listing regime changes and that, due to the mapping of existing premium listed companies to these categories, it is not expected there will be any immediate impact on index composition. This is consistent with the projected index treatment discussed in FTSE Russell’s [summary and FAQs](#) published in March 2024 and which are also referred to in the more recent article.

As noted, the position remains subject to ratification by the FTSE Russell Index Governance Board and updated ground rules and eligibility criteria have therefore not yet been published.

## **Our thoughts**

In the context of related party transactions (whether within the scope of the investment policy or not), it was always unclear to us why a divergence of approach between commercial companies and funds was merited. Although the final rules are not fully aligned between the funds and ESCC categories, there has been significant movement since the Consultation and, as such, we think the FCA has ultimately struck the balance in the right place.

Looking forward to other changes impacting the equity capital markets, the next significant development will be the FCA’s consultation on the new UK prospectus regime which is due to be published later this Summer. In this context, we expect a particular area of interest for listed funds will be the approach to prospectuses for further issues post-IPO and how significantly the FCA proposes to increase the current 20% annual threshold.