

15 February 2013

London Stock Exchange Publishes Draft Rulebook for New Fast-Growth Segment

Rulebook sets out criteria for admission to the high-growth segment, which has been designed to meet the needs of fast-growing European companies.

On 13 February, the London Stock Exchange (LSE) published a draft rulebook¹ (the Rulebook) as part of its consultation process on a new route to the UK IPO market for high-growth companies, such as Internet and technology companies. This new high-growth segment was first announced in October 2012 through a set of proposals developed jointly by the UK government and the LSE. The purpose of the new segment, which will be a segment of the LSE's Main Market, is to act as a starting point for companies that will, in time, seek a premium listing on the Main Market. The LSE intends to launch the new segment in March of this year. The criteria for admission will allow admission to the new high-growth segment for companies that would not qualify for admission to the premium listing segment of the Main Market, while also allowing companies to become acclimatised to some aspects of the continuing obligations regime that would apply to such companies once they have migrated to the premium listing segment.

Issuer Eligibility Criteria

The Rulebook sets out criteria for admission to the high-growth segment, including the following:

- The issuer must be incorporated in a European Economic Area (EEA) state **and** be a public limited company or a similar EEA structure.
- The issuer, together with its subsidiary undertakings, must be a trading business (e.g., not a mineral resource company at the exploration stage or an investment entity).
- The issuer must control the majority of its assets.
- At least 10% of the securities to be admitted must be in public hands.
- The value of the securities in public hands must be at least £30 million, and the majority of this must be raised on admission either by the issue of new securities or the sale of existing securities, in each case being securities of the same class as that to be admitted.
- The issuer must be able to demonstrate compound annual growth in revenue of at least 20% over the prior three financial years.
- There must be a sufficient number of registered holders of the securities to be admitted to provide an orderly market in the securities after admission.
- The issuer must have produced a prospectus approved by the Financial Conduct Authority (FCA)—the FCA is a new supervisory body that will take over some aspects of the Financial Services Authority's supervisory role beginning on 1 April 2013—or another EEA state's competent authority. The issuer is required to clearly set out in the relevant section of the prospectus its intention to progress to the FCA's Official List over time.
- The issuer must appoint a key adviser in relation to admission.

1. View the draft rulebook at http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/2013/n0213_attach1.pdf.

Continuing Obligations of Issuers and Key Advisers

Under the Rulebook, at admission, an issuer will be required to have a key adviser. The functions and obligations of a key adviser are based on the sponsor role for companies with securities admitted to the premium segment of the Official List. To be eligible to be a key adviser, a person must be on the FCA's list of sponsors and be approved by the LSE to act as a key adviser. Among other conditions, applicants for a key adviser role will need to show that they have a broad range of experience and expertise in providing relevant advice to companies admitted to the public markets, in particular in relation to companies on the Official List.

In addition to certain admission criteria that will have a continuing effect after admission, the Rulebook also imposes a number of continuing obligations on issuers. An issuer must do the following:

- Obtain the guidance of a key adviser when the issuer proposes to enter into or undertake any significant transaction or when a significant event occurs, including the following:
 - Notifiable transactions (where any percentage ratio under the class tests, which broadly reflect the FCA's Listing Rules, is 25% or more)
 - Related-party transactions (where any percentage ratio under the class tests is 5% or more)
 - A reverse takeover
 - Cancellation of the issuer's admission
 - A further issue or a purchase of the issuer's own securities of the same class as that which is admitted
 - Severe financial difficulty, including in relation to any associated restructuring, reconstruction, or disposal
- Announce via a Regulated Information Service (RIS) certain information, such as board changes, changes to the issuer's corporate structure, dividend payments, admission or cancellation of any of the issuer's securities, and any proposed or actual changes to the issuer's capital structure.
- Maintain a website on which the issuer must publish certain information, including its country of incorporation and main country of operation, the number of securities in issue, copies of its constitutional documents, its most recent periodic reports, all notifications to an RIS for the previous 12 months, and its most recent prospectus.
- Report on corporate governance practices in the issuer's annual report, including details of how the issuer has applied the main principles of any code or practices to which it is subject or to which it has voluntarily decided to apply, as well as a "comply or explain" statement in respect to these codes or practices.

Wider Regulatory Regime

As the high-growth segment will be a segment of the LSE's Main Market, it will be an EU-regulated market. Accordingly, in addition to the Rulebook, issuers will be required to comply with the FCA's Disclosure and Transparency Rules and the Prospectus Rules. Furthermore, companies will be required to comply with the LSE's Admission and Disclosure Standards. However, because the new high-growth segment will not be a listed segment, securities admitted to it will not be admitted to the Official List and will not be subject to the Listing Rules.

Next Steps

The LSE is expecting to receive feedback from market participants by 8 March 2013, and it intends to confirm the final rules as soon as reasonably practical following the end of the feedback period.

Conclusion

The new segment of the Main Market extends the primary markets offering for high-growth companies. It will provide issuers with a transitional route to the Official List and is intended to help them prepare for the listed markets over time, while also aiming to ensure that appropriate standards of investor protection are maintained.

Morgan Lewis

Contacts

If you have any questions or would like more information on the issues discussed in this LawFlash, please contact any of the following Morgan Lewis lawyers:

London

Iain Wright
Sergey Kvitkin

+44 (0)20 3201 5630
+44 (0)20 3201 5605

iwright@morganlewis.com
skvitkin@morganlewis.com

About Morgan, Lewis & Bockius

With 24 offices across Europe, the United States, and Asia, Morgan Lewis provides comprehensive litigation, corporate, transactional, regulatory, intellectual property, and labour and employment legal services to clients of all sizes—from globally established industry leaders to just-conceived start-ups. Our international team of lawyers, patent agents, benefits advisers, regulatory scientists, and other specialists—more than 1,600 legal professionals total—serves clients from locations in Almaty, Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, London, Los Angeles, Miami, Moscow, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San Francisco, Tokyo, Washington, D.C., and Wilmington. For more information about Morgan Lewis or its practices, please visit us online at www.morganlewis.com.

This LawFlash is provided as a general informational service to clients and friends of Morgan, Lewis & Bockius. It should not be construed as, and does not constitute, legal advice on any specific matter, nor does this message create an attorney-client relationship. These materials may be considered **Attorney Advertising** in some jurisdictions. Please note that the prior results discussed in the material do not guarantee similar outcomes. Links provided from outside sources are subject to expiration or change. © 2013 Morgan, Lewis & Bockius. All Rights Reserved.