

## Proposed Changes to UK Listing Rules

The Department for Business, Innovation and Skills (BIS) on 20 September 2012 announced that it has developed a set of proposals with the London Stock Exchange (LSE) aimed at attracting high-growth companies to list their businesses on the LSE. The proposals include a new route to market which would be likely to feature more relaxed rules on the free float, eligibility criteria and reporting requirements. Currently, at least 25% of the shares of a company applying for a premium listing must be held by the public in one or more EEA states at the time of admission. This may be reduced to as little as 10% under the new rules.

The proposals are designed to improve the environment for initial public offerings (IPOs) in the UK for technology businesses and other fast growing businesses which may be unwilling to comply with the more stringent rules of a full premium listing. BIS hopes that the rules will allow the London Stock Exchange to compete with the Nasdaq index as a home for European start-ups. It follows a realisation that European mid-sized high-growth businesses are currently under-represented on the UK's public markets and are often choosing the US rather than the UK for their IPOs. It is also a response to President Obama's Jobs Act in the US which eased rules for small company IPOs.

However, while the move has been welcomed by venture capitalists and business leaders, many maintain that London is still highly uncompetitive. There are also wider problems than the rules themselves with many commentators pointing to underlying cultural problems. Although the rules might be relaxed, investors still need to be convinced of the merits of investing in technology companies and other high-growth businesses. There is a sense that London bankers and investors are more conservative in their valuations and less prepared to take a longer term view of the earnings potential of such businesses. While US investors were prepared to buy at a multiple of 40 times earnings for Facebook, London investors might

baulk at anything above 15 times earnings. Such issues will take time to be resolved.

The LSE is now due to consult on the proposals and report before the end of the year. The reforms are expected to be implemented early in 2013. Only time will tell what effect, if any, the new rules will have on London's technology IPO market.



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