
REFORMING UK LISTINGS: AN ASSESSMENT OF DUAL-CLASS SHARE STRUCTURES AND LSE COMPETITIVENESS

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ABSTRACT

This paper examines the Financial Conduct Authority's (FCA) reforms to the London Stock Exchange's (LSE) listing rules, specifically concerning dual class share structures. Initially introduced in December 2021 as the Specified Weighted Voting Right Shares (SWVRS) structure, these reforms aimed to enhance the LSE's global competitiveness by allowing founders to retain control post-IPO while balancing investor protection. However, the initial SWVRS framework, characterised by restrictive conditions such as limited enhanced voting rights and a five-year sunset clause, proved largely ineffective in attracting high-growth companies.

Drawing upon Bobby Reddy's critical assessment in "The UK and dual-class stock-lite – Is it really even better than the real thing?" (2024), this essay argues that the 2021 reforms failed to adequately balance founder flexibility with investor safeguards, thus hindering the LSE's appeal. It further analyses the FCA's subsequent amendments in 2024, which significantly liberalise the dual-class share provisions by unifying listing segments, removing the sunset clause for natural persons, and broadening the scope of enhanced voting rights. While these recent changes represent a more permissive approach and acknowledge past missteps, the paper concludes by assessing whether they truly strike the necessary balance to foster growth and innovation on the LSE while maintaining robust investor protection in a globally competitive market.

INTRODUCTION:

The dual-class share structure is an important aspect of a market, especially related to initial public offerings (IPOs) “the initial sale of existing and/or new shares to the public¹”, and maintaining a company in the owner’s control. In response to growing concerns over the global competitiveness of the London Stock Exchange (LSE), the Financial Conduct Authority in December 2021 set in motion to introduce significant reforms to the London Stock Exchange (LSE) on premium tier listing rules, permitting dual-class share structures for the first time. The initial listing rules specified under LR 6.9.1AR², known as the Specified Weighted Voting Right Shares (SWVRS) structure, allowed “shareholder to retain voting control over a company that is disproportionate to their economic interest in the company”³, introducing conditions, such as limiting disproportionate voting rights to directors only and implementing a maximum voting ratio of 20:1 between enhanced and inferior voting shares⁴.

Unlike the “one share, one vote” model(Default voting rights)-- where shareholders’ voting power directly corresponds with their owned equity⁵-- this share structure allows insiders, like founders and management, to hold shares with superior voting rights⁶. Moreover, this concept can allow the managers to have significant control that can benefit them in making investment plans without much interference from the side of external shareholders.⁷

However, during the post-reform period, while analysing the LSE market, there was still a lack of growth. Very few companies adopted the SWVRS structure, and after recognising the limitations of this structure, the FCA amended the reforms, and new reforms were introduced in 2024 to make the structure more liberal, aimed at unifying the standard and premium tiers⁸ and implementing more flexibility for founders decision making in a company. These changes

¹ GOV.UK “Exemptions and reliefs: Section 77A- Initial Public Offering and Underwriters”(LINK)

² Listing Rules 2021

³ Financial Conduct Authority, “Primary Market Effectiveness Review: Feedback and final changes to the listing rules” Policy Statement 21/22, [December 2021] 9

⁴ Bobby Reddy, ‘ The UK and dual-class stock-lite – Is it really even better than the real thing?’, [2024] v25, 84,85

⁵ Companies Act 2006, Section 284(1)

⁶ Hari P Adhikari, Thanh T Nguyen, Ninon K Sutton, ‘The power of control: the acquisition decisions of newly public dual-class firms’, [2018] v1 114, 115.

⁷ Arugaslan, O., Cook, D., and Kieschnick, R., ‘On the Decision to go public with Dual-class stock. Journal of Corporate Finance’ [2010] v16, pp 170

⁸ “Overview of Exchange” Cross-Border Listing Guide, London Stock Exchange (Main Market)[1st, August 2024]< <https://resourcehub.bakermckenzie.com/en/resources/cross-border-listings-guide/europe-middle-east--africa/london-stock-exchange-main-market/topics/overview-of-exchange>>

reflected an acceptance by Market authorities that the initial approach was ineffective in attracting high-growth companies to maintain the LSE's competitiveness in global markets⁹.

Bobby Reddy, the Author of the article "*The UK and dual-class stock-lite – Is it really even better than the real thing?*", (2024)", critically assessed the FCA reform in his article and argued that, in its effort to balance investor protection with founder flexibility, the FCA imposed conditions that made the market structure unattractive to innovative companies, ultimately failing to attract high-growth firms to the LSE. He further says that the FCA's 2023 shift towards more permissive dual-class structures acknowledges the ineffectiveness of the initial reforms. However, the author believes that merely liberalising the dual-class stock rules will not resolve the LSE's competitiveness issues.¹⁰

This essay critically examines the effectiveness of the FCA's initial "dual-class share" approach and evaluates whether recent reforms successfully address the LSE's challenge in attracting innovative, high-growth firms while preserving appropriate investor safeguards. Furthermore, putting forth the arguments by Bobby Reddy, this discussion firmly studies the critical balance between founder autonomy and corporate governance in the face of global market competitiveness.

FCA Reforms: Reshaping the Financial Aspect

In 2014, the FCA restricted the Dual class structure premium tier.¹¹ This change stresses the "One Share, One Vote" rule to improve corporate governance. Although DCSS allows the founders to maintain control after an IPO, due to its prohibition on the premium tier before 2021 reforms, it pushes companies to consider alternatives such as AIM, the standard tier, or foreign exchanges¹².

Since then, the UK stock market has been underperforming, overshadowed by the US and China, which leads in key industries like fintech, AI and renewables. "US exchanges attract global companies with higher trading volumes (\$554 billion), average daily and valuations, \$

⁹ Financial Conduct Authority, Primary Markets Effectiveness Review: Feedback to dp22/2 and proposed equity listing rule reforms", Consultation Paper 23/10, [May 2023] 5

¹⁰ Bobby Reddy, 'From dual-class share lite to full fat: The FCA's full potential about- Turn on dual class shares.' (Faculty of law blogs/ University of Oxford) [20th June, 2023] <https://blogs.law.ox.ac.uk/oblb/blog-post/2023/06/dual-class-shares-lite-full-fat-fcas-potential-about-turn-dual-class-shares>

¹¹ Bobby Reddy, 'Finding the British Google: Relaxing the prohibition of Dual-Class Stock from the premium-tier of the London Stock Exchange' (Published in 2020), 322

¹² *ibid* pp- 323, 324

174 billion in China and \$47 billion in Europe, while the London Stock Exchange lags at \$1.6 billion. Domestic challenges, such as the dominance of income funds, hinder the UK market's competitiveness".¹³ The UK's share of global initial public offerings (IPO) has seen a worrying decline, plummeting from 10% in 2006 to a mere 5% in 2018. This prominent drop highlights a critical issue for the UK as a financial hub¹⁴. Therefore, the FCA 2021 reforms, inspired by the UK Listing Review and Khalifa Reviews, aimed to simplify the listing regime by enhancing market integrity and reducing barriers, by supporting the UK as a global hub for successful companies.¹⁵

In an important shift aimed at working toward innovation and enhancing the attraction of early-stage companies, the premium listing segment of the LSE has adopted the Dual Class Structure. By matching itself with vested practices observed in the United States and Asia, the LSE sets a goal to commit to granting founders significant control post-IPO with minority shareholder protection.¹⁶

- ***The FCA's 2021 Reforms: A New Era for London's Premium Listing:***

"The UK authority of listing rules, i.e. Financial Conduct Authority, has recently removed the dilemma of DCSS on the Premium Main Market of the London Stock Exchange to boost its competitive edge in the post-Brexit era."¹⁷

When founders take their companies public because of the distribution of ownership, they risk being outcast and also face the risk of takeover bids that offer premium market prices, which can cause a hindrance in their vision for the company.¹⁸ In 2021, the Financial Conduct Authority took decisive action to enhance the UK listing rules, following the recommendation

¹³ Paul Marshall, 'London is becoming the Jurassic Park of stock exchanges,' *Financial Times* [London, 1st December, 2021]

¹⁴ Panagiotis Asimakopoulos, Manuel Haymoz and William Wright, "Beyond Brexit: The Future of UK Banking & Finance—Recalibrating the UK framework in a post-Brexit & post-Covid world. [October 2020] <https://9075c432-8d38-4fcf-8025-d4433c9ea618.usrfiles.com/ugd/9075c4_d8ebaed5ae2b43d0a42ad4fc11607cbf.pdf> p 14

¹⁵ Financial Conduct Authority, 'FCA consults on reforms to improve the effectiveness of UK primary markets.' [5th July 2021] <https://www.fca.org.uk/news/press-releases/fca-consults-reforms-improve-effectiveness-uk-primary-markets>

¹⁶ Debevoise & Plimpton LLP, 'FCA listing rule changes' [22nd December, 2021] <<https://www.debevoise.com/insights/publications/2021/12/fca-listing-rule-changes>>

¹⁷ Fa Chen, "Does the dual-class share structure help stock markets attract issuers? Empirical lessons from global centres", [25TH July 2022]

¹⁸ Hari P Adhikari, Thanh T Nguyen, Ninon K Sutton, 'The power of control: the acquisition decisions of newly public dual-class firms', [2018] v1 116

of the UK listing review to boost the appeal of the London Stock Exchange. Among many reforms, there was the introduction of the “Specified Weighted Voting Rights Shares Structures” (SWVRS), a robust dual-class stock framework tailored to attract high-growth, innovative firms while effectively protecting the interest of public shareholders.¹⁹ With various conditions to balance issuers’ growth and maintain market integrity. While this structure can protect founders from short-term burdens from shareholders’ expectations and can focus on promoting their long-term vision, as investors are more concerned about their minority voting rights in a company

Structural Highlights of SWVRS:

The SWVRS framework established various conditions that allow companies to list shares in the LSE with weighted voting rights on the premium tier of the LSE. However, these reforms came with several conditions:

1. **Restrictions on Enhanced-Voting Rights:** In accordance with Listing Rule number 9.2.22C R(2), holders of the shares are allowed to exercise enhanced voting rights under specific situations, such as to prevent their removal as directors or during a change of control.²⁰ Moreover, LR 9.2.22C R(3) states the “shares may only be held by the director of the issuer or, following the death of a director, a beneficiary of the director’s estate”.²¹
2. **Time-Dependent Sunset Clause:** According to Listing Rule 9.2.22A R(3) the shares can exist up to only five years post-IPO²², after which they automatically convert to a “one share, one vote” system unless the company intends to extend this period beyond five years, it can do so; however, there is a trade-off involved. The company would be required to exit the premium listing segment and move to a lower-tier segment, for instance, (the Main Market—Standard Listing or Alternative Investment Markets²³) of the exchange. or delist

¹⁹ Min Yan, “Permitting Dual-class Shares in the UK Premium Listing Regime- A Path to Enhance rather than Compromise Investors Protection” [22 October 2021]

²⁰ Listing Rules (Primary Market Effectiveness) (Dual Class Share Structure) Instrument 2021 Regulation (FCA 2021/55) Rule 9.2.22C, p-5 [25TH November, 2021]

²¹ Financial Conduct Authority 2021/55, Listing Rule 9.2.22C R(3), 4 [25TH November 2021]

²² Financial Conduct Authority 2021/55, Listing Rules, 4 [25TH November 2021]

²³ Bird & Bird, Comparison of the Eligibility criteria and continuing obligations for Listing on the main market and AIM market of the London Stock Exchange < <https://www.twobirds.com/-/media/pdfs/capital-markets/london-stock-exchange.pdf>>

entirely.²⁴

3. *Voting capital ratio: According to Listing Rule 9.2.22C R(2) it limits the voting power of enhanced voting shares to a maximum of 20 times that of regular shares(20:1).*²⁵ This cap balances the ability of founders to exercise specified voting rights and control over a company's decisions.

- The FCA's aim was to promote listings while also addressing the concerns of the UK's traditional investors who have a history of opposing dual-class structures.²⁶ These investors were on edge about the potential for "private benefits of control", in which founders might leverage enhanced voting rights to their advantage.²⁷ This is a very common concern that revolves around every investor, that a founder can misuse his dual-class voting power for his own benefit.

- ***Reform or Regression? Critiquing the changes***

The author offers several critiques of the FCA 2021's reform of the SWVRS structure. Here are the key arguments that the author argues:

- Limited impact: Why high-growth firms shy away from 2021 Reforms—The FCA Reform aims to attract high-growth companies, but the author argues that its restrictions on enhanced voting rights and the five-year sunset clause hinder the goal.²⁸ For instance, the reform of enhanced voting rights cannot be exercised for decisions like employee share schemes, this looks like a drawback if compared to the U.S. system.²⁹
- Overly restrictive SWVRS Structure—The author criticises the SWVRS structure as resembling a "dual-class stock-lite" model, which is an approach adopted by the U.S., meaning that this structure offers some benefits of dual-class shares but with several limitations. The FCA's restrictions, including a maximum voting ratio and a director-

²⁴ Watson Farley & Williams, "Developments in the London Listing Markets: Spacs, Dual Class Structures and Other Listing Rules Reforms", [12th January, 2022] < <https://www.wfw.com/articles/developments-in-the-london-listing-markets-spacs-dual-class-share-structures-and-other-listing-rules-reforms/> >

²⁵ FCA 2021/55 Listing Rules, 5

²⁶ Supra note 16

²⁷ Lucian A. Bebchuk & Koi Kastiel, "The Perils of Small-Minority Controllers", [2019] (v107:1453), p 1466

²⁸ Bobby V. Reddy, "The UK and Dual-Class Stock-Lite—Is it really even better than a real thing?", [19th May 2023] p 104

²⁹ Supra note, 16

linked sunset provision where only the director of the issuer has the right to hold shares, diminish the advantages typically associated with dual-class shares.³⁰ Additionally, the limited usage of enhanced voting rights that are exercisable only in specific situations such as director removal or changes in control.³¹

- Limitation on founder protection in the thick of shareholder influence—The author has criticised the 2021 FCA reforms for inadequately protecting founders from the pressure that comes after a company goes public. The limited enhanced voting rights safeguard against various issues, like hostile takeovers, but they do not fully protect the founders from minority shareholders³². Therefore, this focus sought to wear off the interest of innovative firms by failing to balance shareholder protection with the founders' desire for long-term control.

Also, this shortfall is particular when compared to more flexible markets, like those in the United States, which permit dual-class structures with fewer regulatory constraints.

- Global Market Dynamics: Comparison of FCA 2021 reforms with U.S. and other international market practices— Bobby Reddy highlights the fact that FCA 2021 reforms have major concerns that the UK's restrictive regulatory framework for DCSS could be disadvantageous if compared to more international flexible markets. He points out that U.S. markets allow Dual-class shares with lesser limitations, allowing the founders to retain control after going public. Reddy argues that, although the FCA aims to protect minority shareholders, these regulations may unintentionally hinder innovation and growth by pushing companies toward more favourable environments in foreign markets. He emphasises the importance of finding a regulatory balance that safeguards investors while encouraging growth, suggesting that FCA's 2021 reforms may be too restrictive for the modern global marketplace.³³

³⁰ Supra note, 28

³¹ Davis Polk, "FCA confirms new listing rules to boost growth and innovation on UK stock markets", [December 3rd, 2021], <https://www.davispolk.com/insights/client-update/fca-confirms-new-listing-rules-boost-growth-and-innovation-uk-stock-markets>

³² Financial Conduct Authority, "Primary Markets Effectiveness Review" Consultation Paper 21/21 [July 2021] 5.20, pp 31

³³ supra note, 28, supra note, 11,

Conclusion Of Bobby Reddy's Arguments on FCA 2021 Reform :

In conclusion, Bobby Reddy's analysis indicates that while the FCA's 2021 reforms aim to modernise the UK's listing framework and provide protections for minority shareholders, they may not adequately address the needs of high-growth firms. The restrictive conditions of the reform—such as capped voting rights and a brief sunset period for DCSS—could be detrimental for issuers from choosing to list on the London Stock Exchange. By limiting the flexibility that dual-class share structures provide, particularly in protecting the founders from external pressures, the reform may place the LSE at a competitive disadvantage position compared to more flexible international markets.

This conclusion highlights the tension between the FCA's desire to protect investors and the need to make LSE more appealing in the global market. This analysis of Bobby Reddy suggests that FCA's reforms may have failed to offer more independence to the founders to enhance their companies in an international market. He also suggested that FCA should reconsider this approach while giving the issuers power and ensuring shareholders' protection.

- ***A Time-Dependent sunset clause:***

The LR 9.2.22A R(3) of Listing Rules 2021 states that an issuer who is issuing shares through a dual-class structure should include provisions for the automatic conversion of enhanced-voting shares after five years into traditional shares and also have the option to delist after a said period post-IPO³⁴. This clause is essential in the starting years of the company after going public, allowing founders to pursue long-term visions without the risk of removal or takeover not concerning the minimal short-term profits.³⁵ When the business matures and strategies become clearer, the need for dual-class shares decreases over time, raising concerns about their potential misuse for their own benefit.

Even regulators in India mandate³⁶ that following Chapter II (Part I) of the Securities Exchange Board of India (SEBI) (Issue of Capital and Disclosure Requirements) Regulation, 2018, Regulation number 4.2.9, Superior Rights (SR) shares must automatically convert to ordinary shares within five years of the listing of such shares unless the shareholders pass a resolution

³⁴ Bobby Reddy, 'Up the hill and down again: Constraining dual-class shares. Journal of Corporate Finance'. [2021] v80

³⁵ Supra note 3, p 12

³⁶ SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015 regulation 41A (3)

for extension of the sunset clause³⁷. In India, Zomato Limited IPO, one of India's largest online food company, went public in 2021 and issued SR equity shares under SEBI regulations. The approach adopted by India is similar to the UK for regulating dual-class structure

Whereas “in the US, where time-dependent sunset clauses are not mandated, a handful of dual-class issuers have voluntarily adopted such provisions.”³⁸ Companies like Google and Facebook allow founders to hold differentiated rights indefinitely.³⁹

According to FCA listing rules 2021, the time-dependent sunset clauses for dual-class shares can expire at any time before Five years post-IPO⁴⁰ as the time duration required for an issuer to mature depends on a case-to-case basis. For instance, the sunset provision in Deliveroo's dual-class share structure stimulates that enhanced voting rights associated with the founder's shares are limited to three years post-IPO, expiring earlier under specific conditions.⁴¹

The author contends that the timeframe is too small to inculcate the growth cycle of many companies. This limitation may discourage innovative companies from listing on the London Stock Exchange. Additionally, the author also gives an opinion that by restricting the situations in which enhanced voting rights can be used, SWVRS is effectively just a modern measure to block takeovers. The article also contrasts that compared to other jurisdictions such as the U.S., where there are no mandatory sunset provisions, and India⁴² where shareholders' approval permits extensions.

Nonetheless, the UK had to enhance the appeal of its public markets, which is advantageous for both companies and investors for going public ⁴³otherwise, the declining percentage of trading in UK markets will drop significantly in the coming years. FCA brought some amendments in the reform in 2024, where the new framework was introduced, allowing enhanced voting rights to be held for an indefinite period by natural persons like directors, employees and investors of the issuers, removing the previous disadvantage to issuers of the limited period to enhance the company growth and can make long term investments plan.

³⁷ Securities and Exchange Board of India (SEBI), “Framework for Issuance of Differential Voting Rights (DVR) Shares” < https://www.sebi.gov.in/sebi_data/meetingfiles/aug-2019/1565346231044_1.pdf >, 7

³⁸ Supra note 16, pp 534

³⁹ Supra note 33

⁴⁰ Bobby V. Reddy, ‘Putting Dual-Class Stock into Context. In: Founders without Limits: Dual-Class Stock and the Premium Tier of the London Stock Exchange.[29th October 2021] 9.6.1

⁴¹ Supra note 20, 1.2.6 Deliveroo case study

⁴² Supra note 20, 9.6.1

⁴³ Jennifer Payne, ‘The Future of the UK IPO’ [23 February, 2022], 29

Furthermore, institutional investors who hold shares pre-IPO can hold superior voting rights for up to 10 years⁴⁴. Additionally, FCA clarified that companies may choose to implement shorter clauses based on the preferences of their investors.⁴⁵

- ***LISTING RULES 2024 REFORM: A Revolutionary step taken by Financial Conduct Authority.***

Recent data reveals a significant shift in the ownership of UK-quoted company shares. “Currently, over half (56%) of these shares are held by non-UK institutional investors. In contrast, UK pension schemes and insurers account for a mere 4% of the holdings, marking a substantial decline from approximately 50% in the early 1990s.”⁴⁶

According to the Press Release of a speech given by Sarah Pritchard, Executive Director of Markets and International, delivered at the Capital Markets Industry Taskforce Conference, they validate that FCA has introduced the most significant improvement in the UK listing rules, aiming to give new strength to capital markets and enhance their global competitiveness. This reform replaces the complexity with an efficient, disclosure-based framework that empowers investors with timely information for informed decision-making with an “aim to bring diverse companies to UK capital markets and surge economically”⁴⁷ Balancing high standards of governance with the attraction of innovative, high-growth companies, the FCA is positioning the UK as the premier destination for companies and investors in the modern capital outlook.⁴⁸

⁴⁴ LR

⁴⁵ Fiona Millington, Clementine Hogarth, Richard Sheen, Thomas Vita, Alex Green, “UK listing reforms: Radical reset to take effect on 29th July, PS24/6: Primary Markets Effectiveness Review- Feedback to CO23/31 and final UK listing rules” [July 2024] <
[⁴⁶ Financial Conduct Authority, “Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms” \[December 2023\], 144](https://www.nortonrosefulbright.com/en/knowledge/publications/b0d577b5/uk-listing-reforms-radical-reset-to-take-effect-on-29-july-2024#:~:text=Introducing%20greater%20flexibility%20in%20relation,e.g.%20institutional%20or%20corporate%20investors).></p>
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⁴⁷ Harry Keegan, Vance Chapman, Dougall Meston, George O’Malley, Ben Balzan, “The new UK Listing Rules- The most significant change to the UK’s listing regime in 40 years” [July 30th 2024](Akin) <
[⁴⁸ Financial Conduct Authority, “The FCA’s new listing rules and what’s to come” \[6th September 2024\]<
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Unlocking Potential: Salient Points of Reformed UK Listing Regime

Flexibility in DCSS design is imperative for meeting diverse needs:

The transformation of a single listing category by consolidating both premium and standard listing categories simplifies and enhances the regulatory aspects of the market.

Companies that are currently listed under the premium segment will transition effortlessly into the new Equity Shares Commercial Companies (ESCC) segment, which ensures the maintenance of high standards of governance and disclosure. This concern was part of an effort to modernise the LSE and to make it more competitive internationally while ensuring investors' protection.⁴⁹ Because former FCA listing rules received several criticisms for being “overly complex and burdensome”⁵⁰

“The eligibility criteria for the new ESCC listing category are based on the previous requirements for the premium listing segment. However, under the new rules, companies applying for listing will no longer need to:

- a. Publish historical financial information covering at least three years and representing at least 75% of the company's business during that period.
- b. Demonstrate a three-year revenue-earning track record.
- c. Give a “clean” or unqualified working capital statement.
- d. Demonstrate that they have an independent business and operational control over their main activities.

These changes will allow companies with no or limited operating history, as well as companies with a complex financial history (e.g., as a result of recent material acquisitions or divestitures), to list on the ESCC listing category. However, companies will still need to comply with the financial information disclosure requirements imposed under the UK's Prospectus

⁴⁹ Financial Conduct Authority, “Our Approach to Consumers, Corporate document”, [19th March, 2024]

⁵⁰ Supra 47

Regulations.”⁵¹

Also, the UK Corporate Governance Code (UKCG code) will apply to ESCC, which was not previously a requirement of the standard segment.”

Moreover, issuers listed on the standard segment of the London Stock Exchange(LSE) will move into either a transition category—designed for those preparing to meet ESCC requirements⁵²—or the international secondary category for the category who is for non-UK companies that have a primary listing on recognised international markets and want to maintain a secondary listing in the UK⁵³. This aims to reduce barriers for companies seeking to get listed in the UK and also aligns with other countries by reducing regulatory complexities.

- The UK listing rules did not prescribe any voting ratio⁵⁴, which is a huge shift from the traditional approach, by requiring adherence to the governance structure through maintaining fairness while structuring the strategic needs for the company’s future.
- Holders of Enhanced Voting shares: According to Listing rule number (5.4.5 R)(1) Specified voting rights shares may be held by applicant directors, employees, a natural person who is an investor or a shareholder. Additionally, “entities established solely for the benefit of, or wholly owned and controlled by the aforementioned holders”. In the case where the applicant is a sovereign-controlled commercial company, a sovereign controlling shareholder is also permitted to hold these rights. These holders can hold the rights for an indefinite period, which means that the previous sunset provision of 5 years has been eliminated⁵⁵. In addition to the aforementioned persons, now pre-institutional investors who do not come under the category of a natural person are permitted to hold enhanced voting rights but are subject to a 10-year sunset clause.⁵⁶

⁵¹ Danny Tricot, Justin lau, Olivia Moul, Martin Katunar, “New UK listing rules come into force” (Skadden Publication/ Capital Markets Alert) [July 29th 2024] <
<https://www.skadden.com/insights/publications/2024/07/new-uk-listing-rules-come-into-force>>

⁵² Supra note 16

⁵³ Baker McKenzie, “Overview of Exchange” <<https://resourcehub.bakermckenzie.com/en/resources/cross-border-listings-guide/europe-middle-east-africa/london-stock-exchange-main-market/topics/overview-of-exchange>>

⁵⁴ Clifford Chance, “FCA decisively moves ahead on overhauling the UK listing regime”, [20th December, 2023], 3

⁵⁵ FCA Listing rules 5.4.5 R(2)(b)(ii)

⁵⁶ Supra 49

This FCA reform addresses various barriers that were previously discouraging high-growth and innovative companies from listing in LSE by allowing indefinite enhanced voting rights for the above-mentioned persons that cater to the needs of founders for efficiently controlling the company during the growth phase⁵⁷.

Also, in accordance with LR 5.4.5 R(3) the specified voting rights cannot be transferred unless it is transferred to a person or any entity established by the original eligible holder (a natural person).⁵⁸

- **Voting Restrictions:** “Enhanced Voting Rights may be exercised on nearly all matters, except votes required to (i) approve employee share schemes, long-term incentive plans and discounted option arrangements, (ii) issue new shares at a discount of more than 10%, (iii) approve certain share buybacks or (iv) cancel a listing or transfer to a different listing segment”.⁵⁹ These restrictions protect the ordinary shareholders from being overpowered by the insiders who have superior voting powers. This affects matters relating to enhancing shareholders’ value, especially those who hold minority shares and fostering confidence among the shareholders
- **Emphasis on Disclosure-Based Regulation:** While keeping focus on the competitiveness in the market FCA 2024 listing rules firmly also establish a safeguard for investors by increasing transparency. A disclosure-based regime, replacing the controls and various approvals. Now, issuers are required to provide clear, real-time updates on transaction progress and outcomes a particular transaction, which ensures transparency and boosts investors’ confidence.⁶⁰ This shift aligns with global trends of transparency and a flexible market.⁶¹
- **A New Era of Corporate Governance under the 2024 UK Listing Rules:** This time, FCA emphasises more on disclosing the details while maintaining key safeguards. For instance, shareholders’ approval is required for reverse takeovers(“where

⁵⁷ FCA Listing rules 5.4.5 R(2)(B)(i)

⁵⁸ FCA 2024 Listing rules, 51

⁵⁹ Supra 44

⁶⁰ Ariel White-Tsimikalis, Estekke Candau, “The new UK listing regime takes shape as further detailed proposals are announced by the UK financial conduct authority”, [16th January 2024]

⁶¹ *ibid*

private companies can become publicly traded companies without going through an IPO”)⁶². Additionally, the UK Corporate Governance Code continues to apply to new Commercial segments so that corporations follow the best corporate governance practices.

According to Bobby Reddy’s key perspectives are:

- Dual-Class Stock as “LITE” Reform: The author assesses that this was an FCA strategy to abandon SWVRS and follow the footsteps of U.S-style dual-class structures, highlighting the ineffectiveness of the former reforms. Reddy argues that merely relaxing the reforms of dual-class stock structure will not attract innovative companies, and the structural issues should be improved, such as insufficient investments by UK pension plans in growth-oriented companies and limited analyst coverage of stocks remain a barrier in the UK market. Moreover, the author mentions that reforms must ensure enough benefits for founders to list in the UK markets. The main challenge lies in creating a type of space for companies to list where it is in a competitive position as compared to other markets, yet it also preserves its market integrity.

Reddy also warns about the litigation risk around the market because of their liberal reforms which do not exist in the UK.

Although the author welcomed the acknowledgement of past missteps of the FCA and the approach to move toward a more liberalised market by going through systemic changes is essential for the LSE to compete globally.⁶³

Conclusion

As dual-class share structures have been increasingly becoming a popular approach in markets like the US, where companies like Google and Facebook, a few of the biggest companies in the world following DCSS, then the UK market had to act up in regards to increasing their attractiveness on an international level to grow their overall economic aspect. For that, FCA

⁶² Marshall Hargrave, “What is a Reserve Takeover (RTO)? Definition and how it works? [October 23rd 2020] <<https://www.investopedia.com/terms/r/reversetakeover.asp>>

⁶³ Supra note 33

bought in a new listing reform introducing Specified Weighted Voting Rights Shares, which allows founders or pre-IPO investors to take hold of the company's vision.

In my view, the FCA reform on multiple class share structures on the London Stock Exchange 2021 reform has failed to strike an effective balance between promoting growth and protecting investors, and they realised by the response of the market that they require a more fundamental rethinking of the UK's approach to dual-class stock.⁶⁴ While the initial 2021 SWVRS reforms demonstrated the FCA's recognition of the need for change, their overly restrictive conditions like an inflexible sunset period of five years, confined cap on voting rights and allotting undifferentiated voting rights only to directors, ultimately compromising the very purpose of attracting high-growth companies⁶⁵ which requires flexibility in the market to grow and attain their visions. Bobby Reddy's analysis also mentioned that the LSE 2021 reforms have been behind in attracting innovative entities to the LSE.⁶⁶ The LSE continued to struggle to compete with the various international exchanges. The UK market also wanted to attract overseas companies to the UK ⁶⁷

So, after a detailed review by the authorities of the 2021 reform, they amended the listing rules and introduced the new UK listing rules, which took effect from 29th July 2024, where they removed most of the aforementioned restrictions and into more liberal by unifying the premium and standard segments of the markets, also an investor-driven and disclosure-based regime that enhances transparency and motivates the investors to make informed decisions. The changes to the Listing rules seem to be going in the right direction by striking a balance between maintaining and enhancing the founders' vision and protecting the rights of the shareholders through increased transparency. However, while these changes to the markets look promising, it's a long way for LSE to keep a recognisable foot in international markets

⁶⁴ Supra note 7, 105

⁶⁵ Supra note 7, 104

⁶⁶ Supra note 28

⁶⁷ Michael Dawes, Clive Hopewell, Bird & Bird., "A return to laissez-faire? The FCA's surprising proposals to relax the Listing Rules, [7th September, 2023] < <https://www.twobirds.com/en/insights/2023/uk/a-return-to-laissez-faire-the-fcas-surprising-proposals-to-relax-the-listing-rules>>

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