

Listing in London
An introductory guide



Further information

If you would like further information on any aspect of Listing in London please contact a person mentioned below or the person with whom you usually deal.

Contact

Richard Brown

T +44 (20) 7296 2243

E richard.brown@hoganlovells.com

Nigel Read

T +44 (20) 7296 5121

E nigel.read@hoganlovells.com

Andrew Carey

T +44 (20) 7296 5949

E andrew.carey@hoganlovells.com

Nicola Evans

T +44 (20) 7296 2861

E nicola.evans@hoganlovells.com

Maegen Morrison

T +44 (20) 7296 5064

E maegen.morrison@hoganlovells.com

Katherine Mulhern

T +44 (20) 7296 2112

E katherine.mulhern@hoganlovells.com

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Introduction

LONDON CALLING

The UK is an established international financial centre and provides open and liquid markets for UK and non-UK companies looking for a gateway to an international investor community.

By listing in London, a company obtains access not only to the UK investor market but also that of Europe and beyond. London is one of the world's leading financial centres, with international attraction for listing and trading of equity and other securities. In fact, the only significant group of global investors which cannot be reached from London are US retail investors.

London offers a genuinely liquid market for a company's securities. The regulatory environment is well-respected but not overly burdensome for issuers, and recent developments provide a number of options for companies seeking a listing in London.

Listing on the Official List in London and admission to trading on the London Stock Exchange requires the preparation of a prospectus in accordance with the EU Prospectus Directive. Companies incorporated within the European Economic Area (EEA) may apply for a listing of their shares in London based on a passported prospectus from their home listing authority. UK companies, and generally also those from outside of the EEA, will have their prospectus approved by the United Kingdom Listing Authority (the Financial Services Authority).

Companies incorporated in countries outside the EEA with developed capital markets can list their shares in London to complement an existing listing on another market, in preference to their home market, or to raise capital from a wider investor base.

Companies which are incorporated in non-EEA countries with developing capital markets can also raise capital in London through depositary receipts. The information contained in this note generally applies to both EEA and non-EEA companies, but for further detailed

information on listing in London for non-EEA companies, please refer to our separate client note, entitled "**Listing in London: Non-EEA companies**".

Choices of London market

There are a number of London markets to choose from, depending on the company's equity profile, aspirations and capital structure.

This note focuses on the most popular options for trading companies seeking to list in London, which are:

- Premium listing of shares on the Official List
- Standard listing of shares or depositary receipts on the Official List
- The Alternative Investment Market (AIM)

Shares or depositary receipts?

Depositary receipts were developed by the market as an attempt to provide an efficient means for investors, particularly institutional investors, to trade the securities of international issuers.

Depositary receipts are perceived as offering benefits of reliable and cost-effective investment in shares in international companies, while providing dividends in attractive currencies (for example, US dollars, Euro or Sterling) and, in some cases, the ability to exercise the voting rights attaching to the underlying securities, while avoiding obstacles such as foreign settlement, costly currency conversions, unfamiliar market practices and tax conventions and internal investment restrictions.

Depositary receipts

A depositary receipt is a legal entitlement to obtain securities which is traded rather than the underlying securities. It takes the form of a negotiable certificate which evidences an interest in a fixed number of underlying securities of an issuer. The depositary receipts are issued by a depositary which lodges the underlying securities with a custodian bank. Depositary receipts are generally issued in registered form, as distinct from bearer form, though the home market securities may be either registered or bearer.

Several different types of depositary receipts can be listed and traded in London, including global depositary receipts, American depositary receipts (which are denominated in US dollars) and Euro depositary receipts (which are denominated in Euro).

Depositary receipts are listed under the less onerous Standard listing regime, details of which are set out below.

Official List

Coming to market in London involves both obtaining a listing and admitting shares to trading on a market.

When listing equity securities on the Official List, all trading companies have the choice of two types of listing - "Premium" and "Standard".

Premium listing

A Premium listing will be available only to equity securities issued by trading companies and closed and open-ended investment entities. Issuers with a Premium listing are required to meet the UK's super-equivalent rules which are higher than the EU minimum requirements. These include higher standards of regulation and corporate governance intended to result in greater transparency and investor confidence.

Standard listing

Standard listings cover equity securities other than those issued by investment entities, as well as global depositary receipts and debt securities. A Standard listing provides an issuer with access to the Official List by meeting EU minimum requirements rather than the UK's super-equivalent provisions.

Markets

Securities admitted to listing on the Official List may be admitted to trading on the London Stock Exchange (LSE) and/or various other markets being established to compete with the LSE.

AIM

AIM is the LSE's second market, designed for smaller and newer companies. A company's shares may

be admitted to trading on AIM without that company also having to obtain a listing on the Official List.

The AIM Rules for Companies stipulate no minimum requirements regarding duration of trading record or public distribution of shares and provide some relaxation of the disclosure requirements and continuing obligations following admission.

The Official List

PREMIUM OR STANDARD?

The advantages of listing on the Official List include obtaining a higher profile, the possibility of FTSE indexation (see below) and access to higher trading volumes and liquidity.

However, there are also higher eligibility requirements, as well as corporate governance and disclosure regimes, than those which apply to other markets, such as AIM. The requirements of listing on the Official List, as well as some of the benefits, vary depending on whether an issuer is assigned to the Premium or the Standard segment of the market. The key differences between Premium and Standard listings are highlighted below.

Sponsor

A company undertaking a Premium listing will need to appoint a "sponsor", which will usually be an investment bank, meeting certain criteria. A sponsor is not required for a Standard listing (including a listing of global depositary receipts). The sponsor assumes certain responsibilities to the UK Listing Authority (UKLA) in respect of the company it is sponsoring. The requirement to have a sponsor is part of the 'gold standard' of a Premium listing on the Official List.

The prospectus

A company which is seeking a listing on the Official List for the first time, either as a Premium or a Standard listing, must publish a prospectus which complies with Europe-wide content requirements and has been approved by the UKLA (or the home state regulator for an EEA company). The prospectus provides potential investors with the information they need to make an informed decision on the company and its securities. It must include information such as independently-audited financial figures, details of the directors' salaries and contracts, and information on major shareholders.

A company listed in one European country can list or make a public offer in any other Member State of the EEA.

Any prospectus approved by the competent authority in any EEA member state will be valid for public offers and admissions to the UK, without the prospectus needing to be approved by the UKLA.

Minimum capitalisation and securities in public hands (free float)

The minimum capitalisation of the company should be £700,000 and at least 25% of its shares or, if applicable, global depositary receipts should be owned by people unconnected to the business. These requirements are the same regardless of whether the company is seeking a Premium or Standard listing.

Trading record

In general, a company applying for a Premium listing of shares in London needs to have a trading record of at least three years, including a three year revenue earning record covering at least 75% of the company's business. However, the UKLA's rules also allow certain types of companies (such as mineral companies, scientific research-based companies and fast-growing innovative technology businesses) to list with shorter trading records, as long as they meet certain additional criteria. There is no minimum trading record applicable to Standard listings.

Continuing obligations

Once the company's shares have been listed and admitted to trading, it must fulfil a number of obligations on a continuing basis. These include producing half-year and independently-audited full year financial reports within a set timeframe, and notifying the market of any new price-sensitive information. Standard listings (including global depositary receipts) are subject to a reduced regime.

The table at Appendix 2 sets out variations in the continuing obligations that apply across the markets/products.

Pre-emption rights

Overseas companies with Premium listings are required to offer pre-emption rights to their existing shareholders when they make an offer of shares for cash, unless the company has obtained shareholder approval to disapply any pre-emption rights in its constitution. The relevant rule applies to companies listed from 6 April 2010. Overseas companies listed before that date need only comply from 5 April 2011.

Accounting standards

Europe has mandated IFRS or equivalent¹ for listed companies. If a company's historic financial information is not stated according to IFRS (or equivalent), it may be necessary for that company to restate such information as investors looking to compare the company with other internationally listed companies will prefer to see IFRS accounts.

FTSE UK Index Series

Premium listed companies are potentially eligible for the FTSE UK Index Series, including the FTSE 100 Index, one of the most widely recognised indices around the world. Inclusion in the FTSE UK Index Series is determined by FTSE according to published ground rules. The FTSE UK Index Series is open to eligible companies with UK nationality (based on FTSE's country allocation in accordance with its ground rules) and a Premium listing. Companies with a Standard listing are not eligible for inclusion in the FTSE UK Index Series.

¹ GAAPs of the following countries are treated as being equivalent to IFRS: US, Japan, China, Canada, South Korea and India.

AIM

FLEXIBLE REGIME FOR SMALLER COMPANIES

AIM is the LSE's international market for small and mid-cap companies ranging from young, venture capital-backed businesses to more established businesses. Since its launch in 1995, more than 3,000 companies have been admitted to AIM, including more than 500 overseas companies. There are currently over 1,200 companies admitted to AIM.

Simplified regulatory requirements

AIM's success is built upon a simplified, flexible regulatory environment which was specifically designed for the needs of smaller, growing companies. However, as the market has evolved, a number of larger and/or international companies have also benefited from this regulatory flexibility.

Nominated adviser

An issuer seeking access to AIM must appoint a nominated adviser (or "Nomad"), which is typically an investment bank which may also underwrite any share offering. The Nomad has to confirm to the LSE that the issuer is appropriate for joining AIM. Once admitted to AIM, a company has ongoing disclosure requirements and must retain a Nomad at all times.

The admission document

A company seeking admission to AIM will need to produce a disclosure document (the "admission document"). The disclosure requirements relating to the admission document are less stringent than for a prospectus required for a Premium or Standard listing on the Official List, and there is no requirement for the admission document to be approved or "pre-vetted" by a regulator. Rather, it is the responsibility of the Nomad to verify that all admission requirements have been complied with.

Minimum capitalisation and securities in public hands (free float)

There is no minimum capitalisation requirement for a company seeking admission to AIM, nor is there a minimum free float requirement (that is, a minimum percentage of the shares in the company which must be owned by people unconnected to the business).

Trading record

As with a Standard listing on the Official List, there is no need to have a three year trading record.

Continuing obligations

Once a company is admitted to AIM, the continuing obligations regime is much lighter than that imposed on companies listed on the Official List. For example, no shareholder approval is required for most transactions.

The table at Appendix 2 sets out variations in the continuing obligations that apply across the markets/products.

Tax benefits

Some corporate and individual investors can benefit from specific tax advantages from admission to AIM that do not apply to companies listed on the Official List. Certain individual investors can benefit from capital gains tax and Enterprise Investment Scheme relief, and certain corporate investors can benefit from the Corporate Venturing Scheme (the Corporate Venturing Scheme does not apply to shares issued after 31 March 2010). Other requirements must be met in relation to both the investor and the investee company in addition to the investee company's admission to AIM for these tax advantages to be available.

There is a helpful guide to AIM tax benefits at: <http://www.londonstockexchange.com/companies-and-advisors/aim/documents/a-guide-to-aim-tax-benefits.pdf>

Accounting standards

The AIM Rules for Companies mandate the use of International Accounting Standards (IAS) for all AIM companies

where they are incorporated in an EEA country. For companies which are not incorporated in an EEA country, the AIM Rules for Companies require accounts to be prepared in accordance with IAS or US, Canadian, Australian or Japanese Generally Accepted Accounting Principles (GAAP).

Investing and natural resources companies on AIM

Companies which have, as their primary business or objective, the investing of its funds in securities, businesses or assets of any description must comply with the AIM Guidance Note for Investing Companies. This Guidance Note sets out specific guidelines for the admission of investing companies to AIM and provides for additional and ongoing disclosure obligations in order to ensure that these companies comply with best practice in the market.

Natural resources companies must comply with the AIM Guidance Note for Mining, Oil and Gas Companies. This Guidance Note sets out specific guidelines for the admission of mining, oil and gas companies to AIM and provides for ongoing disclosure obligations in order to ensure that these companies comply with best practice in the market.

Corporate governance

Investors increasingly focus on corporate governance and will expect all companies to report on their compliance with applicable corporate governance standards.

Official List

Premium listing

The core UK standard is the Combined Code on Corporate Governance on which reporting is currently mandatory for companies incorporated and listed in the UK. However, for financial years beginning after 31 December 2009, the requirement to report against the Combined Code will be extended to non-UK companies which have Premium listings.

The Combined Code regime is generally one of "comply or explain"—adherence to the Combined Code is not mandatory but reporting on compliance is. Key provisions of the Combined Code include:

- **Board structure**

Companies must have an appropriate balance of executives and non-executives. Except for smaller companies, independent non-executives should represent at least half of the board. The chairman should be an independent director.

- **Board committees**

The board is required to have a nomination committee, audit committee and remuneration committee. The Combined Code requires that the nomination committee should be made up of a majority of independent non-executive directors and that the audit and remuneration committees comprise at least two non-executive directors, all of whom are considered independent.

Standard listing

Companies with shares or global depositary receipts listed by way of a Standard listing will be required to disclose the corporate governance code

with which they comply, and explain any non-compliance with that code. Companies must describe their internal control and risk management arrangements in relation to the financial reporting process.

Audit committee

All listed companies must have an audit committee with at least one independent member and at least one member competent in accounting and/or in audit.

The audit committee must: monitor the financial reporting process; monitor the effectiveness of internal control, internal audit and risk management systems; monitor the statutory audit; and review and monitor the independence of the statutory auditor and, in particular, the provision of additional services to the company.

AIM companies

AIM companies are not required to comply with the Combined Code but it is considered best practice to do so. The Quoted Companies' Alliance Corporate Governance Guidelines, which are a reduced form of the Combined Code targeting AIM companies, represent a simpler, less time-consuming framework. Companies intending to admit their shares to AIM should consider at an early stage appointing independent non-executive directors and setting up nomination, audit and remuneration committees. The corporate governance burden on companies has increased in recent years and, as a result, experienced non-executive directors are in increasing demand.

Moving up

Companies may move between markets for a number of reasons. For example, a company may choose to move from AIM to the Official List for improved access to liquidity or greater recognition. If it did not have a three year record, it would join the Standard segment, which would also enable it to take advantage of the reduced continuing obligations regime. At a later stage, it might then choose to move up to the Premium segment to benefit from the potential for listing on the FTSE UK Index Series.

Moving from AIM to the Official List

There is no "fast-track" procedure for moving from AIM to the Official List, and so any company seeking to do so will need to fulfil the same requirements for listing and admission as a company coming to the market for the first time. If the company is seeking a Premium listing, this will include appointing a sponsor and ensuring that the company meets the requirement of a three year trading record. The company will need to produce a prospectus regardless of whether it is applying for a Premium or a Standard listing.

A company moving from AIM to a Premium or Standard listing must ensure that it is aware of the increased corporate governance and continuing obligations requirements. However, an established AIM company will have made the cultural shift from private to public and should be familiar with corporate governance and timely market disclosure requirements.

Moving between Standard and Premium

Companies that have a Standard or Premium listing may move between the segments without cancelling their listings. Companies that wish to move down from a Premium listing to a Standard listing, or cancel their listing, will have to obtain prior shareholder approval.

Other procedural requirements will apply to a company switching between Standard and Premium listings (and vice versa), including:

- notifying the Financial Services Authority and setting out how the issuer satisfies the requirements of the segment to which it is seeking to transfer
- if applicable, seeking shareholder approval for the migration by sending a circular to the company's shareholders giving at least 20 days' notice, and obtaining approval from at least 75% of the shareholders
- if shareholder approval is not required, informing the market of the proposed migration through a regulatory information service announcement.

Appendix 1

Comparison of the Official List and AIM

Official List Premium Listing	Official List Standard Listing	AIM
Pre-vetting of prospectus by the Financial Services Authority as the UK's listing authority (UKLA)	Pre-vetting of prospectus by the Financial Services Authority as the UK's listing authority (UKLA)	Admission document not pre-vetted by LSE or UKLA
Normally three year trading record required	No trading record requirement	No trading record requirement
Minimum 25% of listed securities in public hands	Minimum 25% of listed securities in public hands	No minimum requirement
Minimum market capitalisation (£700,000)	Minimum market capitalisation (£700,000)	No minimum market capitalisation
IFRS or equivalent accounting standards ²	IFRS or equivalent accounting standards ³	IAS or equivalent accounting standards ³
Sponsor needed for listing and certain transactions	No requirement to have a sponsor	Nominated adviser required at all times
Overseas companies required to offer pre-emption rights to existing shareholders (unless dis-applied with shareholder approval)	No requirement to offer pre-emption rights	No requirement to offer pre-emption rights
Admitted to trading on an EU "regulated market"	Admitted to trading on an EU "regulated market"	Not admitted to trading on an EU "regulated market"
Potential eligibility for the FTSE UK Index Series	Not eligible for the FTSE UK Index Series	Potentially eligible for FTSE AIM indices

² For non-EEA issuers equivalent = US, Japanese, Chinese, Canadian, South Korean and Indian GAAP.

Appendix 2

The road ahead – continuing obligations

	Official List Premium Listing	Official List Standard Listing	AIM
Keep insider lists	Required	Required	Not required
Price sensitive information	General obligation to keep the market informed as soon as possible	General obligation to keep the market informed as soon as possible	Must be notified without delay
Shareholder approval of transactions	Shareholder approval required for Class 1 transactions (transactions which exceed 25% of any of the class tests)	Not required	Only on reverse takeover and on a disposal which exceeds 75% or more of class tests
Related party transactions	Shareholder approval required	Not required	Only notification required
Dealings in close period	Model Code applies and restricts dealing	Model Code does not apply	Similar restrictions on share dealings apply
Interim reporting	Half yearly reporting. Interim management statements on a quarterly basis	Same as for Premium listing	Half yearly reporting
Timing for accounts	Annual report – within four months of the end of the financial period Half yearly reporting – within two months of the end of the relevant financial period Interim management statements – between ten weeks after the beginning, and six weeks before the end, of the relevant financial period	Same as for Premium listing	Annual accounts – within six months of the end of the financial period Half yearly reporting – within three months of the end of the relevant financial period

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