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THE STANDARD LISTING:
Sub-standard or a greater AIM?

What are the best routes to the equity capital markets in the UK? The Main Market's new two-tier system offers the option of a Premium or Standard listing – the latter is subject only to the minimum EU requirements. But with the Alternative Investment Market (AIM) already seen as a less stringent route to a UK listing, what does the Standard listing offer that AIM doesn't? In this article, Criticaleye asks **Neil Matthews**, *Head of Equity Capital Markets at Eversheds, and* **Marcus Stuttard**, *Head of AIM at the London Stock Exchange, why a UK issuer may or may not consider a Standard listing as a viable option.*

Since 6 April 2010, companies issuing shares on the Official List can choose to obtain either a Premium or Standard listing. This is as a result of a review by the UK Listing Authority (UKLA). The Standard listing replaces the old Secondary listing, which was only open to non-UK companies, and now offers UK and overseas companies the same opportunities to list on the Main Market.

THE LAWYER'S VIEW – NEIL MATTHEWS, HEAD OF EQUITY CAPITAL MARKETS, EVERSHEDS

For UK companies, it seems there are now three routes to accessing the UK's equity capital markets - a Premium listing or a Standard listing on the Main Market or admission to AIM. So what is the role of the Standard listing and what does this option add to the London market?

On the one hand, the UKLA's review has broadly met its objective of giving UK and international companies parity when enjoying the benefits of a London listing: overseas issuers wishing to have a Premium listing will now be required to follow the same rules as UK companies in areas such as corporate governance and compliance with pre-emption rights requirements. On the other, companies that wish to comply with EU-minimum listing standards but not the UK's 'super-equivalent' rules - those additional requirements set by the UKLA over and above the minimum required by EU legislation - can now still obtain a listing on the Main Market when previously AIM was their only real option.

COMMUNITY COMMENT

David Flin, Assistant Director, Corporate Broking, Investec Investment Banking

"From an institutional investor perspective, the Standard Listing remains largely untested to date, with relatively little activity and the highest profile listings being cash shell acquisition vehicles. Accordingly, investors have not yet formed a view as to whether the protections afforded under a Standard listing are sufficient to promote this as a viable alternative to the more established listing options. Nor is it likely that the creation of the Standard listing has led to a broadening of the pool of capital available to businesses compared to AIM. In the short term, it is not clear what catalysts exist to allow the Standard listing to become a popular choice for new businesses coming to market (as opposed to specialist investment vehicles)."

COMMUNITY COMMENT

Paul Clarke, Criticaleye Associate

"With the right dialogue between a company and its investors, a Standard listing might be the right environment for a company to reduce transaction costs and go through a period of growth before reverting back to a Premium listing.. It is also useful for companies which do not have the appropriate trading record for a Premium listing. They can join the Main Market with the stated intention of becoming Premium listed at the first available opportunity. It would be interesting to see whether the stance of FTSE and other index companies changed if a highly liquid and popular company chose the Standard listed route. If investors demanded a change then it might happen. After all, other European indices are populated by companies that have entered their domestic markets using a Standard listing as they do not have the gold-plated version that is our Premium listing."

So why should a UK issuer consider a Standard listing? Well, access to a listed market with an international reputation, for starters. But also lower regulatory requirements - an issuer with a Standard listing is not required to comply with UK 'super equivalent' provisions - and, therefore, lower ongoing compliance costs. This can translate into significant cash savings.

For example, no sponsor is required, so the prohibitive costs of an investment bank can be avoided. Similarly, if the issuer is not required to comply with the UK Corporate Governance Code, it could reduce its spend on non-executive directors. Further savings could be made if a material transaction is exacted with lower regulatory obstacles, such as the requirement to seek shareholder approval.

If you're an AIM company that feels your valuation is being prejudiced, you might think it's worth saving money and switching to Standard. From the issuer's perspective, the ability to secure the 'badge of quality' that the Official List proffers, combined with lower compliance costs when compared with a Premium listing or, arguably, AIM, a Standard listing might appeal. But ultimately, will the investor community support it? And if not, what's the point of it? Who felt it was necessary other than EU bureaucrats?

There has been remarkably little interest shown by UK companies thus far. And institutional investors, initially unsure of the regime change and what the advantages and disadvantages might be, have gradually come to realise that a listing regime based only on EU-minimum requirements does not offer investors the protection that they have been used to when investing in Official List companies.

Does it even offer the same level of comfort as an investment on AIM? At least investors can rely on the fact that an AIM quoted company must appoint and retain at all times a nominated advisor (NOMAD) - responsible for assessing and signing off on its suitability for AIM admission and available to assist the company in complying with AIM rules. The UKLA has also stated that companies with a Standard listing will not be eligible for inclusion in reported UK indices, thus removing one of the perceived benefits of being listed on the Official List.

AIM's detractors have increased over the last couple of years – it isn't a perfect solution. But if investors can regain their enthusiasm for AIM, which continues to offer growth companies and their investors a flexible yet appropriately regulated market, then for any UK company seeking to float and which meets the eligibility requirements on both, the choice will rarely be anything other than between a Premium listing or AIM.

COMMUNITY COMMENT

Kelvin Harrison, Chairman of Maxima Holdings plc

"The benefit for a smaller quoted company of a full LSE listing compared with AIM was already very limited. The only real positive was prestige and that is of debatable value. The introduction of the Premium rating has essentially devalued the Standard listing, making AIM more attractive for a small to medium-sized business. You have the same institutions investing in AIM stocks as in smaller LSE companies - providing that you appropriately apply the Corporate Governance Code - and private investors in AIM stocks have the benefit of exemption from inheritance tax. I would argue that this results in equivalent liquidity. An AIM quotation also has lower costs and gives the company increased flexibility in raising capital for acquisitions."

THE RESPONSE FROM THE LONDON STOCK EXCHANGE – MARCUS STUTTARD, HEAD OF AIM, LONDON STOCK EXCHANGE

The Standard listing was set up fundamentally to offer greater choice. Historically, there have been UK companies that haven't been able to comply with the eligibility requirements of a Premium listing, so the Standard listing now gives them the option of a Main Market listing. A factor in this choice will be an issuer's assessment of the standards that will be expected by its target investor group. Success will ultimately come down to investor preference and we are certainly seeing evidence that companies considering a Standard listing are, based on investor feedback, being advised to voluntarily adopt many of the 'super-equivalent' provisions that apply to a Premium listing.

The rationale for opening up the Standard listing segment to UK companies was not driven by any specific agenda or expectation of large numbers of companies signing-up immediately - it simply reflects a desire to level a playing field where there was no good reason to continue limiting the choice for UK companies.

The Standard listing is an additional route to market, rather than a replacement, or threat to AIM. The companies on AIM chose the tailored regulatory environment that it offers. For many, a major consideration when choosing a public market is to benefit from peer-group comparison. AIM, like the Premium listing, already has a critical mass of companies, so by joining them it helps put a company on the radar of analysts that have a sector focus. The other spin-off benefits include the access to an established network of investors, NOMADs, brokers, market makers and all the other intermediaries that support the market. The NOMADs are there to offer assistance and vouch for their client companies and shouldn't be viewed simply as a cost that can be avoided through a Standard listing.

The UKLA undertook a review of the UK listing regime to clarify the labelling of the various routes to market. It was clear that when choosing between a Primary and a Secondary listing on the Main Market, the term 'secondary' wasn't very helpful as it implied a company needed a primary listing on another market, which wasn't the case. The terms 'premium' and 'standard' provide clarity for companies and investors alike. The standard option is new in the respect that it is open to UK companies, but essentially, it's not that different from the original 'secondary' option.

COMMUNITY COMMENT

Mario Levis, Professor of Finance, Cass Business School

"One of the key objectives for the new listings standards is to enable the UK to compete more effectively with the European and even US markets for new listings. The lighter approach would be of interest to some of them that look for London as a wider pool of capital, with better liquidity, more institutional investors and firmer valuations and lower cost of capital. At the same time the Standard listing represents a delicate balancing act of complying with EU guidelines and protecting the standards in the Main Market. The main differences between the Premium and Standard listing relate to the length of period of audited historical financial information and trading record and type of corporate governance requirements. Such differences although significant, they don't on their own, lessen the level of investors' protection. It is important, however, that investors are fully aware of such differences and take all the necessary steps to fully examine the risks and value of their investments. The Sarbanes–Oxley experience in the US clearly demonstrates that investors appreciate the value of listings requirements."

In essence, the Standard listing gives companies access to a public listing on the Main Market. But the 'super-equivalent' provisions - those that apply over and above the EU minimum standards, such as the Combined Code - do not apply to the company's corporate governance and 'the Model Code' does not apply in respect of the dealing in the company's securities by directors and employees. This makes a Standard listing an attractive option for certain types of companies, particularly those that undertake specialist types of transactions, such as Special Purpose Acquisition Companies.

There are a number of key differences between both the regulatory framework and the 'product benefits' of AIM, a Premium and a Standard listing. Similarly, you can compare the relative merits of listing on AIM with a Standard listing, such as the tailored regulatory model, the support of the NOMAD and the relevant tax incentives for investors. Eligibility criteria for inclusion in UK indices, such as the FTSE 100, are set by the index providers based on feedback from the end users and the Exchange has no agenda in influencing those decisions.

QUOTE FROM THE UK LISTING AUTHORITY

A spokesperson for the UKLA comments: "Two key objectives of the introduction of Premium and Standard options have been to deliver: enhanced clarity for all participants, while maintaining - as fully supported by the market - the UK badge of quality represented by the super-equivalent Premium listing requirements; and a level playing field for issuers so that the same rules apply for securities of the same category, irrespective of the nationality of the issuer.

"It's also important to point out that, while an AIM quotation does impose some requirements going beyond a Standard listing - particularly requiring a NOMAD – a Standard listing also requires compliance with the Transparency Directive and the free float requirement imposed by the Listing Rules, which do not apply in full to securities admitted to trading on AIM. A prospectus, which is vetted by the UKLA, is only required for AIM companies when a public offer is made, which is unusual. In most circumstances an admission document is produced which requires fewer disclosures than a public offer prospectus. We would not therefore agree that a Standard listing imposes lower obligations on issuers than a quotation on AIM."

Neil Matthews
Partner & Head of Equity Capital Markets, Eversheds

Neil is a partner in the corporate group at international law firm Eversheds, where he also heads Eversheds' international Equity Capital Markets Group. Neil is a member of the London Stock Exchange's AIM Advisory Group and is a regular speaker on the topic of IPOs and corporate governance.

Marcus Stuttard
Head of AIM, London Stock Exchange

Marcus was appointed Head of AIM in April 2009. He is responsible for the management and development of AIM, the London Stock Exchange's international growth market for small and medium sized enterprises. He is also a director of TOKYO AIM, the JV between the LSE and Tokyo Stock Exchange Group to develop a new market for growing companies in Japan and Asia.

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