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Listing Investment Funds in the UK

The UK Financial Services Authority (FSA) has issued the latest of three consultation papers (CP07/12) on listing investment entities on the London Stock Exchange (LSE), and has confirmed its intention to proceed on the basis of "a single platform for all listed closed-ended investment funds, irrespective of domicile", having previously been in favour of a twin-track approach incorporating EU directive minimum standards on the one hand and a more prescriptive regime on the other.

The rules now proposed represent a more liberal version of the original super-equivalent regime (Chapter 15 of the Listing Rules) with standards of investor protection more robust than those on competing locations, such as Euronext Amsterdam and, which some argue, will make London more attractive as a result.

An interim regime will be instituted from September this year when the FSA will implement changes to the listing rules for investment funds including:

- Allowing listed funds to pursue a wider range of risk-spreading strategies, including the long/short strategies used by hedge funds, and the taking of controlling stakes subject to certain conditions, including no cross-financing between portfolio companies nor any common treasury functions.
- Permitting property funds (REITs) structured as closed-ended investment funds to have the same investment restrictions and governance requirements as other funds.
- Removing of most super-equivalent rules for exchange-traded funds and other open-ended funds.

In the first quarter of 2008, Chapter 14 (dealing with secondary listings for offshore companies) will be closed to new listings. Further deregulatory changes will then be made, including the following:

- Removal of the requirement that, as a condition for listing, investment funds must have sufficient investment management experience. Instead, the board will be responsible for ensuring that a company has "sufficient and appropriate expertise" to manage its portfolio.
- The board of the fund will be considered independent of its manager by being comprised of a simple majority of independent directors and an independent chairman. The present board independence requirement prohibits more than one fund manager representative from sitting on the fund's board.
- Feeder funds, commonly used in hedge fund structures, will be permitted to list separately provided they demonstrate that they spread investment risk.

- A new exemption will be established within the "related party rules", aimed at facilitating co-investment by listed investment funds with other funds managed by the same manager.

It remains to be seen whether these changes will win new business for London or whether the LSE's competitors' less prescriptive regimes will continue to be the listing venue of choice, at least for alternative investment funds. An AIM quotation continues to provide an alternative route to the market for some funds, unaffected by the latest FSA consultation that deals only with full LSE listings.

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