

## Chapter 8

# Equity shares (commercial companies): related party transactions

## 8.2 Requirements for related party transactions

### General requirements for related party transactions

- 8.2.1 **R** If a *listed company* enters into a *related party transaction* where any *percentage ratio* is 5% or more, the *listed company* must:
- (1) obtain the approval of its board for the transaction or arrangement before it is entered into;
  - (2) ensure that any *director* who is, or an *associate* of whom is, the *related party*, or who is a *director* of the *related party*, does not take part in the board's consideration of the transaction or arrangement and does not vote on the relevant board resolution;
  - (3) before entering into the transaction or arrangement, obtain written confirmation from a *sponsor* that the terms of the proposed transaction or arrangement with the *related party* are fair and reasonable as far as the *security* holders of the *listed company* are concerned; and
  - (4) notify a *RIS* as soon as possible after the terms of the transaction or arrangement are agreed.
- 8.2.2 **R** The notification must include:
- (1) details of the *related party transaction*, including:
    - (a) the name of the *related party*;
    - (b) the value of the consideration for the transaction or arrangement; and
    - (c) a description of the transaction or arrangement;
  - (2) the fact that the transaction or arrangement is a *related party transaction* which fell within **■ UKLR 8.2.1R**;
  - (3) details of the nature and extent of the *related party's* interest in the transaction(s) or arrangement(s);
  - (4) a statement by the board that the transaction or arrangement is fair and reasonable as far as the *security* holders of the *company* are concerned and that the *directors* have been so advised by a *sponsor*; and

(5) the name of the sponsor that provided the written confirmation in  
■ UKLR 8.2.1R(3).

**8.2.3** **R** The notification must also include any further information the *company* considers relevant, having regard to the purpose of this chapter set out in  
■ UKLR 8.1.2G.

**8.2.4** **G** ■ UKLR 8.2.2R(4) does not require the notification to include an explanation of the basis of preparation for the board's conclusion that the transaction is fair and reasonable, or an explanation of the *sponsor's* advice. The *FCA* does not expect the notification to include explanations of the basis of preparation, as this could be seen to limit the validity of the confirmation. Instead, a clean confirmation, tracking the wording used in ■ UKLR 8.2.2R(4), should be given.

**8.2.5** **R** If, before the completion of a *related party transaction* referred to in  
■ UKLR 8.2.1R that has been notified in accordance with this section, there is a material change to the terms of the transaction, the *listed company* must comply again separately with ■ UKLR 8.2.1R to ■ UKLR 8.2.3R in relation to the transaction.

**8.2.6** **G** The *FCA* would (among other things) generally consider an increase of 10% or more in the consideration payable to be a material change to the terms of the transaction.

### Aggregation of transactions in any 12-month period

**8.2.7** **R**

- (1) Subject to (3), if a *listed company* enters into transactions or arrangements with the same *related party* (and any of its *associates*) in any 12-month period, the transactions or arrangements must be aggregated.
- (2) If any *percentage ratio* is 5% or more for the aggregated transactions or arrangements, the *listed company*:
  - (a) must comply with ■ UKLR 8.2.1R, in respect of the latest transaction or arrangement; and
  - (b) the notification required by ■ UKLR 8.2.1R(4) must include:
    - (i) all of the information required by ■ UKLR 8.2.2R for the latest transaction or arrangement;
    - (ii) the information required in ■ UKLR 8.2.2R(1) to ■ (3) for the other aggregated transactions or arrangements; and
    - (iii) the information required by ■ UKLR 8.2.3R.
- (3) Transactions or arrangements completed during the 12-month period in (1) are not required to be aggregated with the latest transaction or arrangement if they were previously classified as a *related party transaction* notifiable (individually or collectively) under ■ UKLR 8.2.1R or ■ UKLR 8.2.7R(2).

### Supplementary notification

8.2.8

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- (1) A *listed company* must notify a *RIS* as soon as possible if, after the notification under ■ UKLR 8.2.1R(4), it becomes aware that:
  - (a) there has been a material change affecting any matter contained in that earlier notification (other than a material change to the terms of the transaction to which ■ UKLR 8.2.5R applies); or
  - (b) a material new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification.
- (2) The supplementary notification must:
  - (a) give details of the change or new matter; and
  - (b) contain a statement that, except as disclosed:
    - (i) there has been no material change affecting any matter contained in the earlier notification; and
    - (ii) no other material new matter has arisen which would have been required to be mentioned in that earlier notification if it had arisen at the time of the preparation of that notification.
- (3) In paragraphs (1) and (2), 'material' means material for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the *listed company* and the rights attaching to any *securities* forming part of the consideration.

### Sovereign controlling shareholders

8.2.9

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In the case of a *related party* which is a *sovereign controlling shareholder* or an *associate* of a *sovereign controlling shareholder*, where:

- (1) a *listed company* is a *sovereign controlled commercial company* and:
  - (a) has a *sovereign controlling shareholder* which was a *controlling shareholder* on the first occasion on which the *company* made an application for the *admission of equity shares* to the *equity shares (commercial companies)* category;
  - (b) has made a notification in accordance with ■ UKLR 6.4.18R and ■ UKLR 6.4.19R; or
  - (c) made an announcement in accordance with ■ UKLR 21.5.6.R(2) and ■ UKLR 21.5.9R when it transferred the *listing* of its *equity shares* to the *equity shares (commercial companies)* category; and
- (2) the *sovereign controlling shareholder* is either:
  - (a) recognised by the government of the *UK* as a State; or
  - (b) the *UK*,■ UKLR 8.2.1R(2) and ■ (3) and ■ UKLR 8.2.2R(4) and ■ (5) do not apply.