

IUKFP
India - UK Financial Partnership

Catalysing bilateral growth: Connecting India and the UK's equity capital markets



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Foreword

Since its creation by the UK Chancellor and Indian Finance Minister in 2014, the India-UK Financial Partnership has continued to play a pivotal role in fostering collaboration between India and the UK financial sector. As both nations deepen their economic and financial ties, the IUKFP has served as a key platform for dialogue, policy advocacy and financial services innovation. Over the years, this partnership has facilitated not only discussion, but also tangible policy outcomes on critical areas such as FinTech, GIFT City, bond markets, insurance and broader financial market reforms, that mutually benefit both countries and enhance bilateral relations.

This paper on capital market connectivity presents a bold and forward-looking vision. It lays the foundation for advancing capital account convertibility and strengthening confidence in both UK and Indian exchanges on a global scale. Its recommendations can serve as a catalyst for meaningful discussions between policymakers and drive greater connectivity and dynamism between UK and Indian capital markets.

However, realising this vision requires careful consideration of several key factors:

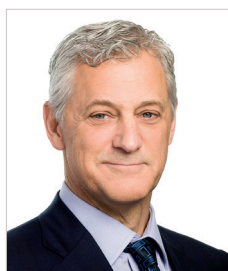
- Timing – Assessing when the Indian economy will be optimally positioned to apply the recommended policy levers.
- External account strength – Ensuring India’s macroeconomic stability supports greater capital flow flexibility.
- Competitiveness – Enhancing India’s capital markets to compete with global exchanges.
- Geopolitics – Navigating the evolving global landscape to safeguard mutual strategic interests.
- Implementation roadmap – Defining clear steps to achieve the policy priorities, including regulatory and market infrastructure reforms.
- Cross-border listing opportunities – Exploring similar partnerships with other economies to broaden India’s global market presence.
- Cost Benefit Analysis at the national level – Evaluating economic and financial trade-offs to ensure long-term sustainability.

At a time when global financial markets are evolving rapidly, we hope that this paper can drive an informed debate and constructive action in both countries for mutual benefits. Crucially, the recommendations provide a significant opportunity to bolster UK-India connectivity, prosperity, and growth. We are very grateful to all working group members for their valuable contribution to this work and we hope it serves as a useful resource for all stakeholders committed to advancing India-UK financial cooperation.



Uday Kotak

Founder & Director –
Kotak Mahindra Bank Limited
and Co-Chair, IUKFP



Bill Winters CBE

Group Chief Executive,
Standard Chartered
and Co-Chair, IUKFP

Introduction

At the 11th UK-India Economic and Financial Dialogue (EFD) in September 2021, the Chancellor of the Exchequer and the Finance Minister of India provided the IUKFP with a mandate to examine the potential for capital markets connectivity between the two countries.

In January 2023, the IUKFP launched its working group on equity capital markets connectivity. Co-led by Bahram Vakil, Founding Partner of AZB and Partners, and Mohan Bhuyan, Primary Markets Lead for India, London Stock Exchange Group, the objective of the working group is to explore the creation of an equity capital markets link focusing on bilateral ways in which the UK and Indian regimes could be adjusted or adapted to support respective capital raising and investment.

The co-leads are supported by a working group comprising expert practitioners from across the financial and related professional services industries in India and the UK. The full list of working group members can be found in the appendix. The group has met several times over the last two years to define the scope of work and outline the existing issues and barriers that need to be addressed to establish a bilateral equity capital markets connectivity mechanism between the UK and India. The co-leads presented an outline of these issues at the Financial Markets Dialogue held in London in April 2023, where they were asked by HM Treasury and the Ministry of Finance to provide a final set of recommendations in advance of the next EFD, which will take place on 9 April 2025.

In this report, the working group has provided a set of actionable recommendations to enhance bilateral equity capital markets connectivity through equity share cross listings between Indian and UK stock exchanges.

Executive Summary

In December 2018, the Securities and Exchange Board of India's (SEBI) Expert Committee for the Listing of Equity Shares of Companies Incorporated in India on Foreign Stock Exchanges and of Companies Incorporated Outside India on Indian Stock Exchanges wrote in its report:

“The fast-growing liberalised Indian economy is anchored on the principles of transparency and ease of doing business promoted by Government of India. This has provided a boost to foreign corporates to actively participate in the growth of the Indian economy and compete with established as well as new companies incorporated in India. This may, therefore, be an opportune time to consider further liberalising the equity capital raising framework by allowing companies incorporated outside India the opportunity to access the vibrant Indian equity capital markets. At the same time, it is also an opportune time to enable companies incorporated in India to directly access the global equity capital markets.”

What was considered opportune in 2018 is even more so today, more than six years after the SEBI report was published and accepted by the Government of India. India's equity markets have now attained global standards, depth and heft. Fuelled by increasingly larger portions of people's savings flowing into the equity market through mutual, insurance and pension funds and directly, and the growing interest of foreign investors, India's overall market capitalisation crossed the \$5trn mark in 2024. Last year, India became the world's leading market for IPOs, the world's largest equity derivatives market by volume, and the world's second largest in terms of equity capital market activity and fund raising. Additionally, India is now the world's fifth largest economy with a GDP of \$4.27trn and is expected to become the world's third largest economy by the end of the decade.

All these qualities have now brought India's equity market to a position where it should attract the attention of international issuers of equity, particularly those that operate in India. The authors of this report envision a near-future when international companies will be considering India as a capital pool of global scale and issuing equity securities to Indian investors as a means of accessing this valuable pool.

There are some in India who assert that India's well developed equity markets with its rich valuations, large domestic and foreign investor base, and a market depth that can accommodate billions of dollars plus capital raisings, are adequate for Indian companies, and that they don't need to seek funding or investors outside the country. However, India's insatiable appetite for capital to fund its infrastructure, fight climate change, grow its manufacturing base and generate skilled employment opportunities, as well as the global ambitions of its companies, belie that theory.

Ambitious Indian companies seeking to establish a global footprint may seek an overseas equity listing not just to access equity capital beyond what is available through the Foreign Portfolio Investors/Foreign Direct Investment (FPI/FDI) and private equity routes, but also to broaden their investor base, seek specialist investors, and more patient and permanent capital than that available through private equity, enable overseas mergers and acquisitions, and incentivise their increasingly international employee bases. The same applies in reverse for foreign companies and investment funds looking to India. Equity share listings by such companies and investment funds will internationalise India's National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), making them global stock exchanges and allow Indian investors to diversify their equity investments into quality international stocks without drawing down on their individual foreign exchange quotas through the Liberalised Remittance Scheme (LRS). An additional benefit for India is that an equity cross listing link will enable companies that have established overseas domiciles and stock exchange listings to attain an Indian or 'home' listing as well.

Since the mid 1990's, listed Indian companies have been able to access international equity markets by issuing Depository Receipts (DRs), and many have done so by issuing and listing DRs in London, Luxembourg and New York. However, this method is no longer considered optimal by issuers or investors and there have been virtually no issuances of DRs by Indian companies in the last 10 years or so. In the other direction, India had implemented an Indian Depository Receipts (IDR) policy for overseas companies. This route was used by only one international company, thus the experience was not considered successful and interest in IDRs have since faded away. Therefore, it is the belief of the IUKFP Equity Capital Market Connectivity Working Group that ordinary equity shares offer a simpler, cost-effective issuer and investor friendly alternative to DRs for equity funding in both directions.

Since the publication of the SEBI Expert Group's Report on Cross Border Equity Share Listings in 2018, India has taken several regulatory and policy steps to enable overseas equity listings. In October 2023, the Indian Companies Act 2013 was amended for public companies to issue such class of securities to be listed on a permitted stock exchanges in a 'permissible foreign jurisdiction'. In July 2023, the Union Minister for Finance and Corporate Affairs announced that direct listings of Indian Companies at GIFT-IFSC exchanges in the first phase would be enabled. Subsequently, on 24 January 2024, the Department of Economic Affairs (DEA), Ministry of Finance, amended the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, and notified the 'Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme'. Simultaneously, the Ministry of Corporate Affairs (MCA) issued the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 and notified IFSC-Gift City and its two international exchanges owned by NSE and BSE as the first permitted jurisdiction and stock exchanges. These changes collectively, provide an overarching regulatory framework to enable public Indian companies to issue and list their shares in permitted international exchanges.

Meanwhile in the UK, the Financial Conduct Authority (FCA) concluded its Primary Markets Effectiveness Review and introduced improved eligibility criteria, rules and disclosure requirements for a new consolidated Main Market of the London Stock Exchange. The new Main Market also has a new 'International Secondary Listing' category, aimed at attracting dual listings from overseas companies with appropriate regulation so that an overseas company choosing a secondary listing in this category should not have a materially higher regulatory burden than it has on its primary exchange. This new segment has already admitted secondary listings from companies with primary listings in Hong Kong and the United States.

The above policy developments in India and the UK dovetail well for the establishment of a seamless India-UK Equity Connection Arrangement. The IUKFP Working Group believes that by initiating this arrangement with equity share cross listings by already listed companies in both markets, the growth ambitions and equity strategies of India and UK-based companies can be met without affecting the growth, prospects and further development of either country's equity markets. The pioneering policy, groundwork and infrastructure that will be laid down for an India-UK equity cross listing arrangement will also serve as a template for similar arrangements with other global markets. And in the future, this can also serve as the base-case arrangement for Initial Public Offers (IPOs) by unlisted and private companies in either market.

However, some additional policy changes must be made, and a few obstacles overcome in order to implement a smooth and functional equity cross listing arrangement and these are detailed below.

Regulations and policy

In the UK, there are no regulatory and policy changes required to enable listed Indian equity shares to be listed and traded through London's International Secondary Segment and settled on the UK's Crest system. Nor are policy changes required for UK listed equity shares to be listed, traded and settled in India.

For Indian shares to be listed, traded and settled in the UK, the UK needs to be added as a Permitted Jurisdiction in the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules 2024 and London Stock Exchange, added as permitted stock exchanges.

In India, the provisions of the Issue of Capital and Disclosure Requirements (ICDR) related to further equity offerings—such as rights issues, further public offerings, preferential allotments, or qualified institutional placements—will need to be amended to allow Indian listed entities to undertake such issuances on the London Stock Exchange. Similar provisions will be required in ICDR for UK companies to be listed on the Indian exchanges.

Companies seeking admission to London's International Secondary Segment are expected to adhere to the corporate governance and disclosure norms of their primary market. Additional disclosures under the UK's Market Abuse Rules (MAR) related to publishing a list of insiders and proper and prompt disclosure of their trading activities will not be required.

For UK listed companies seeking a listing in India, there may be differences between the Continuous Obligations prescribed by FCA and SEBI's Listing Obligations and Disclosure Requirements (LODR) mainly related to corporate governance, promoter (controlling shareholder holding majority) identification, and materiality based on geographical reasons. This report recommends a comparative study be conducted and, if required, tailored requirements be made applicable to UK companies seeking a listing in India.

Prospectuses

Prospectus regulation is evolving in the UK, with the FCA currently conducting a consultation that is expected to conclude soon, and its agreed recommendations will be implemented later this year (2025). This report considers various scenarios under which a prospectus may or may not be required for an overseas company seeking a secondary listing in London with or without an offer of securities. Currently, a company seeking a listing in the UK for the first time will be required to produce a prospectus, but after the new prospectus rules are implemented, it is likely that there will be a scenario in which overseas companies seeking a secondary listing in the UK can do so with less onerous documentation.

The report also makes a recommendation for the FCA and SEBI to jointly work towards mutual recognition of prospectuses and offer documents. While the content of such documents in both jurisdictions may be largely similar, format and style are very different thereby complicating the review and approval process for regulators in either jurisdiction. The Working Group recognises that this is a resource intensive process and suggests this as a medium-term recommendation.

Accounting standards

The UK requires companies seeking a listing and admission to trading to report its accounts using IFRS and be audited per international audit standards. India prescribes the India Accounting Standard (Ind-AS) and the Indian Audit Standard (IAS) for its companies. Ind-AS is converged and harmonised with IFRS, but there are a few differences. While having to recast accounts and audits in IFRS and international audit standards will not be deal-breakers, they do impose an additional burdens and costs on Indian companies seeking a London listing. This report recommends that the UK conducts a comparative study on both Indian standards for permitting equivalence, as they are closely aligned with international standards. It also recommends that India allows UK companies reporting in IFRS to seek a listing in India. The Working Group appreciates that comparative studies of accounting and audit standards will involve considerable resources, time and costs and suggests this as a medium-term recommendation.

Taxation

Fair and equitable policies in both jurisdictions on the taxes that are triggered by the trading and transfer of shares such as capital gains tax, stamp duty, securities transaction tax and dividend distribution tax, are vital for the successful implementation and smooth functioning of a potential India-UK equity cross linking arrangement. The Working Group recommends that these taxes and duties are levied only in the jurisdictions in which the trading has taken place (avoiding double taxation) and in which the investors are resident. Such precedents already exist on the tax treatment for DRs and on equity share trading in IFSC-Gift City and can be extended for the trading of equity shares in either jurisdiction.

Disclosure of significant beneficial ownership

In India, a significant beneficial owner (or SBO) with respect to a company is someone who indirectly or together with direct holdings: (i) owns at least 10% of the shares, (ii) has 10% or more of the voting rights, (iii) is entitled to at least 10% of the distributable dividends in a financial year, or (iv) has the right to exercise, or actually exercises, significant influence or control. 'Significant influence' means participating in financial and operating policy decisions without having full control or joint control.

UK regulations require shareholders of an overseas company to notify the issuer of changes in its voting rights at prescribed thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%. There is no expectation that an Indian company with a primary listing in India and seeking a listing on the International Secondary Segment will need to put in place arrangements for requiring the disclosure of beneficial ownership in addition to those that apply as per Indian corporate law in India. However, since UK's SBO reporting requirements start at a lower threshold (5%) than India's (10%), the Working Group recommends that UK standards be accepted by India for the secondary listings of Indian companies in the UK, for which a precedent exists under SEBI's Depository Receipts Framework, 2019.

It should be noted that secondary listings between large-scale equity markets (such as London and Mumbai) are made by admitting smaller proportions of the total outstanding equity of a company. The home market will remain the primary market, and the bulk of the outstanding equity and free float will be available in the home market. It is not expected that significant acquisitions of equity along with their voting rights will take place in the venue of the secondary listing.

Settlement

The Working Group has undertaken an in-depth examination of settlement issues, particularly noting that foreign equity shares require a UK ‘wrapper’—known as a Depository Interest—for settlement within CREST, the UK’s central securities depository operated by Euroclear UK & International (EUI).

Two methods for cross border settlement can be used:

- Crest Depository Interests (CDI): issued by a CREST nominee through an international settlement link between EUI, Euroclear Bank, and their CSD counterparts in India (NSDL & CDSL).
- Depository Interests (DI): issued by a UK company registrar holding an account with the Indian CSDs and establishing an overseas branch register for the companies issuing their shares in the UK.

In either method, the following requirements in Indian policy should be considered:

- Permission to operate through Omnibus or Nominee accounts with Indian CSDs whereas current Indian law mandates Segregated Account structures.
- All shares of the relevant class in a company must be capable of being listed and traded on UK markets as well as in the home market.
- Multiple levels of beneficial ownership must be recognised whilst allowing them to be custodied through omnibus accounts.
- Implement the tax-related recommendation.

Without these changes, a viable and functional equity cross listing between India and the UK will not be possible because in a segregated model, all trading internationally would require settlement to occur at the home CSD, defeating the purpose of enabling investors to trade and settle UK and Indian shares in their respective local market. However, it is emphasised that in a secondary listing arrangement between two highly equity markets, the bulk of the trading and liquidity remains in the home market. It would also be beneficial to apply such changes to India’s domestic government debt so that international investors could access these in the same manner.

Liquidity

The Working Group has conducted an in-depth review on the question of cross border trading, generating and maintaining liquidity in the home and secondary markets and opportunities that arise such as arbitrage. The Working Group envisions an environment in which trading will function smoothly in both home markets (India and UK) and between both markets, with liquidity created, managed and bi-directionally fungible and not siloed. The requirements for such an environment are:

- Liquidity events upon listing: while it will be possible for companies to attain a secondary listing in both markets via introduction, capital raising either through primary issuances or secondary sell-downs (known as Offers for Sale in India) will ensure that liquidity is created in the secondary listing, as well as profile and visibility for local investors.

- Removal of friction and barriers to liquidity, such as duties, transaction costs and exchange controls.
- Re-positioning services: CSDs and registrars offer services such that trading in either market can be settled within the settlement windows of both markets (currently T+1 in India and T+2 in the UK in 2027). For this functionality, omnibus and nominee accounts are vital. Securities moving from the UK to India are expected to be available in India on T+1, aligning with the settlement timeframe. Conversely, securities moving from India to the UK could be made available on the same trading day due to time zone advantages, allowing transactions to be processed after the Indian market closes but while the UK market remains open. These services are also effective in ensuring that price differences that may arise between both markets are ironed out in quick time.
- Market participants: Market makers, arbitrage participants, and institutional investors play a key role in maintaining liquidity pools across multiple markets. These participants often leverage stock loans and internal rebalancing strategies to facilitate settlements efficiently. The key consideration remains minimising friction in cross-border movements, such as transaction costs, regulatory hurdles, or settlement delays.

Next steps

The first required step would be to notify the UK as a permitted jurisdiction in the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024, followed closely by decisions on nominee accounts and taxation. Setting up an India-UK equity link will involve upfront legal and operational costs for some market infrastructure participants, especially for settlement in both jurisdictions, for which policy certainty is a prerequisite. No short-term policy changes are required on the UK side to enable the link.

Thereafter, an implementation Working Group could be established, reporting to the Ministry of Finance in India and HM Treasury in the UK. Co-chaired by SEBI and the FCA, the group would include representatives from institutions in both countries – such as stock exchanges, clearing houses, Central Securities Depositories, registrars and share transfer agents, investment banks, and law firms. This group would be well positioned to develop the framework for enabling equity cross-listings between India and the UK.

Main recommendation

The IUKFP Working Group on equity capital markets connectivity recommends that the Indian and UK equity markets be connected by allowing and enabling the cross listing of equity shares between both markets, thereby creating the opportunity for the raising of equity capital in one market by companies that have a primary listing in the other market. Thus, Indian companies with a primary listing on India's NSE and/or BSE Ltd. will be able to obtain a secondary listing on the London Stock Exchange, and UK and international companies with a primary listing on the LSE will be able to have a secondary listing on the NSE and BSE.

Rationale

An equity capital markets connectivity mechanism between the two countries through the cross listing of common equity shares would provide the following benefits:

- It would increase and help diversify the sources of capital for India's National Infrastructure Pipeline, which requires approximately \$4.5trn in funding by 2030. It would also contribute to meeting India's energy transition objectives, which are projected to require around \$2trn by 2030 and support the country's ambitious plans to expand its manufacturing sector to 25% of GDP.
- Allow Indian companies to retain their domicile while providing them a new and more effective route than the existing DRs policy to access overseas capital and global investors. Start-ups and private companies with their operations wholly in India would not have to flip their domicile to another country for a future overseas listing and access to global capital and investors.
- Enable the internationalisation and growth of India's major stock exchanges NSE and BSE. While India's equity capital market with a total market capitalisation \$5trn now rubs shoulders with global markets in terms of size, it remains a purely domestic issuer-only market.
- Widen the investor base available to Indian companies beyond Foreign Portfolio Investors (FPIs), such as to UK based institutional investors (80% of whom do not currently invest in Indian-listed equities). It would also give Indian companies access to specialist assets under management such as Deep Technology Funds, Carbon Funds, ESG Funds and the like.
- Allow UK listed companies to benefit from India's now large and well-developed capital market and its huge domestic investor base comprising of Indian mutual funds, pension funds, insurance funds, high net-worth investors and millions of retail investors.
- Allow UK listed investment funds holding shares, bonds and alternate assets to tap a new investor base – domestic Indian investors seeking exposure to UK, US and European securities and assets without having to tap into their Liberalised Remittance Scheme (LRS) limits.

- Increase the number of stocks in both markets that are available to institutional and retail investors for investment. Indian retail investors will not have to draw down on their Liberalised Remittance Scheme (LRS) limits while investing in UK companies listed in India. Research has also shown that an additional dual listing in an overseas market increases liquidity in the domestic market (see section on liquidity).
- Enable overseas incorporated companies having Indian founders and substantial operations in India to seek a 'home' listing.
- Equity shares denominated in GBP/USD provides an international acquisition currency for global M&A and employee incentives (ESOP) for international employees. Similarly, equity shares of UK companies denominated in INR will enable M&A and ESOPs in India.
- The UK is an ideal partner for a bilateral equity capital market connect mechanism because London offers the largest international capital pool among the leading IFSCs of the world. Dedicated Assets Under Management (AUM) in the UK is currently \$467bn, the largest such pool in Europe. Since the mid-1990s more than 70 Indian companies have benefitted from this pool, raising \$15bn, which is a fraction of India's requirements. A bilateral connect will enable more of this equity capital pool to flow to India.
- While a dual listing mechanism through the issuance of Global Depositary Receipts (GDRs) in London and Indian Depositary Receipts (IDRs) in Mumbai currently exists, this route has not been used in recent years. This point will be explained in more detail below.
- Recent capital markets reforms in the UK and India have now made it possible for an exclusive cross-listing framework to be introduced that will enable companies in both markets to seek a secondary listing in the other. This is also explained in more detail below.

Other recommendations

Regulatory requirements

In order to establish a viable equity capital markets connection between India and UK, the primary requirements from an Indian regulatory perspective will be to include the UK as a permitted jurisdiction and the London Stock Exchange (LSE) as permitted stock exchanges in India's Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules 2024.

To permit equity shares issued by UK incorporated companies to list on Indian stock exchanges, a provision akin to Section 390¹ of the Companies Act, 2013, would need to be introduced enabling SEBI to formulate regulations permitting the listing of equity shares of companies listed on LSE on Indian Stock Exchanges.

Prospectuses

The FCA should have authority to review and approve prospectuses in respect of Indian applicants for a cross listing. An Indian company would be able to use its Indian Accounting Standards financial statements, and once listed, the Indian company would be subject to the same continuing obligations as other secondary listed companies from around the world.

The Securities and Exchange Board of India (SEBI) would have the authority to review and approve prospectuses of UK companies seeking a cross listing in India.

Both the FCA and SEBI undertake an exercise to compare the contents, format, style and language used in prospectuses in either market with a view towards mutual recognition of prospectuses issued in either jurisdiction. The Working Group recognises that this is a resource intensive process and suggests this as a medium-term recommendation for both parties.

¹ Section 390 of the Act provides: Central Government may make rules applicable for— (a) the offer of Indian Depository Receipts; (b) the requirement of disclosures in prospectus or letter of offer issued in connection with Indian Depository Receipts; (c) the manner in which the Indian Depository Receipts shall be dealt with in a depository mode and by custodian and underwriters; and (d) the manner of sale, transfer or transmission of Indian Depository Receipts, by a company incorporated or to be incorporated outside India, whether the company has or has not established, or will or will not establish, any place of business in India.

Accounting and audit standards

The UK and its regulatory authorities, namely the Financial Reporting Council (FRC) and FCA, initiate a study on Indian Accounting Standards (Ind-AS) and Indian Audit Standards with a view towards granting equivalence to IFRS and international audit standards. Ind-AS is the accounting standard used by all listed companies and represents an advancement over the older accounting standard known as Indian GAAP. It was developed to align India's accounting standards with IFRS and is substantially converged with them – an important factor that should support the case for the UK to grant equivalence. While not a necessary condition to enable equity cross listings in the UK, equivalence would remove the need to recast accounts into IFRS and revise audited accounts for the past three years per international audit standards, all of which adds to delay as well as costs and disincentivises companies from international secondary listings. The Working Group appreciates that comparative studies of accounting and audit standards will involve considerable resources, time and costs and would like to categorise this as a medium-term recommendation.

Similarly, we recommend that Indian authorities permit IFRS and international audit standards for overseas companies seeking a secondary listing in India.

Beneficial ownership

In secondary listings on overseas exchanges, typically only a small proportion of a company's issued equity is traded, with the majority of the free float remaining in the home market. Consequently, it is uncommon for significant share acquisitions to occur through the secondary market.

We recommend that the government of India and the SEBI accept the UK's SBO reporting requirements for secondary listings of Indian equity shares in the UK. Under UK regulations, shareholders of an overseas company are required to notify the issuer of changes in its voting rights at prescribed thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%. Upon reaching any of these thresholds, the relevant shareholder must notify the company and disclose the chain of controlled undertakings through which the voting rights are held. In cases of indirect holdings, this includes disclosure of the full holding structure up to the ultimate beneficial owner.

There is no expectation that an Indian company with a primary listing in India and seeking a listing on the International Secondary Segment will be required to implement beneficial ownership disclosure arrangements beyond those mandated under Indian corporate laws. However, since the UK's SBO reporting requirements start at a lower threshold (5%) than India's (10%), it is recommended that UK standards be accepted by India for the secondary listings of Indian companies in the UK, should Indian authorities desire a lower threshold for such disclosures. A precedent for this already exists, as India has accepted beneficial ownership reporting requirements of the UK and certain other jurisdictions in the context of DRs.

Taxation

The tax treatment of capital gains and losses arising for the transfer of Indian equity shares between investors trading on an overseas exchange should be the same as the current tax treatment applicable to DRs. This would mean that capital gains on equity share transfers be taxed in the home country of the investor and not be subject to double taxation in India.

Similarly, capital gains arising from the transfer of UK shares on Indian exchanges should be subject to the same tax treatment as the transfer of Indian shares on Indian exchanges. Such tax measures are essential to support a functional cross-listing framework between India and the UK.

Settlement

We recommend that India allows the use of Omnibus accounts by Central Securities Depositories and registrars and share transfer agents (directly or through their appointed local custodians) with their Indian counterparts to facilitate the seamless clearing and settlement of trading of equity shares listed by Indian companies in the UK and by UK companies in India. Without the permission for Omnibus accounts for this use case, a functional and economical equity cross listing arrangement between both nations will be impossible to implement. Additionally, any benefits accrued can be leveraged for India's government debt.

Next steps

On the acceptance of this report by both governments and consequently a decision is taken to establish an equity cross listing link between India and the UK, the first required step would be to notify the UK as a permitted jurisdiction in the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024. No policy changes are required on the UK side to enable equity listings of Indian companies in the UK or to permit UK listed companies to take an additional listing in India.

In addition to notifying the UK as a Permitted Jurisdiction, the Government of India will also need to make timely decisions regarding taxation and the use of nominee accounts. Establishing a cross-border equity link will require a lead time of several months and will involve both legal and operational costs for several market infrastructure participants, particularly with respect to settlement in both jurisdictions. It is therefore essential to ensure policy and regulatory certainty before these costs are undertaken.

Thereafter, an Implementation Working Group will be required, reporting to India's Ministry of Finance and the UK's HM Treasury. Co-chaired by SEBI and the FCA, the group can draw its members from key institutions in both countries, including stock exchanges, clearing houses, central securities depositories (CSDs), registrars, investment banks, and law firms. This group would be tasked with examining the proposition in depth, addressing potential obstacles, and developing the framework for enabling equity cross-listings between India and the UK.

The current scenario and recent regulatory developments in India and the UK

In January 2024, the Government of India introduced the Companies (Listing of equity shares in permissible jurisdictions) Rules 2024, allowing unlisted and listed public companies to “issue their securities for the purpose of listing on permitted stock exchanges in permitted jurisdictions”. The First Schedule of these Rules listed International Financial Services Centres in India as Permitted Jurisdictions and the India International Exchange and the NSE International Exchange (both located in IFSC-GIFT City) as the only Permitted Stock Exchanges. Therefore, a framework is now in place in India for Indian companies to seek additional equity listings on an overseas stock exchange, albeit one in a permitted jurisdiction. For Indian companies to seek a London listing however, the UK will need to be added to the Schedule as a permitted jurisdiction and London Stock Exchange (LSE) as a permitted stock exchange.

Also, it should be noted that the Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024 does not pertain to non-Indian companies seeking to list on Indian stock exchanges. It is likely that the Government of India would prefer to permit overseas company listings in India under separate rules after consulting with the Securities and Exchange Board of India (SEBI).

In July 2024, the FCA in the UK concluded its Primary Markets Effectiveness Review and introduced improved eligibility criteria, rules and disclosure requirements for a new consolidated Main Market of the London Stock Exchange. While the new norms comprehensively cover all segments of the Main Market, what is germane to this paper is the creation of a new ‘International Secondary Listing’ category, aimed at dual listed overseas companies – with appropriate regulation so that a company choosing a secondary listing in this category should not have a materially higher regulatory burden than it has on its primary exchange.

Only companies having a ‘qualifying home listing’ on an overseas regulated, regularly operating, recognised open market that is subject to IOSCO oversight can qualify for the international secondary listing category. The company must be subject to the rules and corporate governance standards of this primary listing and must also be able to confirm that it is in – and has at all times maintained – compliance with the rules of its qualifying home listing and must continue to always remain in compliance with these rules.

Both developments in the UK and India taken together have created an actionable pathway to enable equity share cross listings in both countries. While many operational hurdles must be resolved in areas such as clearing and settlement, transfer/transaction taxes, taxation of capital gains, prospectus requirements and recognition, and accounting standards, the first significant barrier – the creation of an enabling regulatory environment – has now been resolved, albeit requiring another step to include the UK as a permitted jurisdiction and London Stock Exchange as a permitted stock exchange.

The UK has in the past put in place a few different frameworks to enable overseas listed companies to benefit from a streamlined process to list in London. These include the concept of passporting under the EU Prospectus Directive and subsequent EU legislation, and more recently the Shanghai/Shenzhen – London Stock Connect programme.

With the introduction of the Secondary Listing category this year, the creation of a bespoke framework which borrows from both the above precedents is now no longer required to enable the cross listing of companies which are already listed on the NSE and the BSE. The goal to allow Indian companies to also list their shares

in London allowing for the greatest possible liquidity can now be achieved through the new Secondary Listing category. In contrast, under the Shanghai/Shenzhen – London Stock Connect model, Chinese listed companies can only list Global Depositary Receipts, which are typically less liquid than shares. As described in more detail below, we recommend that the FCA has the authority to review and approve prospectuses in respect of Indian applicants for a cross listing, that an Indian company would be able to use its Indian Accounting Standards financial statements, and that once listed, the Indian company would be subject to the same continuing obligations as other secondary listed companies from around the world.

Similarly, we recommend that the SEBI would have the authority review and approve prospectuses of UK companies desirous of a cross listing in India.

UK market reforms

As part of the ongoing reforms to the UK market, there are also wide-reaching proposals to reform the prospectus and secondary capital raising regime. Under these proposals, a prospectus will continue to be required in connection with a company seeking admission of its shares to trading on a UK regulated market for the first time. The information required to be included in the prospectus, and the process for getting it approved and published, will be determined by FCA rules rather than EU-derived legislation.

In any event, prospectus content will continue to be driven partly by the expectations of investors, and the requirements of US securities laws, which in some respects exceed UK regulatory requirements. For secondary issues, it is proposed that a listed company that conducts a pre-emptive offering of shares to its existing shareholders will not trigger the requirement for a prospectus by virtue of it being an offer to the public regardless of the number or nature of the shareholders to whom the offer is made. However, the FCA will make rules to determine whether a secondary issue prospectus or other form of offering document will be required in connection with the increase in the number of shares admitted to trading on the regulated market. The FCA is currently contemplating increasing this threshold from 20% to 75% of the shares already admitted to trading and is considering a range of industry views to decide an appropriate threshold that balances increased flexibility with investor protection. Other proposals include removing the requirement to appoint a sponsor in relation to prospectuses for secondary capital raises and bolstering and utilising the ongoing disclosure in the annual reports and accounts of companies as the medium of providing material information on an ongoing basis to investors.

If enacted in the same form, these reforms would enable an Indian entity with a cross-listing on the LSE to conduct secondary capital raises with limited documentation and consequently less lead time. Furthermore, an Indian entity with a cross-listing on the LSE might be able to undertake significant capital raises and utilise the offer documentation required for secondary capital raises under Indian law (e.g. letters of offer on a rights issue and private placement memoranda on institutional placements) without the need to prepare a separate UK prospectus that must be approved by the FCA. Irrespective of any changes to these rules, to the extent that a secondary issue is to be underwritten, the need for a disclosure document and the contents of that document will continue to be driven by expectations of investors, and the requirements of US securities laws to the extent any shares which are not taken up pursuant to the exercise of pre-emption rights are to be offered to US institutional investors.

The case for equity share cross listings

As noted above, Indian companies can access global capital markets like London by issuing and listing Depositary Receipts (DRs) (known as American Depositary Receipts or ADRs in the US as Global Depositary Receipts or GDRs in Europe and elsewhere), which involved the listing of a class of securities that are certificates representing ordinary underlying shares. Between 2000 and 2018, Indian companies established 177 GDRs and ADRs programme, collectively raising approximately \$30bn. However, since 2012, the number of DR programmes by Indian issuers has declined. The last significant DR transaction occurred in 2018, which was a follow-on offering by an existing issuer. Notably, from January 2012 onwards, there have been only five capital-raising DR issues by Indian companies, with none occurring since 2018. There are several reasons for this:

- New mechanisms to quickly raise equity capital from Qualified Institutional Investors have been developed in India, known as Qualified Institutional Placements (QIP).
- More foreign institutional investors have registered as portfolio investors in India.
- DRs have a unique ISIN and may be considered a separate security from their underlying equity shares.
- DR issues are mostly invested in by Emerging Market (EM) Funds while Indian issuers now typically seek a wider overseas investor base since many investors with EM Funds are also FPIs in India.
- Non-fungibility can make the available stock of DRs reduce over time contributing to lower liquidity.
- Unlike equity share listings, DR listings are not included in most major equity indices.
- DRs are not categorised as part of the public shareholding in India, that is DRs do not contribute to the compulsory 25% public shareholding norm that Indian listed companies have to attain, thereby reducing their appeal to achieving that goal.

As can be seen from these reasons, as well as the fact that issuances have virtually ceased after 2018, Indian issuers no longer seem to find the DR route fit for purpose. However, their need for overseas capital formation, a diversified investor base and a global profile has not diminished and equity cross listings will provide a better option than DRs for these objectives.

The commercial case for cross listings

The following data (source: LSEG) shows that dual listings on London are a tried and tested norm, with the preference being for equity share cross listings.

The London Stock Exchange hosts 259 dual-listed companies, representing 14% of its total listings, including 191 equity share cross-listings and 68 GDR listings, with around a dozen from India. Prominent exchanges for equity share cross-listings with London include the New York Stock Exchange, Johannesburg Stock Exchange, Toronto Stock Exchange, Australian Stock Exchange, Irish Stock Exchange, Euronext Amsterdam, and Nasdaq, while BSE and NSE are among the leaders for GDR issues to London. These dual listings span diverse sectors, notably Basic Materials, Financials, Energy, Consumer Discretionary, Consumer Staples, Healthcare, Industrials, Real Estate, Technology, Utilities, and Telecommunications. Companies from 25 countries have pursued dual listings in London, with an average of five listings per country, though the median is two. While the average

market capitalisation of dual-listed companies in London is \$14.25bn, the median is significantly lower at \$434m, highlighting that additional listings can benefit both large and smaller firms. On average, dual-listed companies raise \$396bn at initial listing and \$123m through subsequent follow-on offers, emphasising London's role as a global exchange with \$467bn in dedicated Assets Under Management enabling continuous capital formation for companies from all over the world. Historical trends from countries like Ireland, Canada, and Australia suggest that dual listings often gain momentum over time, a pattern India could emulate as its regulatory framework evolves and companies start becoming aware of another channel for equity fund raising.

With India's equity capital market surpassing \$5trn in value during 2024, bolstered by substantial inflows from mutual funds, pensions, and insurance, the market could increasingly attract interest from the UK and overseas companies seeking new capital sources. Early signs of interest are evident, with American, Korean, and Japanese conglomerates exploring listings of their Indian subsidiaries. Many companies are also exploring ways to shift their capital structure to India to take advantage of the stable business conditions, simplified regulatory compliance and facilitate listing. While these initial steps may focus on subsidiaries, the continued growth of India's equity markets could drive secondary listings, establishing India as another international capital markets hub, generating new revenue streams for its equity markets ecosystem.

In summary:

- The benefits that could be gained by Indian companies listing in the UK include:
 - A deeper pool of global risk capital. The average Indian IPO size in last five years is \$180m, Indian companies could look to raise this capital through larger IPOs through a diversified investor base (if there are any pools of capital (family offices, funds with UK only mandates, etc.) that are restricted to invest outside of UK).
 - Certain business models that are (apparently) better analysed by overseas investors due to their global exposures, such as ad tech, consumer tech, which means that companies in such businesses would get a chance to evaluate the forums where they could list.
 - Adherence to UK corporate governance (CG) norms, could benefit Indian companies demonstrating their global CG compliance capabilities.
 - Potentially making a company's stock a valuable currency to attract global talent or for acquisitions.
 - Helping to develop a healthy competitive landscape for British companies to improve their performance.
- For UK Companies Listing in India, the benefits could include:
 - Access to the growing Indian market.
 - One of the most attractive global talent pools and ability to own British company stock in India could be attractive to Indian talent.
 - Gaining exposure to a pool of approximately 180 million demat account holders could significantly enhance the UK company's visibility among Indian investors, consumers, and business partners.
 - Listed Indian stock with fungibility in the UK can be an attractive acquisition currency.

Key regulatory issues and frameworks in India

To enable the listing of Indian-listed companies on the LSE, the following issues and related legislation and regulations must be considered:

At the outset, the existing legal framework in India does not permit the listing of equity shares of companies in India on London Stock Exchange (LSE). Similarly, companies listed on LSE cannot list their equity shares on a recognised stock exchange in India at present (Indian Stock Exchange).

A. Companies Act, 2013 and rules thereunder (Companies Act)

Listing of Equity Shares of Indian Listed Companies on LSE

Eligibility

- Section 23(3) of the Companies Act, inserted through the Companies (Amendment) Act, 2020 (Amendment), states that such class of public companies may issue such class of securities to be listed on permitted stock exchanges in a 'permissible foreign jurisdiction'.
- The Government of India has on 24 January 2024, notified Foreign Exchange Management (Non-debt Instruments) Amendment Rules, 2024 and the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 enabling direct listing of equity shares by public Indian companies on the international exchanges in the IFSC (**Direct Listing Framework**).
- In addition to certain eligibility conditions laid down by Direct Listing Framework, as of now, the Direct Listing Framework allows unlisted public Indian companies (which has no partly paid-up shares) to list their equity shares on an international exchange in a permissible jurisdiction. In accordance with the FAQs issued by the IFSCA, SEBI is in the process of issuing the operational guidelines for listed public Indian companies to list their equity shares on international exchanges.
- Currently, only two exchanges namely, India International Exchange and NSE International Exchange in GIFT-IFSC under the regulatory supervision of IFSCA are permitted international exchanges.
- Accordingly, the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 will be required to be amended to identify UK as a permissible jurisdiction and London Stock Exchange as a permissible stock exchange to enable direct listing of equity shares by Indian companies on the London Stock Exchange.

Maintaining register / depository

- In terms of section 88(3) of Companies Act, 2013, the register and index of beneficial owners maintained by a depository are deemed to be the corresponding register and index for the purposes of Companies Act, 2013.
- Analysis will have to be done as to whether the Indian Depositories will maintain the register for the shares listed on the UK stock exchanges and compliance under section 88 of the Companies Act, 2013, read with section 11 of the Depositories Act, 1996.

- As an example, in the case of DRs, the name of the global depository bank/ custodian is recorded in the books of the Indian CSD and is taken to be sufficient to meet the requirement under the Companies Act, 2013. A similar framework may also be considered for Indian companies, whose equity shares are listed on the UK Stock Exchanges and custodised through an omnibus account at the Indian CSD.

Beneficial ownership and shareholding disclosure norms

- As per the Companies (Significant Beneficial Owners) Rules, 2018, an SBO with respect to a company is someone who indirectly or together with direct holdings: (i) owns at least 10% of the shares, (ii) has 10% or more of the voting rights, (iii) is entitled to at least 10% of the distributable dividends in a financial year, or (iv) has the right to exercise, or actually exercises, significant influence or control. 'Significant influence' means participating in financial and operating policy decisions without having full control or joint control.
- Analysis will be required to reconcile Beneficial Ownership norms in the UK and India to enable equity shares Cross Listings.

Operational procedures for a listed entity:

- The provisions of the Companies Act will have to be amended to account for actions by Indian listed companies, listed on the LSE, including: (i) holding of shareholders meetings and voting procedures, and (ii) buy-backs of equity shares.

Listing Equity Shares of LSE Listed Companies on Indian Stock Exchanges

Similar framework as Indian Depository Receipts (IDRs)

A provision similar to Section 390 of the Act² enabling SEBI to make regulations to permit listing of equity shares of companies listed on LSE on Indian Stock Exchanges, will be required to be introduced in the Act.

Investor KYC

Pursuant to the SEBI Circular³, in relation to the Regulation 69(1) of the SEBI LODR Regulations, listed entities are required to file with Indian Stock Exchanges the IDR holding pattern on a quarterly basis within fifteen days of end of the quarter. The prescribed format requires the entities to disclose (i) the name; (ii) number of IDRs held; (iii) percentage holding of entities / persons holding more than one percent of the IDRs issued by the listed entity; (iv) the number of underlying equity shares of the listed entity represented by the total IDRs; and (v) the percentage of equity shares underlying the IDRs as a proportion of the total equity share capital of the listed entity.

Accordingly, a similar framework may be considered for the listing equity shares of LSE Listed companies on Indian Stock Exchanges.

² Section 390 of the Act provides: Central Government may make rules applicable for— (a) the offer of Indian Depository Receipts; (b) the requirement of disclosures in prospectus or letter of offer issued in connection with Indian Depository Receipts; (c) the manner in which the Indian Depository Receipts shall be dealt with in a depository mode and by custodian and underwriters; and (d) the manner of sale, transfer or transmission of Indian Depository Receipts, by a company incorporated or to be incorporated outside India, whether the company has or has not established, or will or will not establish, any place of business in India.

³ SEBI Circular dated November 4, 2015 bearing number CIR/CFD/CMD/9/2015

B. SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 (ICDR Regulations)

Listing Equity Shares of LSE Listed Companies on Indian Stock Exchanges

The ICDR Regulations provides a general framework for eligibility and disclosure requirements in connection with the issuance and listing of equity shares by companies incorporated in India.

For Indian listed companies seeking to list their equity shares on LSE or companies listed on LSE seeking to list their equity shares on Indian Stock Exchanges, there exist two modes (i) raising funds by way of an initial public offering (IPO) which equity shares will be listed on Indian Stock Exchanges or LSE, as applicable, and (ii) by way of a direct listing, which is currently only available on LSE.

Entry Route – the Traditional IPO

The process of undertaking an IPO in India can be cumbersome, involving extensive timelines and disclosures, and regulatory back and forth. From an Indian regulatory perspective, the ICDR Regulations will be required to be amended to harmonise certain critical aspects with respect to IPOs by LSE Listed Companies.

While eligibility criteria for listing on Indian Stock Exchanges and requirements regarding disclosures in offer documents will need to be carefully considered, aspects including (i) IPO dilution norms and minimum public shareholding norms, (ii) identification of 'Promoter(s), Promoter Group and Group Companies'; and (iii) reconciliation of financial statements in accordance with Indian accounting standards, may not appear palatable to LSE Listed Companies so as to attract them to list their equity shares on Indian Stock Exchanges.

These aspects will need to be carefully assessed and aligned with the objective of encouraging LSE-listed companies to list their equity shares on Indian stock exchanges, while also ensuring a level playing field between LSE-listed and Indian-listed companies.

Entry Route – Direct Listing

Subject to certain terms and conditions, the LSE provides for a mechanism under which entities may be directly listed on LSE without raising funds. Though there is a mechanism for direct listing under the Indian law, which requires a waiver from the stock exchanges to go for a direct listing without undertaking a public offering, a simple direct listing route, without seeking such exemption, can be provided for LSE Listed Companies to list their securities in India. However, this benefit will also need to be extended for Indian companies.

(a) Further equity issuances

The applicable provisions of the ICDR Regulations, with respect to further equity issuances (including, for example, additional provisions relating to rights issuances, further public offers, preferential allotments or qualified institutions placements) by Indian listed entities will also be required to be amended to the extent that will enable them to make such further issuances on the LSE.

(b) Price Determination

Determination of price pursuant to such an IPO, whether on the LSE or the Indian Stock Exchanges, may lead to fluctuation of the price on the home Stock Exchange, and result in a potential loss of market capitalisation. Accordingly, the process of filing of a prospectus, and the price determination process will have to be appropriately deliberated upon with a view to minimising any drastic fluctuation.

C. Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (Insider Trading Regulations)

- The object of Insider Trading Regulations is to bring parity of information and prevent favourable access to unpublished price sensitive information. Accordingly, consistency and parity will have to be introduced in respect of disclosures and dissemination of information between London Stock Exchanges as well as Indian Stock Exchanges. The provisions relating to pre-clearance, trading while in possession of unpublished price sensitive information, parameters to determine price sensitive information, closure of trading window and related disclosures would have to be aligned between the UK legal regime and Indian legal regime.
- Further, SEBI powers may have to be examined to prosecute insider trading offences, if carried in the territory of United Kingdom.

D. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations)

Listing Equity Shares of LSE Listed Companies on Indian Stock Exchanges

Re-examining post listing regulations acceptable to both the FCA and SEBI:

There might be challenges, and discrepancies in relation to the continuous post listing compliances under the FCA and SEBI LODR regulations, which include matters relating to corporate governance, promoter identification, disparity relation to materiality based on geographical reasons, among others. Further, in case of variation in the compliance obligations/ requirement for additional compliances prescribed by SEBI or FCA, a comparative analysis of the provisions that are applicable in India along with compliance of the same and the requirements applicable in the UK will need to be carried out. This could also be achieved by implementing certain specific tailored requirements applicable to British Companies accessing Indian market.

Disclosure of Financial Statements:

All Indian companies are required to prepare financial statements in accordance with the Indian Accounting Standards or the Indian Generally Accepted Accounting Principles. Other jurisdictions where Indian Companies may list their securities may require accounting as per different standards and reporting requirements. To facilitate the LSE listed companies, Ministry of Corporate Affairs (MCA) may issue a notification to provide exemption on Accounting Standards to such companies. Alternatively, a reconciliation statement, to supplement the financial statements prepared, may be sought if there are major points of divergence in accounting standards.

E. Investor protection/ grievance redressal, and enforcement of liabilities

Extra-territorial jurisdiction, and way of enforcement in the event civil or criminal liabilities arise, available to both the regulators will have to be established.

Further, mechanisms may be required to be established whereby an Indian investor can file grievances in relation to the entities listed on LSE and visa-versa. Further, it may be contemplated whereby if, and to what extent the regulators can take actions for redressal of such grievances.

Prospectuses and mutual recognition

There are several options in relation to the prospectus regime to achieve the goal of (i) enabling the cross-listing of companies on the BSE, NSE and the LSE and (ii) facilitating the raising of equity capital for such companies in both India and the UK. From a UK perspective, a new regulatory framework for secondary listings of overseas incorporated companies has recently taken effect to make it easier for them to do so. The International Secondary Segment was established as part of the reforms to the UK listing regime which took effect on 29 July 2024. The FCA set out in its consultation papers that the intention behind creating this segment was to ensure that the new listing structure remains accessible to non-UK incorporated companies with a primary listing of their shares on a non-UK stock exchange.

To facilitate the cross-listing of a BSE or NSE listed company on the LSE, there are various options in relation to whether a prospectus is required to be prepared and the form it takes:

- **Option 1** – the Shanghai/Shenzhen Stock Connect model could be followed – this requires the company seeking the cross listing to prepare a prospectus prepared in accordance with UK standards and be approved by the FCA. This would result in a specific prospectus being prepared in accordance with the UK Prospectus Regulation Rules using a UK format. This option is consistent with the current regulatory regime and would not require any legislative or regulatory change and would be compatible with a BSE or NSE listed company obtaining a secondary listing on the International Secondary Segment as described in more detail below. Given the common language used in corporate disclosures in India and the UK, however, there are other options which could be considered as set out below.
- **Option 2** – adapting the ESMA model which created a framework for third country issuers to use prospectuses drawn up in accordance with third country legislation, supplemented by a ‘wrap’ – if this model were adapted, a BSE or NSE listed company could use a SEBI approved prospectus, together with a wrap, to satisfy the requirement to prepare a prospectus for the purposes of an offering to the public or an application for admission of shares to trading. The wrap would include both the specific additional information required under the UK Prospectus Regulation Rules which was not already included in the SEBI approved prospectus and also any other additional information required to satisfy the general ‘necessary information’ test under the UK Financial Services and Markets Act 2000 (FSMA). One downside of this approach is that the format of a SEBI approved prospectus differs considerably from the style and format of a typical UK approved prospectus, and supplementing this with a wrap, would make the document less user friendly. This option would require some degree of regulatory change to facilitate the use of a wrapped document rather than a specifically prepared prospectus.
- **Option 3** – following a mutual recognition model – if based on an examination of Indian securities legislation it was determined that a SEBI approved prospectus contained all the information that would be required to be included in a FCA approved prospectus in the UK, then a mutual recognition model could be adopted whereby a SEBI approved prospectus would be considered by the FCA to satisfy the requirements to prepare a prospectus for the purposes of an offering to the public or an application for admission of shares to trading. This approach would impose the least burden on a BSE/NSE listed company. Downsides of this approach include the difference in style and format between a typical SEBI approved prospectus and a typical UK prospectus and whether a SEBI approved prospectus would satisfy the general ‘necessary information’ test under FSMA. This would be a more significant departure from a regulatory standpoint than Options 1 and 2 above.

- **Option 4** – adapting the model contemplated in the UK Prospectus Regulation which requires only a summary document to be prepared if a company has been listed on a regulated market for at least 18 months and certain other conditions are satisfied– under paragraph PRR 1.2.4 of the UK Prospectus Regulation Rules and Article 1(5)(j) of the UK Prospectus Regulation, there is an exemption from the requirement to prepare a prospectus in connection with an application for admission of shares to trading if a company has been listed on another regulated market and certain other conditions are satisfied, including that the company has been in compliance with its continuing obligations. This model could be adapted such that a company that has been listed on the BSE or NSE for at least a minimum period of time could apply for listing in London preparing only a summary document but not a prospectus. This would require a regulatory change to broaden the current exemption (which is proposed to be carried forward in the FCA's Consultation Paper CP 24/12 published in July 2024) to include BSE/NSE in addition to the existing exemptions for regulated markets.

Each of the options set out above addresses the question of whether a prospectus or other document would need to be prepared and approved in connection with an application for admission of shares to trading in the UK. Irrespective of which option is followed, we assume that the FCA also would need to conduct a review of a BSE/NSE listed company's eligibility for a listing in the International Secondary Segment.

Consideration will also need to be given to the application of the financial promotion regime in the UK in relation to any document which is used in connection with an application for admission of shares to trading in the UK. In the UK, financial promotions are regulated under Section 21 of the FSMA. The key restriction is that a person must not, in the course of business, communicate an invitation or inducement to engage in investment activity unless they are an authorised person for the purposes of FSMA or the communication is approved by an authorised person. The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) exempts certain communications from the general financial promotion restrictions. Such exemptions include communications to professional investors and high net worth individuals, which are the usual exemptions relied on in the context of an IPO in the UK. The Order also contains a specific exemption for non-real time financial promotions that are contained in a prospectus approved by the FCA. Accordingly, depending on which option above is pursued, an amendment to the Order may be required. Furthermore, the Order also exempts non-real time communications or solicited real time communications if the communication relates to securities that are permitted to be traded on a relevant market (which includes the NSE but not the BSE).

Secondary listing on the International Secondary Segment

The FCA and HM Government, acting through HM Treasury, are in the process of making extensive changes to the UK listing ecosystem. As part of this process, at the end of July 2024 the previous Standard and Premium listing segments were merged into a single segment for equity shares in commercial companies, known as the 'ESCC'. In creating the new ESCC single listing segment, the FCA also amended the eligibility requirements and continuing obligations for companies listed on the ESCC, making them less onerous and more disclosure-focused compared to the prior regime.

The FCA recognises that some of the ESCC's requirements may be challenging to comply with for certain overseas issuers seeking a secondary listing of shares in London. Therefore, the FCA has established the International Secondary Segment. A listed Indian entity seeking a cross-listing on the LSE can achieve this by complying with the International Secondary Segment's requirements (summarised below) which, notably, do not require the appointment of a sponsor, thus avoiding the time and cost associated with the sponsor due diligence process.

The International Secondary Segment is designed specifically for non-UK incorporated companies with an existing primary listing in another jurisdiction and is subject to certain qualifying criteria. The primary listing need not be in the jurisdiction of incorporation, but the place of central management and control must be located in either the country of incorporation or the place of primary listing.

The eligibility criteria and continuing obligations applicable to issuers within this segment are largely based on the previous requirements applicable to issuers listed on the former Standard listing segment. The International Secondary Segment is intended to provide a mechanism for non-UK companies with a primary listing outside of the UK to list their shares on the LSE without significantly adding to the regulatory burden which they are already subject to by virtue of having a primary listing elsewhere.

We have set out below a high-level overview of the eligibility requirements for admission and continuing obligations applicable to a non-UK company seeking to obtain a secondary listing on the International Secondary Segment.

Requirements for listing

A company seeking a listing on this segment must satisfy the basic eligibility requirements set out in Chapter 14 of the Listing Rules. In particular:

- (a) the securities must be issued by a body corporate which is an overseas incorporated company
- (b) the company must be in compliance with applicable legal and regulatory requirements
- (c) the company must have published a Prospectus which has been approved by the FCA
- (d) The whole class of shares would have to be listed, otherwise limits on the number of shares entering the UK market as Depositary Interests (DIs) would need to be put in place and this is not possible for DIs.

In addition, the application for listing should be for the entire class of shares proposed to be listed and, upon listing becoming effective, at least 10% of the total number of issued shares of the class of shares to be listed must be (and remain) in public hands and the expected aggregate market value of the shares to be listed in London must be at least £30m.

Consideration would need to be given whether this requirement should be amended in connection with a cross-listing of a BSE or NSE listed company. In our view, given the International Secondary Segment is designed specifically for non-UK companies with a primary listing on a non-UK stock exchange (such as a BSE or NSE listed company), we do not think any amendment or waiver of this minimum free float requirement would be required.

Additional listing requirements include:

1.1.1 Place of central management and control

The company's central management and control must be in its country of incorporation or its qualifying home listing country. If a company is run from a third jurisdiction, it will not be eligible (for example, international groups with a UK plc as their Topco will not be eligible, even if all other requirements are met). This should not be a significant issue for BSE/NSE listed companies.

1.1.2 Qualifying home listing

To be eligible, a company must have shares of the same class admitted to trading on an overseas regulated, regularly operating, recognised open market. The FCA may also require written confirmation that the company is compliant and has at all times been in compliance with the rules applicable to the primary market; and

1.1.3 Continuing obligations

In general, the continuing obligations for companies listed within this segment are the same as those which previously applied to issuers with a Standard listing in London. There are additional continuing obligations to (i) comply with the continuing obligations of the jurisdiction of primary listing (the FCA will consider if the company has necessary systems and controls in place to comply with these obligations) and (ii) ensure that the shares listed in the UK must be the same class as the shares listed overseas. If a company is in any doubt as to whether, or to what extent, a continuing obligation applies, the FCA must be consulted at an early stage.

A company with a listing in this category must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations (Listing Principle 1) and to deal with the FCA in an open and co-operative manner (Listing Principle 2).

A company with a listing on this segment must also consider its obligations under UK MAR and the Disclosure Requirements and Transparency Rules. In particular, a company will be subject to the obligation to notify the public as soon as possible of any inside information which directly concerns it.

1.1.4 Index inclusion

It has been confirmed by FTSE Russell that companies with shares admitted to the International Secondary Segment will not be eligible for inclusion in the FTSE UK Index series. However, companies listed within the secondary listing category will be eligible for inclusion in the FTSE Global Equity Index Series and associated indices, subject to satisfying all other inclusion criteria.

In terms of facilitating the cross-listing of a LSE listed company on the BSE or NSE, in effect the same four options apply. In other words:

- **Option 1** – requiring the company seeking the cross-listing to prepare a prospectus in accordance with Indian requirements.
- **Option 2** – using a UK approved prospectus and supplementing it with a wrap to satisfy any additional Indian disclosure requirements, including information needed to satisfy any general disclosure test.
- **Option 3** – allowing for mutual recognition of a UK approved prospectus for listing on the BSE/NSE.
- **Option 4** – requiring only a short summary document but a prospectus to be prepared so long as the company has been listed in the UK for at least a minimum specified period of time and has been in compliance with its continuing obligations.

Accounting and auditing standards

Questions relating to whether a prospectus is required to be prepared and the form it takes include what historical financial information a BSE/NSE listed company would need to prepare, what accounting standards should such historical financial information be prepared under and what auditing standards are required in relation to the audit of such historical financial information.

Currently companies listed on the BSE and NSE prepare their historical financial information in accordance with Indian Accounting Standards and the audit of this historical financial information is undertaken in accordance with Indian Standards on Auditing. These are considered partially converged with IFRS and International Standards on Auditing, respectively⁴.

To facilitate the cross-listing of a BSE or NSE listed company on the LSE, there are two options in relation to the treatment of historical financial information:

- **Option 1** – the least burdensome option would be for a BSE or NSE listed company to be able to use its historical financial information prepared under Indian Accounting Standards and audited in accordance with Indian Standards on Auditing for inclusion in any prospectus required to satisfy any eligibility requirement in connection with its application for admission of shares to trading and to satisfy its continuing obligations. This would allow BSE/NSE listed companies to use the historical financial information which they are already required to prepare under Indian law and the requirements of the BSE/NSE. Under the Shanghai/Shenzhen Stock Connect model, the intention was for Chinese listed companies to be able to use their existing historical financial statements prepared under PRC GAAP and audited under Chinese Standards on Auditing in order to satisfy the requirements under the UK Listing Rules, the UK Prospectus Regulation Rules and the UK Disclosure Guidance and Transparency Rules (DTRs).

However, the FRC has conducted an assessment of Chinese Standards on Auditing and concluded that there are differences between the Chinese Standards on Auditing and International Standards on Auditing meaning that Chinese companies listed under the Stock Connect model are required to have their post-listing annual historical financial information re-audited in accordance with International Standards on Auditing in order for them to be deemed to satisfy the company's continuing obligations and, in some instances, will be required to re-prepare their annual historical financial information in accordance with IFRS if the auditors are of the view that they are unable to conduct an audit under International Standards on Auditing for annual historical financial information prepared in accordance with PRC GAAP. This imposes a significant administrative burden on Chinese companies and acts as a disincentive from listing in London.

⁴ <https://www.ifac.org/about-ifac/membership/profile/india>

- **Option 2** – If the divergence of Indian Accounting Standards from IFRS is such that it is not considered possible to use Indian Accounting Standards, then alternative options include using a reconciliation of a BSE/NSE listed company's historical financial information to IFRS or a restatement. If Indian Standards on Auditing are not considered to be sufficient, then the only alternative would be for the historical financial statements to be re-audited using International Standards on Auditing (or another auditing standard which is considered to be acceptable in the UK). Given the cost and administrative burden of re-auditing historical financial information, our experience of the Shanghai/Shenzhen Stock Connect model is that this acts as a considerable disincentive for Chinese companies to list in London.

When facilitating the cross-listing of an LSE-listed company on the BSE or NSE, the same options effectively apply. Specifically:

- **Option 1** – allowing a UK listed company to be able to use its historical financial information prepared under IFRS and auditing under International Standards on Auditing in order to satisfy the eligibility requirements and continuing obligations in connection with a listing on the BSE or NSE.
- **Option 2** – requiring a reconciliation or restatement of a UK listed company of its historical financial information to Indian Accounting Standards.

Beneficial ownership and shareholding disclosure norms

In order to facilitate a fungible and efficiently functioning market for companies which are cross-listed between BSE/NSE and LSE, ideally there would be equivalent transparency and disclosure thresholds which would apply in the two markets on beneficial holdings in the shares and any increases or decreases in a significant shareholder's interests or those of a director or member of senior manager of the relevant company.

A company admitted to trading in the UK and its shareholders are subject to the notification regime under Disclosure Guidance and Transparency Rules (the DTRs). Under these rules, different disclosure thresholds apply to companies incorporated in the UK and those incorporated overseas. For a company incorporated in the UK, its shareholders are required to notify the issuer of changes in its voting rights (whether on account of direct shareholding or through indirect holdings of financial instruments) if they reach, exceed or fall below 3% and each 1% threshold thereafter. For an overseas company, its shareholders are only required to notify the issuer of changes in its voting rights at certain prescribed thresholds (5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%). As part of the notification to the company in an FCA prescribed format, the relevant shareholder is also required to identify the chain of controlled undertakings through which voting rights are effectively held and so in case of indirect holdings, the holding structure up to the ultimate beneficial owner is disclosed.

In addition, under Article 19 of the UK Market Abuse Regulation (UK MAR), persons discharging managerial responsibilities of a company admitted to trading (PDMRs) and persons closely associated with them (PCAs) are required to disclose to the company and the FCA any transactions conducted on their own account once the aggregate amount of transactions in a calendar year crosses €5,000. It is typically recommended that disclosures of all such transactions be made notwithstanding the above de minimis threshold.

Both the DTRs and UK MAR would apply in the event a BSE or NSE listed company were to list in London using the International Secondary Segment.

It is also possible for a UK company to serve a notice on a shareholder requiring them to disclose details of the beneficial ownership of those shares. In particular, under Part 22 of the UK Companies Act 2006 (Companies Act), a public company may issue a notice requiring a person it knows, or has reasonable cause to believe, to have an interest in its shares to confirm or deny such an interest and also disclose information about their interest as well as information about any other person with an interest in the shares. Furthermore, similar to the significant beneficial ownership regime in India, under Part 21A of the Companies Act, certain UK companies (but not companies admitted to trading on a regulated market) are required to maintain a register of persons with significant control, the test for determining which, amongst others, is whether a person holds 25% or more of the shares of, or voting rights in, the company.

There is no expectation that a non-UK company listed on a non-UK stock exchange and seeking a listing on the International Secondary Segment have in place arrangements for requiring the disclosure of beneficial ownership beyond those that apply as a matter of domestic corporate law in the jurisdiction of incorporation of the non-UK company.

To facilitate the cross-listing of a BSE or NSE listed company on the LSE, consideration will need to be given to the gaps between the UK and the Indian disclosure regimes, particularly the different disclosure thresholds across both jurisdictions and how these can be reconciled – whether: (i) by the Indian entity complying

with the more onerous requirement on an ongoing basis and making simultaneous disclosures across both markets (as would be case if a BSE or NSE listed company were to list in London using the International Secondary Segment); or (ii) by SEBI and the FCA agreeing to a set of common disclosure requirements for cross-listed Indian entities. Furthermore, persons qualifying as PDMRs / PCAs of a cross-listed Indian entity and the entity itself will need to comply with the notification requirements under UK MAR for PDMR / PCA transactions in addition to any Indian law requirements (and this will be the case if a BSE or NSE listed company were to list in London using the International Secondary Segment). A scoping exercise will need to be carried out to assess whether there are any persons (e.g. members of the 'promoter group' under Indian law) that will get covered within the disclosure regime of one jurisdiction but not the other and how any differing scopes are to be treated for disclosure purposes.

The Perspective from India

Beneficial Ownership

As per the (Indian) Companies Act, a significant beneficial owner (SBO) with respect to a company is someone who indirectly or together with direct holdings: (i) owns at least 10% of the shares, (ii) has 10% or more of the voting rights, (iii) is entitled to at least 10% of the distributable dividends in a financial year, or (iv) has the right to exercise, or actually exercises, significant influence or control. 'Significant influence' means participating in financial and operating policy decisions without having full control or joint control.

Further, with respect to reporting requirements in relation to SBOs: (i) if a company identifies an SBO, it is required to issue a notice in a prescribed format to its shareholder that is connected to such SBO, and (ii) every individual that is or subsequently becomes an SBO of a company, is required to file a declaration in a prescribed format with the company.

Know Your Customer (KYC)

Similarly, as per the Prevention of Money Laundering Act, 2002 (PMLA), reporting entities that are commencing an account-based relationship with any client are required to undertake customer due diligence, which includes identifying and verifying the client, take reasonable steps to understand the client's ownership and control, and determine whether a client is acting on behalf of a beneficial owner and identify the ultimate beneficial owner (UBO) (if any) on a look through basis using reliable and independent sources of identification. The PMLA prescribes an approach for identifying the UBO as an individual that ultimately holds control or ownership or economic interest in the client, and prescribes a 10% threshold for the same.

Foreign direct investment limits

Separately, the Reserve Bank of India has set percentage limits on foreign direct investment (FDI) in companies engaged in specific sectors, known as sectoral caps. The sectoral caps provide for automatic FDI (without requiring any approvals) up to certain extent, and thereafter, any further investment will require government approval. Schedule 1 of the Foreign Exchange Management (Non-Debt Instrument) Rules, 2019, sets out the specific sectoral caps for various sectors, specifically: (i) private sector banking companies are permitted to have up to 49% FDI under the automatic route and up to 74% through the government approval route, and (ii) insurance companies are permitted to have up to 74% FDI under the automatic route. Please note that FDI from countries sharing a land border with India or where the beneficial owner is a resident of such a country requires government approval, regardless of the original entry route. This applies to any direct or indirect transfer of ownership of existing or future FDI and any changes in beneficial ownership.

Segregated and omnibus account structures and the IFSCA perspective thereof

As regards segregated vs omnibus holding account structures, separate segregated accounts of beneficial owners are required to be maintained in India - this was a matter of consideration from an IFSCA perspective as well, in the context of segregated vs omnibus holding account structures. While the IFSCA has currently proceeded on the prevailing Indian basis, i.e., segregated holding account structures, it has been made clear that a path to moving to omnibus holding account structures needs to be charted.

In addition to certain eligibility conditions laid down by Direct Listing Framework, as of now, the Direct Listing Framework allows unlisted public Indian companies (which has no partly paid-up shares) to list their equity shares on an international exchange in a permissible jurisdiction. SEBI is in the process of issuing the operational guidelines for listed public Indian companies.

Currently, only two exchanges namely, India International Exchange and NSE International Exchange in GIFT-IFSC under the regulatory supervision of IFSCA are permitted international exchanges.

Accordingly, the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 will be required to be amended to identify the UK as a permissible jurisdiction and London Stock Exchange as a permissible stock exchange to enable direct listing of equity shares by Indian companies on the London Stock Exchange.

Taxation

(i) Overview of taxation regime governing the transfer of shares of an Indian Company listed in the UK:

While India does not have cross listing / dual listing mechanism with any other jurisdiction currently, please note that Indian companies are permitted do the following:

- Indian Financial Services Centre (IFSC) route: listing of Indian companies on the stock exchanges in the IFSC.
- Global Depository Receipts (GDR) route: List GDR in a stock exchange outside India.
- Accordingly, it may be worth understanding the taxation regime of income streams (dividends distributed and gains on transfer of shares) arising to a person who is non-resident in India under the above routes and consider the same in context of India-UK cross listing / dual listing. Similarly, it may be helpful to consider the tax regime in context of cross listed / dual listed UK companies in other jurisdictions (such as US or the Netherlands).

A summary of the taxation regime in India governing the shares listed on onshore exchange in India, IFSC route and GDR route for non-residents in India has been given below:

Table 1:

Particulars	Onshore stock exchange in India	IFSC route	GDR route
Dividend income	Dividend income is taxable at effective rate of 20.80% to 21.84% ⁵ or tax treaty rates (whichever is more beneficial)	Dividend income is taxable at effective rate of 20.80% to 21.84% ⁶ or treaty rates (whichever is more beneficial)	Dividend income is taxable at 10% ⁷ or treaty rates whichever is more beneficial
Capital gains	Taxable at effective rate of 13% to 13.65% or tax treaty rates (whichever is more beneficial) ⁸	Not taxable ⁹ – where the transaction is denominated in foreign currency	Not taxable ¹⁰ – on account of a specific exemption
Stamp duty	Applicable at 0.015% (on buy and sell transactions)	Not applicable	Exempt

⁵ Section 115A of Income-tax Act, 1961 ('the Act')

⁶ Section 115A of the Act

⁷ Section 115AC of the Act

⁸ Assuming the shares are held for more than 12 months

⁹ Section 47(viiab) of the Act read with Notification No. 16/2020 dated 5 March 2020

¹⁰ Section 47(via) of the Act

Below is the summary of the taxation regime under two scenarios:

- **Scenario 1:** Investment by a UK resident in the shares of a US company: (a) directly on a US stock exchange, and (b) on a UK stock exchange where the shares are cross listed:

Table 2:

Particulars	Shares listed on US exchange		Shares cross listed on UK exchange	
	UK (resident taxation)	US (source taxation)	UK (resident taxation)	US (source taxation)
Dividend	8.75%/33.75%/39.35%	30% or tax treaty rates	8.75%/33.75%/39.35%	30% or tax treaty rates
Capital gains	20%	Exempt for non-residents	20%	Exempt for non-residents
Stamp duty	Not Applicable	Not applicable	Applicable	Not applicable

- **Scenario 2:** Investment by a Dutch resident in the shares of a UK company: (a) directly on a UK stock exchange, and (b) on a Dutch stock exchange where the shares are cross listed.

Table 3:

Particulars	Shares listed on UK exchange		Shares cross listed on Dutch exchange	
	UK (source taxation)	The Netherlands (residence taxation)	UK (source taxation)	The Netherlands (residence taxation)
Dividend	Not taxable	Not taxable (Box 3 regime)	Not taxable	Not taxable (Box 3 regime)
Capital gains	Not taxable	30% (Box 3 regime)	Not taxable	30% (Box 3 regime)
Stamp duty	Applicable	Not applicable	Not applicable	Not applicable

As per Table 2 and Table 3, in general it may be reasonable to consider that source states do not impose taxes on capital gains and in some cases on dividends in case of dual listing.

As per Table 1 above, India has introduced specific capital gains tax exemptions with respect to the GDR route and IFSC route. Therefore, we recommend the following measures be introduced (applying to non-residents) with respect to shares of Indian companies cross-listed/ dual-listed in the UK:

(i) Tax exemption for capital gains

Capital gains arising on sale of shares of Indian companies cross listed / dual listed in the UK, to be eligible for capital gains exemption as part of domestic tax law provisions (similar to GDR route)

(ii) Taxation of dividends at 10%

Dividends distributed by Indian companies cross-listed/ dual listed in the UK to be taxed at 10%, on par with the GDR dividend taxation.

Additionally, we recommend providing for relief to non-resident sellers and buyers from Indian tax registrations and Indian tax compliances (such as CIT returns) as long as applicable taxes are discharged¹¹. In case of UK company shares are listed in India, if there are any UK regulatory provisions that may apply to Indian residents then we recommend introducing a corresponding relief.

(ii) Deductibility of expenses incurred in connection with cross listing/ dual listing in hands of the Company

Typically, cross listing / dual listing involves incurring significant expense due to the costs associated with making the necessary applications, regulatory compliance, preparing and issuing a prospectus and other assorted costs as part of the implementation process.

Following various key judicial decisions, it is generally accepted that expenses incurred in relation to share issue would be capital in nature (even where the funds are incidentally used for business purposes). Therefore, all expenses connected with the IPO would be regarded as capital in nature as they are incurred for expansion of the capital base of the company, irrespective of the manner of end-use.

The domestic Indian income-tax provisions provide for a staggered deduction over the period of five years for expenses incurred in connection with IPOs/fund raise, subject to certain limits and subject to satisfaction of certain conditions¹².

These provisions could be expressly amended to state that expenses incurred in connection with cross listing / dual listing and secondary listing are eligible for deduction in such manner as may be appropriate for cross listing / dual listing as well as secondary listing¹³. This measure would make the cross listing / dual-listing process more tax-payer friendly for the Indian companies and also provide them with tax certainty and prevent disputes regarding their deductibility.

¹¹ There is exemption from filing of tax return when the only chargeable income of the non-resident is dividend from GDRs.

¹² Section 35D of the Act

¹³ CIT v Alembic Chemical Works Co. Ltd. [1993] 201 ITR 250 (Gujarat), Dy. CIT v Great Eastern Energy Corporation Ltd [2019] 112 taxmann.com 412 (Delhi - Trib.) – in these cases it was held that the listing fees paid to stock exchange is a deductible revenue expenditure.

Other transfer taxes

The transfer of shares in an Indian entity attracts a stamp duty of 0.015% on the consideration amount. Additionally, securities transaction tax (STT) is levied on transactions conducted through Indian stock exchanges, with rates determined by the settlement type and delivery terms of the securities. In contrast, the UK Stamp Duty Reserve Tax (SDRT) may not apply to the trading of shares of non-UK incorporated companies listed on UK exchanges under specific circumstances. Similarly, it is understood that transactions involving Global Depository Receipts (GDRs) in India are not subject to stamp duty.

It should be noted that although stamp duty is applicable on the transfer of Indian shares between non-residents, it can be seen in Table 1 that stamp duty is not applicable for shares listed and traded on the IFSC exchanges and is exempted for GDRs. Similarly it is recommended that stamp duty be not applicable on the transfer of equity shares of Indian companies having a secondary listing in London.

To optimise tax efficiency and minimise exposure to source-country stamp duties, it is recommended to establish an appropriate structure, such as depository interests or registrar mechanisms.

As regards to the levy of SDRT by the UK, we understand that the applicability, the percentage (0.5%/1.5%) and the frequency (i.e., one-time or per transaction basis), would typically depend on the following:

- i. the jurisdiction in which the company is incorporated
- ii. the nature of securities listed (i.e., directly as shares or as CREST Depository Interest or as Depository Receipts)
- iii. the manner in which they are traded on the stock exchange (directly or through Registrar that takes the interests on a nominee basis, the level of fungibility accorded etc.).

Accordingly, efficiencies can be achieved with respect to applicability and the rate of SDRT by appropriately operationalising the inter-market connectivity channel between India and the UK.

Tax arbitrage

There will inevitably be some arbitrage as the recommendation is to provide capital gains tax relief for dual listed shares. Arbitrage can exist in the case of GDRs and will be likely with overseas listed equity shares as well. Appropriate rules will need to be framed to ensure that Indian residents cannot subscribe to dual listed shares in the offshore (London) market. This would be a reasonable position and will considerably reduce the incentives to benefit from tax arbitrage.

Pricing norms for equity cross listings through equity offers by Indian companies in the UK and UK companies in India

Listing price of the securities being listed on the new jurisdiction will need to be in accordance with the guidelines of the respective regulator. Establishing clear guidelines for determining the listing price of securities in a secondary jurisdiction is crucial, as it will not only ensure transparency and fairness but also prevent potential arbitrage opportunities that could undermine the integrity of both markets. Finalising a valuation methodology or a floor price guideline will be a critical next step as this proposal moves forward.

Price arbitration across both markets

Price arbitrage due to differences in liquidity and foreign exchange is inevitable. However, similar liquidity variations and minor price arbitrage also exist between BSE and NSE. These discrepancies may be mitigated through broker competition, increased trading costs, and the associated risk of loss.

Large price differences are rare for equity shares listed in two markets, but sudden price or currency FX moves can give rise to a short-term opportunity. However, price arbitrage is not always unwelcome as it encourages brokers to monitor the security and place regular trades in both markets and move securities between markets. That said Positioning Services operated by CSDs and registrars enabling the positioning of adequate shares in both the markets to facilitate settlement within the settlement cycles will also ensure that any price differences that emerge between both markets will be short lived.

Cross trading and liquidity between India and UK markets

It is anticipated that those companies who cross list or take secondary listings on either market (London or India) will do so after ensuring that adequate numbers of shares are admitted to trading to ensure that there is enough liquidity for investors and that the trading of their equity shares can proceed in an orderly function. As such it is anticipated that only those companies with a large and diversified shareholder base and with a significant portion of their equity shares in public hands (free-float) will contemplate an overseas secondary listing. In London the aggregate market value of the shares to be listed must be at least £30m, but it is anticipated that those Indian companies who undertake secondary listings in London will do so with aggregate values in multiples of £30m.

Cross trading between India and UK markets

Unlike in the case of DRs, the equity shares of a cross listed company being simultaneously traded in India and the UK will be of the same class of shares and will have the same International Securities Identification Number (ISIN), albeit they will be quoted in GBP in the UK and in INR in India. This along with the fact that the settlement mechanism and cycle in the UK (see section on Settlement below) is different from that of India, is likely to create two separate pools of liquidity for the same security at least initially. However, this does not rule out cross trading and settlement between India and UK (i.e. non-residents at large), and the eventual formation of a single pool of liquidity across both markets.

Brokers do not need to hold shares in a market in order to place a trade (i.e. on T) but they do need shares available in that market on the settlement date to fulfil the trade (i.e. on 'T+1' in India or 'T+2' in the UK). The ability for brokers to trade in a market before they hold the stock locally will depend on their ability to reposition shares between trade date and settlement date and/or the ability to conduct efficient stock loans, to cover the settlement before their stock arrives from the other market. This is the practice for all cross-listed securities and will not be unique for an India-UK cross listing arrangement.

Liquidity

The main concerns on liquidity are legal and operational structures, seamless fungibility between both markets, liquidity management measures and fragmentation risk.

Legal and operational barriers to liquidity

The Clearing and Settlement System involving links between the Central Securities Depositories or through registrars operating in both countries is primed to ensure seamless fungibility in trading and settlement in both markets. But from a legal standpoint, the segregated account holding system in India presents a significant hurdle that must be addressed before full fungibility can be realised. Until this system is implemented from an Indian legal perspective, liquidity between markets will face structural challenges and the two markets will operate in distinct silos. Thus, Omnibus structures are crucial not only for cross border settlement but also for ensuring seamless liquidity and therefore a successful equity cross listing arrangement between both India and the UK.

For an equity shares cross listing arrangement, fungibility between UK and Indian markets should be assumed, given that the positioning service—whether through a DI or CDI structure—supports cross-border trading. This mechanism is expected to enable the efficient movement of shares between jurisdictions, ensuring that any price discrepancies between the two markets are short-lived.

The efficiency of the above repositioning/settlement process between markets is crucial. As long as securities can be repositioned within the same or following calendar day, liquidity concerns should be minimal. Typically, instructions from India during Indian business hours could be executed in the UK within the same calendar day, whereas movements from the UK to India may settle on the following business day due to time zone differences.

The shift to a T+1 settlement cycle by the UK in 2027 (India is already on T+1), is not expected to complicate dual listings significantly but will require heightened focus on settlement efficiency and liquidity management. Under the current framework, securities moving from the UK to India are expected to be available in India on T+1, aligning with the settlement timeframe. Conversely, securities moving from India to the UK could be made available on the same trading day due to time zone advantages, allowing transactions to be processed after the Indian market closes but while the UK market remains open.

While some markets impose exchange controls that slow overseas transfers, a well-structured dual listing between India and the UK should avoid such barriers. Since the same single security is being traded across both markets with full price transparency and no depository cancellation fees or conversion ratios, the transition to T+1 should not introduce significant challenges.

Drivers of liquidity – will a secondary listing drive liquidity away from the home market?

Liquidity in the domestic market is expected to remain the primary driver of trading activity. Large institutional investors tend to follow the most liquid and active market, which for Indian issuers will continue to be the domestic Indian market. Concerns that dual listings would significantly divert liquidity away from India appear to be unfounded, as there is no substantive evidence suggesting a material shift of trading volumes to overseas markets.

A secondary listing can be established in an alternative market, but liquidity will primarily remain within the primary market unless a liquidity event occurs. The first key consideration is whether a portion of shares can be transferred to the secondary market, which would require either a liquidity event such as a new issuance or coordinated action by existing shareholders to sell their shares into the secondary market.

The ability to trade seamlessly across both markets depends on the level of friction involved. These frictions could arise from transactional costs, such as stamp duty, or from timing constraints related to the process of moving shares between jurisdictions. From an operational standpoint, CDIs and DIs could enable a more efficient movement of shares between the UK and India. Ideally, the transfer process should align with the broader settlement cycle to minimise delays, as already mentioned above.

Enhancing domestic liquidity via a dual listing on the LSE

The table below demonstrates the experience in London with dual listed shares. For the most part adding a London listing has driven a boost for liquidity in the home market.

Table 4:

Issuer Name	LSE Admission Date	Country of Primary Business	Domestic Exchange	Liquidity Period	ADTV on Domestic exchange before LSE listing (\$)	ADTV on Domestic exchange after LSE listing (\$)	% Change in liquidity
International Paper Company	04/02/2025	United States	NYSE	1m	122,875,263.3	156,424,818.1	27.3%
CK Infrastructure Holdings Limited	19/08/2024	Hong Kong	HKSE	6m	13,877,678.0	17,012,167.6	22.6%
Argent Biopharma Ltd¹	09/02/2021	Australia	ASX	1y	153,114.1	454,598.2	196.9%
Wheaton Precious Metals	28/10/2020	Canada	TSX	1y	47,095,788.2	43,974,603.8	6.6%
Taseko Mines Limited	22/11/2019	Canada	TSX	1y	90,624.0	192,186.7	112.1%
Resolute Mining	20/06/2019	Australia	ASX	1y	4,625,743.4	9,555,724.5	106.6%
Gran Tierra	10/10/2018	Colombia	TSX	1y	2,089,385.3	1,726,016.5	-17.4%

Managing liquidity of the secondary listing

There is a possibility that liquidity in a dual listing may naturally migrate back to the home market over time, even if a company initially establishes a strong presence in secondary market. Given that institutional focus and investor interest would likely be stronger in the home market, shares may see higher trading volumes and greater liquidity at home rather than in the secondary market. This has been the case for most GDR listings as well, which were affected by not being two-way fungible (bearing a different ISIN to the underlying equity shares). While cross listings can provide initial opportunities to greatly expand investor reach, sustaining long-term liquidity in both markets will require seamless fungibility in trading and settlement between both markets, engagement with market makers and research analysts, and strong investor relations programmes to retain interest and engagement from investors in either secondary market.

Market makers, arbitrage participants, and institutional investors play a key role in maintaining liquidity pools across multiple markets. These participants often leverage stock loans and internal rebalancing strategies to facilitate settlements efficiently. The key consideration remains minimising friction in cross-border movements, such as transaction costs, regulatory hurdles, or settlement delays.

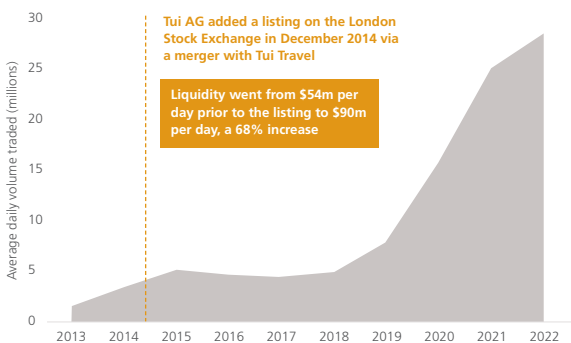
The UK market is unique in having a significant retail investor base directly connected to the CSD. This direct holding model could present an opportunity for market makers and service providers to create liquidity in UK-listed Indian securities.

Precedents show liquidity increases after a dual listing

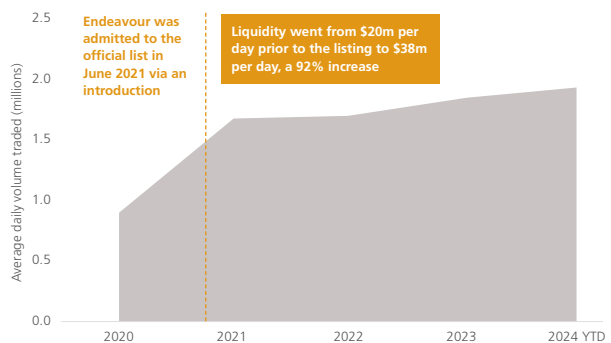
Source: London Stock Exchange, Bloomberg, May 2024.

Addition of a UK Dual Listing can boost liquidity both on the other exchange, and overall – a London listing unlocks access to a liquid market even when an issuer is admitted via a non-capital raising event. Both Tui AG and Endeavour Mining were included in the FTSE350¹⁴ at the next quarterly review following their admission to the official list.

Tui AG: Addition to its Frankfurt listing following merger



Endeavour Mining: Addition to its Toronto Listing via Introduction



¹⁴ Tui AG acquired Tui Travel who were already included in the FTSE100.

Foreign exchange rate risk

Managing foreign exchange rate risk is critical for facilitating seamless cross-border stock trading. A live mechanism should be established between exchanges in both countries to enable cross-listed stocks to be quoted in GBP on UK exchanges and in INR on Indian exchanges, reflecting the local currency of each market. One significant challenge in this process is mitigating exchange rate risk during order matching. To address this, exchanges can implement a system that provides an exchange-enabled currency rate, with the risk being borne by buyers and sellers as part of their trading decisions. In addition, Indian clearing houses can play a pivotal role as intermediaries, facilitating currency conversions and offering futures and options (F&O) currency rates to provide greater stability and predictability for market participants. Such measures would enhance efficiency and reduce barriers to cross-border trading, fostering closer integration of the two financial markets.

Settlement of Indian equity shares in the UK

Settlement of Indian equity shares in the UK using Crest depository interests (CDIs) through direct links between Central Securities Depositories¹⁵

CREST depository interests and its benefits

UK regulations do not provide for securities constituted under the laws of other countries to be held or transferred in the CREST system directly. However, UK regulations **do** allow securities constituted under English law but which represent an interest in other securities (which may be securities constituted under the laws of other countries) to be issued into, held and transferred in the CREST system.

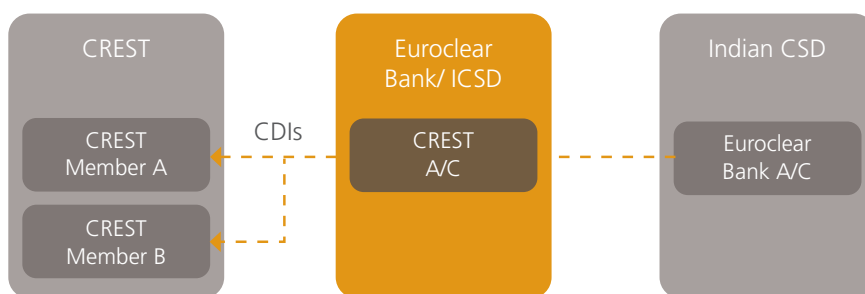
As a result, this structure provides the basis under which investors could settle interests in Indian shares through the CREST system via CDIs, since a company not incorporated in the UK cannot be directly held in uncertificated form or transferred electronically in the CREST system. The CDIs are independent securities issued by CREST Depository Limited (CREST Depository) constituted under English law that provide straightforward, low-cost settlement and asset servicing for a wide range of international markets, including the United States and most Western European countries. It is important to note that Depository Interests, in the subsequent section, are not to be confused with the CDIs. CDIs are an investor-paid model, issued by a subsidiary of Euroclear UK & International (EUI), whereas Depository Interests are an issuer-paid model, issued by the company's UK registrar.

For the Indian shares to be traded on the LSE Main Market, CDIs representing the Indian shares will (need to) be issued on a one-for-one basis to persons who wish to hold the Indian shares in the CREST system. CDIs will have the same ISIN as the underlying Indian shares.

EUI has indirect international links via Euroclear Bank, allowing for settlement in other domestic markets where Euroclear Bank acts as an issuer and investor CSD. Therefore, a link, (for the purpose of the management of the CDI) operating on a free-of-payment basis, will need to be established between Euroclear Bank and the Indian Issuer CSD to deliver and receive securities between CREST and the Indian Issuer CSD.

¹⁵ This section is written against the background of permitting overseas Indian equity listings and the assumption that the UK (and therefore the LSE) would be allowed as jurisdiction for these overseas listings. In terms of taxation, it is also assumed that no capital gains tax considerations would impact international investors and that withholding tax rate and procedures relating to the actual income payments can be standardised.

The transfer of Indian shares cross border to CREST takes place by crediting the shares to the nominee account of Euroclear Bank held at the Indian Issuer CSD. This results in a credit to the nominee account of the CREST Depository with Euroclear Bank. The CREST Depository will, in turn, hold its interest in Indian shares on trust for, and for the benefit of, the holders of the CDIs and issue the CDIs to the underlying participants accounts in the CREST system. It is important to note, however, that this arrangement does not affect the economic rights attached to the Indian shares which flow through to the end investor.



Once the Indian CDIs are in the CREST system, CDI holders will also benefit from:

- The Indian CDIs being transferable by means of the CREST system to other participants in the same way as other participating securities.
- Repositioning on STP basis between CREST and Indian CSDs, initiated by cross border instructions input by the CREST participant within the CREST system.
- Dividends being paid out to CREST participants in CREST eligible currencies (GBP, EUR or USD) based on their record date holding within the CREST system. Payments will flow through the intermediary holding chain.
- Other asset servicing related processing which can be extended to Indian CDI holders based upon information supplied through the intermediary chain.

Full details of the legal structure, settlement mechanisms, terms and conditions, and global deed poll in relation to the EU international service are set out in the CREST international manual.

Nominee omnibus accounts at the Indian CSD

A key condition to facilitate settlement transactions through Euroclear Bank is for Euroclear Bank to open a nominee and omnibus account at the Indian CSD. A segregated account structure is incompatible with the 'Euroclearability' requirements to deliver settlement finality in Indian shares outside of India on behalf of international intermediaries and beneficial owners. In the case of a segregated model, all trading internationally, such as on the Main Market, would require settlement finality to occur at the Indian CSD, defeating the purpose of enabling UK investors to trade and settle in their local market. We understand, however, that there is currently a requirement in India that domestic Indian securities need to be held in accounts segregated at beneficial owner level and, therefore, a path to moving to omnibus holding account structure for Euroclear Bank needs to be chartered.

Post-Trade disclosure requirements and foreign ownership limits

We understand there is a request to be able to disclose beneficial ownership (BO) information at the post-trade level. However, there is no facility within the CREST system to pull BO information at the settlement layer. Additionally, in the case of central counterparty (CCP) transactions, any requirement for BO disclosure at the settlement layer is incompatible with existing netting procedures, resulting in the Indian securities being ineligible for central clearing.

As noted previously in this report, the UK's significant beneficial ownership reporting requirements start at a lower threshold (5%) than India's (10%). Based on this and existing precedent under SEBI's Depository Receipts Framework, 2019, we recommend leveraging existing UK regulations that require shareholders of an overseas company to notify the issuer of changes in their voting rights.

Broader CSD to CSD considerations

We understand that there is also a request to be able to list UK companies in India and allow settlement there. This set-up could be more straight-forward as the local CSD would typically appoint an intermediary custodian that would leverage its existing Euroclear account to provide custody services to these UK securities (and thus allow the local CSD to enable settlement in UK equities and have a connection to the UK CSD).

It is worth acknowledging that the establishment of investor links (or CSD to CSD links) in the context of new markets, along with the need to establish an omnibus and nominee account for Euroclear in an otherwise segregated market requires approval for the substantial upfront technical and legal work. Every opportunity should be made to leverage this by broadening access beyond equities. For example, an omnibus account setup for access to domestic Indian government debt (so-called FAR government debt securities) would further create a single pool of liquidity encompassing international investors at Euroclear Bank, who could settle offshore OTC with other international counterparties but also connect with a counterparty in the local CSD.

Finally, it is worth highlighting the importance of a simplified taxation regime. India has introduced specific tax exemptions with respect to the GDR route and IFSC route. Therefore, similar measures should be introduced with respect to Indian shares cross-listed in the UK and held and settled through the Euroclear omnibus account.

Settlement of Indian equity shares in the UK using solutions offered by registrars and share transfer agents

Depository interests for the settlement of Indian equity shares in the UK's CREST settlement system

In addition to establishing links between the UK and India Central Securities Depositories (each a CSD) another way to enable the settlement of Indian equity shares on the UK's CREST settlement platform, which is operated by Euroclear UK and International Limited (EUI), is by using a settlement wrapper called a Depository Interests (DI) (as per option (ii) in the section above. Issuance/maintenance of DIs for the settlement of the Indian equity shares that will be traded in the UK would be the responsibility of UK based Registrars.

DIs are the most commonly used settlement tool for eligible overseas equity shares that are traded in the UK and the mechanism operates so seamlessly that most investors are unaware that settlement of their trading of non-UK equity has been achieved in a different manner to that of UK issued equity shares. This section on Depository Interests has been contributed by UK based Registrars and Share Transfer Agents Computershare Investor Services PLC (Computershare) and MUFG Corporate Markets, formerly Link Group, (each a UK Registrar). Neither are members of IUKFP but have graciously agreed to contribute to the deliberations of the Working Group for this report. The Working Group gratefully acknowledges their valuable inputs, and the options they have presented for the settlement of Indian equity shares within the UK.

Requirements of a depository interests facility (DIs) to support the CREST settlement of trades in an overseas security listed on a UK stock exchange.

As further described in this section, for the operation of a DI, it is a requirement (or desirable) for the Indian securities/companies' laws and regulations to allow for the following:

Required	Desirable
The recognition of 'bare trust' arrangements	Ability for a share register to be maintained overseas
All shares of the relevant class in a company must be capable of being listed and traded on the LSE (as well as in the home market)	The operation of one or more overseas branch share registers
Multiple levels of beneficial ownership must be recognised (such as those within an intermediated structure)	For shares (on registers managed overseas) to be capable of being held in registered or certificated form outside of a CSD
Ability of a custodian to lodge mixed/partial voting instructions (for and against the same resolution)	For securities settling through CREST not to be subject to any overseas transfer tax or tax reporting

What is a DI and how does it work?

The LSE Listing Rules allow for the securities of an overseas company to be listed on its markets (subject to the usual disclosures and corporate requirements). However, CREST rules do not permit the securities of such an overseas company to be held, transacted or transferred directly within the CREST system (as operated by EUI). EUI is the CSD for the UK, Channel Islands and Isle of Man. To overcome this imbalance in regulatory policies, and to allow for a single fungible security to be listed and traded on the LSE, a DI can (subject to the legal qualifying criteria below) be created.

Through a DI service, the activities for listing and trading shares of an overseas company are supported by the deposit and/or transfer of DIs, with each DI issued into and held within the CREST system carrying beneficial ownership and economic rights to the underlying shares of the overseas company. As such, 'shares' are listed and traded on the LSE and 'DIs' are transferred in CREST to settle those trades.

Operationally, this is accomplished through the following steps:

- The overseas company appoints a UK Registrar, such as Computershare or MUFG Corporate Markets, in its capacity as a DI service provider (a DI Issuer).
- The DI Issuer operates its services under:
 1. A services agreement with the overseas company, including the commercial terms for its operation.
 2. A DI trust deed poll (DI Deed) setting out the terms of the services and obligations of the DI Issuer to a holder of DIs; and the obligations, consents and confirmations of the DI holder, which they agree to by depositing securities with the DI Issuer and/or by holding the DIs in CREST.
- Before issuing any DIs, the DI Issuer needs to receive a transfer or issuance of shares in the overseas company ('the underlying shares') into a custody account operated by or for the DI Issuer (DI Custodian). These shares may be transferred by market participants/shareholders or issued directly by the company.
- The DI Custodian may operate its holding of shares (or local record of entitlements) through one of the following:
 1. The home/local CSD of the overseas company (or in another market where it is already listed and/or settled).
 2. The principal share register¹⁶ of the overseas company (such as in registered form).
 3. A branch share register¹⁷ administered by a group company of the DI Issuer, the UK Registrar.
- Upon receipt of the initial delivery or issuance (and any subsequent deliveries or issuances) of shares by the DI Custodian, the DI Issuer will create and deliver a corresponding number of DIs (always on a 1:1 basis) to the relevant depositing shareholder's designated CREST account.
- The DI itself constitutes a separate security under the laws of England and Wales, and whilst it carries the same ISIN as the underlying shares of the overseas company's securities, it qualifies for settlement in CREST as a domestic 'UK' security through the DI wrapper created.

¹⁶ A principal share register is the primary record of shares held by an issuer's shareholders, usually maintained in the issuer's place of incorporation.

¹⁷ A branch register, often maintained in the Channel Islands, is a record of shares held by shareholders that are resident in a country other than the issuer's place of incorporation. It forms part of the total register of shareholders of an issuer.

- All DIs are recorded within the CREST system and reconciled daily with DI issuers.
- Trading of the shares in the overseas company will take place in the regular way on the LSE, and those trades are subsequently settled by way of a transfer of DIs within the CREST system. Noting it is the share of the company that is listed and traded, and not the DI (as per the CDI solution)
- As a term of the DI Deed the DIs carry the unencumbered rights to an equal number of underlying shares held by the DI Custodian. Holders of DIs may at any time instruct the DI Issuer to cancel their DIs in exchange for the equivalent number of underlying shares (or equivalent local dematerialised interests), which the DI Issuer will arrange.

What are the high-level legal qualifying criteria needed for a DI to work?

DIs are securities that are governed under a trust deed (the DI Deed) and constituted under English law. For admission of DIs to CREST, EUI requires certain legal opinions, including confirmation that the jurisdictional law of an overseas company does not preclude or conflict with the laws of the UK as it relates to the operation of the DI Deed/services. It is therefore necessary that the law governing the place of incorporation of the overseas company permits and recognises certain key operating parameters, including the following high-level criteria:

- The concept of Trusts, in particular a 'bare trust' arrangement, as this is the basis on which the DI Issuer/Custodian holds the underlying shares to support DIs.
- All the shares of the relevant class must be capable of being listed on the LSE and must be able to flow into and out of the DI. DIs cannot operate where a cap or limit is applied to the number or percentage of shares of the overseas company that may be listed on the LSE or enter the DI service.
- The overseas company's place of incorporation must recognise beneficial ownership. This is because it is a requirement of the DI structure that the holder of the DI is recognised as a beneficial owner of the underlying shares. DI holders must also be able to exercise the equivalent rights of registered shareholders with respect to the underlying shares (such as at shareholder meetings or in respect of corporate actions).
- Linked to the above, the DI custodian must be able to lodge split voting and other corporate action instructions to represent the differing votes/elections from the underlying DI holders in respect of a shareholder meeting/event.

Where any of the above criteria is not permitted or possible under the laws of the overseas company's home jurisdiction, it will not be possible to operate a DI.

Additionally, it is helpful for listing structure and operational flexibility if the following is permitted:

- If the shares are not also to be listed in the home market of the overseas company, the principal share register can be maintained and updated in an alternative jurisdiction (for example, for an Indian incorporated company with a UK-only listing to have the share register maintained outside of India).

- In addition to, or instead of the above, the operation of a branch share register (or foreign register) is permitted on which part (or all) of the shares may be recorded outside of India (such as in a branch share register maintained in the UK, Guernsey or Jersey (the Channel Islands)). In the UK, this provision is captured in local law through Part 8, Chapter 3 of the Companies Act 2006 (Companies Act 2006 (legislation.gov.uk)).
- Flexibility for securities (in the home jurisdiction or in the jurisdiction where the principal or branch register may otherwise be maintained) to be issued in registered form directly on the share register, outside of a CSD.

For India specifically, we also understand that there are additional legal aspects that will need to be considered. In particular:

- **Foreign ownership restrictions:** Foreign ownership limits applicable to certain business sectors in India as they stand, may increase the complexity of providing a DI facility to issuers operating in such sectors. However, National Declaration is a flag in the CREST system that can be used to monitor the domicile of beneficial ownership of securities held by CREST participants - but this is not a perfect tool and is reliant on the accurate and positive completion by CREST participants on every sell transfer instruction and trade placed through the UK. It is a 'best endeavours' process to monitor and collate
- **Foreign portfolio investors (FPI):** It is understood that non-resident institutions that wish to hold Indian stock locally, must register as an FPI. As a UK registrar would be registered in its capacity as a trustee upon the local Indian register (or on a branch share register), this is something that all UK Depositories will need to consider or, preferably, be exempt from. Individual shareholders cannot register as an FPI, therefore, for any UK side shareholders who wish to migrate to an Indian register will potentially need to utilise a specific institution (such as a custodial bank) to collectively represent such shareholders' interests accordingly, potentially by way of a sub-account. Where this involves a new institution/custodian, the process to register as an FPI will take eight to 10 weeks.
- **Beneficial ownership:** One of the largest challenges within the GDR Indian legal space has been surrounding beneficial ownership, along with the associated reporting requirements. The liability for reporting typically falls to the custodian, which has led to a market reluctance for foreign investment. Certainly, within a typical DI arrangement, the DI Issuer is able to provide details of the registered DI holders present upon the DI register, but it is quite typical for underlying beneficial owners to sit below institutional holders within the CREST system. As a result, neither the UK registrar nor DI Issuer will have direct visibility by default. There are obligations in the DI Deed on investors and their intermediaries to provide details of beneficial owners if requested, and tracing services that a DI Issuer can support, however these are reliant on accurate information being provided by the underlying custodians, with the speed and accuracy of those reporting services not guaranteed. When a branch register is created, there will likely be movements between jurisdictions via established cross border instructions. As such, the registration onto Indian side registers would also need to be a consideration when creating a DI facility. By all accounts, from a legal perspective, the challenges surrounding beneficial owners, in particular around reporting requirements at beneficial level and where the responsibility lies, will be an area that requires consideration by the Indian legislators in order to make foreign listings viable.

- **Government approval:** Under Indian foreign exchange laws, investments in India from countries sharing a land border with India, or where the beneficial owner holds 10% or more of the issued capital and is from such countries, require Indian Government approval. A UK registrar can restrict territories on their registers, but it will not have direct visibility of the ultimate beneficial owners and will not be able to effectively manage or police this requirement (note the reference to nationality declaration below). The obligation to monitor ultimate beneficial owners could be placed upon the CREST holder/custodian, as is often seen in other jurisdictions. However, the ultimate reporting and Indian Governmental approval process will need to be carefully considered by the company as things stand.

Without the laws of the home jurisdiction of the overseas company being complementary to the above UK law or practices, it is unlikely that a DI service can be operated efficiently or at all.

Day-to-day operations of a DI

Efficiency of daily activity, locally and cross-border, are key to the successful operations of a DI arrangement. The key activities are as follows:

- **Local settlement:** Trades and regular market transactions will settle in the usual way in CREST (with transactions in India settling in their common way/time).
- **Cross-border movements:** Agreed procedures will be followed for the movement and reconciliation of securities between the two markets/registers, with the target time for cross-border re-positions to be completed within 24 hours (or during the same calendar day for movements from India to UK, due to favourable time zones).
- **Dividends:** Total dividend values would be reconciled across each market, with payments being delivered into the local markets on the same calendar day in the appropriate currencies (i.e. one of GBP, EUR or USD for the UK/CREST). Companies would fund the local registrar/agent directly for the proportion of securities held in the relevant market at the record date. Consideration will be given to any difference between T+1 and T+2 as it relates to ex-dates.
- **Meetings:** Shareholders across both markets would be invited to vote and (if laws allow) participate directly in shareholder meetings (in person or online). Total votes from each region would be collated and reconciled against the issued share capital of the company. Voting timetables should be aligned, again accounting for any T+1 vs T+2 differences.
- **Transparency (identity, nationality):** As referenced above, whilst full visibility of beneficial ownership is not immediately available 24/7, under the terms of the DI Deed, a DI Issuer (and therefore the client company) has the right to request details of beneficial ownership, in a provision similar to s793 of the UK Companies Act. By holding a DI, investors and their intermediaries are bound by these terms and required to supply such information upon request (most often at times of corporate actions and shareholder meetings).

It is also possible to require nationality declaration flags per transaction within the CREST system, typically used to track foreign ownership of national assets, such as airlines and defence related securities. While less common, processes to capture records (on a best endeavours basis) are feasible between CREST and a DI Issuer. The success and outcome of these activities are reliant on CREST participants (and other levels of beneficial ownership) providing full, timely and accurate responses, which is not in the powers of DI Issuers to guarantee.

DIs and depository receipts

Although the underlying documents required for the DI listing are the same in principle as those required for a Global Depository Receipt (GDR) listing (i.e. depository agreement, deed poll etc.), there are key legal and practical differences between DIs and GDRs:

- For all material purposes, there is no difference between holding a DI and holding the underlying share directly; in contrast, GDRs are a separate financial instrument from the underlying shares with its own ISIN. Therefore, in the case of a GDR listing, the GDRs are listed and traded - not the underlying shares. Whereas, in the case of DIs, the underlying shares themselves are the security listed and traded (with settlement occurring via a transfer of DIs), under the same ISIN as in their home market.
- GDRs would be recorded on a register in the country of the GDR issuer and, although they are valued by reference to a specified number of the underlying securities, that number is typically not on a 1:1 basis (as is always the case with DIs), which can impact the valuation and perceived fungibility (having to acquire or convert in blocks/lots of shares).
- DIs are created and operated based on a 'registrar' fee being payable by the overseas company to the DI Issuer (like that payable by a domestic UK issuer). The holders of DIs enjoy full voting rights and full dividend distributions, in a manner very similar to holding the underlying shares directly. GDRs are more commonly an 'investor paid' model, operated by a depository bank where holders of GDRs may be charged an annual account fee (based on the number of GDRs held) and/or a dividend processing fee per GDR held (where part of the distribution is withheld by the issuing GDR bank to cover the costs of their services).

	Link Depository Interests (DIs)	Global Depository Receipts (GDRs)
Created in	2000 (by Capita Registrars)	1927
Description	A trust structure to provide a mechanism for non-UK incorporated companies' securities to settle electronically through CREST	Global Depository Receipts are negotiable certificates that give evidence of ownership of a company's shares. They are marketed internationally, mainly to financial institutions.
Existing Jurisdictions	32	75
Trading and indices		
LSE Main Market – Premium Listing	✓	✗
LSE Main Market – Standard Listing	✓	✓
AIM, Aquis and TISE	✓	✗
FTSE Index inclusion	✓	✗
Settlement venues		
CREST	✓	✗
Euroclear Bank, Brussel	✗	✓
Clearstream Banking Luxembourg	✓	✓
Costs		
All fees paid by issuer	✓	✓ / ✗
No costs borne by shareholders	✓	✗
Depository does not take percentage of the Dividend as a fee	✓	✗
Depository does not charge a make-or-break fee	✓	✗
Features		
No requirement to be listed as a distinct instrument	✓	✗
Same ISIN as underlying shares	✓	✗
Flexible structure to satisfy local law issues	✓	✗
Able to accommodate retail (certificated) holders	✓	✗
Web based access to shareholder register	✓	✗
Sophisticated shareholder meeting management	✓	✗
Full suite of dividend options including currency and dividend reinvestment	✓	✗
Full investor transparency	✓	✗
UK model corporate actions supported	✓	✗

The benefits of depositary interests

DIs provide substantial advantages to issuers, investors, and brokers.

Issuers

Issuers benefit mainly from capital raising in London and the resulting increased liquidity. They get a fully sponsored program, including general meeting and voting services, multi-currency dividends payments, and corporate action support. Issuers also particularly value having improved visibility of their investor base and the ability to communicate with them directly.

Investors

DIs provide investors with local access to foreign investments, allowing market trades to be settled electronically. DIs also offer investors the same rights and benefits as direct shareholders, such as voting in general meetings, receiving dividends and access to issuer communications.

Brokers

In many ways, DIs maintain the standard operating procedures for brokers. Transactions involving foreign entities can be settled domestically using the familiar CREST system. Additionally, brokers have the advantage of accessing multiple markets while enjoying comprehensive voting and dividend services.

The three DI model structures

A DI can traditionally be implemented through one of three primary structures. In all cases, it is important that the DI custodian is confirmed as the registered shareholder of the foreign security, in their capacity as a trustee of the underlying assets, which will be represented by DIs. It should be noted that further elements can also be added depending on the requirements of the local jurisdiction.

SOLUTION 1

Position held on a Guernsey Branch Register

The most common and preferred solution, it is used in many Commonwealth countries due to the similarity of local law and procedures with the UK. It will typically need to be reviewed in the context of dematerialisation.

1

SOLUTION 2

Position held in custody account within the local settlement system

Using ICSD links (such as Clearstream) with multiple underlying markets, this will need to be used in all EEA markets and often where the security is listed in another market which is fully dematerialised.

2

SOLUTION 3

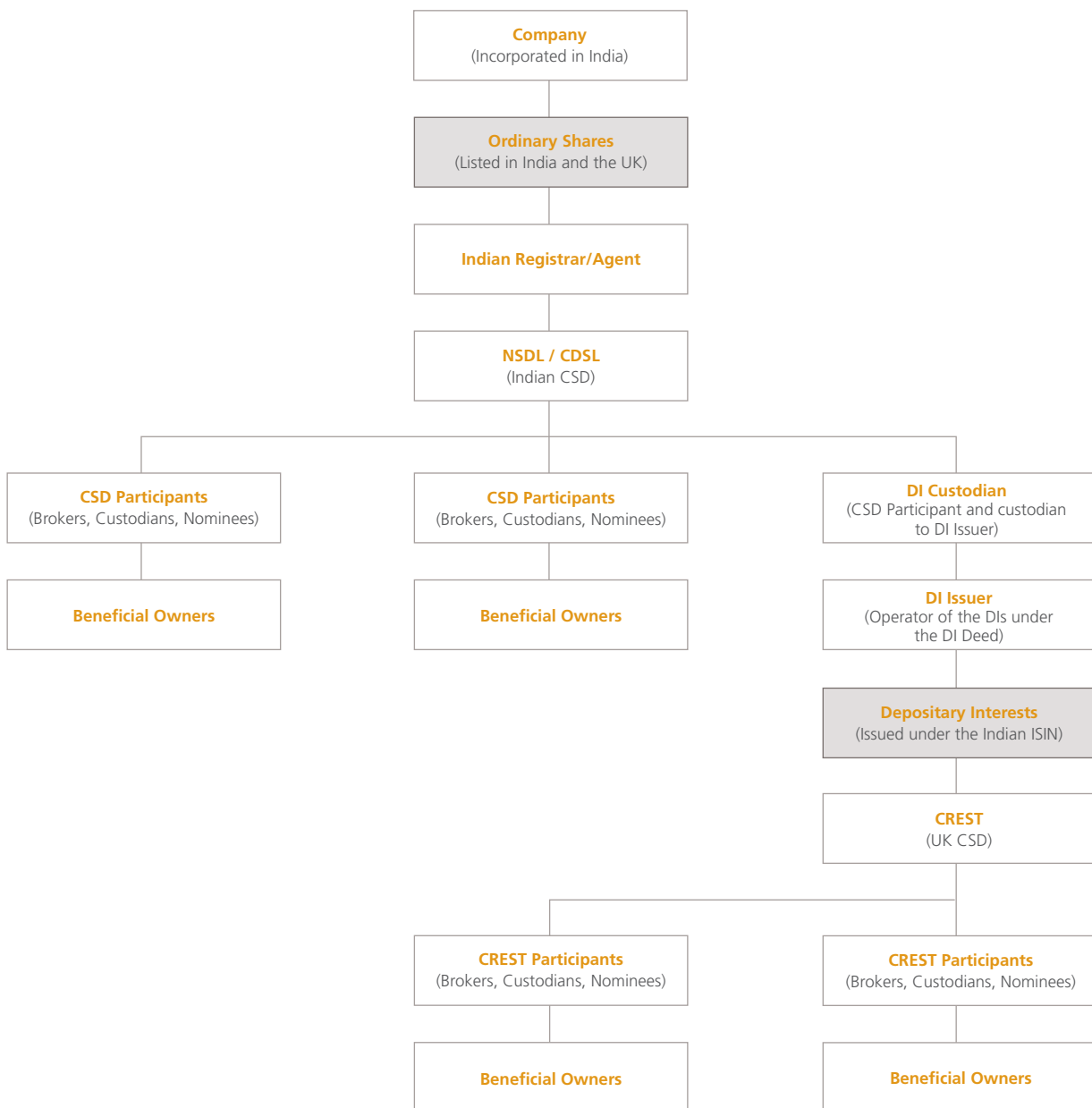
Position held on local register

Used where local law permits physical shareholding but restricts overseas registers, this would typically require a transfer agency agreement in addition to the core legal documents, committing the issuer to procure that their local registrar acts in accordance with certain time frames etc. As this is a rarer solution, it should be noted that corporate actions and voting capability can be diminished here, due to the absence of Link acting as a direct registrar.

3

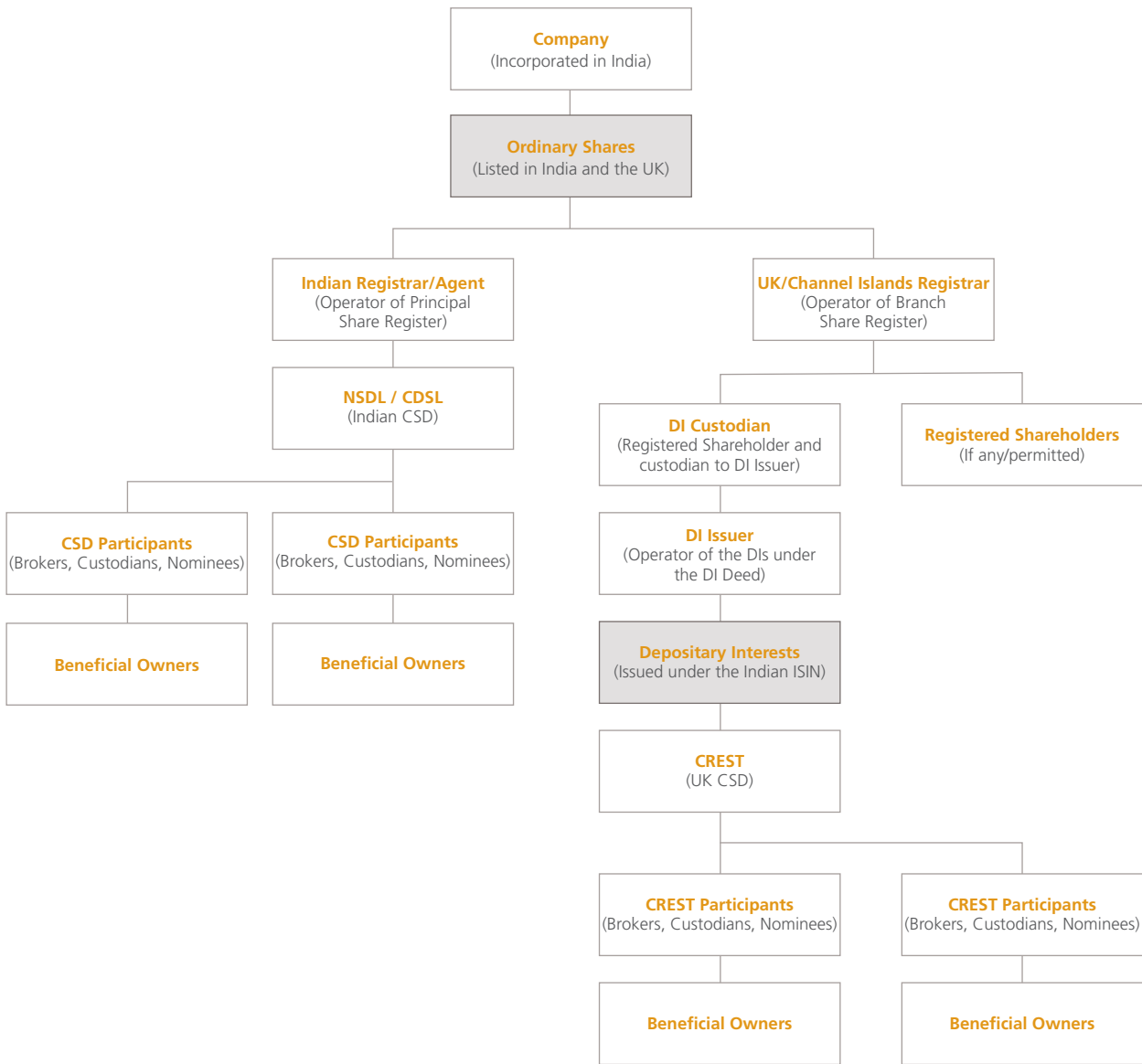
Potential DI structures for listings into the UK

Structure 1: DI Custodian holding within the Indian CSD.



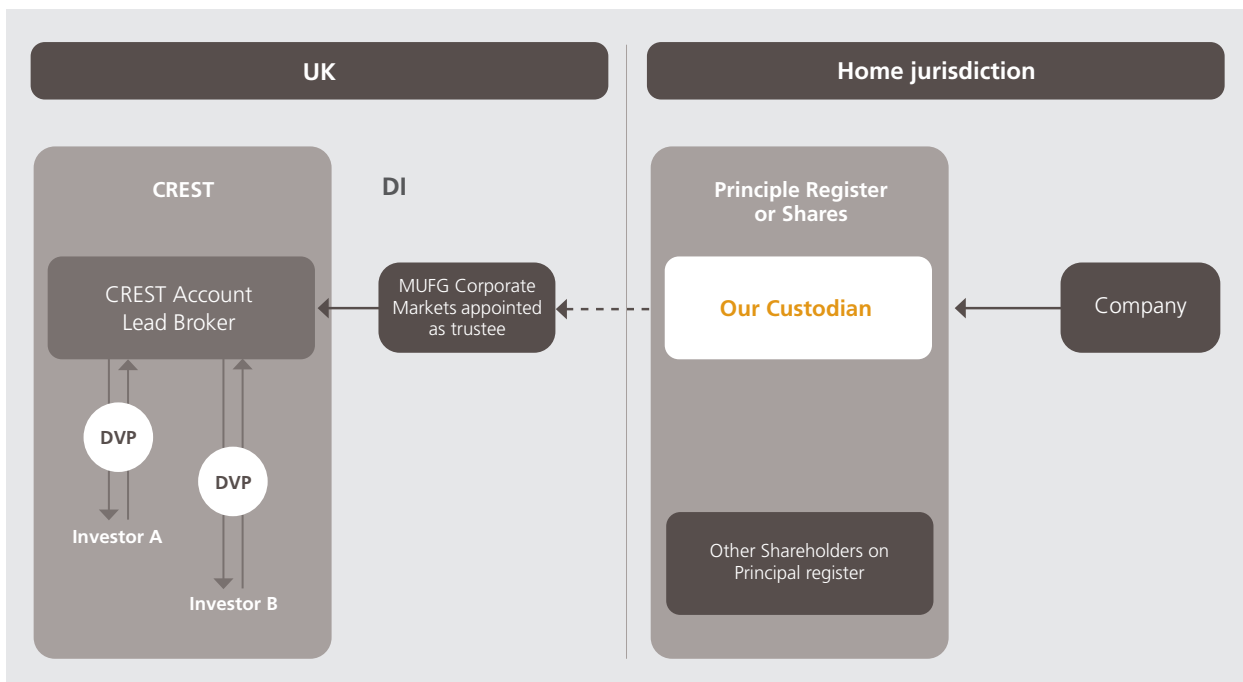
Potential DI structures for listings into the UK

Structure 2: DI Custodian holding through a branch share register.



Solution 3 – Position held on local register

(Used in Luxembourg, The Netherlands, Dubai (DIFC))



Annex: List of acronyms

Alternative Investment Market (AIM)	India United Kingdom Financial Partnership (IUKFP)
American Depositary Receipts (ADR)	Indian Audit Standard (IAS)
Assets Under Management (AUM)	Indian Depositary Receipts (IDR)
Beneficial Ownership (BO)	Indian Financial Services Centre (IFSC)
Bombay Stock Exchange (BSE)	Indian Rupee (INR)
Central Counterparty (CCP)	Initial Public Offers (IPO)
Central Depository Services Limited (CDSL)	International Central Securities Depositories (ICSD)
Central Securities Depositories (CSD)	International Financial Reporting Standards (IFRS)
Certificateless Registry For Electronic Share Transfer (CREST)	International Securities Identification Number (ISIN)
Corporate Governance (CG)	Issue of Capital and Disclosure Requirements (ICDR)
Corporate Income Tax (CIT)	Know Your Customer (KYC)
Crest Depository Interests (CDI)	Liberalised Remittance Scheme (LRS)
Delivery Versus Payment (DVP)	Listing Obligations and Disclosure Requirements (LODR)
Department of Economic Affairs (DEA)	London Stock Exchange (LSE)
Depository Interests (DI)	London Stock Exchange Group (LSEG)
Depository Receipts (DR)	Market Abuse Rules (MAR)
Disclosure Guidance and Transparency Rules (DTR)	Mergers and Acquisitions (M&A)
Dubai International Financial Centre (DIFC)	Ministry of Corporate Affairs (MCA)
Economic and Financial Dialogue (EFD)	National Securities Depository Limited (NSDL)
Employee Stock Ownership Plan (ESOP)	National Stock Exchange (NSE)
Environmental, Social, and Governance (ESG)	Over The Counter (OTC)
Equity Shares in Commercial Companies (ESCC)	People's Republic of China Generally Accepted Accounting Principles (PRC GAAP)
Euro (EUR)	Persons Closely Associated (PCA)
Euroclear UK & International (EUI)	Persons Discharging Managerial Responsibilities (PDMR)
Financial Conduct Authority (FCA)	Prevention of Money Laundering Act, 2002 (PMLA)
Financial Reporting Council (FRC)	Private Residence Relief (PRR)
Financial Services and Markets Act 2000 (FSMA)	Public Limited Company (PLC)
Foreign Direct Investment (FDI)	Qualified Institutional Placements (QIP)
Foreign Portfolio Investors (FPI)	Securities and Exchange Board of India's (SEBI)
Futures and Options (F&O)	Securities Transaction Tax (STT)
Generally Accepted Accounting Principles (GAAP)	Significant Beneficial Owner (SBO)
Global Depository Receipts (GDR)	Stamp Duty Reserve Tax (SDRT)
Great Britain Pound (GBP)	UK Market Abuse Regulation (UK MAR)
Gross Domestic Product (GDP)	Ultimate Beneficial Owner (UBO)
Gujarat International Finance Tec-City (GIFT)	United Kingdom (UK)
His Majesty (HM)	United States (US)
India Accounting Standard (Ind-AS)	United States Dollar (USD)

IUKFP Working Group members

Bahram Wakil	Chair	Senior Partner, AZB & Partners
Mohan Bhuyan	Chair	India Representative – Primary Markets, London Stock Exchange Group
Raghavendra Singh	Member	President – Group Public Affairs & Government Business Kotak Mahindra Bank
Ayushi Abhay	Member	Chief Manager– Public Affairs, Kotak Mahindra Bank
Natasha Schou	Member	Head of Global Trade Policy, HSBC Holdings
Satish Arcot	Member	Executive Director, J.P. Morgan
Dhruva Tandon	Member	Director, Client Coverage Europe Corporate, Commercial & Institutional Banking, Standard Chartered Bank plc
Claire Suddens-Spiers	Member	Partner, Co-Head of Equity Market Solutions, Rothschild & Co
Ranvir Davda	Member	Head of Equity Capital Markets, HSBC
Rajesh Mohan	Member	Deputy General Manager, Pension Fund Regulatory and Development Authority of India
Debadatta Chand	Member	Executive Director, Bank of Baroda (UK)
Vikas Khattar	Member	Co-head of IB & Head of ECM, Ambit Capital
Amit B. Jain	Member	International Director, EY
Yashodhara Dasgupta	Member	Advocacy Director, UK India Business Council (UKIBC)
Simon Thomas	Member	Partner, Clifford Chance LLP
Lionel D’Almeida	Member	Partner, AZB & Partners
Ishaan Pasricha	Member	Assistant Director, Rothschild & Co
Anjaneya Das	Member	Senior Associate, Clifford Chance LLP
Frank Slagmolen	Member	Director, Euroclear UK & International Limited
Jonathan Roast	Member	Senior Manager, MUFG Pension & Markets, Linksgroup
Charlie Hodge	Member	Managing Director, Global Capital Markets, Computershare
Armen Kasmadjian	Member	Euroclear UK & International Limited
Anurag Byas	Member	Director, Rothschild & Co

TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services.

We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.



Kotak Mahindra Group, established in 1985 by Uday Kotak, is one of India's leading financial services conglomerates. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the Group's flagship company, received a banking licence from the Reserve Bank of India (RBI). With this, KMFL became the first non-banking finance company in India to be converted into a bank – Kotak Mahindra Bank Limited (KMBL). From 2003 onwards, Kotak Bank has built a network of 1,700+ branches and 2,609+ ATMs across India. Kotak Bank provides the full suite of banking services to its customers encompassing Treasury, Corporate Banking and Retail Banking. Every year we are adding strong footprints through physical branches and digital innovations to make banking easy and convenient for our growing base of 30.7 million+ active customers.

TheCityUK

TheCityUK

Fitzwilliam House, 10 St Mary Axe,
London EC3A 8BF

www.thecityuk.com

For further information about this report, please contact:

Zhouchen Mao
Head, Asia Pacific, TheCityUK
zhouchen.mao@thecityuk.com



Kotak Mahindra Bank Ltd

4th Floor, Asset Area 9, IBIS Commercial Block,
Aerocity, New Delhi- 110037, India

www.kotak.com

For further information about this report, please contact:

Raghavendra Singh
President – Group Public Affairs & Government Business,
Kotak Mahindra Bank Ltd
raghavendra.singh@kotak.com

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