



HM Treasury

Private Intermittent Securities and Capital Exchange System (PISCES)

Consultation



HM Treasury

Private Intermittent Securities and Capital Exchange System

Consultation



© Crown copyright 2024

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN: 978-1-916693-94-4

PU: 3406

Contents

| | | |
|------------------|---|-----------|
| Chapter 1 | Introduction | 7 |
| Chapter 2 | Legal Framework | 11 |
| | FMI Sandbox Powers | 11 |
| | Investors eligible to trade on PISCES | 14 |
| Chapter 3 | Requirements on a PISCES operator | 17 |
| | Illustrative examples of different PISCES operating models | 18 |
| | Disclosures within a private perimeter | 20 |
| | Pre- and post-trade transparency | 20 |
| | Transaction reporting | 22 |
| | Responsibility for managing access to trades on PISCES | 23 |
| Chapter 4 | Requirements on companies with shares traded on PISCES | 24 |
| | Shares traded on PISCES | 24 |
| | Corporate governance requirements | 24 |
| | Modifications to Companies Act 2006 | 25 |
| | Prohibition on public offers by private companies | 26 |
| | Information about interests in a company's shares | 27 |
| | Share buybacks | 28 |
| | Disclosure requirements | 29 |
| | Content of disclosures | 29 |
| | Timing of disclosure | 30 |
| Chapter 5 | PISCES market abuse regime | 31 |
| | Objectives | 31 |
| | Scope | 31 |
| | PISCES market abuse offences | 33 |
| | Monitoring and enforcement against market abuse | 33 |
| Chapter 6 | Further policy issues | 35 |
| | Role of intermediaries | 35 |
| | Financial promotions | 35 |
| | Settlement | 36 |
| Chapter 7 | Next steps | 37 |
| Annex A | Glossary | 40 |
| Annex B | List of questions | 45 |

Chapter 1

Introduction

1.1 The UK is a global centre for financial services. Our capital markets sit at the centre of this, providing essential services both to large and small UK companies, as well as international businesses who want to raise money and manage risk. This is supported by many contributing factors including robust and proportionate regulation, world renowned legal expertise, access to talent, and crucially, an ongoing commitment to open, competitive and innovative markets.

1.2 Since 2020 the government has introduced significant reforms to the UK listings regime, supporting public markets and companies choosing to list in the UK. This includes implementing Lord Hill's Listing Review reforms, and in particular his recommendation that we overhaul the UK's Prospectus Regime.¹ This will provide investors with access to better quality information and allow companies to raise funds more quickly.² The government is committed to continuing to support the competitiveness of public markets, both through the ongoing listings reforms, changes to wholesale market rules more broadly, and by improving liquidity and demand for UK listed public companies.

1.3 Innovation is a key driver for the government in this ongoing reform programme. Ensuring that our capital markets adapt to the evolving needs of businesses and changing trends in markets will ensure that finance is made available to those companies – small or large, domestic or international – at the best possible price.

1.4 One area of recent change has been the growth in private markets, giving companies greater access to capital earlier in their growth stages. Alongside the work the government is doing to improve public markets, the government also wants to ensure smaller companies can access capital and scale up, that we allow investors to take advantage of this shift to private markets, and ultimately that such companies can transition to public markets more easily.

1.5 A key challenge for private companies is that, at early stages in their growth, there are no standardised ways for shareholders to realise their gains (e.g. where their shares have increased in value) or to allow companies to rationalise their shareholder base by providing their early investors an exit route. Similarly, it is harder for investors to access companies that are not yet operating on public markets.

¹ UK Listings Review, <https://www.gov.uk/government/publications/uk-listings-review>.

² The Public Offers and Admissions to Trading Regulations 2024, <https://www.legislation.gov.uk/uksi/2024/105/contents/made>.

1.6 As the Chancellor set out in his Mansion House speech, the government wants the world's best and fastest growing companies to grow and list right here, to make the UK the global capital for capital, with a market which offers innovative capital solutions not offered elsewhere. Providing companies with an intermediate step to public capital markets is an important part of this.

1.7 As part of the Edinburgh Reforms in December 2022, the Chancellor announced that the government would develop an intermittent trading venue, and committed at Mansion House 2023 to establishing it by the end of 2024.³

1.8 This paper sets out the government's proposal for such a venue: a platform to allow private companies to trade their securities in a controlled environment and on an intermittent basis. The new Private Intermittent Securities and Capital Exchange System (PISCES) incorporates elements from public markets, such as multilateral trading, and elements from private markets such as greater discretion on what company disclosures should be made public.

1.9 PISCES provides a regulatory framework for the intermittent trading of private company shares on a multilateral system,⁴ with an accompanying bespoke disclosure regime that reflects the periodic nature of trading.⁵ Under this framework, PISCES would accommodate 'trading windows' at defined intervals, such as monthly or quarterly, providing investors with opportunities to trade their shares. The tailored regulatory regime would provide investors protections that unregulated off-venue bilateral trading would otherwise not afford, such as a clearer price formation process, a clear legal framework and regulatory oversight, and robust investor protection.

1.10 The regulatory framework has the following key features, and will be developed using a 'financial markets infrastructure (FMI) sandbox', as established under the Financial Services and Markets Act 2023 (FSMA 2023):⁶

- PISCES will operate as a secondary market, facilitating the trading of existing shares. It will not facilitate capital raising through the issuance of new shares, or the trading of other securities (e.g. bonds, exchange traded funds).

³ In December 2022, the Chancellor unveiled the "Edinburgh Reforms" of UK financial services – over 30 regulatory reforms to unlock investment and turbocharge growth in towns and cities across the UK. <https://www.gov.uk/government/collections/financial-services-the-edinburgh-reforms>. In July 2023, the Chancellor set out in a speech at Mansion House the government's progress in delivering an open, green, and technologically advanced financial services sector that is globally competitive, while retaining the commitment to high international standards. <https://www.gov.uk/government/collections/mansion-house-2023>.

⁴ A multilateral system is defined as 'any system or facility in which multiple third party buying and selling trading interests in financial instruments are able to interact in the system' (Article 2(1)(11) UK MiFIR).

⁵ PISCES will not be a sub-category of a Regulated Market (RM), Multilateral Trading Facility (MTF), or Organised Trading Facility (OTF).

⁶ Financial Services and Markets Act 2023, <https://www.legislation.gov.uk/ukpga/2023/29/contents>.

- Only shares in companies whose shares are not admitted to trading on a public market in the UK or abroad can be traded on PISCES. This includes UK-based private and public limited companies (PLCs) and overseas companies.
- There will be restrictions on the categories of investors that can trade on PISCES. For example, most retail investors will be prohibited from trading at least during the trial phase of this platform given the greater risks associated with buying shares that are not listed or admitted to trading on a public market.
- PISCES will operate intermittent trading windows (e.g. monthly, quarterly, biannually, etc). Disclosure requirements specific to PISCES will only apply shortly before and after each trading window, and there will be no requirement for information to be disclosed to the public. Instead, information must only be made available to investors that may trade during the window. There will be a market abuse regime for PISCES, which will be tailored to the intermittent nature of trading and the specific risks posed by the model.

1.11 Participating on PISCES will support companies to scale up and grow, providing liquidity, helping shareholders, including employee shareholders, to realise their gains, and providing an opportunity to companies to rationalise their shareholder base. Investors will gain better access to exciting companies while also benefiting from greater transparency and efficiency than available in private markets. Companies using PISCES may also find it easier to raise capital privately outside of this platform by connecting them to a wider group of potential investors. In turn, this means that when these companies decide to publicly trade and issue new securities as part of an IPO, this will represent less of a regulatory step and there will be greater confidence in their valuation.⁷

1.12 This proposal will therefore support the pipeline for future IPOs in the UK, by improving the interface between private companies and UK public markets, and complementing the government's wide ranging and ongoing reforms to boost the UK as a listing destination. It should provide both an intermediate and complementary route for companies to better access capital markets, by improving on existing trading that takes place bilaterally in private markets while also introducing private companies to the commercial ecosystem of public markets.

1.13 The government believes that PISCES will form an important part of the UK's offer to companies seeking to grow and list in the UK. However, it is a novel concept, and it is important that regulation is proportionate and reflects the features of PISCES. The government

⁷ When a private company first sells shares to the public, this process is known as an initial public offering (IPO). In essence, an IPO means that a company's ownership is transitioning from private ownership to public ownership.

therefore intends to develop the regulatory framework for PISCES through an 'FMI sandbox' ('PISCES Sandbox'). The sandbox environment will allow the government to check that the detailed regulatory requirements for PISCES are calibrated correctly, before the regime is made permanent.

Who should be interested?

1.14 This consultation sets out the broad principles for how the government intends to use an FMI Sandbox to test new regulatory arrangements for the intermittent trading of company shares, including shares in private companies. The government wishes to gather feedback from stakeholders on the design of the sandbox regulatory regime before finalising its approach. The proposal outlined in this paper is therefore illustrative and subject to change. The government intends to further engage with stakeholders based on the feedback received on this paper ahead of laying legislation to set up the PISCES Sandbox.

1.15 The government welcomes views from stakeholders on how the illustrative proposal in this paper can facilitate private companies to better access liquidity while balancing the needs of potential investors. This proposal will be of interest to:

- Private companies and PLCs whose shares are not admitted to trading on a public market in the UK or abroad
- Potential investors such as private equity, angel investors, pension funds, venture capitalists
- Potential market operators and investment firms operating trading venues
- Regulated trading intermediaries such as investment banks, broker-dealers
- Law and accountancy firms
- Service firms
- Trade associations

Chapter 2

Legal Framework

FMI Sandbox Powers

2.1 The Treasury will use the powers granted by FSMA 2023 to put PISCES in place, setting it up first as an FMI Sandbox. Firms wishing to run a PISCES platform will have to apply to the Financial Conduct Authority (FCA), and once approved will be able to run intermittent trading events for participating companies. The Treasury, working closely with the FCA, will use any lessons from the sandbox period to improve the regime before making it permanent, and will ensure a smooth transition from the sandbox to the permanent regime for any participating operators and companies.

2.2 FSMA 2023 put in place provisions for an FMI sandbox regime. This allows the government to temporarily modify or not apply parts of the existing legislative framework, to support market operators to trial new or developing FMI technology or practices, while still achieving appropriate regulatory outcomes. It also allows the government to confer powers on the regulators to do the same in connection with technical standards and rules.⁸ This allows a greater flexibility to the financial services framework to adapt to the ever-evolving financial market ecosystem. The separate Digital Securities Sandbox (DSS) is the first example of a sandbox enacted through FSMA 2023.⁹

2.3 Under the current legal framework, there is no route through which securities can be admitted to trading on a multilateral system on an intermittent basis, with market abuse, transparency and disclosure arrangement applying only during those intermittent windows. The government therefore intends to use the powers in FSMA 2023 Section 13 and 16, alongside the indicative powers in Schedule 4, to test a PISCES regulatory framework, as illustrated in this paper, within a new FMI sandbox. It will do so by temporarily modifying or disapplying where necessary the relevant enactments listed in FSMA 2023 Section 17(3), including the Financial Services and Markets Act 2000 (FSMA 2000), the Companies Act 2006 and legislation relating to market abuse and markets in financial instruments.

2.4 The Treasury also intends to use the powers in FSMA 2023 to confer functions on the FCA to support the implementation and

⁸ See Financial Services and Markets Act 2023, Section 13-17, <https://www.legislation.gov.uk/ukpga/2023/29/part/1/chapter/2/crossheading/financial-market-infrastructure-piloting-powers/enacted>.

⁹ See The Financial Services and Markets Act 2023 (Digital Securities Sandbox) Regulations 2023, <https://www.legislation.gov.uk/uksi/2023/1398/contents/made>.

operations of this PISCES Sandbox. Further, the Treasury will also consider, where it is appropriate, granting rulemaking powers to the FCA, either by way of new rule-making powers or in place of duties currently in primary legislation, to support the testing and refining of this new framework during the sandbox period.

Applying to enter the sandbox

2.5 Firms that wish to operate PISCES under the modified legislation in the sandbox will first need to apply to the FCA. Firms will only be eligible to apply where they have a Part 4A permission for the relevant regulated activity involved (unless exempt). Legislation that is modified or disapplied by the sandbox will only apply to sandbox participants and to the activities related to the trading of shares on PISCES. Furthermore, all unmodified legislation will continue to apply to sandbox participants where appropriate. Finally, sandbox participants will need to comply with specific PISCES regulatory requirements. The proposed design of these requirements is set out in Chapter 3. Operators will need to provide assurances to the FCA that they can meet these requirements to participate in the sandbox.¹⁰

2.6 The modified or disapplied legislation and rules in the PISCES sandbox may apply to other persons connected to the sandbox arrangements, including companies (participant companies) and intermediaries acting for clients dealing in shares admitted to trading on such a platform.¹¹ For example, such persons would be subject to the tailored regulatory requirements as part of the sandbox arrangements, including obligations and prohibitions resulting from the proposed PISCES market abuse regime (see Chapter 5). The government does not however anticipate that such persons would need to apply to the FCA to participate in the test.

Who can apply to operate PISCES in the sandbox?

2.7 Any firm wishing to apply to operate PISCES in the sandbox will need to be a legal entity established in the UK and will require either:

- An FCA permission to “arrange deals in investments”, “operate an MTF”, or “operate an OTF” under Part 4A FSMA 2000, or
- A Recognised Investment Exchange (RIE) Exempt Person Status under FSMA 2000.¹²

¹⁰ As with any regulated activity, firms should obtain their own legal advice as to whether the PISCES model they wish to operate is compatible with their existing permissions and legal obligations.

¹¹ Companies whose shares are traded on PISCES are referred to in this paper as “participant companies”.

¹² UK RIEs are exempt persons under section 285 of the Financial Services and Markets Act 2000 (Exemption for recognised investment exchanges and clearing houses), which means that they are exempt from the need to apply to the FCA for authorisation. RIEs are exempt from the need for authorisation in respect to any regulated activity -

(a) which is carried on as a part of the exchange’s business as an investment exchange; or

2.8 The government expects that all existing trading venue operators would also be eligible to apply to operate PISCES, as they would already fall into one of the categories set out in paragraph 2.7.

2.9 The government envisages that the FCA will have appropriate discretion to determine the regulatory requirements that should apply to firms operating PISCES in the sandbox. This would include obligations such as prudential requirements and the adequacy of their systems and controls.

Duration

2.10 Any modification and disapplication of legislation will only apply to the activities related to the trading of shares on PISCES within the PISCES Sandbox while it is in operation. While the DSS is due to last 5 years, the Treasury will consider whether this is an appropriate duration for the PISCES Sandbox. Like the DSS, the Treasury can extend the length of the PISCES Sandbox via legislation if more time is needed to assess whether the modified regulations are achieving the intended outcomes (for example, sufficient investor protections). Alternatively, the Treasury can make permanent amendments to legislation, subject to Parliamentary approval, before the end of the sandbox, if the temporary modifications are deemed successful. In any case, the Treasury will report to Parliament with an assessment of the sandbox and is committed to providing certainty and clear communications to market operators and participant companies.

What happens at the end of the sandbox?

2.11 Prior to the end of the sandbox trial, the Treasury will need to assess which permanent legislative amendments it needs to put in place to support a long-term PISCES proposition. This will be informed and based on the modifications and disapplication to legislation tested in the sandbox.

2.12 For those operating PISCES under the sandbox regime, they will be able to exit the sandbox either by:

- Transitioning to a new permanently amended UK legislative framework for PISCES operators or,
- Winding down their operation in the sandbox and ceasing any further auctions or trading events on PISCES.

2.13 Where operators wish to transition their PISCES to a permanent regime outside the sandbox, the FCA will need to determine that they can meet the regulatory requirements under the permanent regime.

(b) which is carried on for the purposes of, or in connection with, the provision by the exchange of services designed to facilitate the provision of clearing services by another person.

UK RIEs do, however, have to be formally recognised by the FCA, and to do so they must satisfy recognition requirements prescribed in the *Recognition Requirements Regulations*. UK RIEs must also satisfy *MiFID/MiFIR* requirements when they operate an investment exchange.

The Treasury can also exercise its powers to ensure that there is no gap between the sandbox ending and the permanent amendments to legislation coming into force. The Treasury may also draw lessons from this experience to consider further reforms to the legislative framework under the Smarter Regulatory Framework programme.¹³

2.14 The government will continue to work closely with the FCA to finalise the specific sandbox arrangements, including the routes for a smooth transition out of the sandbox for any participant.

Box 2.A Questions for respondents

1. Do you have any comments on this arrangement? Do you think five years is an appropriate timeline for the PISCES Sandbox?

Investors eligible to trade on PISCES

2.15 The requirements on participant companies and PISCES operators need to be proportionate to the types of investors allowed access to PISCES. The disclosure arrangements will differ from public markets, and the PISCES market abuse regime will be different to the regime for public markets (see Chapter 5). The shares will also be traded on a platform whose regulatory arrangements are being tested and developed in an FMI sandbox before any permanent regime is put in place. A successor permanent regime may have differences to the sandbox regime. Further, the shares admitted to trading on PISCES will have a different risk profile to publicly traded shares. For example, the intermittent nature of the liquidity events means that there will be fewer opportunities for investors to reduce or dispose of their investments through PISCES, though investors could potentially arrange a bilateral transaction off-market.

2.16 It may be appropriate therefore that only institutional and professional investors, such as pension funds or private equity firms, should be able to buy shares on PISCES in the first instance. This would likely include any person who can meet the definitions of eligible counterparty or professional client in the Markets in Financial Instruments Directive (MiFID).¹⁴ Such persons are expected to understand the risks involved in investing in private companies, and

¹³ Building a Smarter Financial Services Regulatory Framework: Delivery Plan,

<https://www.gov.uk/government/publications/building-a-smarter-financial-services-regulatory-framework-delivery-plan>

¹⁴ Under MiFID II, a professional client is deemed capable of making his or her own investment decisions, and understanding the risks involved, with greater autonomy than retail clients. See for example the associated FCA COBS definitions, COBS 3.5 Professional clients in the FCA Handbook,

<https://www.handbook.fca.org.uk/handbook/COBS/3/5.html>.

this expectation is reflected in the level of investor protections proposed for the market abuse regime set out in Chapter 5.

2.17 One of the key benefits of PISCES for participant companies is to provide liquidity to their shareholders, and this could be particularly attractive to companies with a large employee shareholder base. The government would expect existing shareholders in participant companies to have the opportunity to sell their shares on PISCES subject to the conditions of the company's articles of association and any other relevant employment-based agreements where employees hold shares in the company. However, there may be instances where those eligible to sell their shares on PISCES may not be able to buy shares on PISCES because they do not meet the finalised criteria of an eligible investor.

2.18 More broadly, the government has considered carefully whether retail investors should be able to access PISCES platforms. Private companies whose shares are traded on PISCES will be subject to lower levels of disclosure and investor protection than shares traded on public markets. Investor protection requirements therefore need to be balanced against the breadth of access, in particular to retail or less sophisticated investors. The government is keen to get this balance right, particularly given the aim to reduce the regulatory cliff-edge between public and private markets. Subject to feedback, the government does not intend to allow general retail investors to access PISCES platforms. The government is however considering whether certain categories of retail investors may be able to buy shares through PISCES, including any of the following categories:

- **Self-certified sophisticated investors:** in line with the definition in the Financial Promotion Order, this would include a person who has recently invested more than once in unlisted companies; has been a current member of a network of business angels for at least six months; has recently worked in the private equity sector or in the provision of SME finance, or; has recently been the director of a company with a specified level of turnover.¹⁵
- **High-net worth investors:** this includes any person (other than in one of the categories referred to above) who meets the requirements in Articles 48, 49 or 51 of the Financial Promotion Order (respectively, certified high net individuals; high net worth companies and unincorporated associations; and associations of high net worth or sophisticated investors).¹⁶
- **Employees of a company participating on PISCES:** in addition to the above, the government is also considering whether to allow employees to buy shares of their companies on PISCES, as well as

¹⁵ See The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, <https://www.legislation.gov.uk/ukSI/2005/1529/contents>

¹⁶ See above.

being able to sell shares where they are existing shareholders (see paragraph 2.17). Unlike general retail investors, employees would be expected to have a greater awareness and understanding of investing in their company by virtue of their employment. PISCES could potentially support companies to manage employee share schemes which involve the transfer of existing shares. The sale of the shares in question would need to be consistent with the terms of any employee share scheme that is in place. How this would work practically could depend on whether the PISCES operator is operating an intermediated model or a non-intermediated model. A PISCES operator or a regulated intermediary would need to assess the eligibility of an employee as a potential investor before processing their order. As set out in Chapter 4, the government does not propose to modify legislation to permit share buybacks on PISCES, so companies would not be permitted to undertake a buyback on PISCES for the purpose of buying shares on behalf of their employees.

2.19 The government will consider the best legislative mechanism through which to regulate access to PISCES. The eligibility parameters will likely be defined within the statutory instrument which sets up the PISCES's regulatory sandbox arrangements, and the FCA would be given the power to supervise the arrangements.

2.20 The government is not considering broadening investor access beyond the category of retail investors described above for the trial period of the PISCES Sandbox. However, subject to the outcome of this sandbox, and appropriate levels of investor protections, the government will consider whether to widen participation to other retail investors.

Box 2.B Questions for respondents

2. Do you agree that this should be a market targeted at wholesale market participants, namely professional investors?
3. Do you have views on whether sophisticated and/or high net-worth investors should be allowed access to shares traded on PISCES?
4. Should employees have the opportunity to purchase shares in their company on PISCES? If so, could this be facilitated by the company?

Chapter 3

Requirements on a PISCES operator

3.1 Although PISCES will operate as a multilateral system, due to the unique features of the model, it will be subject to its own standalone regulatory requirements within the PISCES Sandbox. This means it will sit alongside, and not be subject to, the legislation which governs existing multilateral systems, and which has been designed for the continuous trading of publicly issued securities on Regulated Markets (RMs), Organised Trading Facilities (OTFs) and Multilateral Trading Facilities (MTFs).¹⁷

3.2 The government envisages that the regulatory provisions that apply to operators of PISCES will draw on the obligations that apply to trading venues, which will be adapted, where appropriate, noting the particular features of PISCES. For example, the government envisages there will be modified disclosure and pre- and post-trade transparency requirements (see paragraphs 3.9-3.13). This will allow for a proportionate regulatory framework that mitigates against the unique risks presented by the model and affords protection to investors while still considering the commercial needs of a private company.

3.3 These requirements will be designed to meet the following regulatory objectives:

- Takes a proportionate approach to protecting against investor detriment.
- Considers the unique needs of participant companies looking to trade shares on PISCES when setting regulations relating to the disclosure of information.
- Sets equivalent regulatory standards for all PISCES operators, regardless of whether they are authorised firms with an 'arranging deals in investments' permission or have RIE status.
- Ensures that PISCES platforms maintain the key features of a 'marketplace', allowing RIEs and authorised firms to leverage existing systems and regulatory standards.

3.4 The sandbox arrangements applying to PISCES operators would be based on the requirements that currently apply to MTF operators,

¹⁷ See footnote 5.

subject to appropriate modifications to accommodate the unique features and objectives of PISCES. For example:

- Transparent rules and procedures for fair and orderly trading;
- Objective criteria for the efficient execution of orders which are established and implemented in non-discretionary rules;
- Arrangements for the sound management of the technical operations of the facility;
- Transparent rules regarding the criteria for determining the financial instruments that can be traded under its systems;
- Arrangements to provide, or be satisfied that there is access to, sufficient information to enable its users to form an investment judgement, taking into account both the nature of the users and the types of instruments traded;
- Processes to identify and address breaches against operator rules, such as fines, fixed penalties, tribunals, etc;
- Rules and procedures regarding market intervention;
- Controls and procedures to identify and respond to system disruptions and failures impacting their PISCES platform;
- Rules and procedures for complaints handling;
- Bespoke disclosure and market abuse requirements as detailed in Chapter 5.

Illustrative examples of different PISCES operating models

3.5 The PISCES Sandbox will allow operators flexibility in how they operate the platform, provided that beforehand they demonstrate they can meet the regulatory requirements. For example, as is the case with existing exchanges and MTFs, a PISCES operator will be able to set their own admission requirements for companies wishing to have their shares traded on PISCES.

3.6 Where a PISCES operator is proposing to facilitate a feature that is not common to regulated public markets, the Treasury and the FCA will need to consider whether it needs to be accommodated with appropriate regulation through the sandbox arrangements. The box below illustrates the potential needs of participant companies that a PISCES operator may wish to facilitate, and which may also give rise to further regulatory considerations.

Table 3.A Examples - PISCES Operating Model

- **Price parameters:** There are different ways in which price discovery may take place on PISCES. For example, a PISCES operator could employ the use of price parameters on their platform. This could require a participant company (on an advised or non-advised basis) to set a floor and ceiling price for the share that is being traded. Based on the orders received, an algorithm would then find the uncrossing price after the trading event or auction closes. It may be appropriate that PISCES operators that allow price parameters to be set by participant companies are required to ensure that the basis of the parameters are disclosed to investors participating on the platform.
- **Permissioned auctions or trading events:** Participant companies may want to retain some control over the types of investors that may buy their shares through PISCES. To support this, a PISCES operator may want to provide participant companies with the flexibility to limit access to auctions or trading events of their shares to certain investor profiles. It would however be appropriate to consider what potential investor detriment could arise from a permissioned auction arrangement and to address those under the sandbox arrangements.
- **Intermediated model:** The majority of PISCES operators are likely to establish PISCES which operate on an intermediated basis (i.e. where member firms trade directly on PISCES, acting as intermediaries for the end investor). In theory, a PISCES operator might wish to operate a non-intermediated model, with the end investor interacting directly with the operator. An application under this model may require additional safeguards to be put in place by the operator.
- **Maximum/minimum trade volumes:** A PISCES operator or a participant company could set a minimum and maximum execution size for a trading window. If these thresholds are not met, auction extensions may be generated or an auction will fail.
- **Frequency of trading:** The regulatory framework will allow both PISCES operators and participant companies flexibility as to the frequency in which private shares are traded. Subject to operator rules and market conditions, companies will have the flexibility to decide the length between trading windows (i.e. weekly, monthly, biannually, etc.), and the duration of each trading window.

Box 3.A Questions for respondents

5. Are there any aspects of the model set out here that as a potential operator would act as a barrier to operating PISCES, or as a potential participant company or investor to participating in PISCES?
6. In particular, do you have any views on the examples of where a PISCES operators might have flexibility to run their platform in Table 3.A?
7. Under what circumstances should it be possible for companies to restrict access to trading events, noting that this is not possible in public markets (see paragraph on permissioned auctions in Table 3.A)?
8. Are there any further matters that should be considered in the design of PISCES, either to make the PISCES a more attractive proposition, or to mitigate any particular risks that may arise?

Disclosures within a private perimeter

3.7 Unlike public markets, PISCES operators will be permitted to establish a ‘private perimeter’, whereby detailed company disclosures and pre- and post-trade data are only required to be made available to eligible investors participating on the platform, and not disseminated publicly. This will be achieved by applying a modified Market Abuse Regulation (MAR) and other applicable disclosure requirements within the PISCES Sandbox in relation to the trading of shares on PISCES (described in Chapters 4 and 5). This reflects current practice in private markets, where companies choose which investors with whom they share confidential information, but would not typically make detailed company disclosures or other sensitive information publicly available.

3.8 Where such a model is used, there will be relevant requirements for operators to follow under the sandbox arrangements. For example, it will be for the operator to have adequate rules, systems and controls in place to ensure investors have complete and timely access to disclosures from participant companies. The government expects that information disclosed by companies in the private perimeter would remain private and not shared outside of the perimeter, this would be for the operator to oversee. The operator would determine the appropriate recourse for participant companies should anyone share information outside of the perimeter in contravention of any contractual arrangement with the operator.

Pre- and post-trade transparency

3.9 An efficient market requires a reliable price formation process with mechanisms in place that discourage improper trading practices

and instead give fair access to investors and the market as a whole. Pre- and post-trade transparency is a key component of a fair price formation process, allowing both the buy- and sell-side to enter the market with the same level of information and dispelling the possibility of asymmetrical information.

3.10 As such, within multilateral systems in public markets, trading venues are subject to the following transparency requirements:

- For pre-trade transparency, they must make public, on a continuous basis, the current bid and offer prices, and the depth of trading interests at those prices that are advertised through their systems for financial instruments.
- For post-trade transparency, companies must share price, volume, and times of trade as close to the real time as is technically possible.

3.11 These transparency requirements must be calibrated for different types of trading systems, including PISCES. In line with the approach to company disclosures in paragraph 4.15, the government proposes that there will not be a requirement for pre- and post-trade information to be made public. However, those with access to a PISCES' private perimeter would have access to complete pre- and post-trade transparency information – calibrated to the periodic trading or auction trading systems.

3.12 The relevant regulatory technical standards (RTSs), pre- and post-trade transparency requirements which sit within Article 3 and 6 of UK Markets in financial instruments regulations (UK MiFIR), would therefore not apply to PISCES under the government's proposal. However, there would be requirements on PISCES operators to ensure full pre- and post-trade transparency to intermediaries and end-users, for example, through a disclosure platform, within the private perimeter in line with the UK version of RTS 1. Further post-trade transparency requirements would be considered in the context of the intermittent nature of trading on PISCES, taking into account its use-case and how investors can benefit from this information.

3.13 The extent to which pre- and post-trade information is made public outside the private perimeter would be at the discretion of the PISCES operator. Nevertheless, it is expected that PISCES operators will want to consider the minimum standard of pre- and post-trade transparency information made publicly available outside the private perimeter to attract potential investors.

Box 3.B Questions for respondents

9. Do you agree that PISCES operator should be able to establish a private perimeter where disclosures are only accessible to those eligible to participate on PISCES? Do you have views on the requirements that should be placed on PISCES operators related to this?
10. Do you agree PISCES operators should be required to ensure full pre- and post-trade transparency to investors within the private perimeter?
11. Should any pre- and post-trade data or price data be made available publicly outside the private perimeter?

Transaction reporting

3.14 To facilitate effective monitoring of activity on PISCES platforms by regulators, the PISCES Sandbox arrangements will aim to support the submission of transaction reporting data to the FCA. Under UK MiFIR, UK investment firms and trading venues submit transaction reports to the FCA for transactions executed in financial instruments which are admitted to trading. Reporting obligations also apply to derivatives referencing one or more financial instruments admitted to trading.

3.15 As PISCES will not be a trading venue, UK MiFIR reporting obligations will not automatically apply. A bespoke model is therefore required. This could have the following features:

- To reduce reporting costs and maximise the utility of information to regulators, data should be submitted using the same mechanisms and processes as the current MiFIR transaction reporting regime.
- Consistent with the broader application of requirements to PISCES, transaction reporting obligations should apply only to transactions executed on PISCES, but not to any OTC transactions executed in the same financial instruments.
- As PISCES market participants will not be independently required to submit transaction reports for transactions executed in PISCES securities, PISCES operators should be responsible for submitting transaction reports for all transactions executed on its platforms. This approach would ensure no change in the current reporting obligations that apply to investment firms, removing potential additional costs.
- The transaction reports submitted by a PISCES operator should be made from the perspective of the entity facing the market, including details (where applicable) of the underlying client. The government

notes that, in the absence of a transmission agreement, this may not give visibility of the ultimate underlying client in scenarios where an order is executed on PISCES via a chain of intermediaries.

- PISCES operators and intermediaries should be required to maintain records of all orders and transactions executed on its platform.

Box 3.C Questions for respondents

12. Are you content with the proposed model for transaction reporting?

Responsibility for managing access to trades on PISCES

3.16 As set out above, most or all retail investors will not be permitted to trade on PISCES. The government proposes that it will be for a PISCES operator to ensure that only eligible investors (see Chapter 2), are able to participate in a trading event. In an intermediated model, operators may be able to rely on checks carried out by regulated intermediaries, such as brokers or other investment banks.

3.17 It is likely that a PISCES operator's ability to ensure that ineligible investors do not participate in a trading event would inform the FCA's decision on whether or not to grant their application to test these arrangements in the sandbox.

Box 3.D Questions for respondents

13. Are you content that PISCES operator or regulated intermediaries could check that potential investors meet the eligibility criteria (see chapter 2)?
14. Do you have any views on how a PISCES operator or regulated intermediary will ensure that ineligible investors do not trade on PISCES?

Chapter 4

Requirements on companies with shares traded on PISCES

4.1 As set out in this paper, PISCES will permit the trading of existing shares in private companies and PLCs whose shares are not admitted to trading on a public market in the UK or abroad. This could include international companies, not headquartered in the UK, provided that their shares were not admitted to trading either abroad or in the UK. This section provides further detail on the proposed disclosure and corporate governance requirements for participant companies, along with proposed amendments to legislation to ensure that private companies can participate on PISCES.

4.2 The government does not currently envisage placing admission requirements, such as a minimum or maximum size cap on companies wishing to use PISCES. There may be requirements, such as minimum corporate governance requirements, placed on companies by a PISCES operator as a condition of admission. Subject to an operator's admission processes, companies may find the application process to have their shares traded on this secondary market platform similar to some of the admission requirements imposed by operators of primary markets.

Shares traded on PISCES

4.3 For shares to be traded on PISCES, they will need to be freely transferable and must not otherwise be admitted to trading elsewhere. Companies will need to undertake the necessary steps to ensure that this is the case, for example agreeing with shareholders to amend their articles of association, if necessary. It will also be possible for companies to have different classes of shares admitted to an auction or trading event on PISCES.

Corporate governance requirements

4.4 The Companies Act 2006 (2006 Act) differentiates between PLCs and private companies in a number of ways, imposing additional corporate governance and related requirements on PLCs (key differences summarised in Table 4.A). The government has considered whether any of the additional requirements placed on PLCs should apply to private companies whose shares are traded on PISCES.

4.5 The government's preference is to leave any additional requirements to individual PISCES operators. They would be free to set admission rules in line with the preferences of their client companies and investors.

Box 4.A Questions for respondents

15. Do you agree that any additional corporate governance related requirements on private companies beyond those required by the 2006 Act should be at the discretion of the PISCES operator?

Modifications to Companies Act 2006

4.6 The purpose of PISCES is to facilitate secondary trading in shares of companies that do not have shares admitted to trading on a public market. The government therefore plans to modify the 2006 Act within the sandbox to ensure that private companies can participate on PISCES.

Table 4.A Difference between public and private companies

- For company law purposes, a private company is defined as “*a company which is not public*” and a PLC is defined as a company limited by shares or by guarantee and having a share capital whose certificate of incorporation states that it is a public company, and which has complied with the requirements of the Companies Acts¹⁸ as to registration or re-registration as a public company (see Section 4 of the 2006 Act). Of the 4.65 million companies on the register of companies at Companies House on 31 March 2023, only 4,820 (0.1%) were PLCs.¹⁹
- Key differences between private and PLCs are:
 - private companies are not allowed to offer their shares to the public (see Section 755 of the 2006 Act); and
 - PLCs must meet a minimum share capital requirement – currently £50,000 (see Section 761 of the 2006 Act).

¹⁸ The Companies Act 2006 and provisions of previous Companies Acts, e.g. the Companies Act 1985, that are still in force.

¹⁹ See Companies House, Table A2: Summary of changes in the number of private companies on the register, 2013-14 to 2022-23 and Table A3: Summary of changes in the number of public limited companies on the register, 2013-14 to 2022-23. <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2022-to-2023>

- Other differences relate to officer requirements, accounting and auditing requirements and corporate formalities including:
 - A PLC is required to have two directors and a company secretary;
 - A PLC must file its accounts with Companies House within six months of the end of the accounting period; a private company must do so within nine months;
 - A PLC is required to file audited accounts; an audit exemption is generally available for private companies where they qualify as a small company or micro-entity;
 - A private company must keep accounting records for three years; a PLC must keep accounting records for six years; and
 - A private company does not usually have to hold an AGM unless its articles of association require this.²⁰
- The general regulatory approach is that the statutory requirements for PLCs are more onerous than those that apply to private companies because they are permitted to offer their shares to the public.

Prohibition on public offers by private companies

4.7 An offer to the public includes an offer to any section of the public, however selected unless the offer can properly be regarded, in all the circumstances, as: ²¹

- a) not being calculated to result, directly or indirectly, in shares (and other securities) of the company becoming available to persons other than those who received the offer; or
- b) otherwise being a private concern of the person receiving the offer and the person making it.²²

4.8 Whilst PISCES will be a secondary market and will not be used by companies to raise new capital, there is a concern that an offer of new

²⁰ A company's articles of association are rules, chosen by the company's members (shareholders), which govern a company's internal affairs. They form a statutory contract between the company and its members, and between each of the members in their capacity as members and are an integral part of a company's constitution.

²¹ See Section 756 of the Companies Act 2006.

²² An offer is assumed to be a private concern if it is made to a person already connected with the company on terms that allow that person to renounce their rights in favour of another person already connected with the company (e.g. an existing shareholder or employee of the company); or the offer is made through an employees' share scheme on terms which allow the employee to renounce their rights in favour of in favour of another eligible employee or person already connected with the company.

shares to potential investors (outside of PISCES) could be regarded as an indirect offer to the public. This would be the case where the company, in making the offer, knew these same shares may eventually be traded on PISCES. To avoid this potential issue, the government proposes to modify the application of Section 756 of the 2006 Act to clarify that where shares are allotted and these same shares are subsequently traded on, or made available for trading on PISCES, this will not be regarded as being calculated to result indirectly in shares in the company becoming available to persons other than those receiving the original offer.

Information about interests in a company's shares

4.9 Unlike private companies, PLCs have a power under the 2006 Act, to require a person they know, or to believe, has an interest in their shares²³ to confirm or deny that interest and disclose certain information, including the identify of any other person with an interest in the shares.²⁴

4.10 Failure to comply with such a request is an offence. This power ensures that PLCs can identify parties who have significant influence over the company's shares, which could be relevant to a takeover or other significant corporate action. Shareholders holding at least 10% of the paid-up share capital of a PLC can also require the PLC to exercise its powers to identify interests in its shares. This power exists because, in some circumstances, it is important for shareholders to identify and communicate with other shareholders, including the ultimate beneficial owners of shares where shares are held by intermediaries.

4.11 The government proposes to use the FMI sandbox powers to modify Section 793 of the 2006 Act so that all companies whose shares are traded on PISCES have powers to require disclosure of information about interests in their shares. It does not propose to give shareholders of private companies the same powers that are afforded to shareholders of PLCs holding at least 10% of the paid-up share capital because relevant information is expected to be included in the company's disclosures ahead of a trading window.

²³ Or to have had such an interest in the previous three years.

²⁴ See Section 793 of the Companies Act 2006.

Box 4.B Questions for respondents

16. Would you be content with the proposed requirements placed on companies whose shares are admitted to trading on PISCES?
17. Do have any comments on the proposed modifications to the 2006 Act described in paragraphs 4.7-4.11?
18. Are there any other modifications to 2006 Act that would in your view be needed to facilitate the operation of PISCES? If so, please provide details.

Share buybacks

4.12 Private companies are currently able to carry out an 'off-market' share buyback under the 2006 Act. There are number of reasons for companies to conduct an off-market share buyback, such as to provide liquidity for shareholders, or to increase the value of shares by reducing their number.

4.13 The 2006 Act and associated regulations that cover share buybacks do not envisage a share buyback by a company being undertaken on a platform such as PISCES given that this is a new concept. There may be benefits to permitting share buybacks through PISCES, such as supporting liquidity in the venue, allowing a company to rationalise its investor base, ensuring existing shareholders can more easily find buyers for their shares, and increasing shareholder value. However, the government notes that there may be risks that a share buyback could inhibit the price discovery process because, subject to a PISCES operator's commercial model, a company can set the price parameters for its shares traded on the platform. Indeed, potential investors may be deterred if a company can set the price parameters for an auction or trading event where it intends to also buyback its shares.

4.14 Questions also remain on whether permitting share buybacks through PISCES is necessary as a private company can already undertake 'off market' share buybacks. Therefore, the government does not currently envisage that share buybacks will be permitted on PISCES but welcomes the views of stakeholders on this.

Box 4.C Questions for respondents

19. Do you agree that share buybacks should not be permitted on PISCES, given the risks set out above?

Disclosure requirements

4.15 Company disclosures play an important role in helping investors to make investment decisions. As such, they play an integral role in the operation of PISCES, by providing investors with access to information about the participant companies. In addition to the private perimeter (see paragraph 3.7), disclosure requirements will be different to public markets, in that the disclosures will be intermittent, only taking place immediately before and after a trading event and only made available to investors that are eligible and have opted to participate in the trading window.

Content of disclosures

4.16 The government envisage that, at a minimum, companies would be required to disclose:

- All inside information. The MAR definition of inside information is well-understood across industry, encapsulating key information that investors need to make informed investment decisions. Inside information is information that has not been made public, relates to directly or indirectly to the company or company shares, and if made public would have a significant impact on the price of those shares. Participant companies will be required to disclose all information that would meet this benchmark. The government expects to largely retain the current definition in MAR, but may need to adapt it to PISCES so it is clear that it covers price sensitive information that has not been made available to all participating investors within the private perimeter. This would include price sensitive information that had been made available to some investors outside the trading window in the private market.
- Information on share ownership, such as a share capitalisation table, or adapted requirements under Chapter 5 of the Disclosure Guidance and Transparency Rules (DTR 5), including significant transactions since the previous trading event.
- Information on transactions by the participant company's senior managers in their own company's shares (akin to transactions reported by Persons Discharging Managerial Responsibilities (PDMRs) under MAR). This would include transactions by PDMRs both on and outside PISCES.
- Information on any price parameters (as explained in Table 3.A)
- Information on any trading permission restrictions imposed by a participant company (as explained in Table 3.A).

4.17 A company's disclosures ahead of each trading window should be a comprehensive source of all inside information at the start of the trading window. As such, if a company has shared information outside the trading window with some investors that is still considered to be

inside information, such information would need to be included in subsequent disclosures ahead of the next trading window.

4.18 If inside information arises or is identified between the publication of the company's disclosures and the trading window, the operator should prevent the trading event from taking place, or suspend trading if trading has begun.

4.19 PISCES operators will be able to require additional non-regulatory disclosures in their rulebook for the PISCES they operate.

Timing of disclosure

4.20 Disclosure documents would be made available to participating investors before the trading window opens, to give investors sufficient time to analyse the information provided. However, this period needs to be balanced against the risk of the disclosure documents becoming out-of-date between disclosure and the trading window, particularly in terms of the potential for new disclosable information arising. As per question 21 below, the government would welcome views on what would be a reasonable timeframe for disclosure ahead of a trading window (e.g. 3 days ahead of a trading event). This should balance giving investors sufficient time to digest the information while limiting the risk of new disclosable information arising, which would result in the cancellation of a trading event.

4.21 While necessary in a continuous trading environment, the government's initial view is that there should not be a concept of delayed disclosure of inside information for the PISCES market abuse regime. A company's disclosures ahead of each trading window should contain all inside information.

Box 4.D Questions for respondents

20. Do you have any views on the proposed disclosure requirements? Are there other disclosures that should be mandated to help investors make informed investment decisions, for example corporate governance, major shareholdings, or financial information?
21. How long before the trading window opens should disclosures need to be published? Should this be determined by the operator or participant companies?

Chapter 5

PISCES market abuse regime

Objectives

5.1 For financial instruments admitted to trading on public markets, MAR aims to increase market integrity and investor protection, enhancing the attractiveness of securities markets. In the sandbox, the government will test a tailored market abuse regime for PISCES with the following objectives:

- Similar to MAR, the PISCES market abuse regime should increase market integrity and investor protection compared to private market standards, enhancing the attractiveness of trading on PISCES.
- Combined with the envisaged disclosure requirements detailed in the previous section, the market abuse regime should create a level playing field of minimum information among eligible investors participating on PISCES.
- The market abuse regime should provide for a credible deterrence to abusive behaviour related to trading on PISCES.
- In recognition of the types of companies and investors envisaged to participate on PISCES, the market abuse regime should not place a disproportionate burden on participant companies, the PISCES operators or investors.

Scope

5.2 MAR is generally well-understood across industry. For this reason, the PISCES market abuse regime will look to draw on existing definitions and concepts from MAR where appropriate, adapting these to meet the above objectives of the PISCES market abuse regime and the functioning of the PISCES market.

5.3 However, the government's view is that securing a comparable degree of market integrity and investor protection as MAR in the context of the PISCES model would result in burdens that are likely to be disproportionate for this type of market, and therefore unattractive to private companies and investors. As such, the PISCES market abuse regime will focus on the greatest market abuse risks in the context of PISCES. Given the investor profile envisaged for PISCES (see Chapter 2), the government expects that investors should be able to undertake

their own assessment of any residual risks provided the scope and any limitations of the market abuse regime are clear.

5.4 MAR applies continuously from the moment a financial instrument is requested to be admitted to trading. However, recognising the intermittent nature of trading on PISCES, the PISCES market abuse regime would only apply from when a company's disclosures are made available to investors prior to the trading window opening to the end of the trading event.

5.5 MAR applies to both financial instruments admitted to trading, as well as any related financial instruments that have a price or value dependency or effect on those instruments. However, in the context of PISCES, the government's initial view is that the risks of abusive behaviour by way of financial instruments related to shares in participant companies are likely to be limited. For this reason, the scope of the PISCES market abuse regime would be limited to shares admitted to trading on PISCES, and not related financial instruments.²⁵

5.6 MAR applies to financial instruments admitted to trading, both when they are traded on a trading venue and when they are traded off-venue. However, in the context of PISCES, given lower liquidity levels and extensive due diligence ahead of 'over the counter' (OTC) private market transactions, the government considers market abuse risks associated with off-PISCES trading in shares admitted to trading on PISCES to be significantly lower than in public markets. The government's initial view is that requiring the necessary transparency over off-PISCES trading to allow for credible market abuse monitoring and investigations would impose disproportionate costs on market participants, including private companies and market operators. For example, this could entail monitoring, record-keeping or reporting of orders for transactions off-PISCES. As such, the government proposes to limit the scope of the PISCES market abuse regime to on-PISCES trading.

5.7 Market manipulation within MAR applies to trading behaviours and the dissemination of false or misleading information. The market abuse risk from false and misleading statements made outside a PISCES trading window is likely to be much higher than the risk from market abuse from trading which would take place OTC outside of these trading windows. Further, the monitoring arrangements for misleading statements would not impose disproportionate costs on market participants, compared to that for trading taking place outside the PISCES windows. Although the scope of the PISCES market abuse regime would be limited to on-PISCES trading for the suggested reasons above in paragraph 5.6, the government proposes that the regime should include the dissemination of false and misleading

²⁵ To note, this would not preclude shares in PISCES companies being in scope of MAR if their price/value depends on or has an effect on a financial instrument in scope of MAR.

information outside trading windows where it impacts on the trading of shares during the PISCES trading window.

PISCES market abuse offences

5.8 The government is keen to draw on existing concepts from MAR where possible for the PISCES market abuse regime. There are three market abuse offences under MAR, which the government intends to apply to PISCES as follows:

- **Unlawful disclosure of inside information** - Based on the proposal to limit the application of the PISCES market abuse regime to the trading windows, participant companies will be able to continue to share information with investors without any PISCES market abuse requirements applying, outside of PISCES trading windows. Participant companies will be required to disclose all inside information ahead of each trading event, meaning there is limited scope for unlawful disclosure of inside information by insiders within participant companies. However, there may be other market participants with access to inside information. Participant companies and insiders within the companies may also possess inside information if disclosures are incomplete or new inside information arises after disclosures are made. For this reason, the government proposes having an offence for unlawful disclosure of inside information, as in MAR.
- **Market manipulation** – The core market manipulation risk is false or misleading statements in a company’s disclosures. Omission of inside information from these disclosures is also a key risk. The government will ensure that this type of abusive behaviour would be caught by the PISCES market abuse regime. The government will also retain an offence for manipulative trading behaviour.
- **Insider dealing** – In terms of insider dealing, the government envisages retaining the current offence and behaviours. The arrangements would focus on persons involved in producing the disclosures using inside information that has not been included in the company’s disclosures to, trade, or recommend that others trade on PISCES.

Monitoring and enforcement against market abuse

5.9 There will be a role for market participants, such as the PISCES operator and intermediaries, to establish and maintain effective arrangements, systems and procedures to prevent, detect and report suspected market abuse to the FCA, in a similar way to Article 16 of MAR. As mentioned in Chapter 3, the PISCES operator would also be subject to requirements to ensure fair and orderly markets, which may overlap with requirements to prevent, detect and report suspected market abuse to the FCA.

5.10 As under MAR, the FCA will be the statutory authority for investigating and taking any enforcement action related to market abuse under the PISCES market abuse regime.

5.11 Participant companies will not be able to delay disclosure of inside information, so we do not foresee the need for insider lists as under MAR. However, to aid the FCA with any market abuse investigations, the government expects that participant companies maintain a record to provide to the FCA upon request identifying individuals involved in identifying potential inside information and deciding whether it should be included in a company's disclosures.

5.12 As under MAR, the PISCES market abuse offences would apply to both firms and individuals, which the government considers to be particularly relevant in the context of false, misleading or incomplete disclosures. The government also envisages similar liability standards for false or misleading statements as in public markets, including for example the ability for an investor to take legal action against a private company for deliberately dishonest statements or recklessness as to whether a statement was untrue or misleading.²⁶

Box 5.A Questions for respondents

22. What market abuse risks do you foresee in the context of PISCES? To what extent do you think they would be mitigated by the proposed market abuse regime?
23. Do you agree with the proposed scope for the PISCES market abuse regime? Are there material market abuse risks that would not be captured by this scope?
24. Do you agree with the proposed PISCES market abuse offences?
25. Do you agree with the proposed arrangements for monitoring and enforcement against market abuse on PISCES?

²⁶ Criminal liability standards in public markets are covered in Sections 89 and 90 of the Financial Services Act 2012 in respect of misleading statements and misleading impressions respectively, and civil liability for misleading statements and dishonest omissions by issuers of securities is governed by Section 90A of and Schedule 10A to the Financial Services and Markets Act 2000, which set recklessness as to the truth of the statement as a minimum threshold for misleading statements.

Chapter 6

Further policy issues

Role of intermediaries

6.1 As noted above, the government expects that many PISCES operators will establish a similar set-up to public markets, where direct membership of the PISCES is limited by the operator to regulated intermediaries, such as brokers and investment banks, with these member firms trading on behalf of clients. Where firms are performing intermediary functions, they would also be subject to the requirements established by the PISCES Sandbox outlined in this paper (see Chapter 2). For example, they would be subject to the PISCES market abuse regime.

6.2 A PISCES operator may require the intermediaries to take on additional responsibilities to support the functioning of its PISCES platform, for example intermediaries could have a role in ensuring that company disclosures published in the 'private perimeter' remain confidential when shared with their clients.

Financial promotions

6.3 In addition to the required company disclosures noted in Chapter 4, companies will most likely wish to issue marketing materials to potential investors who are eligible to participate on PISCES. Such communications are currently governed by the UK's financial promotions regime which provides safeguards to UK consumers.

6.4 The ability of companies to make such communications may be affected by the availability of exemptions under the financial promotion regime, outlined in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO) and the types of investors who can buy shares on PISCES (see Chapter 2). For example, under Article 67 of the FPO, the financial promotion restriction does not apply to any communication which relates to shares that is required or permitted by the rules of the market or the body that regulates it.

Box 6.A Questions for respondents

26. Do you agree that the existing exemptions in the FPO are sufficient to allow the promotion of shares traded on PISCES to eligible investors as described in this paper?

27. Are there particular features of PISCES that require the FPO to be modified in the sandbox to clarify how it applies to the promotions of shares that are traded on PISCES?

Settlement

6.5 Market participants may find it preferable to have their shares placed on a Central Securities Depository (CSD) to facilitate the holding and settlement of PISCES shares.

6.6 However, subject to feedback on practicalities, the government proposes that PISCES operators retain the choice on whether to mandate that shares are placed into a CSD as part of a company's admission process onto their platform. This should allow PISCES operators to take a position based on commercial reasons, balancing the potential costs for a company to have their shares settled on a CSD against the efficiency of trade settlements to attract potential investors.

Box 6.B Questions for respondents

28. Do you agree that it should be up to the PISCES market operators to decide whether a company should have their shares placed on a CSD in order to participate on their platform?

Further questions for investors

6.7 In addition to the specific questions set out throughout this paper regarding the detailed design of the PISCES sandbox, the government welcomes views from potential investors on the overall model set out for PISCES.

Box 6.C Questions for respondents

29. Are there any aspects of the model that would dissuade you from investing through PISCES?

30. Are there any further matters that should be considered in the design of the PISCES to encourage investors to use such a platform?

Chapter 7

Next steps

7.1 Please send responses to PISCES@hmtreasury.gov.uk.

7.2 The government will continue to consider its approach to designing the regulatory arrangements in an FMI Sandbox to both provide companies with an additional route to access liquidity and investors with greater opportunities to invest in exciting companies who are not publicly trading. The government will carefully consider responses, which will be important for informing policy development. Based on the responses received, the illustrative proposal in this paper may change and the government may seek further engagement from stakeholders to further develop the model.

7.3 The Treasury intends to lay a statutory instrument before Parliament later this year, which will provide the legal framework for the PISCES Sandbox. The FCA also intends to consult on the processes for taking part in the sandbox (applications, approval) and the FCA rules that will apply to firms within the sandbox, before the sandbox is established at the end of 2024. Any indications given as to the contents of those rules in this paper are subject to change and dependent upon the outcome of their consultation.

Processing of personal data

7.4 This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR). For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this consultation.

Data subjects

7.5 The personal data we will collect relates to individuals responding to this consultation. These responses will come from a wide group of stakeholders with knowledge of a particular issue.

The personal data we collect

7.6 The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles and opinions.

How we will use the personal data

7.7 This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest.

7.8 Processing of this personal data is necessary to help us understand who has responded to this consultation and, in some cases, contact respondents to discuss their response.

7.9 HM Treasury will not include any personal data when publishing its response to this consultation.

Lawful basis for processing the personal data

7.10 Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the development of departmental policies or proposals to help us to develop effective government policies.

Who will have access to the personal data

7.11 The personal data will only be made available to those within Treasury with a legitimate business need to see it as part of consultation process.

7.12 The policy is being designed in partnership with the Financial Conduct Authority and the Department for Business and Trade, therefore we intend to share responses with those organisations. Any directly identifiable personal data will be sanitised from the response prior to sharing.

7.13 As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

7.14 We will retain the personal data until work on the consultation is complete and no longer needed.

Your data protection rights

7.15 Relevant rights, in relation to this activity are to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

How to submit a data subject access request (DSAR)

7.16 To request access to your personal data that HM Treasury holds, please email: dsar@hmtreasury.gov.uk.

Complaints

7.17 If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: privacy@hmtreasury.gov.uk.

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.uk or via this website: <https://ico.org.uk/make-a-complaint>.

Annex A

Glossary

Table 7.A Glossary terms and definitions

| Term | Definition |
|-------------------------------|--|
| 2006 Act | Companies Act 2006 |
| Angel investor | A business angel is a high net-worth individual who offers financing for small start-ups or small business owners, often in exchange for equity in the business. The funding a business angel provides might be a one-time investment, or it may be an ongoing financing venture to help the new business in its early years. |
| Articles of association | A company's articles of association are rules, chosen by the company's members (shareholders), which govern a company's internal affairs. They form a statutory contract between the company and its members, and between each of the members in their capacity as members and are an integral part of a company's constitution. |
| Central Securities Depository | A central securities depository (CSD) is an institution that holds financial instruments, including equities, bonds, money market instruments and mutual funds. |
| Digital Securities Sandbox | The Digital Securities Sandbox facilitates the use of digital assets in financial markets. |
| Edinburgh Reforms | On 9 December 2022, the Chancellor unveiled the "Edinburgh Reforms" of UK financial services – over 30 regulatory reforms to unlock investment and turbocharge growth in towns and cities across the UK. |
| FCA Handbook | The rule book that sets out the rules and guidance made by the FCA. |

| | |
|-----------------------------------|--|
| Financial Conduct Authority (FCA) | The conduct regulator for financial services firms and financial markets in the UK. |
| Financial instrument | A financial instrument is effectively a monetary contract (real or virtual) that confers a right or claim against some counterparty in the form of a payment (checks, bearer instruments), equity ownership or dividends (stocks), debt (bonds, loans, deposit accounts), currency (forex), or derivatives (futures, forwards, options, and swaps). Financial instruments can be segmented by asset class and as cash-based, securities, or derivatives. |
| Financial promotion | An invitation or inducement to engage in investment activity or to engage in claims management activity that is communicated in the course of business. |
| FMI | Financial Market Infrastructure |
| FMI Sandbox | FSMA 2023 gave the Treasury powers to create financial market infrastructure (FMI) sandboxes. This was to allow novel FMI models and practices that would not be permitted under the existing legal and regulatory framework to be tested within a live environment. |
| FSMA 2000 | Financial Services and Markets Act 2000 |
| FSMA 2023 | Financial Services and Markets Act 2023 |
| IPO | When a private company first sells shares to the public, this process is known as an initial public offering (IPO). In essence, an IPO means that a company's ownership is transitioning from private ownership to public ownership. |
| Liquidity | Concept that reflects how easy it is to buy or sell a financial instrument, usually without affecting the prevailing price. |
| Market Abuse Regulation (MAR) | The EU Market Abuse Regulation (EU MAR) came into effect on 3 July 2016 and was onshored into UK law on 31 December 2020 by the EU (Withdrawal) Act 2018. The UK's MAR makes insider dealing, unlawful disclosure, market |

| | |
|-------------------------------------|---|
| | manipulation and attempted manipulation civil offences, and gives the FCA powers and responsibilities for preventing and detecting market abuse. |
| MiFID | Markets in Financial Instruments Directive. |
| Multilateral Trading Facility (MTF) | A multilateral system operated by an investment firm, a qualifying credit institution or a market operator that brings together multiple third party buying and selling interests in financial instruments in accordance with non-discretionary rules. |
| Organised Trading Facility (OTF) | A multilateral trading system operated by an investment firm, a qualifying credit institution or a market operator in which multiple third-party buying and selling interests in bonds, structured finance products, emissions allowances or derivatives can interact in the system. |
| OTC | Over the counter – trading of financial instruments outside the systems and rules of a trading venue |
| Part 4A permission | A permission given by the FCA or the Prudential Regulation Authority under Part 4A of FSMA 2000 (Permission to carry on regulated activities), or having effect as if so given. |
| Participant company | A company whose shares are traded on PISCES. This could include either private companies or PLCs whose shares are not admitted to trading on a public market in the UK or abroad. |
| PISCES or PISCES platforms | Private Intermittent Securities and Capital Exchange System |
| PISCES operator | A market operator who operates PISCES. |
| PISCES Sandbox | An FMI sandbox, to be established under FSMA 2023 powers. It will be a regulatory construct that allows participating entities to operate a PISCES platform under a modified regulatory framework, and any modified and disapplied regulations within the sandbox may also apply to participant companies and |

| | |
|--|---|
| | intermediaries acting for clients dealing in shares admitted to trading on PISCES. |
| Post-trade transparency | The obligation to publish the details of a trade report after execution. |
| Prospectus | Document to be published when securities are offered to the public or admitted to trading on a regulated market |
| Public markets | Public markets are financial markets where investments are traded on exchanges and easily invested in by the public. Examples of public markets are regulated stock exchanges such as the London Stock Exchange (LSE), the New York Stock Exchange (NYSE), and Nasdaq. Other examples of public markets include the bond market and commodities market. |
| Recognised Investment Exchange | A recognised investment exchange (RIE) is an investment exchange recognised by the FCA under Part XVIII of FSMA 2000, such that a recognition order is in force in respect of it (Section 285, FSMA 2000). An RIE may be a UK RIE or a recognised overseas investment exchange (ROIE). As an exempt person, an RIE is exempt from the general prohibition under FSMA 2000 in respect of any regulated activity which is carried on as part of the exchange's business as an investment exchange, or which is carried on for the purposes of, or in connection with, the provision of clearing services by the exchange. |
| Regulated Market | A multilateral system operated by a Recognised Investment Exchange that brings together multiple third party buying and selling interests in financial instruments in accordance with non-discretionary rules. |
| Secondary trading or secondary markets | When a company issues stock (e.g. shares) or bonds for the first time and/or sells these directly to investors, that transaction occurs on the primary market. If these initial investors later decide to sell their stake in the company, they can do so |

| | |
|-----------------------|---|
| | on the secondary market. Any transactions on the secondary market occur between investors, and the proceeds of each sale go to the selling investor, not to the company that issued the stock or to the underwriting bank. |
| Securities | A security is a certificate or other financial instrument that has monetary value and can be traded. Securities are generally classified as either equity securities, such as stocks (e.g. shares in a specific company) and debt securities, such as bonds and debentures. |
| Trading venue | A regulated market, a multilateral trading facility or an organised trading facility. |
| Transaction reporting | Reports of executed trades that must be made to the FCA under MiFID II. |

Annex B

List of questions

1. Do you have any comments on this arrangement? Do you think five years is an appropriate timeline for the PISCES Sandbox?
2. Do you agree that this should be a market targeted at wholesale market participants, namely professional investors?
3. Do you have views on whether sophisticated and/or high net-worth investors should be allowed access to shares traded on PISCES?
4. Should employees have the opportunity to purchase shares in their company on PISCES? If so, could this be facilitated by the company?
5. Are there any aspects of the model set out here that as a potential operator would act as a barrier to operating PISCES, or as a potential participant company or investor to participating in PISCES?
6. In particular, do you have any views on the examples of where a PISCES operators might have flexibility to run their platform in Table 3.A?
7. Under what circumstances should it be possible for companies to restrict access to trading events, noting that this is not possible in public markets (see paragraph on permissioned auctions in Table 3.A)?
8. Are there any further matters that should be considered in the design of PISCES, either to make the PISCES a more attractive proposition, or to mitigate any particular risks that may arise?
9. Do you agree that PISCES operator should be able to establish a private perimeter where disclosures are only accessible to those eligible to participate on PISCES? Do you have views on the requirements that should be placed on PISCES operators related to this?
10. Do you agree PISCES operators should be required to ensure full pre- and post-trade transparency to investors within the private perimeter?
11. Should any pre and post trade data or price data be made available publicly outside the private perimeter?
12. Are you content with the proposed model for transaction reporting?

13. Are you content that PISCES operator or regulated intermediaries could check that potential investors meet the eligibility criteria (see chapter 2)?
14. Do you have any views on how a PISCES operator or regulated intermediary will ensure that ineligible investors do not trade on PISCES?
15. Do you agree that any additional corporate governance related requirements on private companies beyond those required by the 2006 Act should be at the discretion of the PISCES operator?
16. Would you be content with the proposed requirements placed on companies whose shares are admitted to trading on PISCES?
17. Do have any comments on the proposed modifications to the 2006 Act described in paragraphs 4.7-4.11?
18. Are there any other modifications to 2006 Act that would in your view be needed to facilitate the operation of PISCES? If so, please provide details.
19. Do you agree that share buy-backs should not be permitted on PISCES, given the risks set out above?
20. Do you have any views on the proposed disclosure requirements? Are there other disclosures that should be mandated to help investors make informed investment decisions, for example corporate governance, major shareholdings, or financial information?
21. How long before the trading window opens should disclosures need to be published? Should this be determined by the operator or participant companies?
22. What market abuse risks do you foresee in the context of PISCES? To what extent do you think they would be mitigated by the proposed market abuse regime?
23. Do you agree with the proposed scope for the PISCES market abuse regime? Are there material market abuse risks that would not be captured by this scope?
24. Do you agree with the proposed PISCES market abuse offences?
25. Do you agree with the proposed arrangements for monitoring and enforcement against market abuse on PISCES?
26. Do you agree that the existing exemptions in the FPO are sufficient to allow the promotion of shares traded on PISCES to eligible investors as described in this paper?

27. Are there particular features of PISCES that require the FPO to be modified in the sandbox to clarify how it applies to the promotions of shares that are traded on PISCES?
28. Do you agree that it should be up to the PISCES market operators to decide whether a company should have their shares placed on a CSD in order to participate on their platform?
29. Are there any aspects of the model that would dissuade you from investing through PISCES?
30. Are there any further matters that should be considered in the design of the PISCES to encourage investors to use such a platform?