WFE Response to HM Treasury Consultation on a Private Intermittent Securities and Capital Exchange System (PISCES)

17th April 2024

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 36% are in Asia-Pacific, 43% in EMEA and 21% in the Americas. The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. The exchanges covered by WFE data are home to over 55,000 listed companies, and the market capitalization of these entities is over $111tr; around $124tr in trading annually passes through WFE members (at end-2023).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Summary

- The WFE welcomes HM Treasury's innovative proposal to encourage further IPOs.
- Nevertheless, PISCES represents a departure from traditional regulatory norms, potentially posing risks to market integrity and investor protection.
- We support further work to simplify listing requirements to further encourage IPOs.

Response

An Innovative Proposal

The World Federation of Exchanges (WFE) is pleased to see HM Treasury launch an innovative proposal to support the pipeline for future initial public offerings (IPOs). IPOs are valuable for companies to access capital. They can provide incentives by generating wealth for early investors, founders, and employees of a company. And, they can engage a broader base of investors, including institutional and retail investors, to generate gains from investments.

Engaging private companies through PISCES could help them get used to the principles around disclosure in a limited way and help them make the next step to an IPO with greater confidence. By participating in PISCES, private firms could be exposed to disclosure principles that would allow them to gradually acclimate to the expectations and standards required for public offerings. PISCES could provide private companies with valuable feedback and guidance on their disclosure practices from industry experts, investors, and regulatory bodies. This feedback loop could enhance the companies' understanding of disclosure requirements and help them refine their strategies and reporting mechanisms. The experience gained from navigating the disclosure process within PISCES could build trust among investors and stakeholders, ultimately enhancing the attractiveness of the company to potential public market investors.

Overall, PISCES could serve as a valuable environment to complement the existing trading landscape where private companies can develop and hone their disclosure practices, PISCES could benefit individual companies and the broader financial services landscape.

Potential Harms

The creation of PISCES signals a move away from the established norms that a venue which presents the same risk should be subject to the same rules. PISCES will operate similarly to a secondary market trading venue but be subject to lesser regulation and disclosures which could lead to concerns around market integrity, including market abuse, and investor protection. With this in mind, five years appears to be a long time for a review. Three years would allow earlier review on whether this is serving effectively as an on ramp and whether the right balance has been struck with respect to limited disclosures and investor protection. HM Treasury may also want to consider checkpoints along the way to ensure that the proposal is not creating harms.

For example, should a PISCES operator not be required to use a CSD, then there is a higher risk with regards to maintaining accurate and up-to-date records of ownership, the transfer of ownership and delivery versus payment provisions and the measures to ensure settlement finality. Moreover, there is a risk of client asset loss or theft without the protections that CSDs can offer as custodians.

HM Treasury may also wish to consider the application of central clearing to PISCES markets. Central clearing reduces counterparty risk, provides enhanced transparency and improves operational efficiency in the marketplace.

Multilateral netting can also reduce the number of transactions that need to be made and improve liquidity and collateral efficiency.
HM Treasury should consider the overall balance of the proposal. PISCES should be a complement, not a substitute for public markets.

'On Ramp' Issues

It is also worth noting that SME Multi-lateral Trading Facilities (MTFs) have not been as successful as hoped at generating a pipeline for moving companies to exchanges. These SME MTFs have been successful in increasing some investment and trading in SMEs. However, we understand from our members that SME MTFs have not always been successful in generating IPO activity. This is because companies reach a size at which they are forced out of the SME MTF but consider the requirements of becoming publicly traded to be too much so either remain private or seek off market commercial buyers.

We welcome the UK Government's focus on listing requirements more generally but consider that more can be done to simplify requirements on listed companies. This is a crucial step in developing an effective pipeline of companies willing to list and we support the FCA's efforts to simplify listings. Although, it is worth noting that we have urged the FCA to consider the risks that lowering such requirements can have and observe that such changes do not have adverse consequences (e.g. lowering investor protection and hence making the UK a less desirable place to invest). It is worth reiterating that increasing the number of listings is beneficial for society as a whole as exchanges provide a platform for capital formation, enable long-term wealth generation and enable diversification of risk.