United Kingdom Equity Markets Association (UKEMA) response to the HMT Wholesale Markets Review

Introductory comments

The UK Equity Markets Association (UKEMA) welcomes the opportunity to respond to HM Treasury's timely review of the UK's wholesale markets regime.

The UKEMA represents those investment banks and equity brokerage firms that focus on raising capital for SMEs and small and mid-cap quoted companies. Its members trade in the shares of over 2,000 quoted companies, accounting for 57% of London Stock Exchange turnover by volume, and produce research on over 1,700 companies, representing 87% of listed issuers. Over the last 12 months UKEMA member firms have facilitated investment of more than raised £6.7bn in funds for companies in 2021 so far, supporting growth in the real economy, employment, innovation, entrepreneurship and wealth creation.

Given the above, the Association has restricted its responses to those questions most directly relevant to the UK SME equity markets.

Before turning to the specific questions raised in the Consultation, however, and in the interests of providing further context to our responses, we would make the following observations.

We recognize that these consultations can increase the attractiveness of our public equity markets and are therefore supportive of the consultation process to ensure that this results in a better outcome for investors, companies, investment firms and government.

On balance, we do not believe that it is necessary to introduce another category of trading venue in order to improve access to the public markets for smaller firms. The UK is already served by a wide variety of primary and secondary venues, addressing the needs of companies of all sizes and stages of development, from the Premium List of the LSE to Aquis Exchange's AQSE Access segment, and then to matching services, such as AssetMatch and any number of debt and equity crowdfunding sites.

The objective of enhanced access to public markets for smaller firms might better be achieved by considering the current impediments to participation by the three sides necessary for a successful and vibrant SME marketplace: corporates (seeking capital), institutional investors (providing investment) and retail investors (also providing investment, but, more importantly, by their active trading providing daily liquidity and price formation).

There appears to be no shortage of dynamic, innovative SMEs seeking scale-up and growth capital in the UK, but the number of companies admitted to AIM has halved from its peak and the average market capital has more than doubled, indicating that the public markets are no longer the preferred route for smaller companies to access growth capital. We do not believe this is for want of another venue, but more about how the regulation surrounding existing venues could be changed to make them more effective. We would therefore support a number of regulatory revisions to ease the journey of smaller corporates to becoming publicly listed companies:

- simplify and/or reduce initial and continuing disclosure requirements
- allow dual class share structures
- remove or reduce free float requirements (which may also be achieved by reconsidering the definition of shares not in public hands)
- no minimum market capitalisation or fund raise on admission/IPO

Institutional investors have traditionally allocated a percentage of their assets to smaller company equity investments, on the basis of good portfolio diversification – a small percentage allocation to an uncorrelated, volatile, high-return asset class both increases overall portfolio return and reduces risk (measured by volatility). However, over time, various regulatory initiatives have pushed institutional investors away from smaller quoted SMEs. For example, pension funds, an excellent source of patient capital, have been guided towards bonds by, amongst other things, the Minimum Funding Requirement. Most recently, following FCA's post-Woodford guidance on liquidity, daily priced equity funds have sharply reduced their holdings of companies with a market capitalisation of less than £100m. This has been deeply damaging for smaller firms seeking investment via the public markets. It may now be time for a more balanced consideration of the liquidity risks to investors in daily-priced funds versus the broader benefits to the economy of institutional investment in smaller companies seeking growth capital.

With regard to retail participation in SME markets, we note again the striking statistic from the UK Listing Review (and highlighted in paragraph 1.2 of the FCA's consultation paper CP 21/21) that from 2015-2020 the UK only accounted for 5% of IPOs globally. Over the same period, retail participation in the US equity markets has risen by over 60%, now accounting for a third of all stock market trading, and there has been no shortage of US IPO activity, particularly in high-growth, innovative and tech stocks. We suspect that these developments are not unconnected.

Retail investors in the UK, however, wishing to research, invest or trade in the securities of publicly traded SMEs have experienced an increasing number of regulatory impediments in their path.

It is very difficult for would-be investors in quoted SMEs to access professionally produced research. Instead, they appear (according to the FCA-commissioned paper "Understanding self-directed investors") to rely on 'information' gleaned from social media and YouTube. FCA Rules and Guidance, designed to protect retail investors from complex and/or technical research that they may not understand, prevent banks and brokers from allowing retail investors access to their professional research. In addition, the Financial Promotion Order prohibits unregulated entities from 'publishing' research, preventing companies from distributing research on themselves to potential investors. Although well-intentioned, it is unlikely that these protections produce a better outcome for any of the interested parties. We would propose:

- a review of the relevant FCA Rules and Guidance to allow retail access to professional research, with appropriate protections; and
- a review of the Financial Promotion Order to allow corporates to disseminate research on their own publicly traded securities.

Although the development of online stockbroking has brought many benefits to retail investors, it has also made corporate access to their own shareholders more difficult – small retail shareholdings are concentrated in a few big nominees. As a result, it is increasingly difficult for smaller listed companies to communicate directly with their retail shareholders, rendering it impracticable to run rights issues or retail placings alongside institutional placings. We note, however, that Australia appears to have developed a solution to these issues. We would ask that HMT consider:

- means of enhancing public company communication with their retail (beneficial) shareholders; and
- adopting those aspects of the Australian solution suited to the UK public markets.

Retail investors wishing to invest or trade in smaller quoted companies may now find the FCA determined to add "friction" to their customer journey (FCA DP21/1) in order to protect them from the possible harm of holding a high-risk investment. MiFID Product Governance and investor categorisation rules, together with the Financial Promotion regime, amongst other regulatory tools, are being employed to further this agenda. Given the importance of the retail investor to the market for smaller quoted companies, the significance of this sector to the UK's economic growth and the undoubted benefit to investors of a diversified portfolio, we would suggest that this is misguided and instead propose that:

- publicly traded equities should be exempt from the Product Governance regime;
- the Financial Promotion regime should be relaxed, as discussed above, rather than strengthened, in order to improve the information flow to retail investors;
- in the absence of any evidence of harm caused by the current regime, investor categorisation should remain unchanged; and
- the provision of timely and appropriate disclosures should be the preferred method of risk mitigation.

About the UKEMA:

About the UK Equity Markets Association (UKEMA)

The UK Equity Markets Association (UKEMA) is a newly established and growing group of small and mid-cap investment banks and equity brokerage firms (members are Peel Hunt, Shore Capital, Winterflood, Numis, Arden Partners, Stifel, Liberum and finnCap).

UKEMA members:

- Trade in over 2,000 companies shares (£28.8 trillion in value in the last 12 months), representing 57% of shares traded by volume, and 12% by value of all shares on the LSE.
- Are broker to 782 companies.
- Write research on over 1,700 companies' shares, representing 87% of all UK listed issuers.
- Have raised £6.7bn funds for companies in 2021 so far.

UKEMA looks to increase awareness of small and mid-cap equity investment brokers' value in supporting SMEs to access capital to reach their potential and improve regulation. Indeed, members interact daily with all retail intermediaries and private client wealth managers such as Hargreaves Lansdown, AJ Bell, Barclays Stockbrokers etc.

Some of this is about reducing market access barriers. Regulation also needs to balance providing appropriate protections without being overly burdensome if it's to be effective in attracting listings and help SMEs in particular reach their potential.

This in turn will support the UK's post-pandemic economic recovery, grow the number of listed companies, and increase competition, and helping to make the market more resilient to crises.

What does UKEMA do?

UKEMA's members work together to reduce market access barriers and help policymakers as they develop new frameworks to support and develop the regulation of equity markets. To do this UKEMA seeks to ensure domestic regulation provides appropriate protections without being overly burdensome in order to support public markets and the essential liquidity they provide.

UKEMA supports economic growth

Small and mid-cap equity brokerage firms help SMEs reach their potential, supporting the UK's post-pandemic economic recovery. UKEMA promotes solutions to allow UK equity markets to thrive, supporting the drive to grow the number of listed companies and increase competition, and helping to make the market more resilient to crises.

Chapter 2: Trading Venues

1. **Where do you think the regulatory perimeter for trading venues needs to be clarified?**

   Further clarification would help as there is some ambiguity but needs to align with the STO to ensure any changes do not impact on an investment firm's ability to meet the STO. At present, the diversity of business models which allow for information exchange on certain financial instruments require further clarification. For example, what 'interaction' i.e., exchange of terms is required for the relevant solution to be determined as a trading venue.

2. **Do you think it would be more appropriate for changes to be made to the definition of a multilateral system in legislation, or for the application of the existing definition to be clarified through FCA guidance?**

   Guidance from the FCA is more appropriate as it avoids the need for primary legislation. As described above there are a number of different business models and these will evolve over time. Therefore, guidance will allow appropriate interpretation of future business models and is less likely to lead to unintended consequences.

3. **Should the current restrictions on matched principal trading by a multilateral trading facility (MTF) be retained?**

   No answer

4. **Should the current restrictions on the operation of an SI within the same legal entity of an organised trading facility (OTF) be retained?**

   No answer

5. **If you answered no to question 4: Should new rules and disclosures be introduced to address the specific conflicts that MTFs and OTFs would be exposed to when providing matched principle trading (MPT) or operating a systematic internaliser (SI)?**

   No answer

6. **Do you think that OTFs should be allowed to execute transactions in packages involving derivatives and equities under their rules and systems?**

   No answer

7. **What would be the risks and benefits of allowing this approach?**

   No answer

8. **Do you agree that the existing regulatory requirements for disclosure at admission to trading (for MTFs and SME Growth Markets) are disproportionate for small-sized issuers?**

9. **What principles and/or types of information should be considered when developing requirements for disclosure at issuance to ensure requirements are proportionate?**

   Combined response to questions 8 and 9:

   Yes, entrepreneurs that want to obtain a full listing are disadvantaged by the minimum free float requirements of 25%. A reduction to 10% would open the market to a greater number of listings and compete with the smaller % equity issues that we see on crowd funding sites such as Crowdcube and Seedr.

   Minimum requirements should be commensurate to the size of the Company and therefore it may be appropriate for smaller companies to have lighter requirements for disclosure. Companies looking to publicly list should adhere to IFRS, UK GAAP or equivalent accounting standards and should retain a board composition of at least 2 NED's. Due to their nature, no minimum trading history should be required due to the target demographic of companies, but Companies should provide a full & simple disclosure or all pre-IPO funding round amounts & valuations (including lock-in details). We feel that, at minimum, a NOMAD/Broker should be appointed. In addition, 75% of free float shareholder approval should be required to de-list the company.

10. **How far should these be determined by the venue operator versus regulation, and what other features may provide proportionate assurances around the quality of issuers admitted to a venue (e.g., role of advisors in process)?**

    An approach determined by the venue operator may be preferable as the requirements are determined by individuals familiar with the trading dynamics of the venue on a day-to-day basis. Regulations should be designed to incentivise, with the ultimate parameters to be determined by operators.

11. **Would the creation of a new category of trading venue be an appropriate means to facilitate access to public markets for very small firms? What size of firms would be appropriate for a new trading venue?**

We do not believe that it is necessary to introduce another category of trading venue in order to improve access to the public markets for smaller firms. The UK is already served by a wide variety of primary and secondary venues, addressing the needs of companies of all sizes and stages of development, from the Premium List of the LSE to Aquis Exchange's AQSE Access segment, and then to matching services, such as AssetMatch and any number of debt and equity crowdfunding sites.

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12. If you answered no to question 11: Would the facilitation of the creation of new market segments be a more suitable intervention?

There appears to be no shortage of dynamic, innovative SMEs seeking scale-up and growth capital in the UK, but the number of companies admitted to AIM has halved from its peak and the average market capital has more than doubled, indicating that the public markets are no longer the preferred route for smaller companies to access growth capital. We do not believe this is for want of another venue, but more about how the regulation surrounding existing venues could be changed to make them more effective. We would therefore support a number of regulatory revisions to ease the journey of smaller corporates to becoming publicly listed companies:

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13. If you answered yes to question 11 or 12: What should the market cap of companies that can trade on the new trading venue and/or segment be?

No answer

14. Do you believe intermittent rather than continuous trading would increase liquidity?

No, continuous quote driven trading supported by market makers has proven to be the most successful form of liquidity provision for these companies. Intermittent trading will deter the target retail investor as they often demand immediate access and instant liquidity. It also has the potential to create additional confusion for investors. Intermittent & Auction trading also creates a potential cost penalty for such markets where distributors such as brokers must develop new technology for limited low value trading. Any desire to generate growth for UK PLC by financing microcaps should look to leverage existing low-cost distribution to reduce the execution costs associated with trading and thus encouraging greater activity within the retail investing community.

15. Do you think that additional measures, such as new funds structure are needed to stimulate institutional investors to invest in SMEs?

No answer

16. What, if any, further forms of investor protection do you deem appropriate for this proposed new category of trading venue?

Although, we do not necessarily support the creation of a new trading venue type, the best form of investor protection will be to ensure appropriate safeguards are in place for a company that wishes to list their shares. Therefore, the following should be appropriate considerations for any such company:

- Ensuring a Nomad/Broker is compulsory.
- Adhering to IFRS, UK GAAP or equivalents accounting standard.
- Requiring a large majority of free float shareholder approval to delist
- At least 2 Independent Directors
- FCA approved prospectus at point of Listing or venue approved admission document
- Adhere to a corporate governance code.
- Min 10% free float.

In addition, specific consideration should be given to Special Purpose Acquisition Companies to ensure appropriate measures are in place so pre-IPO and IPO valuations are not significantly different if no material differences have occurred to the company make-up.

Further, a mandatory provision should be created to allow market makers and other liquidity providers access to all IPO's, to avoid unwanted volatility, settlement dislocation and potential instances of market abuse.

17. Do you believe that regulatory or industry guidance about how venues should operate and what they should communicate during an outage would be useful?

No answer

18. Do you have views on a fail-safe mechanism to ensure that the market has access to the key closing benchmarks during an outage in a primary exchange? What role do you see UK authorities playing to deliver this?

The market relies on the primary market to set the benchmark, secondary venues may offer slightly different characteristics which can lead to minor differences in liquidity and pricing therefore, we do not believe that pricing should be derived from secondary venues. If this is a concern, there needs to be a playbook on how the primary venue sets the closing price in such events such as taking an average of VWAP for the previous 5 days.

19. What other steps do you think UK authorities could take to ensure market resiliency in the event of an outage?

No answer

Chapter 3: Systematic Internalisers

20. Do you agree that the definition for SIs should be based on qualitative criteria?

Yes, qualitative criteria means that 'unintended consequences' are avoided where certain market participants are classified as a systematic internaliser during some periods due to the nature of their trading during a particular time period. A qualitative regime would require close oversight by the regulator to ensure that firms were not abusing a qualitative SI regime.

21. If you answered no to question 20: Do you think the definition should be amended in another way?

No answer

22. If you answered yes to question 20: Do you think that regulatory guidance should be used to support the definition in legislation?

Yes, guidance is important as clarification for investment firms and avoids incorrect interpretation in the industry.

23. Do you currently opt-in to the SI regime?

No answer

24. Should SIs be determined at entity level instead of on an instrument by instrument basis, for reporting purposes?

No answer

25. What would be the risks and benefits of adopting such an approach?

No answer

26. Do you agree with the government's proposal to allow SIs to execute at the midpoint for all trades, provided the executed price is within the SI's quoted price?

No answer

27. Do you think any other changes are needed to increase the effectiveness of the SI regime?

No answer

28. Do you think that the double volume cap (DVC) should be deleted?

We agree that the double volume cap should be deleted as it has failed to achieve its objective.

29. Do you think alternative incentives are needed to encourage lit trading?

Market participants will choose the appropriate venue for the type of trading they wish to undertake, and it is important to recognise that dark venues also have many benefits, including as a mechanism to assist in maintaining an orderly market, for example, when companies are trying to minimise market impact if they have a large amount of stock to either buy or sell.

30. Should reference price systems be able to match orders at the mid-point within the current bid and offer of any UK or non-UK trading venue that offers the best bid or offer, to aid best execution?

31. Do you consider SIs quotes useful?

No answer

32. Do you think that the ability of SIs to execute clients' orders at mid-point would incentivise SIs to provide meaningful quotes?

No answer

33. If you answered yes to question 32: What incentives could UK authorities introduce to encourage you to report more trades, while maintaining fair competition with market operators?

No answer

Chapter 4: Equity Markets

34. Do you think that the share trading obligation (STO) should be removed?

We support the removal of the share trading obligation in order to allow a better outcome for investors and investment firms. Removal of the STO will assist in ensuring that trading occurs in the most liquid venues, leading to narrower spreads and ultimately better prices for investors. A potential drawback would be greater market fragmentation, which could lead to less post trade transparency.

35. Do you think that the requirements for algorithmic liquidity providers and trading venues to enter into binding market making agreements should be removed?

No answer

36. What would be the impact of such a removal for you and/ or the market you operate in?

No answer

37. Do you think the scope of the tick size regime needs to be recalibrated for overseas shares to ensure that firms can trade at the best prices in the UK?

No answer

38. Do you think trading venues are better placed to establish tick sizes for new shares until sufficiently robust data is available?

No answer

39. What are the potential benefits and risks of delegating the setting of tick sizes, in general, to trading venues? What safeguards would be needed to avoid arbitrage issues?

Delegating to trading venues allows for more agility and reaction based on customer demand. However, the same security trading on different venues at different ticks might present technical challenges, albeit it is acknowledged that there's a general recognition that there is a primary exchange. Another disadvantage might be the use of tick sizes as an anti-competitive tool by the primary venue and therefore this would need to be carefully monitored.

40. Are there any other parts of the equity regime that you think could be operated more effectively by the market, while upholding high standards?

No answer

Chapter 5: Fixed Income and Derivatives Markets

41. Do you agree that the scope of the derivative trading obligation (DTO) should be revised to bring it in line with the scope of the clearing obligation following the changes introduced by the European Market Infrastructure Regulation (EMIR) REFIT? What risks/ benefits do you see with this approach?

No answer

42. Do you think that all post-trade risk reduction services should be exempt from the DTO?

No answer

43. If you answered yes to question 42: a) Do you think that there should also be an aligned exemption from the EMIR clearing obligation for trades resulting from post-trade risk reduction services? b) What conditions do you think should be met for the exemption to be applicable?

No answer

44. Do you think the FCA should be given the power to modify or suspend the DTO quickly under certain circumstances, on a permanent rather than temporary basis?

No answer

45. Do you think that the current transparency requirements support price formation and open, competitive, and fair markets? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds, and investment-grade bonds separately) and derivatives (please distinguish between OTC and exchange-traded derivatives (ETDs) where relevant).

46. Do you think that using traded on a trading venue (ToTV) is a useful criterion for determining the scope of transparency requirements for non-equity instruments, and in particular OTC derivatives? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds, and investment grade bonds separately) and derivatives (please distinguish between exchange treaded and OTC derivatives).

No answer

47. If you answered no to question 46: Do you think the concept of ToTV should be removed for OTC derivatives, and the scope of the transparency regime determined on the basis of whether the instrument is cleared? If so, what definition of 'cleared' should be used?

No answer

48. Do you think there is another option to determine the scope of the fixed income and derivatives transparency regime? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (please distinguish between exchange traded and OTC derivatives).

No answer

49. What instruments do you think should be in scope of the fixed income and derivatives transparency regime? Please consider fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) ETCs, ETNs, structured finance products, emission allowances and derivatives (please distinguish between exchange traded and OTC derivatives).

No answer

50. What changes do you think are needed to enable liquidity calculations to work effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds) and derivatives (ETDs and OTC derivatives).

No answer

51. Do you think it would be preferable to move away from regular liquidity calculations towards a mix of qualitative and quantitative criteria? For example, on a sectoral basis? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

52. We would support a move away from quarterly liquidity reviews and a more qualitative and quantitively approach would be more effective.

No answer

53. How do you currently use pre-trade transparency? Is pre-trade information on bonds and derivatives valuable? Please differentiate between fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives), and each trading method (for example RFQ, and order book).

No answer

54. Is there a case for removing MiFID II pre-trade transparency requirements for any asset class? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

55. If you answered yes to question 53: Do you think that RFQ, bilateral negotiations and indications of interest provide sufficient information for markets to function effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

56. How do you use pre-trade quotes streamed by SIs? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

57. For SIs, what impact do you think removing pre-trade transparency requirements would have on your business? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

58. Do you have any other comments on the pre-trade transparency regime?

No answer

59. How do you currently use deferrals? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

60. Which asset classes should deferrals apply to? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

61. Do you agree that the deferral regime would benefit from being simplified?

No answer

62. What do you think the optimum deferral length is? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

63. What are your views on the government's proposal to delete the size specific to the instrument (SSTI), package order, and EFP deferrals? Do you think it would lead to more meaningful transparency? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

64. Do you think volume masking and/or aggregation helps to encourage real time publication? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

No answer

65. What are the risks and benefits of allowing trading venues to calculate LIS thresholds for ETD post-trade reporting?

No answer

Chapter 6: Commodity Markets

66. Do you think that the scope of the 'commodity derivatives' regime should be narrowed to derivatives that are based on physical commodities?

No answer

67. Do you think that financial instruments which refer to commodities as a pricing element but are securities in their legal form, should be removed from the regime?

No answer

68. Do you think economically equivalent OTC commodity derivative contracts should be removed from the commodity derivatives regime?

No answer

69. Are there any other instruments that you think should be deleted from the commodity derivatives regime?

No answer

70. What would be the risks and benefits of transferring responsibility for position limits from the FCA to trading venues?

No answer

71. What specific factors do you think should be addressed in the framework of requirements that UK authorities would provide for trading venues?

No answer

72. Do you think that the scope of contracts that are automatically subject to position limits should be limited? If yes, do you think that it should be limited to contracts that are critical or significant, which includes those that are physically settled, and agricultural?

No answer

73. Do you think that the UK commodity derivatives regime should allow position limits exemptions for liquidity providers?

No answer

74. Do you think that the UK commodity derivatives regime should introduce a 'pass through' hedging exemption to enable investment firms to support a wider range of hedging practices?

No answer

75. Do you think any other activities should be exempt from the regime?

No answer

76. Are there areas of the UK's position reporting regime which could be improved?

No answer

77. Do you think that the ancillary activities test (AAT) should revert to a qualitative assessment of the activities performed by a market participant?

No answer

78. Do you think that the basis of the AAT should be expected activity, rather than historic activity?

No answer

79. Do you agree that the annual notification requirement should be abolished?

No answer

80. Does the continued existence of the separate Oil Market Participant (OMP) and Energy Market Participant (EMP) regimes for commodity derivative market participants serve any meaningful purpose?

No answer

81. Do you think that the OMP and EMP regimes should be removed as particular regulatory statuses from the UK's regulatory perimeter?

No answer

82. Do you think any changes would need to be made to the MiFID II regime, if the OMP and EMP regimes are removed as particular regulatory statuses?

No answer

Chapter 7: Market Data

83. Do you agree that the government should take action to encourage the development of a CT?

This would be helpful for the market to see all prints in one location, better information will lead to a better functioning market. However, we believe that the government needs to take the lead in the creation of a CT either directly or by creating sufficient incentive for a private firm to create a CT.

84. If you answered yes to question 82: Do you think a fixed income tape should be prioritised?

No answer

85. Do you think that it would be beneficial for a fixed income CT to include post-trade data only, or would there be value in a tape covering pre-trade data too?

No answer

86. Is there any value in a delayed data CT for fixed income markets?

No answer

87. Is it valuable for an equity CT to include pre- and post-trade data?

No answer

88. Is there any value in a delayed data CT for equity markets?

No answer

89. Should the government amend legislation to enable a market-led private sector CT to develop, or do you think UK authorities should be actively involved in creating a CT?

No answer

90. What are the legislative barriers for a private sector-led CT to emerge? Do you agree with the legislative changes identified above? Are there additional changes that UK authorities should be considering?

No answer

91. Do you see any risks with removing the obligation for CTs to provide data for free after 15 minutes?

No answer

92. What are the potential advantages and disadvantages of multiple private sector CTs for each asset class?

No answer

93. Do you have any suggestions on further areas that UK authorities should be considering when making changes to market data, especially in relation to requirements that are set out in legislation?

No answer

Chapter 8: Reporting

94. Where do the current regulatory reporting regimes for wholesale markets contain duplicative reporting requirements?

The same set of information is required by TR regime and EMIR regime.

95. Is intervention needed to mitigate against duplicative reporting for firms undertaking securities financing transactions (SFTs) with members of the European System of Central Banks?

No answer

96. Do you think the 10% loss reporting rules for portfolios and contingent liability transactions offer effective investor protection? If not, how do you think the rules in this area should be revised?

No answer

97. Do you think electronic communication should become the default means of communication for disclosures and reporting to retail clients, and, if so, what protections are needed for retail clients around such a change?

Electronic communications would allow for swifter reporting and is already the default means of communications for reporting to retail clients. Many firms already offer this as a form of communication, however, care must be taken to avoid discrimination against individuals who many not have access. This should feed in firms governance framework and vulnerable customers policy.

98. Are there any other changes to the conduct rules in the MiFID delegated regulation that you think could be made to reduce costs whilst continuing to offer meaningful investor protection?

No answer

99. Do you think other changes are needed to ensure that the reporting regime correctly balances investor protection and transparency?

No answer

100. Have you experienced any issues with the utilisation of International Securities Identification Number (ISINs) as identifiers?

No. ISINs provide a universally recognisable code and therefore without global consensus any change to the UK approach to use of ISINs is likely to be ineffective.

101. Do you have any suggestions on how the use of identifiers could be improved?

No answer

Chapter 9: Cross Cutting Issues

102. What further steps can UK authorities take to enable firms to take advantage of technological innovation in capital markets?

No answer

103. What further steps can UK authorities take to support the wholesale markets sector as we move towards a low carbon economy?

No answer

104. How do companies harness retail investment whilst ensuring investor protection?

No answer

105. How do companies take advantage of the globalisation of information to reach investors?

No answer

106. Is there a role for UK authorities to play to facilitate retail access to capital markets, while continuing to offer high standards of investor protection?

With regard to retail participation in SME markets, we note again the striking statistic from the UK Listing Review (and highlighted in paragraph 1.2 of the FCA's consultation paper CP 21/21) that from 2015-2020 the UK only accounted for 5% of IPOs globally. Over the same period, retail participation in the US equity markets has risen by over 60%, now accounting for a third of all stock market trading, and there has been no shortage of US IPO activity, particularly in high-growth, innovative and tech stocks. We suspect that these developments are not unconnected.

Retail investors in the UK, however, wishing to research, invest or trade in the securities of publicly traded SMEs have experienced an increasing number of regulatory impediments in their path.

It is very difficult for would-be investors in quoted SMEs to access professionally produced research. Instead, they appear (according to the FCA-commissioned paper "Understanding self-directed investors") to rely on 'information' gleaned from social media and YouTube. FCA Rules and Guidance, designed to protect retail investors from complex and/or technical research that they may not understand, prevent banks and brokers from allowing retail investors access to their professional research. In addition, the Financial Promotion Order prohibits unregulated entities from 'publishing' research, preventing companies from distributing research on themselves to potential investors. Although well-intentioned, it is unlikely that these protections produce a better outcome for any of the interested parties. We would propose:

- a review of the relevant FCA Rules and Guidance to allow retail access to professional research, with appropriate protections; and
- a review of the Financial Promotion Order to allow corporates to disseminate research on their own publicly traded securities.

Although the development of online stockbroking has brought many benefits to retail investors, it has also made corporate access to their own shareholders more difficult – small retail shareholdings are concentrated in a few big nominees. As a result, it is increasingly difficult for smaller listed companies to communicate directly with their retail shareholders, rendering it impracticable to run rights issues or retail placings alongside institutional placings. We note, however, that Australia appears to have developed a solution to these issues. We would ask that HMT consider:

- means of enhancing public company communication with their retail (beneficial) shareholders; and
- adopting those aspects of the Australian solution suited to the UK public markets.

Retail investors wishing to invest or trade in smaller quoted companies may now find the FCA determined to add "friction" to their customer journey (FCA DP21/1) in order to protect them from the possible harm of holding a high-risk investment. MiFID Product Governance and investor categorisation rules, together with the Financial Promotion regime, amongst other regulatory tools, are being employed to further this agenda. Given the importance of the retail investor to the market for smaller quoted companies, the significance of this sector to the UK's economic growth and the undoubted benefit to investors of a diversified portfolio, we would suggest that this is misguided and instead propose that:

- publicly traded equities should be exempt from the Product Governance regime;
- the Financial Promotion regime should be relaxed, as discussed above, rather than strengthened, in order to improve the information flow to retail investors;
- in the absence of any evidence of harm caused by the current regime, investor categorisation should remain unchanged; and
- the provision of timely and appropriate disclosures should be the preferred method of risk mitigation.