



# PRIVATE INTERMITTENT SECURITIES AND CAPITAL EXCHANGE SYSTEMS (PISCES)

Issued 18 April 2024

ICAEW welcomes the opportunity to comment on the Private Intermittent Securities and Capital Exchange Systems (PISCES) consultation published by HM Treasury on 6 March 2024, a copy of which is available from this [link](#).

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**ANSWERS TO SPECIFIC QUESTIONS****Q1. Do you have any comments on this arrangement? Do you think five years is an appropriate timeline for the PISCES Sandbox?**

1. The arrangement to a legal and regulatory infrastructure for trading of private company shares has the potential to help the UK's capital markets respond to the needs of a wider range of companies and investors than is currently the case. The arrangement addresses many of the areas that we would expect but on other matters the approach is at too high a level or is not sufficiently prescriptive.
2. More detail should be included about inside information, and about acceptable frameworks and standards. This should not be left to individual companies' interpretation. See also our response to Q20.
3. The proposed Sandbox timeframe of five years will allow an understanding of operational and economic feasibility for an operator and participating businesses. It will also enable minimum standards (eg of disclosure) to be refined before the regime becomes permanent. To avoid deterring companies from participating, the planned communications referred to in paragraph 2.10 will need to be on an ongoing basis. The Sandbox should also be for institutional and professional investors only.

**The case for PISCES, its timing and focus**

4. We recognise that the policy to facilitate private company trading on UK markets could provide opportunities for investment in UK businesses. However, it is concerning that the case is not supported with evidence of sustainable demand from businesses, employee shareholders and/or potential investors, and there is no accompanying impact analysis.
5. A common observation among our members is that the arrangement could lead to AIM companies, many of which have low liquidity, migrating to a PISCES platform. Has the risk to the sustainability of that and similar markets been taken into account in the development of the proposed arrangement?
6. The focus for PISCES is also too wide. Whereas the Edinburgh Reforms included the development of a wholesale market venue, some of the PISCES proposals extend to categories of retail investor. We also question the timing of the government and the FCA committing stretched resources to the establishment of PISCES when financial services regulatory reforms that will have greater impact have not been completed and fully implemented.

**Costs to business, not just opportunities**

7. The consultation paper describes certain circumstances when private companies, their shareholders and potential investors could, in principle, benefit from trading opportunities on PISCES. For potential participating businesses there is, however, no reference to the cost and benefit elements that a business needs to evaluate to inform its decision whether or not to participate. The analysis will likely differ according to the purpose of facilitating trading of its shares – eg, is it to provide access to liquidity to a large employee shareholder base, to enable early-stage shareholders to exit their investments, and/or to attract institutional investors – and the requirements on the business will differ in each case.
8. The consultation proposals do not include an impact statement. They are also silent on potential disadvantages or uncertainties - replacing shareholders may not result in patient, long-term investors; possible capital restructure and complexity involved in the decision to participate on a platform; burden of additional disclosures, etc.

**Q2. Do you agree that this should be a market targeted at wholesale market participants, namely professional investors?**

9. We agree.

**Q3. Do you have views on whether sophisticated and/or high net-worth investors should be allowed access to shares traded on PISCES?**

10. No category of investor should be allowed access to shares traded on PISCES without having been traded in a sandbox environment. The case allow sophisticated investors access to trading on PISCES is stronger than that for high net worth ones and would need to be on an intermediated operating model.
11. There will likely also be relevant lessons to learn from the Sandbox for wholesale market participants.

**Q4. Should employees have the opportunity to purchase shares in their company on PISCES? If so, could this be facilitated by the company?**

12. For a company whose employee share ownership model places importance on capital growth, employees will need to be able to purchase shares as well as sell them. There are such businesses, with direct employee share ownership, that already operate internal markets for their shares. As well as providing a liquidity opportunity to existing shareholders those businesses also allow all employees to buy shares. If PISCES is to provide an alternative to an internal share market for those businesses, then employees will likely need to have the opportunity to purchase shares in their company.
13. In relation to this question, we do not agree with the generalisation in paragraph 2.18 that employees as a group will have better awareness, knowledge and understanding of investing in their company than retail investors who are not employed by the same business. Even if that is the case for some roles, the same knowledge and understanding of the business, its risks and prospects will not be shared by all employees. If purchase of shares is facilitated by PISCES, this should be in an intermediated model with retail investor protection requirements. Consideration will need to be made of the tax implications of trading shares in PISCES, in particular, for an employee share scheme that is approved by HMR&C.
14. The consultation paper does not indicate the potential demand for trading of shares by employee shareholders and possible scale. According to the Employee Ownership Association many more employee-owned businesses are owned by an Employee Ownership Trust than by employee shareholders. A Trust holds shares in the business of behalf of employees and the structure helps to promote working together for the common good. Employees have an interest in, but do not directly own shares in the business. Given its objective, it may be countercultural for an EOT to relinquish shares, but it may be worth exploring situations when this could be relevant and how a PISCES platform might facilitate it.

**Q5. 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?**

15. The commentary identifies target users of PISCES although it does not present evidence of demand, and there is no explanation of how a PISCES platform compares to existing private security trading venues<sup>1</sup> and which of its features are different. Lack of visibility of demand,

<sup>1</sup> Examples include JP Jenkins, Asset Match, Aquis and TISE Private Markets.

its trajectory and likely scale, is a barrier to an economically feasible and sustainable business model.

16. It is uncommon for UK institutional investors to take minority holdings in private businesses although this may become more common with the Mansion House Compact. Such investors and those in the private equity and venture capital space may be deterred from participating because they are accustomed to receiving information that is beyond the minimum required to be disclosed in PISCES. If an operator does not require disclosure of the basis of a company's price parameter that is also likely to be a deterrent for investors as will, for acquisitions of larger stakes, the absence of negotiation opportunities. Some investors may consider that permissioned auctions and company discretion around trading windows are a barrier to their exit strategy.
17. A barrier to a company participating may arise from evaluating the costs and benefits of participating in PISCES: Certain recurring costs are inevitable, eg PISCES operator fees, intermediary fees, administration, disclosure, communication, and compliance (with a bespoke market abuse regime); while other costs (albeit non-recurring) will depend on the situation, eg capital restructure, change of articles of association, review of terms of an employee share scheme. Conversely, the benefits referred to in the consultation paper are mostly uncertain, eg access to a wider pool of investors and to patient investors aligned to the business's strategy, early exposure to the preparation for admission to a public market, improved retention and recruitment of staff.
18. The proposed model will likely be disproportionate and too costly to widen share ownership among individuals and for small investments.

**Q6. In particular, do you have any views on the examples of where PISCES operators might have flexibility to run their platform in Table 3.A?**

19. In contrast to what is proposed in Table 3A, operators that allow price parameters to be set should always require the basis of parameters to be disclosed to investors, for transparency and accountability.
20. As we propose in our response to Q4, employees should be treated as other retail investors if they are permitted to purchase shares in their company. For this reason, employee shareholder trading should be on intermediated platforms.

**Q9. Do you agree that a 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?**

21. We agree there should be a private perimeter, with transparent conditions for entering it.

**Q10. Do you agree PISCES operators should be required to ensure full pre- and post-trade transparency to investors within the private perimeter?**

22. We agree.

**Q20. 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?**

23. The proposed minimum requirements to disclose all inside information and information on price parameters are too high level to promote consistency across companies and individual company trading windows. The government should be more explicit as to the nature and detail that should be disclosed.

24. It cannot be assumed that all private companies will have an understanding of the concept of inside information. Even in public markets, companies are typically supported or guided by advisers to meet their obligations regarding inside information. Private companies will need guidance for identifying inside information, including information that may have an adverse impact on trading.
25. On price parameters, minimum information should include the basis upon which the parameters have been set, and the reporting framework used. This should not be left to the discretion of the PISCES operator as proposed in Table 3A.