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UK regulator proposals aim at equity market boost

James King | 24/05/2023 9:46 am

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The FCA has set out plans for a revival of the country's equity capital markets post-Brexit. James King reports.

The vitality of the UK's equity markets has waned in recent years. Long-term trends, including the country's shrinking role in the global economy, coupled with the more immediate fallout from Brexit, have robbed London of its status as Europe's leading share-trading hub, a position now held by Amsterdam.

UK listings, meanwhile, have collapsed by 40% since 2008, according to the recently published Listing Review.

But the country's financial regulators, law-makers and officials are alert to these problems. Speaking in May 2023, Sarah Pritchard, the Financial Conduct Authority's (FCA's) executive director for markets, noted: "Many of the rules that underpin the UK capital markets are historic, formed in the 1980s, and we cannot afford to stand still. [...] we must continue to evolve – and in some areas – evolve rapidly."

To this end, the FCA published a public consultation on proposed changes to the equity listing regime, as well as a policy statement on improving equity secondary markets, on May 3. Together, they underscore the regulator's ambition to revive key components of the country's capital markets and position the UK on a more competitive international footing.

Notably, the regulator looks set to move to a single equity listing category by abolishing the existing distinction between “premium” and “standard” listings. Eligibility criteria for listing under the single equity category will more closely resemble those for existing standard listings.

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As a result, a number of hurdles for companies looking to list could be removed under the proposals, including the need for a three-year financial and earning history.

These and a range of other changes, including a modified sponsor regime and a single set of listing principles, are designed to ease the listing process for a wider range of companies in the UK. So far, the market feedback on these proposals has been positive.

“I am pleased to see the FCA taking action in the new proposed listing rules. I believe this is a positive development for the UK equity markets and will help position the UK as a more attractive country for businesses to grow and thrive,” says Nadeem Shakoor, co-founder and commercial director of ESG Disclose.

Mr Shakoor reckons that issuers will benefit from the proposed changes by making it easier and less complex to access the public markets, while investors also stand to gain by having access to a wider range of investment opportunities.

“These initial actions taken by the FCA on the listing rules have the long-term potential to benefit the UK economy as a whole,” he says. “I will be carefully watching to see what further steps the UK regulators and policy-makers will take to support domestic business and increase UK economic productivity, especially within the post-Brexit era, where the UK must take all measures to remain competitive and attractive.”

Improving the markets

In tandem with its listing regime consultation, the FCA also published a policy statement on “Improving Equity Secondary Markets” as part of the Wholesale Markets Review. The statement aims to “enhance the quality of execution for investors”, while improving liquidity and pre- and post-trade transparency.

More broadly, it also underscores the regulator’s ambition to update certain Markets in Financial Instruments Directive (or MiFID II) rules, following the UK’s exit from the EU.

“I would call it a ‘tidying up’ of the UK rule book in terms of tweaking rules inherited from the EU that just don’t make sense in a post-Brexit UK,” says Anish Puaar, corporate strategy analyst at Optiver.

The changes included in the policy statement cover a range of issues. In terms of pre-trade transparency, UK trading venues can now make use of reference prices from overseas trading venues and also utilise the same tick size as a non-UK venue when a company’s primary listing is in that jurisdiction.

It is hoped that these measures, and others, will boost liquidity in the UK's equity markets. "Following Brexit, it was estimated that the UK lost about €6bn worth of trading volume to the EU. So the UK has lost a lot of liquidity and the FCA, through this policy statement, is trying to get some of it back," says Chris Machin, Markets in Financial Instruments Regulation (MiFIR) reporting director at Kaizen Reporting.

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Meanwhile, some of the bigger changes in the policy statement relate to the UK's post-trade transparency requirements, which will come into effect in April 2024. This includes the introduction of a new designated reporter regime, to replace the existing system whereby a systematic internaliser bears the responsibility for post-trade reporting.

Under the new regime, an opt-in system will be established where firms will choose to become a designated reporter (DR). In trades involving two DRs, or where neither party holds DR status, the reporting obligation falls on the seller. "A designated reporter regime will certainly help out from a reporting perspective and take one bit of complexity away from the buy side," says Mr Machin.

Other changes cover the streamlining of post-trade flags, as well as a number of exemptions from post-trade transparency for over-the-counter trades.

Mirroring the market feedback for the FCA's primary market proposals, the policy statement is seen as a positive step for the UK's post-Brexit capital market development. "These are small steps but they will certainly go some way to meeting the FCA's objectives. [Having said that], there's still a long way to go," says Mr Machin.

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