Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

T +44 (0)20 7600 3745
mail@theqca.com

www.theqca.com

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

WholesaleMarkets.Review@hmtreasury.gov.uk

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Dear HM Treasury colleagues,

UK Wholesale Markets Review

We welcome the opportunity to respond to the Wholesale Markets Review consultation.

The Quoted Companies Alliance has examined the proposals and responded from the viewpoint of small and mid-sized quoted companies.

Our response covers the questions raised across the wholesale market, but we feel it is important to highlight the importance for small-cap liquidity in creating markets that are open to all types of investor, including retail - of course with proportionate and relevant protections.

For UK small and mid-caps liquidity is the key issue and the role of retail investors is essential. However, recent policy, regulatory and market developments have increased the barriers for retail access to investment in these companies. Access to small and mid-caps takes two forms and includes, firstly, access to information regarding these companies, primarily in the form of research, and secondly, access to trading in the shares themselves. It could indeed be argued that the UK has lost it's prior competitive advantage with shareholder communication in recent years.

At the IPO stage and later, the rules that govern retail access have created unnecessary and detrimental barriers.

Despite HM Treasury's useful consideration of the creation of a new listing venue for smaller companies, it is also important to assess some of the issues affecting the broader population of smaller companies and ensuring that listing remains attractive to growth companies throughout their journeys.

The essential element of attractiveness of the markets, for current and future public companies, is the presence of investment and a rich ecosystem of varied investors.

The key systemic issue that influences investment for smaller companies is the presence, or lack, of liquidity in their shares. Typically, it is expected that there will be less liquidity in small caps than compared with larger companies as a result of their size alone, but current conditions have created a vicious circle that suppresses liquidity for these companies' shares to an unwarranted degree.

One of the primary causes is the recent risk averse role of the FCA in regulating equity markets. The FCA is tasked with protecting consumers as its main objective but in doing so has restricted customer choice to a degree that is harmful to the markets, the wider economy, and potentially, the very customers they are aiming to protect.

A recent FCA consultation paper[1] outlines some of the policy approaches from the FCA which have increased product governance rules, instructing intermediaries to introduce greater "friction" in customer journeys for higher risk products. Smaller caps are broadly regarded as higher risk investments as they are normally growth companies that are yet to reach a certain stage of maturity. The heavy-handed approach by the FCA means that intermediaries are either stopping their customers from accessing, or are attempting to direct them away from, small cap stocks. These investments are viewed by the regulator in the wrong way, as financial products, rather than rather more tangible, ownership of a company.

The restriction on retail investors' access to small and mid-cap stocks also impacts institutional investors, for whom liquidity is often a requirement for their investment. Most institutional fund managers are disallowed from investing in stocks if they cannot demonstrate an ability to quickly divest. The lack of a significant retail presence for some small and mid-caps due to regulation and guidance therefore means there is a lack of investment from a side of the market the FCA isn't seeking to actively protect with this approach, which further hampers the overall liquidity and investment in small and mid-caps.

There are other jurisdictions that adopt an approach which results in better outcomes. In the United States, for example, a large proportion of all stocks are held directly by households[2]. There is an element of this which can be assigned to cultural differences, but it is appropriate to identify the contribution of a more flexible and welcoming environment for retail investors that want to invest in and support smaller companies.

UK PLC could benefit from an increased emphasis on retail access to small cap stocks. The Patient Capital Review [3]illustrated how the UK fell behind the US in terms of scaling up of companies and this might be a key part of the solution.

Another region That appears to benefit from a less restrictive approach to retail investment in smaller companies is Australia. The key elements that differentiate their approach to the UK's are:

- the trading halt when a deal is announced is a key point in widening access to capital market deals;
- the ability to trade with private client investors and in so doing the development of more liquidity;
- the classification of sophisticated private clients using what seems like a relatively sensible bar (level of income or gross assets);
- the absence of the need for a prospectus as long as you are marketing to professional investors and/or sophisticated private clients;
- the inclusion of a retail brokerage element to most placings;
- the additional ability to use Share Purchase Plans (SPPs);

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[1] FCA, April 2021, Strengthening our financial promotion rules for high-risk investments and firms approving financial promotions DP21/1, https://www.fca.org.uk/publication/discussion/dp21-1.pdf
[2] Kim Parker Richard Fry, Pew Research Centre, March 2020, More than half of U.S. households have some investment in the stock markethttps://www.pewresearch.org/fact-tank/2020/03/25/more-than-half-of-u-s-households-have-some-investment-in-the-stock-market/
[3] HM Treasury, Patient Capital Reivew August 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/642456/financing_growth_in_innovative_firms_consultation_web.pdf

- the ability of larger institutional funds to keep a proportion of funds available for smaller deals and;
- better means of identifying shareholders.

Regarding the auction approach to smaller cap share trading that is considered in this consultation, there is a fair amount of reticence amongst our members about the effectiveness of this approach. One of the main attractions of modern trading to retail investors is instant and continuous price creation. The highest volume for retail trades has been seen in securities where direct and instant trading is available. It is possible that the auction approach could dampen retail appetite for smaller companies that employ that trade method rather than boost it.

As mentioned earlier, restricting retail access to smaller company stocks could also be inadvertently creating worse outcomes for those institutional investors. Firstly, they may be exposed to greater risk by having portfolios that are too focused on the FTSE 100 or FTSE 350. As these companies' stock performance often trends together, the risk of a shock caused by one company's collapse would have a greater impact for a large cap only investor than an investor that has a more varied portfolio. Portfolios with a wider spread exposure are therefore less risky. Also, there is the potential that the investor misses out on significant growth potential, particularly if entirely invested in large, mature companies that have already passed their growth stage. Similarly, many growth companies will miss out on getting the finance they need to become companies of scale.

Recommendations

We believe HM Treasury should lead the following policy changes to improve access to equity markets for both small caps and retail investors:

1. Create market formats which allow for flexibility. This would primarily focus on working with the FCA to create a new market format to replace the Standard Listing segment, thus creating a natural home for innovative scale up companies at an intermediate stage of their growth and to allow for clear differentiation and competition between the market formats.

2. Consult on and perhaps ultimately introduce a pilot of intermittent trading with assessment done in conjunction with current providers. This would perform the role of being a testing ground for mainly smaller and younger companies that would like to move toward a public listing. Rather than simply setting an arbitrary market cap level for new segmentation that leads to similar issues for smaller companies at present, this approach could expand a potentially underutilised service to create a meaningful market format for these companies.

3. Explore and consult on the potential for slowing down the fundraising process, in particular through the use of one or two day trading halts. This could be a way to broaden the take up of fund raisings amongst retail, institutional and international investors.

4. Consult on and pilot the use of centrally funded research for small and mid-caps. This approach appears to have had success elsewhere such as in Japan, where the exchange pools funds to ensure small and mid-caps have independent research conducted on them. The focus would be to provide research that is easily digestible for the retail market but is also impartial and would avoid friction with Financial Promotion legislation which currently restricts research on smaller quoted companies.

5. Prioritising the improvement of communication with retail shareholders, including access to corporate results meetings conference call transcripts.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

Tim Ward
Chief Executive

Executive Summary
Creating inspirational markets fit for the future

Structural inefficiency is shrinking our public markets

The structural makeup of the UK's markets has resulted in the total number of quoted companies decreasing for a significant period of time. Listing shares on the UK's public equity markets has become less attractive for many companies due to a sizeable gap in the UK's public equity market offering. The lack of choice provided by our public equity markets on the one hand, and the increase in choice of alternatives (such as markets in other jurisdictions or private equity) on the other hand has caused this decline. We must reverse this embedded trend. Redesigning our public markets to make them more attractive for scale up businesses is what is needed most.

The direction of travel is promising

Lord Hill's Listing Review was a welcome first step, and the subsequent consultations published by HM Treasury and the FCA have the potential to greatly increase the attractiveness of our public equity markets. The recognition that positive change is necessary to ensure the UK has a continuum of attractive equity markets has been needed for some time. This review is one of a number that provides us with the opportunity to construct our markets for the future to solidify our position as a global financial powerhouse.

Now is the time to be bold

Policymakers now have a unique opportunity to shape the future of our public markets in the wake of Brexit. It has been long established that our equity markets underperform in regard to scaling up companies. The Patient Capital Review[4] highlighted the gap between the UK's thriving start-up market and our scale-ups. For too long, the role of public investment has been ignored. Policymakers can use this moment to re-create equity market formats that attract and retain the widest range of companies throughout their growth and maturity.

Retail investors hold the key to liquidity

The role of retail investors is essential. Many institutional investors are not capable of investing in smaller companies because they are typically less liquid stocks. For this reason, retail investors are the lifeblood of investment in our smaller quoted companies. In fact, they provide the necessary gateway for institutional investors by generating early stage liquidity. However, recent policy, regulatory and market developments have increased the barriers for retail access to investment in these companies. Access to small and mid-caps takes two forms and includes, firstly, access to information regarding these companies, primarily in the form of research, and secondly, access to trading in the shares themselves.

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[4] The Patient Capital Review – Industry Panel Response
resphttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661397/PCR_Industry_panel_response.pdf

A purposeful micro market

It is not clear how a micro market segment, at least in the way this consultation describes, will generate a boost in liquidity for small and mid-caps. It can also be argued that the creation of such a market will not necessarily increase the attractiveness of a listing to small companies and investors. As choice should be a key element for creating an ecosystem where investors and companies are well matched, having a market cap restriction may also be counter-productive. Deeper consideration is therefore needed to ensure that any new market format is carefully targeted and defined so that it does not have the same issues that currently impede the smallest listed companies.

Equally, the idea of intermittent trading might be best considered as a separate, but related, source of funding for UK companies and introduced as a pilot before making any final decisions.

We therefore suggest that there should be a further consultation on and perhaps ultimately a pilot of intermittent trading with assessment done in conjunction with current liquidity providers. This would perform the role of being a testing ground for mainly smaller and younger companies that would like to move toward a public listing. Rather than simply setting an arbitrary market cap level for a new segment that leads to similar issues for smaller companies at present, this approach would attempt to expand a potentially underutilised service to create a meaningful market format for these companies.

Reframing the Standard Listing segment

The Standard Listing segment is also an area that provides an opportunity to make meaningful improvements. Creating a new, more flexible market format in place of the Standard Listing format will effectively address the structural issues and fill the gap in the UK's current public equity market offering. This will have the effect of encouraging companies, and in particular those at an intermediate stage of their growth, to come to the markets earlier in their lifecycle.

Appropriate choice will inspire companies to join and remain on public markets

A market with choice for both companies and investors is an essential dynamic in emboldening their long-term health and success.

In order to effectively attract companies to recognise the virtues of public equity, companies have to be inspired by the market they choose as their listing destination.

Our proposal is designed to enable existing market operators to customise their offerings to meet the needs of today's and tomorrow's companies. It leaves the door open for new entrants to set up attractive markets to boost UK economic activity.

Responses to the Consultation Questions

Chapter 2: Trading Venues

Q1 Where do you think the regulatory perimeter for trading venues needs to be clarified?

We have no comments.

Q2 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?

The QCA believes that it would be more appropriate for the application of the existing definition of a multilateral system to be clarified through FCA guidance rather than changes to the definition being made in legislation.

Guidance is more appropriate and allows more agility than statutory definitions. As described above, there are a number of different business models that will evolve over time. Therefore, guidance will allow appropriate interpretation of future business models and is less likely to lead to unintended consequences. A stakeholder group, drawn from representatives of market participants across the ecosystem, to contribute to the development of guidance, should be formed.

Q3 Should the current restrictions on matched principal trading by a multilateral trading facility (MTF) be retained?

We have no comments.

Q4 Should the current restrictions on the operation of an SI within the same legal entity of an organised trading facility (OTF) be retained?

We have no comments.

Q5 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)?

We have no comments.

Q6 Do you think that OTFs should be allowed to execute transactions in packages involving derivatives and equities under their rules and systems?

We have no comments.

Q7 What would be the risks and benefits of allowing this approach?

We have no comments.

Q8 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?

No - overall, it is not the requirements for disclosure at admission to trading that are most burdensome for small-sized quoted companies. There are other, greater burdens that will be highlighted in response to the other questions in the consultation paper that the QCA considers to be higher priority and more impactful than the requirements for disclosure at admission.

Q9 What principles and/or types of information should be considered when developing requirements for disclosure at issuance to ensure requirements are proportionate?

Minimum requirements should be commensurate with the size of the company and therefore it may be appropriate for smaller companies to have lighter requirements for disclosure. The key requirements for companies that are looking to publicly list should be adherence to accepted accounting standards and that they should retain a board composition of at least two Non-Executive Directors. Companies should also be expected to provide full and simple disclosure of all pre-IPO funding round amounts and valuations, including lock-in details. A Nomad/Broker should be appointed and 75% of free float shareholder approval should be required to de-list the company.

However, due to their nature, no minimum trading history should be required because the companies will tend to be smaller, faster growth and more acquisitive.

Q10 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)?

The QCA believes that the regulator should have the responsibility of setting the broad parameters of standards but the specific requirements should be developed by the venue operators following consultation with market participants. This will allow the individuals with the greatest expertise that are familiar with the trading dynamics of the venue on a day-to-day basis, to monitor and improve the environment. It will allow for the potential for differentiation so that a greater variety of companies find their place on public markets.

Q11 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?

The creation of a new category of trading venue may have some success in facilitating access to public markets for very small companies but it may also be just as effective and perhaps more efficient to take a more holistic look at the markets to assess what can be adjusted from what currently exists and to see if better promotion of the listing options has the result of reviving and making the markets more welcoming to small companies.

The Market Abuse Regulation remains a significant burden for small businesses that wish to be, or are, quoted in the UK. The challenges this regulation poses becomes more acute as we go down the size scale. Now that the UK has left the EU, we have the ability to create an entirely new approach; one that ensures protections for investors but which is proportionate.

Q12 If you answered no to question 11:

Would the facilitation of the creation of new market segments be a more suitable intervention?

The creation of new market segments comes with potential pitfalls. One concern is that there are already different segments, some of which have been underused, in part, because their purpose and benefits have not been understood.

Additional segmentation must be appropriately defined (such as the new market format proposed to replace the Standard Listing segment) so it is vital that the creation of a new market format should be driven by a very clear vision of its purpose (see our response to the Primary Markets Effectiveness Review[5]), the type of company and investor it is trying to attract and a strong sense of how to promote and educate the potential companies and investors about the new market format.

Q13 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?

There is much debate about the size of company that should be considered a small-cap. There is a range of views, some in the £100s of millions others regard £10s millions as the max market cap to be defined as small. The QCA believes caution is needed in solely regarding market cap as the defining attribute for a small quoted company especially when it is being used as a proxy measure of how capable a company is of adhering to strict regulation or governance standards.

There are indeed many companies that are valued highly but are very small by any other measure. These are often companies that are young and also do not yet have the in-house expertise or resources to implement tightened governance standards.

A fixed size parameter is not the best means of establishing where a company should be placed when deciding on a trading venue or segment. Instead, a choice between a variety of markets should be available to companies and investors that can match the relative appetite for risk and protections to the companies on the appropriate market. Choice for companies and investors is at the core of creating attractive markets and boosting liquidity.

We are encouraging the FCA to take an oversight role to ensure that there is meaningful differentiation between each market format and that exchanges choosing to use a market format should ensure there is clear marketing to existing and prospective quoted companies, to make it easier for them to find the right market for them.

This approach would ensure the right level of flexibility, allowing companies to assess, for themselves, which requirements they are most capable of adhering to and make it easier to attract investors with a shared vision for both growth and governance. It follows that the market capitalisations of companies on any one segment may vary considerably.

Q14 Do you believe intermittent rather than continuous trading would increase liquidity?

Although intermittent trading reassures investors that they will be able to trade their shares, it may be off-putting for some investors that are now accustomed to live trading.

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[5] QCA Response to FCA - Primary Markets Effectiveness Reviewhttps://www.theqca.com/news/responses/338801/qca-response-to-fca-primary-markets-effectiveness-review.thtml

It is the retail sector – which is essential for small cap liquidity - that may in fact now be the most reluctant to hold shares that are traded intermittently as the live price and value of their securities have become a key element of engagement for retail investors. It may also deter those institutional investors that are required to comply with liquidity rules measured by how quickly a stock can be sold.

Continuous quote driven trading supported by market makers has proven to be the most successful form of liquidity provision for smaller quoted companies. Intermittent trading will deter the target retail investor, who prefers the ability to buy and sell equities instantly. Intermittent and auction trading also creates a potential cost penalty for such markets where intermediaries must develop new technology for limited low value trading activity, which can have the detrimental impact of pushing the cost up for the end retail investor. Certain trading venues already offer opportunities for intermittent trading for micro-cap entities, for example, certain Aquis trading segments and MTFs such as AssetMatch.

As per recommendation 2 of our opening remarks, HM Treasury should lead a consultation and perhaps commission a pilot of an expanded intermittent trading venue to see if this could be developed to concentrate liquidity for some small-caps.

Q15 Do you think that additional measures, such as new funds structure are needed to stimulate institutional investors to invest in SMEs?

HM Treasury should ensure that shares in the funds which own stocks in companies that are eligible for Inheritance Tax relief also receive that relief.

Q16 What, if any, further forms of investor protection do you deem appropriate for this proposed new category of trading venue?

The QCA does not believe additional forms of investor protection are needed other than what is currently typical for growth markets. This includes:

- Ensuring appropriate market sponsor supervision;
- Adhering to accepted accounting standards;
- Requiring shareholder approval to delist;
- Requiring the adoption of appropriate governance measures; and
- An appropriate level of free-float.

Q17 Do you believe that regulatory or industry guidance about how venues should operate and what they should communicate during an outage would be useful?

We have no comments.

Q18 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 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 Volume Weighted Average Price for the previous 5 days.

Q19 What other steps do you think UK authorities could take to ensure market resiliency in the event of an outage?

We have no comments.

Chapter 3: Systematic Internalisers

Q20 Do you agree that the definition for SIs should be based on qualitative criteria?

Yes - the QCA believes that the definition for Systematic Internalisers should be based on qualitative criteria in order to ensure the right amount of flexibility is applied to interpreting the actions of market participants in different time periods. The qualitative regime would also require close oversight by the regulator to ensure that firms' use of this was appropriate.

Q21 If you answered no to question 20:

Do you think the definition should be amended in another way?

We have no comments.

Q22 If you answered yes to question 20:

Do you think that regulatory guidance should be used to support the definition in legislation?

Yes - additional regulatory guidance will be necessary to ensure clarity, especially as a qualitative definition is the best approach.

Q23 Do you currently opt-in to the SI regime?

We have no comments.

Q24 Should SIs be determined at entity level instead of on an instrument by instrument basis, for reporting purposes?

Yes - the Systematic Internaliser regime should be simplified, and by determining this at entity level it will allow for effective process. This also will help to establish a more transparent regime where users are able to quickly and effectively identify systematic internalisers rather than having to identify these on an instrument-by-instrument basis.

Q25 What would be the risks and benefits of adopting such an approach?

We have no comments.

Q26 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?

We have no comments.

Q27 Do you think any other changes are needed to increase the effectiveness of the SI regime?

We have no comments.

Q28 Do you think that the double volume cap (DVC) should be deleted?

We have no comments.

Q29 Do you think alternative incentives are needed to encourage lit trading?

We have no comments.

Q30 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?

We do not believe that this would promote best execution but could instead create latency arbitrage.

Q31 Do you consider SIs quotes useful?

We have no comments.

Q32 Do you think that the ability of SIs to execute clients' orders at mid-point would incentivise SIs to provide meaningful quotes?

No - it may be the case that the ability of SIs to execute clients' orders at mid-point could have an adverse effect and quotes would become less useful or accurate overall.

Q33 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?

We have no comments.

Chapter 4: Equity Markets

Q34 Do you think that the share trading obligation (STO) should be removed?

Yes - the QCA believes that the share trading obligation (STO) should be removed but HM Treasury and the FCA should seek to mitigate the risk that the removal of the STO might result in, such as reduced transparency. Further consultation on this approach is needed as further clarification around the Share Trading Obligation (STO) regime would be welcome. The regulatory perimeter for trading venues needs to be aligned 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 allows for information exchange on certain financial instruments requires further clarification. For example, what 'interaction' i.e. exchange of terms is required for the relevant solution to be determined as a trading venue.

Q35 Do you think that the requirements for algorithmic liquidity providers and trading venues to enter into binding market making agreements should be removed?

There is a disparity between the requirements with which a market maker must comply as a member of the exchange (irrespective of its use of technology) compared to those obligations laid down within an algorithmic market making agreement. Rather than remove the requirement altogether, we would suggest that the requirement for investment firms "engaged in algorithmic trading to pursue a market making strategy" (FCA Handbook, MAR 7A.3.4 R) to enter into an algorithmic market making agreement with a

trading venue be limited only to those who are not registered with that trading venue as a market maker more generally.

Article 17 of MiFID II and the corresponding technical standards (in particular the UK version of Commission Delegated Regulation (EU) 2017/578 ("RTS 8")) sought inter alia to implement a framework that ensured the continuous provision of liquidity by those investment firms applying a high-frequency algorithmic trading technique. The establishment of the algorithmic market making agreement regime was designed to (1) introduce an element of predictability by setting out contractual obligations between venues and such investment firms to achieve an element of predictability of order book liquidity and (2) incentivise firms employing such algorithmic techniques to remain present in the order book during periods of market volatility and stressed market conditions.

In the UK, where an investment firm is a member of a regulated market such as the London Stock Exchange (the "Exchange"), and it is registered as a market maker with that venue it must comply with the rules set out by that venue. These rules are, in almost every respect, more draconian in their requirements such as, for Exchange members, requiring two-way quotes to be maintained for 90% of regular trading during the mandatory period for order-driven securities (as opposed to the 50% required pursuant to article 1 of RTS 8). Technical advances have not only enabled the creation of high-frequency trading and the development of business models both of which are noted in the EU, now UK, legislation, but also enabled traditional market makers i.e. 'slow traders' to automate the maintenance of their two-way quotes which was previously a manually intensive process with the use of an auto-quoting functionality. In simple terms, auto-quoting (which could be considered as satisfying the definition of algorithmic trading) enables a market maker whose quote has been hit on the order book, to comply with its mandatory quote obligations by automatically reloading the quote commensurate with predetermined parameters. Such automation is deliberately designed to be passive in nature, providing liquidity to the order-book rather than aggressively taking liquidity from it.

Q36 What would be the impact of such a removal for you and/ or the market you operate in?

The limiting of the requirement to have an algorithmic market making agreement to investment firms which are not registered as market makers with the relevant regulated market (rather than removing it altogether) would have no impact on the respective market's operations. It would ensure that the measures which were designed to achieve the legislative objectives in relation to predictability of liquidity and managing periods of market volatility would be preserved while removing the discrepancies for those firms which may currently be required to comply with both requirements.

Q37 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?

Yes - this would overcome a lot of the complexities when instruments are trading in multiple jurisdictions. The 'home' tick table for the instrument needs to be adopted by the secondary trading country.

Q38 Do you think trading venues are better placed to establish tick sizes for new shares until sufficiently robust data is available?

Q39 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?

One potential positive of 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.

Q40 Are there any other parts of the equity regime that you think could be operated more effectively by the market, while upholding high standards?

We have no comments. **Chapter 5: Fixed Income and Derivatives Markets**

Q41 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?

We have no comments.

Q42 Do you think that all post-trade risk reduction services should be exempt from the DTO?

We have no comments.

Q43 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?

We have no comments.

b) What conditions do you think should be met for the exemption to be applicable?

We have no comments.

Q44 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?

We have no comments.

Q45 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).

We have no comments.

Q46 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).

We have no comments.

Q47 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?

We have no comments.

Q48 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).

We have no comments.

Q49 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).

We have no comments.

Q50 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).

We have no comments.

Q51 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).

We have no comments.

Q52 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).

We have no comments.

Q53 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).

We have no comments.

Q54 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).

We have no comments.

Q55 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).

We have no comments.

Q56 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).

We have no comments.

Q57 Do you have any other comments on the pre-trade transparency regime?

We have no comments.

Q58 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).

We have no comments.

Q59 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).

We have no comments.

Q60 Do you agree that the deferral regime would benefit from being simplified?

We have no comments.

Q61 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).

We have no comments.

Q62 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).

We have no comments.

Q63 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).

We have no comments.

Q64 What are the risks and benefits of allowing trading venues to calculate LIS thresholds for ETD post-trade reporting?

We have no comments.

Chapter 6: Commodity Markets

Q65 Do you think that the scope of the 'commodity derivatives' regime should be narrowed to derivatives that are based on physical commodities?

We have no comments.

Q66 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?

We have no comments.

Q67 Do you think economically equivalent OTC commodity derivative contracts should be removed from the commodity derivatives regime?

We have no comments.

Q68 Are there any other instruments that you think should be deleted from the commodity derivatives regime?

We have no comments.

Q69 What would be the risks and benefits of transferring responsibility for position limits from the FCA to trading venues?

We have no comments.

Q70 What specific factors do you think should be addressed in the framework of requirements that UK authorities would provide for trading venues?

We have no comments.

Q71 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?

We have no comments.

Q72 Do you think that the UK commodity derivatives regime should allow position limits exemptions for liquidity providers?

We have no comments.

Q73 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?

We have no comments.

Q74 Do you think any other activities should be exempt from the regime?

We have no comments.

Q75 Are there areas of the UK's position reporting regime which could be improved?

We have no comments.

Q76 Do you think that the ancillary activities test (AAT) should revert to a qualitative assessment of the activities performed by a market participant?

We have no comments.

Q77 Do you think that the basis of the AAT should be expected activity, rather than historic activity?

We have no comments.

Q78 Do you agree that the annual notification requirement should be abolished?

We have no comments.

Q79 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?

We have no comments.

Q80 Do you think that the OMP and EMP regimes should be removed as particular regulatory statuses from the UK's regulatory perimeter?

We have no comments.

Q81 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?

We have no comments.

Chapter 7: Market Data

Q82 Do you agree that the government should take action to encourage the development of a CT?

Yes - the QCA agrees that the Government should take action to encourage the development of a consolidated tape as it would make it easier for participants to be better informed. The Government would likely need to fund and support a private provider for this or would need to create a CT themselves.

If you answered yes to question 82:

Q83 Do you think a fixed income tape should be prioritised?

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.

Q84 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?

We have no comments.

Q85 Is there any value in a delayed data CT for fixed income markets?

We have no comments.

Q86 Is it valuable for an equity CT to include pre- and post-trade data?

We have no comments.

Q87 Is there any value in a delayed data CT for equity markets?

We have no comments.

Q88 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?

It is clear that the Government should have an active role in the creation of a CT to ensure high quality standards are met and performance is monitored. As the aim of the CT would be to provide universal access, a private company may not be initially inclined to develop it so the onus would be on the Government to sponsor its development.

There is also the possibility that a private company would end up with an unfair market advantage for providing broader data as the company that is commissioned to deliver the CT would enjoy a monopoly on that data.

Both of these risks should be taken on board when the Government considers who delivers the product and how delivery is conducted.

Q89 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?

We have no comments.

Q90 Do you see any risks with removing the obligation for CTs to provide data for free after 15 minutes?

We have no comments.

Q91 What are the potential advantages and disadvantages of multiple private sector CTs for each asset class?

We have no comments.

Q92 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?

We have no comments. **Chapter 8: Reporting**

Q93 Where do the current regulatory reporting regimes for wholesale markets contain duplicative reporting requirements?

There is duplication as the same set of information is required by the TR regime as is by the EMIR regime.

Q94 Is intervention needed to mitigate against duplicative reporting for firms undertaking securities financing transactions (SFTs) with members of the European System of Central Banks?

We have no comments.

Q95 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?

We have no comments.

Q96 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?

Yes - electronic communications should become the default means of communication for disclosures and reporting to retail clients. However, default should not mean only. Vulnerable customers who are unable to access information digitally should always have alternative options as a back-up. Social media communications should also be considered, however they should not be considered a part of the Regulatory News Service.

Q97 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?

We have no comments.

Q98 Do you think other changes are needed to ensure that the reporting regime correctly balances investor protection and transparency?

We have no comments.

Q99 Have you experienced any issues with the utilisation of International Securities Identification Number (ISINs) as identifiers?

We have no comments. 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.

Q100 Do you have any suggestions on how the use of identifiers could be improved?

We have no comments.

Chapter 9: Cross Cutting Issues

Q101 What further steps can UK authorities take to enable firms to take advantage of technological innovation in capital markets?

The UK is currently lacking access to a comprehensive share register for quoted companies. Shareholders in Crest nominee accounts are much more difficult for companies to identify. Other countries use different systems, supported by technological innovation, to enable better outcomes.

In Australia, for example, the HIN number / Chess system, which allows easy tracking of the owner enables better access to enjoy shareholder pre-emption rights and take up of private investors in small-cap placings. SPPs allow existing shareholders to put A$30,000 p/a more into companies in which they already have a holding.

This seems to facilitate a more active small cap trading and fundraising market where small companies of a few tens of millions of pounds market capitalisation are able to cost effectively and safely raise finance from private client investors in a manner that allows for good investor protection and allows private investors to easily invest further in placings in companies in which they are already shareholders.

The ASX also demands company presentations are released to the ASX and corporate results conference call recordings seem more readily available than in the UK, which aids transparency.

We have no comments.

Q102 What further steps can UK authorities take to support the wholesale markets sector as we move towards a low carbon economy?

Primarily, UK authorities should use their powers to ensure that the reporting requirements remain proportionate and relevant as they are expanded to smaller quoted companies. It is likely to be challenging to report aggregated carbon and greenhouse gas (GHG) emissions data for small cap portfolios, which will be required by UK asset managers and pension funds.

If small companies, and investors in these companies, cannot comply with the Taskforce for Climate-related Financial Disclosure (TCFD) requirements, investment will be steered away from such companies. There is an absence of data for SMEs and micro-cap companies, and more specifically, there is virtually no meaningful greenhouse gas (GHG) emissions data for this community of companies and nor is there likely to be any prospect of this within the foreseeable future. There are significant data gaps for these companies, as well as investment firms whose investment strategies include investments in SMEs and micro-caps (as compared with larger companies, and asset managers whose strategies focus on larger companies, where climate-related data reporting is better understood and developed).

This could be a perverse outcome as it can often be smaller companies that are more geared towards operating in a more environmentally sustainable manner and innovate to contribute products and solutions for dealing with the climate change challenge.

Q103 How do companies harness retail investment whilst ensuring investor protection?

We have no comments.

Q104 How do companies take advantage of the globalisation of information to reach investors?

We have no comments.

Q105 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?

As stated in the introductory letter of this response, there are a number of ways that the UK authorities can make it easier for retail investors to access equities. If UK authorities did not actively discouraging retail investment through overly onerous guidance for intermediaries and allowed more time and access to information through trading halts and a centralised research approach retail investment in UK companies could be regenerated.