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SNAPSHOT

FCA finalises rules for PISCES – new secondary private stock market – On 10 June 2025, the FCA issued its final rules for the Private Intermittent Securities and Capital Exchange ("**PISCES**"). PISCES is a new type of private stock market that allows intermittent trading of private company shares using market infrastructure. The FCA has published rules for entities hosting a PISCES platform (operators), including on disclosure requirements, operating trading events and market manipulation/oversight.

FCA consults on reducing assessment of value reporting for certain authorised fund managers – On 6 June 2025, the UK Financial Conduct Authority ("**FCA**") issued a consultation paper relating to, amongst other things reducing the assessment of value reporting.

FCA sets out final rules on how fund managers can pay for investment research – On 9 May 2025, the FCA issued Policy Statement 25/4 – investment research payment optionality for fund managers. MiFID II introduced requirements to separate charges for research from trade execution thereby unbundling these services. The proposed changes will enable UK fund managers to use soft commission (known in the FCA rules as "joint payments") to pay for research. This will allow a joint payment option alongside existing payment options out of firm's own resources or through an RPA (research payment account).

FCA publishes findings from its review on business models for smaller asset managers and alternative firms – On 8 May 2025, the FCA published its findings from work. The review focused on high risk investments, conflicts of interest and the consumer duty.

NEWSLETTER

FCA FINALISES RULES FOR PISCES – NEW SECONDARY PRIVATE STOCK MARKET

WHAT ARE THE KEY DRIVERS FOR REFORM?

The UK Treasury (**"HMT"**) noted the following as drivers for reform:

- A key challenge for private companies is that, at early stages in their growth, there are no standardised ways for shareholders to realise their gains (e.g., where their shares have increased in value) or to allow companies to rationalise their shareholder base by providing their early investors an exit route.
- Similarly, it is harder for investors to access companies that are not yet operating on public markets.
- At present, there is also no practicable mechanism for private companies to have their shares admitted to trading on a multilateral system, with disclosure obligations applying only during those intermittent windows.
- Furthermore, existing arrangements do not allow private companies to, for example, decide when their shares may be traded, who is allowed to buy the shares, the price at which the shares are traded and who may receive information about the company or transactions in its shares.
- The PISCES regulatory framework, to be initiated under a regulatory sandbox, will establish a hybrid regulatory regime that incorporates elements from public markets such as multilateral trading, and elements from private markets such as greater discretion for private companies over the trading of their shares. This will enable PISCES platforms to provide investors with concentrated liquidity in private company shares and provide private companies with easier access to new investors seeking to allocate capital to successful growing businesses.
- It should therefore act as a stepping-stone to public markets.

Further, FCA has stated that:

- PISCES could be an innovative, flexible, efficient and effective solution for private companies to provide investors and employees with concentrated liquidity events in which to buy and sell shares. It should enable private companies to reach a broader range of investors, strengthening their capital-raising prospects outside of PISCES, achieve their growth aspirations and support their potential future transition to public markets".
- Under its rules it seeks to strike the right balance between incentivising operator, company and investor participation with appropriate protections for a private-plus market. Investors will need to understand the higher risks compared to the current protections on public markets.

WHAT ARE THE PROPOSED REGULATORY REQUIREMENTS?

PISCES is a new type of share trading platform which a FCA authorised firm can apply to operate to trade the shares of private companies in secondary markets.

It allows buyers and sellers of shares in private companies to trade those shares during intermittent trading periods.

PISCES will allow private companies to reach a broader range of investors, supporting investment in growth companies and boosting the competitiveness of UK markets.

The rules for the PISCES sandbox are set out in the Private Intermittent Securities and Capital Exchange System (PISCES) Instrument 2025 which will form part of the FCA Handbook.

The key features of PISCES will be as follows:

- As a secondary market, it will facilitate the trading of existing private company shares. The trading will be intermittent.
- The FCA has created a new and bespoke disclosure and transparency regime for private companies whose shares are traded on a PISCES platform. Private companies whose shares are traded on a PISCES platform may be liable to investors who suffer losses arising from misleading information disclosed by that company in connection with a trading event or period.
- PISCES operators will be able to decide whether or not shares must be recorded into a central securities depository (e.g., Euroclear).
- Only shares in private companies whose shares are not currently admitted to trading on a public market (in the UK or overseas) can be traded on PISCES. Private companies incorporated outside of the UK can use a PISCES platform as a venue for its shares to be traded, but will also need to consider the impact of this on local laws that apply in its jurisdiction of incorporation (e.g., regarding disclosure to investors on a PISCES platform).
- Operators of a PISCES platform can determine any admission requirements for their proposed market, including any minimum corporate governance requirements for private companies whose shares are traded.
- During intermittent trading events, financial intermediaries (like brokers) will act as a bridge between investors and a PISCES platform. They will connect investors to a PISCES trading platform by (i) placing their buy and sell orders and (ii) promoting PISCES shares. Promotion and marketing of PISCES shares will need to comply with the UK financial promotion regime.
- Trading on PISCES will be intermittent. It must be occasional, infrequent and for a limited time period. Operators running each PISCES platform will decide when intermittent trading events take place and how long they last for.
- Companies can choose platforms that offer trading events that suits their needs.
- Companies will have discretion on (a) when the shares may be traded (b) who is allowed to buy the shares (c) the price at which the shares are traded and who gets information about the company and (d) any transactions in its shares, subject to their PISCES operator's business model and FCA rules.
- Only certain categories of investors will be able to trade on PISCES. These include (a) professional clients as defined under MIFIR; (b) those who meet the definitions of self-certified sophisticated investors, sophisticated investors, and high net-worth investors based upon the FSMA 2000 (Financial Promotion Order) 2005 (FPO); (c) employees of participating companies and those providing consultancy and managerial services; and (d) trustees of share incentive plans and employee benefit trusts.
- Most retail investors are prohibited from trading on a PISCES platform.
- A PISCES platform may not facilitate the trading of options, or other derivative products.
- The FCA rules prohibit financial intermediaries from enabling PISCES companies using a platform for buybacks.

- To apply to the FCA for permission to operate a PISCES platform, FCA regulated firms will need to have either Part 4A permissions under the Financial Services and Markets Act 2000 ("**FSMA**") to (a) arrange deals in investments, (b) operate an multilateral trading facility, or c) operate an organised trading facility (OTF) or be a Recognised Investment Exchange as defined under FSMA 2000.
- Financial intermediaries have an obligation to check the eligibility of a potential UK investor when taking an order to purchase. The requirement to undertake an eligibility check will fall on the firm who is interacting with the end client, whether that firm is a regulated intermediary (e.g., a broker or investment bank), or the operator of a PISCES platform where there are no intermediaries involved on the PISCES platform.
- PISCES will not be an multilateral trading facility (MTF) or trading venue as defined under UK MIFIR. The transparency requirements for shares traded on a trading venue will therefore not apply by default to PISCES operators. The FCA have instead been granted rule-making powers to set bespoke requirements for pre- and post-trade transparency information on PISCES.

The FCA will set up, operate, and supervise the PISCES sandbox, and will have rulemaking powers over persons participating in the sandbox. The FCA can make new rules, modify existing rules, or direct how and to whom existing rules may apply or be waived, as it considers necessary or expedient to operate and supervise the sandbox.

WHO IS IMPACTED BY THESE REGULATORY REFORMS?

The PISCES sandbox arrangements affect:

- FCA authorised firms who apply to become an operator of a PISCES platform.
- Financial intermediaries (brokers) intending to place buy or sell orders on a PISCES platform.
- Investors in private companies intending to participate in trading on a PISCES platform.
- Private companies whose shares will be traded on a PISCES platform.
- Professional advisors to all these groups.

WHAT ARE NEXT STEPS?

The rules for the PISCES sandbox are set out in the Private Intermittent Securities and Capital Exchange System (PISCES) Instrument 2025 which will form part of the FCA Handbook. These came into force on 5 June 2025.

The PISCES sandbox will last up to five years, until 5 June 2030, with the possibility of extension by the Treasury. Subject to UK parliamentary approval, the Treasury will be able to extend the length of the PISCES sandbox through further legislation if more time is needed to assess whether the legislation is achieving the intended outcomes.

FCA CONSULTS ON REDUCING THE ASSESSMENT OF VALUE REPORTING

WHAT ARE THE KEY DRIVERS FOR REFORM?

The FCA only wants to collect the data that it needs. Removing data collection requirements that no longer provide useful data or duplicate information in other returns helps to reduce firms' cost of compliance.

The FCA introduced rules requiring authorised fund managers to carry out an assessment of value (**"AoV"**) report at least annually and to report publicly on its conclusions. The FCA rules require the AoV to be conducted for each scheme the authorised fund manager manages and the fund manager must consider:

- Quality of service and performance
- AFM costs and economies of scale
- Comparable market rates and comparable services
- Classes of units

The FCA is now proposing reforms to reduce and simplify requirements for authorised fund managers, while maintaining rigorous standards relating to value assessments.

Who is impacted by these regulatory reforms?

These reforms impact certain authorised fund managers (as defined under the FCA Handbook). These are:

- an authorised corporate director (i.e., a director of an investment company with variable capital (ICVC) in accordance with COLL 6.5.3R of the FCA Handbook);
- an authorised contractual scheme manager (which is a firm which is the authorised fund manager of an a co-ownership scheme or limited partnership as each is defined under COLL 3.2 of the FCA Handbook); and
- a manager of an authorised unit trust scheme (as defined under section 237(3) FSMA).

WHAT ARE THE PROPOSED REGULATORY REQUIREMENTS?

The FCA is proposing to remove many of the detailed reporting requirements in COLL 4.5.7R(8), COLL 8.3.5AR(5) and COLL 15.5.3R(5) of the FCA Handbook.

The plan is to replace them with a general requirement that authorised fund managers must include in the annual report:

- a summary of the AoV; and
- the conclusion of the assessment as to whether the charges out of scheme property are justified in the context of the overall value delivered by the scheme, and set out any remedial action they are taking in the face of poor value.

The FCA wants to provide greater flexibility for authorised fund managers over how they comply with its requirements, while maintaining high standards (including through the consumer duty) and reducing administrative costs.

The FCA proposes to maintain the rule allowing AFMs to publish the information required by COLL 4.5.7R(8), COLL 8.3.5AR(5) and COLL 15.5.3R(5) in a composite report. While the FCA is paring back the requirements on what must be included, AFMs will have discretion to include other AoV-related matters in their annual report, or a composite report, if they wish to.

In line with the FCA's proposed consumer composite investment framework, it thinks it is proportionate to allow AFMs greater flexibility in terms of how to report. Beyond the prescribed disclosure, it will be for AFMs to decide how much information to include, providing scope for AFMs who may wish to include more information about the value the fund offers.

As firms will continue to be required to undertake the full AoV under the rules in COLL, and will continue to be required to produce an annual report, the FCA considers that the cost of a requirement to include a brief disclosure relating to the AoV will be minimal as compared to the cost of no disclosure, and so it is proportionate considering the 35 benefits it achieves.

WHAT ARE NEXT STEPS?

The consultation will close on 14 July 2025.

FCA SETS OUT FINAL RULES ON HOW FUND MANAGERS CAN PAY FOR INVESTMENT RESEARCH

WHAT ARE THE KEY DRIVERS FOR REFORM?

MIFID II introduced requirements to separate charges of trade execution from charges of third-party research, thereby 'unbundling' these two services. UK asset managers were required to either pay for research from their own resources or make payment from separate research payment accounts (**"RPA"**) funded by their clients. [repetitive?] In 2023, the UK Investment Research Review (**"IRR"**) concluded that the MIFID II unbundling requirements adversely affected the provision of investment research in the UK.

In July 2024 following the recommendation of the IRR, the FCA published Policy Statement 'Payment optionality for investment research' (PS24/9) finalising rules for a new option of joint payments for investment research for MIFID investment firms. The joint payment – known as a "soft commission" – allowed for a combined payment for trade execution services and investment research.

The new proposals are as a result of feedback received that the new payment option should be made available for other asset managers who are not MIFID investment firms, e.g., managers of pooled vehicles under UK alternative investment fund managers directive (**"AIFMD"**) and undertakings for collective investment in transferable securities (**"UCITS"**) regime.

WHO IS IMPACTED BY THE THESE REGULATORY REFORMS?

The FCA's new rules will affect:

- UCITS management companies;
- Full-scope UK alternative investment fund managers (AIFMs); and
- Small authorised UK AIFMs and residual collective investment scheme operators.

WHAT ARE THE PROPOSED REGULATORY REQUIREMENTS?

JOINT PAYMENT OPTION

The rules implemented by the FCA will allow fund managers to purchase research with a joint payment option as for MIFID investment firms, subject to complying with a set of enhanced guardrails.

Fund managers will be allowed to put in place aggregate controls across their fund ranges rather than for each individual fund, except for value assessment and disclosure requirements for authorised funds.

To take up the payment option, fund managers will be required to:

- Establish written policies on their approach to joint payments.
- Stipulate the methodology for how the research cost will be calculated and identified separately within total charges for joint payments.
- Establish a research provider payment allocation structure.
- Set budgets for the purchase of research with joint payments.
- Allocate the cost of research fairly to any funds they manage where the budget applies.
- Provide disclosure on joint payments.
- Assess the price and value of research periodically. Value will have to be assessed on a fund-by-fund basis.
- Be responsible for the administration of the accounts for purchasing research with joint payments.
- Fund managers are required to continue complying with existing rules on best execution.

In response to feedback during the consultation, the FCA has amended the rules to allow for the following:

- The guardrail for written policies by allowing firms to establish one set of standard written policies on joint payments across fund ranges so that it can be modified and applied for a particular fund.
- The guardrail for research budgets by allowing more flexibility on setting research budgets at a level of aggregation which is appropriate to firms' processes for managing the investments of the fund or funds. Where firms both manage funds and provide MIFID investment services and the research contributes to the investment decisions that are relevant to both, the intent of the rules is to allow firms to set research budgets and allocate costs at an appropriate level of aggregation across funds and investment services.
- The guardrail for cost allocation reflecting the adjustments the FCA has made to the level at which research budgets can be set. Firms will be required to allocate the cost of research fairly to the relevant fund or funds and other investment mandates, where the research budget applies to more than one fund and MiFID investment services.
- The guardrail for disclosure where research budgets have been exceeded or increased. Fund managers of authorised funds will be required to disclose the proportion of increase instead

of the amount of increase in the funds' annual reports. The guardrail will not require the increased research budgets to be disclosed in the funds' prospectus.

- Fund managers will need to assess the value of research purchased for each fund they manage so that each fund can benefit from research that is relevant to the fund. The FCA has clarified that it does not expect every fund to purchase the same research independently. It acknowledges that research is the collective set of analysis informing fund managers' investment decisions and the consumption of research is not necessarily attributable to each fund.

The guardrails will sit alongside existing fund rules on assessment of value and not allowing undue costs to be charged to a fund. These rules will provide an appropriate degree of protection to investors in the fund.

The rules also require firms to be responsible for the administration of the accounts for purchasing research with joint payments taking into consideration their existing operational arrangements including any commission sharing agreement (**"CSA"**). This does not mean that each fund will be required to have a separate CSA to adopt the joint payment option.

The final rules will require the take-up of the joint payment option to be treated as a significant change for authorised retail funds under COLL chapter of the FCA Handbook. These fund managers will be required to notify unitholders before the changes take effect. Significant changes to an authorised retail fund also require notification to the FCA through the usual process for approving changes.

MINOR NON-MONETARY BENEFIT EXEMPTIONS

- The FCA has included a new exemption on the inclusion of short-term trading commentary without substantive analysis being an acceptable minor non-monetary benefit. This means that UK asset managers will be permitted to receive such commentary, without charge, and will not contravene the MIFID II inducement rules.
- The FCA has deleted the existing exemption on research for smaller companies (a market capitalisation of less than £200 million) being an acceptable minor non-monetary benefit. This is because the new rules on joint payments for investment research will apply irrespective of the size of the company to which the research relates.

CONSUMER DUTY

The FCA has clarified that in determining whether to adopt joint payments proposed in this paper, it expect asset managers to consider both the price and value, and customer understanding outcome under the FCA consumer duty, where it is applicable.

AUTHORISED RETAIL FUNDS

There are additional requirements applicable only to managers of authorised retailed funds which are outside of the scope of this note. Please contact us if you would like to discuss this further.

WHAT ARE NEXT STEPS?

Firms that decide to take up the joint payment option will need to familiarise themselves with the FCA's final rules on joint payments for fund managers in COBS 18 Annex1 and relevant rules in COLL for authorised funds.

The new joint payment rules become effective as of 9 May 2025.

FCA PUBLISHES FINDINGS FROM ITS REVIEW ON BUSINESS MODELS FOR SMALLER ASSET MANAGERS AND ALTERNATIVE FIRMS

On 8 May 2025, the FCA published its findings from a survey of smaller asset managers and alternative firms.

WHO DOES THIS REPORT APPLY TO?

The FCA sent a questionnaire to 410 asset managers and alternative firms of different business models and sizes, across 3 phases in April 2023, November 2023 and September 2024, and reviewed the responses. This group represents 40% of the smaller firm population (that is, funds with under £1 billion of AuM).

The firms under review covered a wide range of diverse business models and regulated activities, such as venture capital financing, real estate funds and investments in small cap stocks.

The FCA has clarified that it will also consider the findings as its reviews the UK AIFM Regulations.

WHAT WERE THE FINDINGS?

The survey focussed on three key areas: high risk investments, conflicts of interest and consumer duty.

High risk investments: High risk investments (**"HRIs"**) are RMMI (restricted mass market investment e.g., non-readily realisable securities) and NMMI (non-mainstream pooled investments e.g., speculative illiquid securities like mini-bonds). The FCA found that some firms were unable to clearly explain the difference between NMMIs and RMMIs or how they should be applying all components of the strengthened consumer journey for HRIs and compliance with financial promotion restrictions. In addition, as well as product categorisation, some firms did not sufficiently understand retail investor categorisations, including high-net-worth, sophisticated or restricted investors. Other examples of poor practice included incomplete investor cost disclosures and unclear risk warnings on websites. However, firms undertaking opt up processes for retail persons who qualified to be treated as professional clients were doing so in accordance with the relevant rules. Finally, some smaller firms offering HRIs to non-advised retail investors lacked sufficiently robust processes for suitability assessments required under the COBS chapter of the FCA Handbook.

Conflict of Interest: The rules for managing conflicts (set out under SYSC 10 of the FCA Handbook) require firms to take all reasonable steps to identify, prevent and manage conflicts that may arise in the course of their business. Smaller firms tend to have more condensed business model arrangements, resulting in senior staff sometimes taking on more than one role. This means that conflicts of interest can often be more pronounced. Some lacked tailored procedures for their business models, investment strategies, underlying product structures, or individual and third-party involvement. Where conflicted positions could not be avoided, the FCA did not always see these being disclosed clearly to investors. However, many other firms had appropriate approaches to governance and oversight by senior management and compliance teams.

Consumer Duty: The FCA consumer duty applies across the distribution chain to firms involved in the manufacture, promotion and distribution of, and advice relating to financial products and services for retail clients. Some firms lacked content detailing what good and bad outcomes looked like for investors, and any actions that may need to be taken as a result. Similarly, some firms could not provide evidence demonstrating effective challenge from governing bodies and senior management on their Consumer Duty board reports. However, the FCA did find good examples of firms using quality management information and metrics to support their report. The FCA clarified that this area remains an area of focus for it. The findings have led to the FCA taking supervisory action, such as agreeing restrictions on firms' regulated activities, fee adjustments or, where severe failings are identified, product withdrawals or initiating an orderly product wind-down.

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