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The UK Proposes Changes to the Regulation of Equity Secondary Markets

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In Policy Statement 23/4 (PS23/4) on "Improving Equity Secondary Markets," the UK's Financial Conduct Authority sets out its final proposed amendments to:

- Post-trade transparency requirements, including a new "designated reporter regime" ("DRR");
- Pre-trade transparency waivers;
- The tick size regime;
- Market resilience measures during trading venue outages; and
- Requirements that speak to the way retail orders are executed.

As part of the Wholesale Markets Review being conducted with the UK's Treasury, these measures are intended to improve execution quality and price formation, lower costs of trading, enhance liquidity and streamline reporting obligations through the changes summarised below. Trading venues, investment firms and Approved Publication Arrangements consolidating reports will need to update their systems, including changes to reporting fields and trade flags that may have a knock-on effect on transaction reporting systems.

Improving the Contents of Post-Trade Transparency

Measures include:

- An exemption for inter-fund transfers has been expanded to recognise as exempt interactions with another investment firm for the sole purpose of facilitating the operational transfer from one fund to another;

- There is now a recognised exemption for transfers between segregated discretionary funds that align with transfers between collective investment undertakings;
- Amendments to the definitions of exempt give-up and give-in transactions to exclude requests for market data;
- Amendments to the exemption from post-trade transparency for inter-affiliate transactions to make sure that the exemption is not restricted to specific risk management practices (centralised booking);
- Removing a duplicative exemption for transactions in the context of margin or collateral requirements for the purposes of clearing; and
- Revisions to certain flags.

Pre-Trade Transparency Waivers

Measures include targeted changes to the reference price waiver and order management facility waiver to allow reference prices to be derived from non-UK trading venues, provided they are reliable, transparent and consistent with best execution.

Tick Size Regime

The FCA is maintaining its position of allowing trading venues to use the minimum tick size of the primary market where the share was first admitted to trading located overseas if it is smaller than the tick size that results from calculations using UK data.

Improving Market-Wide Resilience During Outages

The FCA is working with sub-committees and IOSCO in this area and will propose amendments to the waivers' regime to allow for reference prices from multiple markets. It is also working with the UK's Treasury on developing the consolidated tape to enhance market resilience during outages.

The UK Market for Retail Orders

The FCA will continue to discuss with stakeholders concerns about the disadvantages faced by retail investors, including through failures to provide best execution.

Timing

The new post-trade transparency requirements will be in force as of April 2024, and the changes to waivers from pre-trade transparency and to the tick size regime apply immediately. PS23/4 also notes that rules in this area are currently under review in the EU, so further divergence may follow.
