Title: 'The Public Offers and Admissions to Trading Regulations 2023' Statutory Instrument

IA No:

RPC Reference No: RPC-HMT-5289(1)

Lead department or agency: HM Treasury

Other departments or agencies: FCA

Impact Assessment (IA)

Date: 13/07/2023

Stage: Final

Source of intervention: Domestic

Type of measure: Secondary legislation

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Summary: Intervention and Options

RPC Opinion: GREEN

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
-£0.3 million	-£0.3 million	£0	Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary? (7 lines max)

In November 2020, the government commissioned Lord Hill of Oareford to review the UK's listing regime. Lord Hill looked at the UK Prospectus Regulation, which sets out what a company must publish to raise capital on public markets, and concluded that the EU-inherited regime is overly complex, duplicative, and inflexible; burdensome to businesses; provides poor information to investors; and disincentivises capital raising on public markets. The Financial Services and Markets Act 2023 enables the repeal of retained EU law to deliver a new regulatory framework, meaning the Prospectus Regulation can be repealed and replaced with a new regime. This ensures that the UK remains competitive against other financial centres, attracts more companies to list on public markets, and optimises capital raising processes.

What are the policy objectives of the action or intervention and the intended effects? (7 lines max)

This statutory instrument (SI) sets out a new framework for a simpler, less duplicative, and more agile Public Offers and Admissions to Trading Regime, which will also improve the content of disclosure, make it easier to include useful information in a prospectus, and broaden access to ordinary people wishing to invest on UK markets. This will involve taking much of the regulation out of primary legislation and empowering the FCA to replace it with a new regime in regulator rules. The new regime will require prospectuses in fewer instances; empower the FCA to make it easier to produce a prospectus; improve the content of disclosure, making it easier to include forward-looking statements, such as profit forecasts, in prospectuses; and give private companies the flexibility to raise larger sums more easily.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines max)

The two policy options that have been considered are the 'do nothing' option, assessed as a baseline, and the 'preferred policy' option. There are no non-regulatory options. All developed capital markets regulate the offering of securities to the public and have disclosure documents, such as prospectuses, in order to provide investor protection and ensure that investors have the information they require to inform their decisions. If no action is taken, the UK's Prospectus Regulation will remain in its current form. This would mean no improvements being made to the regime, and firms would continue to operate under the regime inherited from the EU, which is not tailored to UK markets. The problems identified through the Lord Hill UK Listing Review would persist and the regime would continue to be overly complex, duplicative, and inflexible, putting the UK at a disadvantage to international competitors in terms of listings, and incentivising companies to stay private for longer, reducing investment opportunities for ordinary people. Under the preferred policy option, the benefits outlined above would heavily outweigh the costs, particularly in the long term.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 06/2031

Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister, the Economic Secretary to the Treasury, Andrew Griffith MP:  Date: 13.07.2023

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2023	PV Base Year 2023	Time Period Years 10	Net Benefit (Present Value (PV))		
			Low: -£0.4m	High: -£0.3m	Best Estimate: -£0.3m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.3	2023	0	0.3
High	0.4	2023	0	0.4
Best Estimate	0.3	2023	0	0.3

Description and scale of key monetised costs by 'main affected groups' (Maximum of 5 lines)

We expect short-term familiarisation costs to affect firms as they adjust to the new regime, which we estimate to be around £220,000. Crowdfunding platforms that become authorised will include one-off authorisation costs of around £100,000. Transition costs will therefore total around £320,000. There will be other ongoing costs, most of which are not possible to quantify until the FCA sets detailed rules on these firms; for instance, we estimate that crowdfunding platforms will incur compliance costs following new FCA rules of around £1.4 million per annum across all platforms.

Other key non-monetised costs by 'main affected groups' (Maximum of 5 lines)

These reforms will have short-term familiarisation costs and potentially other ongoing costs (though a key objective of the new regime is to make it simpler for stakeholders). We cannot estimate the costs stemming from FCA rules; however, there are broad exemptions from the regime (e.g. for raising solely from professional investors, fewer than 150 non-professional investors, or below £5 million); these costs will therefore only crystalise for non-exempt firms. Issuers of non-transferable debt securities will be affected, but this market has declined significantly in recent years.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	2023	Significant	Significant
High	£0	2023	Significant	Significant
Best Estimate	£0	2023	Significant	Significant

Description and scale of key monetised benefits by 'main affected groups' (Maximum of 5 lines)

We expect significant benefits to businesses, far outweighing the costs set out above, from making it easier to raise capital, but these are difficult to quantify. Removing the requirement for private companies to produce a prospectus above a certain amount will remove a key barrier to companies raising larger sums of capital. The current cost of a prospectus varies widely, but given this is a significant portion of the currently high overall costs of listing or raising capital, even a small reduction would result in significant benefits to issuers and greater opportunities for investors.

Other key non-monetised benefits by 'main affected groups' (Maximum of 5 lines)

Although benefits are difficult to quantify, we expect them to outweigh costs significantly and amount to over £5 million – this is why we have submitted a full Impact Assessment (IA). By simplifying the regulation of prospectuses and disclosure documents, we will remove unnecessary burdens from the current regime, but it will be for the FCA to do a full cost-benefit analysis to evaluate this alongside its proposed new rules. Issuers and investors will benefit from the raised liability threshold for forward-looking statements by encouraging investors to make better investment decisions.

Key assumptions/sensitivities/risks	Discount rate	3.5%

When calculating the costs and benefits of the delegation of rulemaking powers to the FCA, there is a high degree of uncertainty in the figures provided. We are unable to prejudge what rule changes the FCA will make. The cost of raising capital, including the cost of producing a prospectus, is also highly uncertain. While this IA includes indicative estimates of the cost of capital raising and prospectuses, provided by consultancies and industry stakeholders, there is a high degree of uncertainty and variability depending on the circumstances of the issuer.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: 0.03			Score for Business Impact Target (qualifying provisions only) £m: 0.2
Costs: £0	Benefits: N/A (Significant)	Net: N/A (Significant benefit)	

Evidence Base

Contents

Problem under consideration and rationale for intervention

1.1 The UK's Prospectus Regime derives from the EU Prospectus Regulation, now part of retained EU law following the UK's departure from the EU. It regulates two separate but overlapping issues: admissions to trading on regulated markets and public offers of securities.

Retained EU Law (REUL) and the Smarter Regulatory Framework

1.2 When the UK left the EU, the body of EU legislation that applied in the UK at the point of exit was transferred onto the UK statute book. HM Treasury undertook a significant programme of secondary legislation to ensure that the body of retained EU law relating to financial services would operate effectively following the UK's withdrawal from the EU.

1.3 This approach provided stability and continuity in the immediate period after EU exit, but was never intended to provide the optimal, long-term approach for UK regulation of financial services. In particular, it has led to a complicated patchwork of regulatory requirements across domestic primary and secondary legislation, retained EU law and regulator rulebooks.

1.4 The Financial Services and Markets (FSM) Act 2023 repeals REUL related to financial services and enables the government and regulators to replace it in line with the FSMA model. The FSMA model gives significant responsibilities to the UK's independent financial services regulators, who generally set the detailed requirements which apply to firms directly through their rulebooks, operating within a framework established by government and Parliament. Further detail on this approach and its interaction with this IA can be found in Chapter 2.

1.5 To ensure detailed regulatory requirements in EU law can be safely repealed and new rules put in place by the financial services regulators, in addition to repealing REUL, a programme of secondary legislation is needed to give effect to many of the necessary changes. This SI forms part of this programme, collectively known as the 'Smarter Regulatory Framework' (SRF).

The Prospectus Regulation

1.6 Under the Prospectus Regulation, securities (i.e. tradable financial assets such as stocks and bonds) are 'admitted to trading' when, for example, they are listed on a 'regulated market', such as a stock market, and can thereby be bought and sold. The concept of being 'admitted to trading' is therefore used in relation to the rules and processes relating to traditional capital raising on stock exchanges.

1.7 A 'public offer' of securities is a broader term used in EU regulation to refer to any situation in which an organisation offers its securities to 'retail investors' (i.e. the general public). This includes traditional capital raising (through 'admissions to trading', above) as well as the raising of capital from the public off regulated markets, and often on a much smaller scale; for example, activity that occurs in the crowdfunding sector.

1.8 The Prospectus Regulation requires that, unless an exemption applies, a prospectus must be published where there is a public offer of securities or where there is an admission to trading.

1.9 A prospectus is a disclosure document which a company publishes when seeking admission to a regulated market or raising fresh capital through the issuance of new securities. A prospectus contains useful information for the benefit of prospective investors, such as the company's finances, shareholding structure, and the details of the securities being sold, which they can use to make an informed decision on whether to invest.

1.10 In November 2020, the government asked Lord Hill of Oareford CBE to lead an independent review of the UK's listing regime.[1] This review aimed to identify reforms to boost the UK as a destination for initial public offerings (IPOs, when a company offers shares to the public by listing shares on a regulated market for the first time), attract more high-growth companies (such as those in the tech and life sciences sectors) to list in the UK, and make the UK a more attractive place to list more generally. Lord Hill reported in March 2021, recommending, among other things, that HM Treasury should conduct a fundamental review of the UK's Prospectus Regime.

1.11 Lord Hill concluded that the current Prospectus Regime is overly complex and duplicative, making the public capital raising process inefficient and disincentivising the use of public markets. He also observed that making changes to the detailed and prescriptive rules set out in the Prospectus Regulation would require the government to bring forward primary legislation, making it inflexible and unresponsive to changing market conditions.

1.12 The government has considered Lord Hill's conclusions and agreed that there is an opportunity to replace the Prospectus Regulation with a new and significantly improved regime. On 1 July 2021, the government published a consultation on the UK's Prospectus Regime,[2] which addressed Lord Hill's recommendations and proposed repealing and replacing the Prospectus Regulation. The proposals in that consultation were widely welcomed by industry[3] and in March 2022 HM Treasury confirmed its intention to move forward with these proposals largely as consulted,[4] with the aim of making regulation in this area more agile and effective; facilitating wider participation in the ownership of public companies; and delegating a greater degree of responsibility for the regime to the FCA, as the regulator responsible for UK financial markets. These changes aim to address and correct the issues Lord Hill perceived in the current regime and pursue Lord Hill's objectives of attracting the most innovative and successful firms to list on UK stock markets and help companies access the finance they need to grow.

1.13 Once the overarching framework for the new regime has been established by this SI, under the FSMA model referred to above, it will be for the FCA to design detailed rules under its objectives.

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[1] Lord Hill of Oareford, 'UK Listing Review': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966133/UK_Listing_Review_3_March.pdf.

[2] 'UK Prospectus Regime Review: A Consultation': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/999771/Consultation_on_the_UK_prospectus_regime.pdf.

[3] 'Prospectus Regime Review Consultation: Summary of Responses': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1042562/UK_Prospectus_Regime_Review_Consultation_-_Summary_of_Responses.pdf.

[4] 'UK Prospectus Regime Review: Review Outcome': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1058438/UK_Prospectus_Regime_Review_Outcome.pdf.

Public offers by unlisted companies

1.14 Through this consultation and engagement with industry, the government also identified problems with the way the existing regime impacts on how companies offer unlisted securities to the public, i.e. securities offered to the public not through a stock market.

1.15 Under the current regime, a prospectus is required for any offer to the public at or above €8 million; this effectively acts as a cap on offers of unlisted securities, because companies offer under this threshold in order to avoid the significant costs associated with producing a prospectus.

1.16 Data from the FCA which HM Treasury used for its consultation on the proposed reforms (in Figure 1 below) shows that, under the current regime, only one or two companies take on the burden of producing a prospectus for the purpose of a public offer each year. Only five equity offers by three companies occurred in a four-year period, and our analysis of crowdfunding by transaction size showed that deal size is clustered around the threshold limits in the current regime.

Figure 1: 'Public offer only' prospectuses approved in the UK, 2017-2020[5]

	2017		2018		2019		2020	
	No.	Offered (£m)	No	Offered (£m)	No	Offered (£m)	No	Offered (£m)
Equity								
Rights issues by large private companies	0	0	0	0	2	645	2	780
Offers to the wider public	1	10-40	2	163.9	1	7-50	1	7.5-50
Debt								
Debt offerings	0	0	0	0	1	162	0	0

Source: Financial Conduct Authority; HM Treasury analysis

1.17 Figure 2 (see overleaf) shows public offers carried out on crowdfunding platforms between 2016 and 2020 segmented by transaction size, expressed in Euros to show the deal sizes' relationship to the current €8 million threshold. This was based on an HM Treasury survey of UK Crowdfunding Association (UKCFA) members, for which respondents were estimated to have a market share of over 95% of the UK securities-based crowdfunding industry. It shows the amount raised from retail investors via the

[5] Note that where figures are given as ranges this indicates that the exact amount offered is unknown – in these cases, all offers came from the same company where the FCA lacked precise figures.

platform, excluding any amounts from 'qualified' investors (see paragraph 6.42 for explanation of this term).

1.18 The threshold is shown on the chart as a black line: before 2018, the threshold was €5 million and then was raised to €8 million, but the chart clearly demonstrates that in either case it effectively acted as a cap. Given that these deals were converted from sterling to Euros to show the relationship to the threshold more clearly, the small number of deals shown above the threshold are in fact explained by exchange rate movement during the offer period: in reality, all these deals were initially for an amount under the threshold.

Figure 2: Crowdfunding deal activity segmented by size increments, 2016-2020

Period → / ↓ Size segment	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020
€10m+	-	-	-	-	-	-	-	-	-	-
€9.5-10m	-	-	-	-	-	-	-	-	-	-
€9-9.5m	-	-	-	-	-	-	-	-	-	-
€8.5-9m	-	-	-	-	-	-	-	-	-	-
€8-8.5m	-	-	-	-	-	-	-	1/€8.2m	1/€8.3m	1/€8m
€7.5-8m	-	-	-	-	-	-	2/€15.7m	1/€8m	1/€7.8m	1/€7.8m
€7-7.5m	-	-	-	-	-	-	1/€7.3m	-	-	2/€14.2m
€6.5-7m	-	-	-	-	-	2/€13.5m	-	-	-	2/€13.4m
€6-6.5m	-	-	-	-	-	-	-	1/€6.1m	1/€6.4m	-
€5.5-6m	-	-	-	-	-	-	-	1/€5.6m	-	2/€11.4m
€5-5.5m	1/€5.2m	1/€5.2m	-	-	-	-	-	2/€10.4m	-	1/€5.2m
€4.5-5m	-	1/€4.6m	-	5/€24.1m	2/€9.5m	1/€4.7m	-	1/€4.6m	-	-
€4-4.5m	-	-	-	1/€4.2m	1/€4.1m	1/€4.3m	3/€12.8m	2/€8.5m	1/€4.4m	1/€4.1m
€3.5-4m	-	-	1/€3.7m	-	1/€3.9m	1/€3.8m	1/€4m	1/€3.5m	-	-
€3-3.5m	-	1/€3.1m	-	2/€6.3m	2/€6.7m	2/€6.4m	-	-	-	2/€6.9m
€2.5-3m	3/€8.2m	5/€13.9m	2/€5.5m	-	1/€2.8m	1/€2.7m	3/€8m	3/€8.1m	5/€13.4m	2/€5.3m
€2-2.5m	2/€4.8m	-	4/€8.7m	2/€4.3m	2/€4.8m	4/€8.6m	3/€6.7m	1/€2.4m	3/€7.2m	4/€9.3m
€1.5-2m	6/€10.5m	2/€3.3m	7/€11.5m	7/€12.2m	4/€6.7m	4/€6.7m	4/€6.8m	10/€17m	7/€11.9m	7/€12m
€1-1.5m	4/€5m	9/€10.7m	9/€11.4m	14/€17m	11/€13.6m	12/€14.2m	17/€20.9m	8/€10.3m	8/€9.9m	23/€27.5m
€0.5-1m	24/€17.2m	14/€10.5m	14/€10.1m	14/€11m	30/€21.2m	24/€17.1m	28/€18.8m	23/€15.7m	28/€18.8m	28/€19.9m
€0-0.5m	101/€12.1m	117/€15.7m	96/€12.3m	124/€22.1m	115/€19.8m	120/€21.6m	139/€25.2m	164/€27.4m	203/€29.7m	196/€34.7m

Source: HM Treasury survey of UK Crowdfunding Association member firms

1.19 We therefore believe that private fundraisings from the public above the current €8 million threshold are currently extremely rare. Qualitative information shows that this is because

of the additional cost of preparing a prospectus. The existing regime therefore disincentivises private companies from raising capital from the public.

Minibonds

1.20 This SI also implements a recommendation of the Rt. Hon. Dame Elizabeth Gloster, DBE's review into the collapse of London Capital and Finance (LCF), bringing minibonds and other kinds of non-transferable debt securities (NTDS) within the scope of the new Prospectus Regime. These securities have, until now, remained out of scope of regulation because the EU legislation only referred to 'transferable' securities. This resulted in issuers such as LCF running investment schemes which raised millions from offering these unregulated securities to non-professional investors, who then lost money when LCF collapsed.

1.21 As a result of the disruption caused by the collapse of LCF, the government commissioned Dame Elizabeth Gloster to conduct a review into minibonds and other NTDS.[6] One possible solution she suggested was to bring these securities into scope of the Prospectus Regime. The government has chosen to take this approach, incorporating this change alongside other reforms to the Prospectus Regime brought forward by this SI.

[6] The Rt. Hon, Dame Elizabeth Gloster DBE, 'Report of the Independent Investigation into the Financial Conduct Authority's Regulation of London Capital & Finance plc': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945247/Gloster_Report_FINAL.pdf.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

2.1 This SI sets out the legislative framework for the new regime. However, the new regime will not be implemented until the FCA has finalised detailed rules that will make up the majority of the regime.

2.2 The final regime that firms will need to comply with will be comprised of a combination of the requirements in this SI and in detailed FCA rules which are yet to be drafted, meaning it is impossible at this stage to quantify what the total monetary costs of the new regime will be for affected firms. The new FCA rules will be subject to a thorough cost-benefit analysis by the FCA once drafted.[7] This IA therefore focuses on the direct impact of HM Treasury's SI only, with the impact of the FCA's firm-facing rules to be assessed through the FCA's cost-benefit analysis process in due course.

2.3 In particular, the FCA will therefore be responsible for setting:

a. The detailed requirements for admissions to regulated markets;

b. The circumstances in which a prospectus is required on regulated markets and multilateral trading facilities (MTFs – trading systems that provide investors with an alternative to stock markets);

c. The requirements for due diligence and disclosure on a public offer platform (such as a crowdfunding platform).

2.4 As the FCA employs its rulemaking responsibilities, it will have to ensure that rules are in line with its operational objectives to support market integrity, protect consumers, and promote effective competition, as well as adhering to its strategic objective of ensuring that UK markets work well. The FCA will also be required by this SI to have regard to increasing the participation of retail investors in UK markets and will have to demonstrate how it has upheld these in their implementation of the new regime. The FCA intends to engage closely with market participants in developing its approach to rules to ensure they are proportionate and effective, which will include publishing formal policy documents on rule proposals for consultation and cost-benefit analyses in line with its statutory duties.

2.5 However, key objectives of reforming the Prospectus Regime include:

a. Making regulation simpler in this area;

b. Making the regime more agile by moving regulation out of statute and into the FCA's rulebook;

c. Making it easier and quicker to produce a prospectus; and

d. Removing the requirement for a prospectus in certain instances.

2.6 Although it is difficult to quantify the level of change we can expect, we have confidence that all these changes will reduce costs and increase benefits to businesses and investors.

2.7 We expect there to be short-term transitional costs due to the time and effort needed for stakeholders to adjust to the changes made by HM Treasury's SI and the rules made by the FCA, and one-time costs to crowdfunding platforms who choose to apply for the new permission to allow offers over £5 million on their platforms, but there will be significant

[7] See the FCA's publication 'How we analyse the costs and benefits of our policies': https://www.fca.org.uk/publication/corporate/how-analyse-costs-benefits-policies.pdf.

annual net benefits in the form of savings by businesses that will heavily outweigh any costs in the long term. We can estimate the short-term familiarisation costs by applying knowledge of how expensive it is for firms to familiarise themselves with similar new regulation, and one-time permission costs with similar applications to the FCA; however, we cannot quantify the long-term benefits for reasons set out in the paragraphs below. A full assessment of familiarisation costs per affected firm is given in Chapter 7.

2.8 In addition to the current lack of clarity over the final, detailed FCA rules, there are two other key uncertainties in quantifying the costs and benefits of this SI. The SI and FCA rules relating to the Prospectus and Public Offers Regime are intended to make the process of offering securities to the public easier, and so to increase the number and size of public offers in the UK. However, the number of public offers in any given year is driven by wider factors other than the regulatory regime – for example, broader economic trends. Under the current regime the number of IPOs has varied significantly over the past 5 years, from around 120 in 2021 to around 45 in 2022. Because of the multitude of reasons that influence public offers, this IA cannot quantify the change in the number of public offers or admissions to trading that would result from this SI.

2.9 Furthermore, given that the cost of producing a prospectus is currently significant and disincentivises activity requiring a prospectus on our markets, we expect making the regime simpler and reducing the number of instances in which a prospectus is required to have significant benefits to companies. Although there will be familiarisation costs in the short term, making the regime simpler and less burdensome is also likely to make the new regime cheaper to comply with overall in the long term as the result of making new raises, further raises, and compliance easier, though we cannot guarantee that this will be the case for every firm. However, even under the current regime, it is very difficult to quantify the current total cost of producing a prospectus: costs vary considerably depending on the type of issuer and security; survey results for the cost of raising capital vary widely; and it is very difficult to estimate what portion of these costs is from the production of a prospectus itself when no hard data exists. Industry stakeholders have also expressed that these costs are generally unclear.

2.10 The surveys that have been performed provide a demonstration of the extent of uncertainty regarding these costs:

a. The EU conducted a public consultation in 2015 inviting stakeholders to provide estimates of the costs triggered by the Prospectus Directive (the EU regulation in this area).[8] Figures given by respondents to the EU consultation varied widely, ranging from €1,000 to €3 million for minimum costs and €10,000 and €4 million for maximum costs. However, this only tells us the total costs of raising capital this way, and it is difficult to disaggregate the cost of a prospectus from this wider process; furthermore, this range of figures shows how difficult it is to estimate the cost of a prospectus accurately.

b. A survey by the Centre for Strategy and Evaluation Services, which offers research and consultancy services, found that it was impossible to provide clear estimates of the total costs involved in drawing up a prospectus and found a broad contrast in estimated costs depending on the type of prospectus. This survey found that equity prospectuses were by far the most expensive, with an average cost of €912,000, with non-equity prospectuses averaging €63,000, base prospectuses averaging €145,000, and supplements averaging €19,000.

2.11 These uncertainties make it very difficult to assess the extent of the benefits of our reforms, since without knowing the current cost of producing a prospectus it is not

[8] The summary of responses can be found here: https://ec.europa.eu/eusurvey/publication/prospectus-directive-2015?language=en.

possible to assign a monetary benefit to reducing the cost of producing a prospectus; therefore, both the status quo costs and the benefits incurred by our reforms are challenging to quantify.

2.12 We have therefore assessed the relative costs and benefits of reforming the regime as far as possible against a baseline of not making changes to the existing UK Prospectus Regime, with the caveat that it is impossible to quantify these costs and benefits of these reforms before the FCA rules are known.

Description of options considered

Option 1: Do Nothing

3.1 If no action is taken, the regulation of the UK's Prospectus Regime will continue in its current form. This would mean no improvements being made to the regime and firms would continue to operate under the existing regime that has been inherited from the EU and is not tailored to UK markets.

3.2 Lord Hill, in his UK Listing Review, found that his Call for Evidence received much criticism of the Prospectus Regulation and a 'significant and widespread appetite for change'. In particular, many submissions expressed that the existing regime is:

a. Exclusionary to retail investors (i.e. ordinary people who invest due to the current prospectus thresholds);

b. Overburdensome, particularly for already-listed companies and smaller issuers, with specific rules that slow down capital raising;

c. Overly restrictive on liability, making issuers unable to provide forward-looking information; and

d. Unsuitable for debt issuances.

3.3 Additionally, significant concerns were raised by respondents about prospectuses required in circumstances other than at the point of an IPO – this was seen as disproportionate in most cases.

3.4 He also identified numerous problems with the current regime himself, to the extent that he recommended the government carried out 'a complete rethink' of the regime and 'go back to first principles'. In particular, he noted that:

a. The EU Prospectus Regulation brought together two different sets of rules for capital raising, covering traditional capital raising on stock exchanges and capital raised from the public, including crowdfunding and smaller-scale capital raises. This results in duplication.

b. The drive towards disclosure and transparency coupled with the liability profile attached to prospectuses has led to a ballooning in their size and a reduction in their usefulness.

c. As additional requirements were tied to the inclusion of retail investors, the easiest way for companies to raise capital has been to exclude them.

3.5 As explained above, the Prospectus Regulation provides a mechanism under which private companies can raise capital from the public through the offering of securities provided they produce a prospectus or the offer is less than €8 million. While the facility is there for companies to raise capital, few use it except when raising smaller amounts of capital below the threshold at which a prospectus is required. Almost all usage of the facility is for amounts below the threshold at which a prospectus is required. Stakeholders told us this was because of the burdensome cost of producing a prospectus for these issuers.

3.6 If the government were to choose this option and do nothing:

a. No changes would be made to make prospectuses easier to produce, meaning they will continue to be a disproportionate and overly burdensome aspect of the regime;

b. Prospectus requirements would continue to be treated in conjunction, making the regime duplicative;

c. Prospectuses would continue to be required in situations where it is excessive for the type of transaction being undertaken, making raising capital more difficult for businesses; and

d. There will also be no changes to forward-looking information, meaning the information contained in prospectuses will continue to be less useful to investors than it could be and investors will not have any idea of the future prospects of issuers.

3.7 If no action is taken, the problems identified above would persist and the UK's regime would continue to be overly complex, duplicative, and inflexible, which would risk putting us at a disadvantage to international competitors in terms of listings and would incentivise companies to stay private for longer, reducing investment opportunities for non-professional investors.

Option 2: Preferred Option

3.8 Lord Hill recommended a 'fundamental review' of the Prospectus Regime. Our preferred option is therefore to bring forward the changes to the Prospectus Regime outlined in Chapter 1 by repealing the regime inherited from the EU and replacing it with a new regime.

3.9 This SI represents the first step towards addressing the problems outlined by Lord Hill and his Call for Evidence. It represents a fundamental overhaul of the way in which the UK regulates capital raising and provides the FCA with powers to enact a fundamental review of the rules governing when a prospectus is required and what it must contain. Once the FCA has introduced new detailed rules, this will enable the introduction of a new regime which is simpler and less burdensome on issuers and removes the disincentives to capital raising and the inclusion of retail investors that exist in the current regime.

3.10 Many instances in which a prospectus is currently required and limits access to capital raising will no longer require a prospectus and will be better tailored to the circumstances of the transaction in question.

3.11 A number of elements currently in legislation will be put under the remit of the FCA's rulemaking powers. This will improve the flexibility of the regime, allowing it to adapt to changes in the market.

3.12 Currently unregulated non-transferable securities, such as minibonds, will be brought within the scope of the new regime where appropriate. This will help to enhance investor protection.

3.13 The SI will facilitate the provision of more forward-looking statements, such as profit forecasts, in prospectuses by amending the liability regime. This will provide more useful information to investors.

3.14 The requirement in the current regime that companies making public offers exceeding €8 million must issue a prospectus will be removed, and replaced with a new £5 million threshold above which admission to a public offer platform will be required.

3.15 Once the SI is laid, the full suite of reforms to the UK's Public Offers Regime will take effect after the FCA has finalised new rules under its expanded responsibilities. FCA

consultation will be accompanied by a cost-benefit analysis under the applicable procedure.

3.16 Any change to the Prospectus Regulation requires primary legislation. All the changes outlined above therefore require legislation and, as such, alternatives to legislation would not bring about the desired changes.

Policy objective

4.1 Through this SI and the associated FCA rules, the government seeks to achieve the following four overarching objectives.

Objective 1: To facilitate wider participation in the ownership of public companies and remove the disincentives that currently exist in the Prospectus Regulation for those companies to issue securities to wider groups of investors (e.g. retail investors).

4.2 In order to issue their securities, companies are required to produce prospectuses in particular circumstances. In the current Prospectus Regulation, issuers are required to produce a prospectus in the following two scenarios:

a. When seeking admission to trading on a 'regulated market' (e.g. a stock exchange); or

b. When offering securities to the public (i.e. to a large number of retail investors).

4.3 In the current regime, this disincentivises offers of securities to the wider public and drives companies towards private placements (i.e. issued solely to professional or 'institutional' investors) because they wish to avoid the costs and burdens of producing a prospectus. Our new regime aims to facilitate wider participation in the ownership of public companies and remove existing disincentives for companies to issue securities to wider groups of investors by decoupling when a prospectus is required for admission to trading on a stock market from offers made to the public.

4.4 The separation of these two scenarios will be achieved by this SI, which will also set out a new regime for offers to the public, but it will be for the FCA to specify when a prospectus is required on a regulated market, deliver detailed rules affecting market participation, and ensuring a more user-friendly regime.

Objective 2: To improve the efficiency of public capital raising by simplifying regulation and removing the duplication that currently exists in the Prospectus Regulation.

4.5 As explained above, the current Prospectus Regulation brings together two different regulatory concerns: the regulation of admissions to trading on regulated markets (i.e. companies admitting their securities to stock markets), and the regulation of public offers of securities (i.e. offers of securities to retail investors). Our new regime, via this SI, will decouple when a prospectus is required for admission to trading and the process for making a public offer of securities so that these are treated separately: this will increase efficiency in the capital raising process and remove an existing disincentive from raising capital from retail investors.

Objective 3: To improve the quality of information investors receive under the Prospectus Regime.

4.6 Lord Hill argued that the current liability regime for prospectuses deters issuers from including forward-looking information (such as profit forecasts) in their prospectuses

because of the disproportionate risk of legal challenge if they fail to meet their projections. This means that, in practice, many issuers leave forward-looking information out of their prospectuses, even though it is a key category of information for prospective investors. This SI will amend the liability threshold to facilitate the provision of forward-looking information by issuers, thus enabling issuers to provide better-quality information to investors.

4.7 The SI also aims to ensure disclosure to investors can be made more appropriate and streamlined by empowering the regulators to set detailed rules in this area.

Objective 4: To make the regulation in this area more agile and dynamic, capable of being quickly adapted and updated as times change.

4.8 The government is concerned about embedding the level of detail that is in the current Prospectus Regulation into legislation. FCA rulemaking power over this regime will be restored. Once the regime is no longer hardwired into primary legislation, the FCA will be able to respond quickly to changing markets and alter their rules accordingly without the need for legislation. Firms will benefit from this as it will ensure that rules remain up-to-date. This SI will also ensure that the FCA has the appropriate powers to oversee and enforce the new regime.

Summary and preferred option with description of implementation plan

Changes to the current Prospectus Regulation

5.1 As mentioned above, the current Prospectus Regulation requires that, unless an exemption applies, a prospectus must be published in two instances:

a. Where a person or company makes an offer to the public of transferable securities ('public offers of securities'); or

b. Where a company applies for its securities to be admitted to trading on a regulated market ('admissions to trading').

5.2 These instances will henceforth be treated separately and treated on their merits, creating a simpler regime.

5.3 The new regime entails a general prohibition on 'public offers of securities', with a number of exceptions from this prohibition. These exceptions will effectively set the perimeter of the regime in future.

5.4 The new regime will continue to allow companies to offer securities to the public without having them admitted to a securities market. Many of the exceptions that exist in the current Prospectus Regulation (for example, for offers to qualified investors and where the offer is to fewer than 150 people) remain part of the regime, while others are amended or deleted as they are no longer necessary.

5.5 The principal new exceptions apply to offers where the securities are admitted to trading on UK platforms or offered by means of regulated platforms. In particular, this SI sets out the following exceptions, which in effect mean that offers are permitted if made through a regulated market, MTF or public offer platform:

a. Admissions to trading on regulated markets, such as the Main Market of the London Stock Exchange (LSE) or the Aquis Stock Exchange;

b. Admissions to trading on MTFs operating primary markets (also known as 'junior markets'), such as AIM and the Aquis Growth Market.

c. Offers made via public offer platforms, a new form of regulated platform.

5.6 However, the detailed rules of each regime will be set by the FCA, so it is extremely difficult to quantify the overall effects of these reforms at this stage, and the FCA will conduct its own cost-benefit analysis when finalising their rules. However, this assessment attempts to quantify costs where possible.

Statutory concept of a prospectus

5.7 The Prospectus Regulation contains extensive detail on when prospectuses are needed, what they should contain, how they should be validated and rules around accompanying process. Most of this detail will be repealed and delegated to the rulebook of the regulator and/or market operator (see 'Responsibilities for the FCA' below).

5.8 However, this instrument retains the concept of a prospectus in legislation (although no specific piece of legislation will deal solely with prospectuses any more). It sets out a high-level standard for what a prospectus should contain and retains a statutory

compensation mechanism where there is misleading or incorrect information in a prospectus.

5.9 In line with one of Lord Hill's recommendations, this instrument will amend the liability regime currently contained in the Prospectus Regulation, with the objective of facilitating more 'forward-looking statements' by issuers in prospectuses. This refers to statements that predict the future financial performance of a company, such as projections of future profitability, as particularly useful information for investors to have at their disposal when making investment decisions.

5.10 Lord Hill argued that the liability provisions in the existing Prospectus Regulation deter companies from including such information in the prospectuses they publish. This instrument removes this deterrent by establishing a different liability threshold (based on fraud and recklessness) for certain categories of forward-looking statements in prospectuses, to be specified by the FCA.

5.11 Aside from this change, the regime otherwise retains the existing negligence-based threshold for liability for false, misleading, or omitted information. Currently, investors who can show they have sustained losses as a result of false or misleading information in, or the omission of information from, a prospectus will be able to seek compensation through the courts. This will remain the case under our reformed regime, but with a raised threshold for liability that applies to forward-looking statements in prospectuses.

Responsibilities of the FCA

5.12 Part of the effect of this instrument is to delegate a greater degree of responsibility to the FCA to put in place a regime that is designed and calibrated for UK markets and reflects the difference between public offers and admissions to trading. As such, the full suite of reforms will take effect after the FCA has consulted on and implemented rules under its expanded responsibilities. This is consistent with the FSMA model of regulation, under which the financial services regulators generally make detailed regulatory requirements under a framework set by government and Parliament.

5.13 The FCA's specific powers will include:

a. **Rules relating to admissions to trading on regulated markets:** the FCA will be able to make rules on admissions of securities to trading on regulated markets, including rules about the core features of the new Prospectus Regime. These rules will include when a prospectus is needed, what it should contain, the process for validating a prospectus, the approval of a prospectus where applicable, and the procedure for any such approval. The FCA will also be able to make rules regarding advertisements in relation to admissions of securities to trading on regulated markets and certain other matters that currently sit in the Prospectus Regulation.

b. **Rules relating to admissions to trading on MTFs operating primary markets:** a different regulatory model applies to MTFs compared to regulated markets as MTFs are operated by investment firms or market operators who largely make their own rules, with some oversight from the FCA. This SI will give the FCA rulemaking powers over 'primary MTFs' (i.e. MTFs which operate as primary markets and allow companies to issue new capital, rather than only trading existing instruments). These powers will allow the FCA to require the issuance of an 'MTF admission prospectus' by those admitted to trading on primary MTFs that are open to retail investors. These MTF admission prospectuses will be defined in

the instrument and will carry certain protections for both investors and issuers that are equivalent to those that attach to a prospectus. The MTF operator, however, will set out detailed prospectus rules, including content requirements (while adhering to the necessary information test) and the process for validating and publishing the document, subject to FCA oversight.

5.14 The FCA will also be able to make rules relating to offers via public offer platforms.

Offers of unlisted securities

5.15 The government is reforming the requirements for offers of securities made to the public without admission to a securities market, making it easier for companies to raise large amounts of capital whilst maintaining investor protection. The government will not retain the requirement in the Prospectus Regulation which requires that companies offering securities to the public of a value over €8 million must publish a prospectus.

5.16 As an alternative, as referenced above, the government is creating a new form of regulated platform through which offers can be made to the public – a 'public offer platform'. Companies will be required to use a public offer platform where the offer is not otherwise exempted from the prohibition on public offers, and where the total value of the offer exceeds £5 million. This will remove a key barrier while ensuring appropriate disclosure and maintaining important investor protections.

5.17 Public offer platforms will ensure a basic standard of due diligence and disclosure to investors and will be supervised by the FCA.

5.18 Industry stakeholders have said that, with this more proportionate regime, they will be able to facilitate larger deals. Removing the prospectus requirement for offers above €8 million for the biggest issuers and replacing it with a lighter disclosure requirement for deals over £5 million will make it easier for larger companies on these platforms to raise money.

Minibonds

5.19 The existing obligations under the EU Prospectus Regulation apply to offers of 'transferable' securities. This will continue to be the case under the new regime. However, in order to deliver on an outcome from Dame Elizabeth Gloster's report into the FCA's regulation of LCF, certain previously unregulated non-transferable securities, such as minibonds, will also be included within the scope of the new Public Offers Regime in order to ensure better investor protection. In practice, this approach means that offers of such securities will need to be made through a public offer platform (such as a crowdfunding platform), unless another exemption applies.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

6.1 The following summarises the expected costs and benefits of the proposed approach to affected stakeholders, which are explained in more detail in the following chapter. The analysis throughout compares the costs and benefits of our preferred option of reform (i.e. Option 2, 'Preferred option' in Chapter 3) to the status quo (i.e. Option 1, 'Do nothing'). All rounded-up costs in this chapter are to two significant figures to reflect the uncertainty of these estimations.

6.2 We have given an overview below of costs and benefits to each stakeholder, followed by, where quantifiable, monetised costs and benefits. **It should be noted that, although we cannot quantify the benefits, we would expect them to be significant, to outweigh any costs, and to amount to well over £5 million per annum – this is why we have submitted a full IA**. The replacement of the Prospectus Regulation will benefit firms in several ways. In particular, firms will benefit by replacing detailed EU provisions which were designed to apply across the EU with rules set by the UK's expert and independent regulators tailored to the UK. Beyond this, replacing retained EU law will enable firms to benefit from a streamlined and accessible legislative framework for financial services, where rules adapt over time as in response to changing practices in an agile manner.

6.3 As explained in Chapter 2, **all of these costs and benefits are highly uncertain.** We cannot be certain of, for instance, how many issuers will join trading venues in the future, the cost of a prospectus, or how many issuers will take advantage of the new threshold on further issuances. These figures are only rough estimates and are intended to give an idea of costs that might be accrued once the new regime is in place. Note in particular that familiarisation costs throughout only reflect the costs of legal and/or compliance professionals reading and understanding the SI itself, and do not account for the costs of training sessions, dissemination of information among employees, or of reading and understanding the FCA's new rules, all of which are difficult to quantify before the FCA has published its rules.

Part 1: Trading venue stakeholders (affected by reforms to the Admissions to Trading Regime)

Trading venues

6.4 This SI gives the FCA additional rulemaking powers over both regulated markets and MTFs, as trading venues that facilitate public offers. There are 6 currently recognised investment exchanges (or RIEs) in the UK that are recognised by the FCA.[9] RIEs are stock exchanges recognised by the FCA under Part XVIII of FSMA.[10] Our reforms will principally impact the following three:

a. The LSE's Main Market and Alternative Investment Market (AIM, which is an MTF);

b. The UK's Aquis Stock Exchange, which also operates an MTF; and

[9] See the complete list on gov.uk: https://www.gov.uk/hmrc-internal-manuals/stamp-taxes-shares-manual/stsm123030.

[10] FSMA, 'Part XVIII: Recognised Investment Exchanges, Clearing Houses and CSDs': https://www.legislation.gov.uk/ukpga/2000/8/part/XVIII.

c. The International Property Securities Exchange (IPSX) UK's IPSX Prime, a regulated market which provides a public stock market for real estate.

6.5 We expect our reforms to affect trading venues which focus on primary trading of securities and on which retail investors participate. We would expect that the remaining RIEs (the Intercontinental Exchange (ICE) Futures Europe, the London Metal Exchange, and Cboe Europe Limited) will generally not be affected because the activities they primarily conduct are not in scope of our reforms. Similarly, although there are 24 MTFs approved by the FCA, only two offer primary trading with retail participation. For instance, IPSX also operates an MTF, IPSX Wholesale, but is not in scope because this is a market exclusively for institutional investors.

6.6 However, any new trading venues which enter these markets in the future will also be impacted by our reforms.

6.7 Affected trading venues will experience short-term familiarisation costs due to changes to the current regime. It is also possible that they will experience other short-term costs, particularly if the new FCA rules accompanying the regime require these venues to rewrite their rules; however, it is not possible to quantify these costs (or know if they will come about at all) until the FCA have written their rules after the laying of this SI and undertaken their own cost-benefit analysis.

One-off costs

6.8 We expect trading venues to face short-term familiarisation costs of roughly **£3,100** across the three affected firms (see paragraphs 7.11-7.12 for the relevant calculations).

6.9 This does not include costs associated with any potential rewriting of their rules.

Ongoing costs

6.10 Under these reforms, a different regulatory model will apply to MTFs, with greater FCA oversight, although this will still be limited compared to stock market regulation. There is therefore a possibility of costs to MTFs as a result of increased regulation, but given that they are already supervised this would not represent a substantive increase in regulation to the extent that, for instance, they would have to hire more compliance professionals.

One-off benefits

6.11 We do not expect any one-off benefits to trading venues.

Ongoing benefits

6.12 Should these reforms achieve the objectives detailed above, trading venues will benefit from greater numbers of issuances and greater liquidity on markets, and as a result, improved market functioning.

6.13 MTFs will also benefit from their admission documents being treated as prospectuses, because this means they will be included in improvements being made to prospectus regulations such as changing the liability regime for forward-looking information and the potential effects of increased confidence of retail investors in issuers on MTFs. This will be covered in more detail by the FCA when it finalises its rules and conducts its own cost-benefit analysis.

Existing issuers on trading venues

6.14 Our reforms will naturally also affect issuers on these platforms because they, like the trading venues themselves, will have to abide by the new regime.

6.15 According to EY and UK Finance's Capital Markets Insights Report, as of May 2023, 2,109 companies were listed on the UK's primary markets. This includes 2,017 listed companies on the LSE and 92 listed companies on Aquis (taking regulated markets and MTFs together).[11] However, according to the LSE's own statistics,[12] as of June 2023, there were 1,879 on its market, comprised of:

a. 1,087 companies listed on the LSE's Main Market.

i. 907 were UK companies; 180 were international but listed in London.

b. 792 companies listed on AIM.

i. 681 were UK companies; 111 were international.

6.16 Aquis states that its stock exchange "is home to more than 100 companies," but do not publish detailed reports. It is unknown how many companies are listed on IPSX.

6.17 We therefore estimate there are at least **2,100** affected issuers on these trading venues (cf. paragraph 7.13). There are approximately **2,400** further issuances in the average year on the LSE Main Market, raising an average of **£22 million** per firm (see paragraphs 7.13-7.17 and the accompanying tables),[13] suggesting that the majority of existing issuers will likely seek to conduct a further issuance using the new regime at some point.

6.18 However, is not possible to predict how many further issuances there will be in the future, because the primary driving factor when it comes to new and further issuances is market performance, not the regulatory regime. Our reforms to improve accessibility to retail investors, described below, will also enable companies to access a broader investor base, as well as improve market functioning overall by increasing liquidity. The aim, therefore, is that the number of further issuances will increase, but this is largely subject to unpredictable wider economic factors.

6.19 In addition, we expect the FCA's rules made under these reforms to make further issuances easier to pursue, resulting in higher numbers. For example, Freshfields lawyer Mark Austin's independent Secondary Capital Raising Review (SCRR), which looked at making raisings by companies already listed on the stock market more efficient and effective, recommended that the threshold at which a prospectus is required for further issuances be raised significantly, from 20% of issued share capital to 75%.[14]

6.20 Under the current regime, according to FCA internal data (see paragraph 7.18 and the accompanying table), the average number of prospectuses produced for further issuances over the last five years, 2018-2022, is **211**. This gives us an indication of the number of further issuances currently occurring above the 20% threshold. While this is not directly comparable with the LSE Main Market data because it encompasses all further issuances, not just those on the LSE, we may nevertheless very roughly estimate, based on these figures, that around **8%** of current further issuances are above this threshold.

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[11] EY and UK Finance, 'UK Capital Markets Insights Report', p. 13: https://www.ukfinance.org.uk/system/files/2023-05/UK%20Capital%20Markets%20Building%20on%20Strong%20Foundations.pdf.

[12] LSE publication, 'The Main Market Factsheet' June 2023: https://www.londonstockexchange.com/reports?tab=main-market.

[13] See the 'Main Market Factsheets' 2018-2022 here: https://www.londonstockexchange.com/reports?tab=main-market. The factsheets specific to new issuers show the number of new issuers, but do not always provide the amount raised.

[14] See Mark Austin's 'Secondary Capital Raising Review', pp. 6, 87ff.: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1091566/SCRR_Report__July_2022_final_.pdf.

6.21 If the FCA were to raise this threshold, it would remove the expensive requirement to produce a prospectus for many issuances. Decisions over whether and how these requirements will be reformed will be for the FCA to take though its rulemaking processes.

6.22 In addition to the uncertainty over how many further issuances there will be, there is also uncertainty as to the number of firms conducting a further issuance for the first time, as opposed to conducting further issuances having already done so under the current regime. Firms undergoing further issuances for the first time would have to incur familiarisation costs under both the current regime and the new regime, so no additional costs arise from this regulatory reform. It is only where firms have previously conducted further issuances and so are familiar with the current regime that additional familiarisation costs would arise.

One-off costs

6.23 As set out above, a proportion of issuers seeking to raise further capital through trading venues will incur additional familiarisation costs as a result of these reforms, as they will need to familiar themselves with the new regime, having previously familiarised themselves with the current regime.

Ongoing costs

6.24 Firms only need to comply with the Prospectus Regime at the point at which they are raising further capital. Therefore, this IA assumes that no ongoing costs to issuers will arise from these reforms. This SI does not change the ongoing regulatory requirements which existing issuers on trading venues are subject to; these will be assessed by the FCA when it finalises its rules in this area and undertakes its own cost-benefit analysis.

One-off benefits

6.25 We do not expect any one-off benefits to existing issuers on trading venues.

Ongoing benefits

6.26 All issuers raising further capital will benefit from the reforms made by this SI and the accompanying FCA rules, which will make further issuances easier to pursue (including changes to when a prospectus is required), enable companies to access a broader investor base, save issuers time when preparing an offer, enable issuers to time a placing with greater accuracy, and improve market functioning overall. While we cannot quantify these benefits at present, we expect that the benefits will outweigh the one-off additional familiarisation costs, both of which will be assessed in full by the FCA's cost-benefit analysis.

New issuers on trading venues

6.27 One objective of these reforms is to make listing on a public market more attractive to companies. This means more companies will list publicly and will benefit from the new regime in the future. These reforms will therefore also benefit companies which are currently private but are considering going public, or which have started the process of doing so.

6.28 According to a 2019 PwC and Economist Intelligence Unit study, 36% of executives cited the costs of going and being public as a cause of the decline in the popularity of equity

markets.[15] A major element of the costs in going public is producing a prospectus. These high costs unintentionally incentivise companies to remain private, which reduces investment opportunities for the public.

6.29 Our reforms will make it easier to go public, including by enabling the FCA to streamline disclosure requirements and reduce the cost of prospectuses, but it is difficult to quantify this until the FCA have decided on detailed rules for the new regime. Once listed, they will also benefit from the advantages to the new regime outlined in the 'existing issuers' section above.

6.30 According to a 2020 study by the economics and finance consultancy Oxera, most estimates of the overall costs of an initial public offering suggest that the initial costs can be up to around 5-15% of gross proceeds.[16] The EU in 2022 found that issuers which tried to quantify their IPO costs indicated a range of around 3-10% of the total issuing amount.[17] This was shown to be, as a percentage of total costs, inversely proportional to the magnitude of the amount raised by the IPO itself,[18] suggesting that the current costs are a particular challenge for smaller companies wishing to raise capital this way.

6.31 New issuers will have to familiarise themselves with our SI. However, this is not an additional cost in this case given that new issuers under the status quo have to familiarise themselves with the current Prospectus Regulation, so there is no new cost for new issuers that would not otherwise be the case, in contrast to existing issuers who will have already incurred costs to familiarise themselves with the existing Regulation but will now have to incur additional costs due to the change in regulation. We have therefore not accounted for familiarisation costs as an additional cost of the new regime since there is essentially no difference from the status of new issuers compared to the status quo.

6.32 Under the current regime, there have been an average of **65** new issuers on the LSE per annum over the last five years, 2018-2022 (see paragraph 7.21 and the accompanying table).[19] This figure may increase as a result of this reform, but we cannot predict how many new issuers there will be in the future, since, as for further issuances for existing issuers, listing decisions are based on a large number of factors and regulatory requirements are typically only a minor aspect, particularly given that the decision to list publicly is a significant one for any company.

6.33 Even under the current regime, which has remained in place with few significant changes for many years, the number of new issuances varies widely from year to year, with the performance of the market as the primary influencing factor. For instance, in 2021, around 120 companies chose to list in the UK, higher than in the two previous years combined, but in 2022, there were only around 45 new listings, a roughly 63% decline

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[15] PwC and Economist Intelligence Unit, 'Capital Markets in 2030: The future of equity capital markets', p.18: https://impact.economist.com/perspectives/sites/default/files/33234_capital_market_2030_v06_ir_08-03-19_1.pdf.

[16] Oxera, 'Primary and secondary equity markets in the EU', p.66: https://www.oxera.com/wp-content/uploads/2020/11/Oxera-study-Primary-and-Secondary-Markets-in-the-EU-Final-Report-EN-1.pdf.

[17] 'Impact Assessment Report' p.116f.: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13238-Listing-Act-making-public-capital-markets-more-attractive-for-EU-companies-and-facilitating-access-to-capital-for-SMEs_en.

[18] 'Impact Assessment Report', Figure 8, p.118f.: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13238-Listing-Act-making-public-capital-markets-more-attractive-for-EU-companies-and-facilitating-access-to-capital-for-SMEs_en.

[19] See also the 'Main Market Factsheets' 2018-2022 here: https://www.londonstockexchange.com/reports?tab=main-market. The factsheets specific to new issuers show the number of new issuers, but do not always provide the amount raised.

from the previous year.[20] It is therefore extremely difficult to predict the number of issuances in any future year.

6.34 Furthermore, factors such as the effect of the global pandemic on listed markets and the temporary closing of markets in the UK and the EU resulted in a peak for secondary issuances during the pandemic, followed by a subsequent 'catch-up' period for IPOs afterwards. This means the data from recent years is not an ideal proxy for future years.

6.35 However, given that the average number raised by new listings on the LSE per annum under the last five years is £79,336,819 in total (see paragraph 7.21 and the accompanying table), we may roughly estimate that the average amount raised from a new issuance per firm is £1,220,526 or around **£1,200,000**.

6.36 For new issuers on stock exchanges it will be easier to list due to the reduced costs of producing a prospectus.

One-off costs

6.37 As set out above, this IA assumes no additional familiarisation costs for new issuers, who would otherwise have had to familiarise themselves with the current regime. Should the number of new issuances increase, this would result in a greater number of firms overall facing familiarisation costs than under the current regime. However, given, as shown above, the average amount raised by a firm through a new issuance is well over £1 million, any familiarisation costs would be very small compared to the benefits to a company from such a raise.

6.38 All new issuers will benefit from the reforms made by this SI and the accompanying FCA rules, which will make new issuances easier to pursue, enable companies to access a broader investor base, and improve market functioning overall. These benefits will roll out gradually over time as greater FCA flexibility to set rules should produce additional benefits to those of any initial regulation as requirements are continually better tailored.

Ongoing costs

6.39 As with existing issuers, firms only need to comply with the Prospectus Regime at the point at which they are raising capital; therefore, this IA assumes that no ongoing costs to issuers will arise from these reforms.

One-off benefits

6.40 We do not expect any one-off benefits to new issuers on trading venues.

Ongoing benefits

6.41 As stated above, we expect significant benefits to new issuers, including an easier-to-navigate regime, increased numbers of new issuances, and an easier-to-navigate IPO process, but these cannot be quantified until the FCA sets out the complete changes to the rulebook and conducts its own cost-benefit analysis. Furthermore, in some instances this cannot be quantified because of the multifaceted reasons why a firm would look to raise capital.

[20] EY, 'Challenging 2022 for London stock markets as proceeds fall by 90%': https://www.ey.com/en_uk/news/2023/01/challenging-2022-for-london-stock-markets-as-proceeds-fall-by-90#:~:text=of%20the%20year-,The%20London%20stock%20markets%20witnessed%20a%20significant%20decline%20in%20IPO,latest%20market%20tracker%2C%20IPO%20Eye

Qualified investors on trading venues

6.42 Our reforms will also affect 'qualified' investors, a term defined in existing legislation[21] that primarily applies to institutional investors (i.e. organisations whose primary purpose is to invest their own assets or those entrusted to them by others) and some high-net-worth individuals. These investors will not be directly affected by the new regime: no prospectus is required for offers addressed solely to them because of an exemption that applies here, although one would still be required in offers to them which involved admission to trading without another exemption. It will be for venues and issuers to ensure adherence to the reformed regime. However, if our reforms result in a greater number of new and further issuances as described above, this would present a greater number of investment opportunities to both qualified and retail investors. These investors may also benefit from earlier investment in growth companies, which may now be more likely to list in the UK.

6.43 Broadly speaking, there are six types of qualified investors: endowment funds, commercial banks, mutual funds, pension funds, hedge funds, and insurance companies.

6.44 We would estimate the number of affected firms as follows:

a. According to the Investment Association, there are around 4,000 funds in the UK.[22]

b. According to the Association of British Insurers, there are 934 authorised general insurance companies in the UK and 435 authorised life insurance companies.[23]

c. We would therefore approximate a minimum of 5,369 affected firms in the UK. We cannot account for overseas investors who may also participate in UK trading venues, but the number of UK firms provides a minimum estimate.

6.45 We would therefore roughly estimate there are at least **5,400** affected firms.

One-off costs

6.46 There may be some minor familiarisation costs to these firms if they choose to read and understand this SI. However, we cannot quantify these costs because it is unclear how many of them will decide to familiarise themselves with this SI – regulatory requirements are largely the burden of issuers, rather than investors, and once qualified investors observe that offers solely to them, or offers to them and fewer than 150 retail investors, are still exempt, they are likely to be reassured of their position, so we cannot assume they will familiarise themselves with the SI in any greater detail. There may therefore be some costs of this kind to qualified investors, but these are likely to be minimal.

Ongoing costs

6.47 We do not expect any ongoing costs to qualified investors. The definition of qualified investor is derived from other regulation and is not being changed as part of these reforms, so the status of individual investors will not change.

One-off benefits

6.48 We do not expect any one-off benefits to qualified investors.

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[21] See the FCA's definition here: https://www.handbook.fca.org.uk/handbook/glossary/G1817.html?date=2020-12-31.

[22] The Investment Association, 'Fund Sectors': https://www.theia.org/industry-data/fund-sectors.

[23] Association of British Insurers, 'UK Insurance & Long-Term Savings: Key Facts', p.5: https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2016/keyfacts/keyfacts2016.pdf.

Ongoing benefits

6.49 As above, we would expect qualified investors to benefit from increased investment opportunities, partly as the result of an increased number of new and further issuances and partly from earlier investment in growth companies which may be more likely to list in the UK, but this is not possible to quantify until the new regime is in place.

Retail investors on trading venues

6.50 Our reforms will also benefit retail investors, i.e. people who invest on financial markets in an individual rather than professional capacity. As with qualified investors, we would expect them to benefit from increased investment opportunities; furthermore, as discussed above, many of the reforms recommended by Lord Hill are pursuant to increasing the participation of retail investors specifically (for instance, by lowering or removing many of the thresholds that currently incentivise issuers to exclude them).

6.51 It is impossible to estimate the number of investors, as such statistics are not recorded for institutional investors and technically anyone in the UK over the age of 18 is able to participate in retail investing. We would estimate that there are around **17 million** retail investors in the UK (see paragraph 7.23),[24] with the caveat that the majority will likely not be trading actively from day to day as professional investors do. Nevertheless, all approximately 52 million adults in the UK will have the opportunity to benefit from these reforms, and given the increased opportunities to them, there may be an increase in the number of retail investors.

One-off costs

6.52 We do not expect any one-off costs to retail investors.

Ongoing costs

6.53 There is a small chance of investor protection risks from these proposals. Using the powers delegated to them, the FCA may decide to remove the requirement for a prospectus in certain cases and/or reduce the information issuers need to disclose. However, the FCA has an objective to protect consumers and will take this into account in any decisions it makes. We therefore expect costs from this to be minimal, if any, and consider it highly likely that any costs of this kind are offset by benefits to investor protection from other changes undertaken in our reforms.

One-off benefits

6.54 We do not expect any one-off benefits to retail investors.

Ongoing benefits

6.55 We also propose changes that would remove the disincentives that currently exist for the issuance of securities to wider groups of investors. This will facilitate wider participation in the ownership of public companies. This is likely to allow a broader cross-section of society to benefit from public companies' growth.

[24] This is calculated from the 'population of shareholders' statistics given here:

https://www.finder.com/uk/investment-statistics#:~:text=61%25%20of%20women-,How%20many%20people%20own%20stocks%20and%20shares%3F,Brits%20said%20they%20owned%20shares; and the following ONS data on population ages: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2021.

6.56 In connection with this, many of the SCRR's recommendations to the FCA have the potential to benefit retail participation: for instance, if the FCA raise the threshold for a prospectus for a further issuance, meaning prospectuses are required in fewer cases, this could lead to more offers being made to retail investors once this burden is removed.

6.57 We therefore expect the regime to benefit retail investors significantly, but it is not possible to quantify the benefits to the average retail investor as this will depend upon the investment decisions made by each individual. We are able to make a qualitative assessment of benefit from increased access to investment opportunities, as well as better protection for these types of investors.

Advisory firms

6.58 Advisory firms provide strategic and financial advice to clients and produce revenues by providing advice related to financial decisions made by businesses. These businesses are affected by our reforms because they typically play a significant role in the IPO process, further issuances, and other financial and business decisions. These include:

a. Investment banks (e.g. Goldman Sachs, JP Morgan, Citigroup);

b. Corporate and financial law firms (e.g. Linklaters, Freshfields, Allen & Overy); and

c. Accountancy firms (e.g. PwC, Deloitte, EY).

6.59 The number of these firms that will be affected is highly uncertain; we cannot assume that all firms in the above categories will be involved in IPOs and further issuances, and it is difficult to determine how many would be involved in such decisions. We have attempted a rough estimate as follows:

a. **Investment banks:**

i. The largest investment banks are informally referred to as 'bulge bracket' banks, but there is no definitive list of which banks qualify, nor is there an agreed definition of this term. In 2020, a list published by the finance website Wall Street Oasis gave 9 banks;[25] in 2022, Investopedia in 2022 published a similar list, but included 11.[26] We would therefore estimate around 10 'bulge bracket' banks.

ii. The biggest investment banks dominate the market, but there are also smaller investment banks advising listing decisions in some cases, particularly for smaller companies. At the time of writing, the LSE's broker directory lists a total of 55 LSE member firm brokers.[27] This is by no means an exhaustive list, but can be used to provide a rough estimate of the number of brokers in this space.

iii. We would therefore estimate around **65** investment banks (10 'bulge bracket' and 55 mid-level), affected by our reforms.

[25] Wall Street Oasis, 'Bulge Bracket Investment Banks': https://www.wallstreetoasis.com/company/bulge-bracket-investment-banks.

[26] Investopedia, 'What is Bulge Bracket?': https://www.investopedia.com/terms/b/bulgebracket.asp.

[27] See LSE's Broker Directory: https://www.londonstockexchange.com/personal-investing/member-firm-broker-directory.

b. **Corporate and financial law firms:**

i. According to Pirical, a service which collects data on the legal sector, there are 10,402 law firms in the UK.[28]

ii. However, 2,284 are sole practitioners; it would be very rare for sole practitioners to advise on major financial decisions such as new or further issuances, so we may rule these out.

iii. 8,051 of these firms are smaller law firms with 2 to 250 employees in total. Corporate and financial law tends to be dominated by larger firms – for instance, 'Magic Circle' and 'Silver Circle' law firms specialise in corporate law, and provide the expertise for most new and further issuances, but we cannot rule out the involvement of these smaller law firms, although this is impossible to quantify.

iv. 62 firms have 250 to 1,000 employees. We would expect most, if not all of these to be involved in corporate and financial law, since larger firms tend to work in this area.

v. Five firms have more than 1,000 employees. We would expect all of these to be involved in corporate and financial legal decisions.

vi. Therefore, we would estimate 67 affected firms at minimum.

vii. According to Nasdaq, there were 115 IPOs in the US Q2 2021, requiring 96 law firms;[29] this is a similar number to the number the UK saw across the whole of 2021, which, as stated above, was an unusually high year for IPOs. This number is also not implausibly far above our minimum of 67.

viii. We would therefore roughly estimate that there are around **96** law firms affected by our reforms.

c. **Accountancy firms:**

i. The primary accountancy firms affected by our reforms are the 'Big Four' – PwC, Deloitte, EY, and KPMG. However, 'challenger' firms, which compete with the Big Four for clients, will also be affected: as of July 2021, the five largest firms outside the Big Four (based on the number of listed audit clients) were BDO, Grant Thornton, PKF Littlejohn, RSM, and Crowe.[30]

ii. EU audit regulation has certain provisions that only apply to public interest entities (PIEs), which includes listed companies but also entities such as authorised credit institution, insurance undertakings, and other entities a member state may choose to designate as a PIE.[31] This can give us a

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[28] Pirical, 'Here's the UK Legal Market in Numbers': https://www.pirical.com/blog/heres-the-uk-legal-market-in-numbers-infographic.

[29] NASDAQ, 'The 2Q21 IPO Market's Law Firm Leaderboard': https://www.nasdaq.com/articles/the-2q21-ipo-markets-law-firm-leaderboard-2021-07-14.

[30] Financial Reporting Council, 'Key Facts and Trends in the Accountancy Profession', p.1, footnote 3: https://www.frc.org.uk/getattachment/e976ff38-3597-4779-b192-1be7da79d175/FRC-Key-Facts-Trends-2021.pdf.

[31] 'Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC Text with EEA relevance': https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2014.158.01.0077.01.ENG.

rough idea of the number of listed firms regulated by accountancy firms. According to the Institute of Chartered Accountants in England and Wales (ICAEW), there were '40 or so' firms currently auditing PIEs in November 2022.[32] This is only a rough estimate, since this is auditing rather than assistance with issuances and PIEs includes more than listed firms, but gives us a high estimate of how many accountancy firms have listed firms as clients.

iii. We would therefore roughly estimate that there are around **40** affected accountancy firms, the 'Big Four' and around 36 being 'challengers' or mid-level firms.

6.60 This brings our estimated total to 201. This provides a rough estimate that there are about **200** interested firms in this space, but this number is highly uncertain and very difficult to determine with any level of confidence.

6.61 Like other firms affected by these reforms, these firms will have to familiarise themselves with this SI. We expect that all firms who advise on IPOs, further issuances, and other such decisions will have to be familiar with this SI. An estimate has been given for these costs below; however, these firms will also have to familiarise themselves with the FCA's new rules, the costs of which we cannot quantify at this stage. Furthermore, it is likely that advisory firms would aim to pass part of these costs onto clients during the early years of our reform, which could offset the costs for these firms, but we cannot estimate the extent of this reduction.

6.62 As explained above, the intention of our reforms is to increase the number of new listings, but there are a number of factors that influence listing decisions. An IPO is typically underwritten by one or more investment banks, who also arrange for the shares to be listed on a stock exchange, and also requires the involvement of expertise from law and accountancy firms. If there were an increase in listings, we would expect advisory firms to benefit from increased demand for their services, but this is highly uncertain due to the influence of factors such as market performance being the primary determinant of the number of listings which take place each year.

6.63 However, accountancy and auditing fees are a significant expense to businesses under the current Prospectus Regime (see paragraph 7.28). Making it easier to produce a prospectus will benefit businesses, but may reduce the fees to these advisory firms as a consequence.

One-off costs

6.64 Our internal estimate is that there are around 200 interested firms (see paragraphs 6.58-6.60). Assuming all these firms read the SI, we would estimate **£210,000** in familiarisation costs (see paragraphs 7.29-7.30).

Ongoing costs

6.65 We do not expect any ongoing costs to advisory firms.

One-off benefits

6.66 Advisors may welcome legislative changes which could increase demand for their services due to the unfamiliarity of the new regime, which they will need to interpret for

[32] ICAEW, 'PIE audits: new registration requirements': https://www.icaew.com/regulation/regulatory-news/pie-audits-new-registration-requirements#:~:text=This%20allows%20the%2040%20or,disruption%20to%20their%20existing%20work

clients. This may make them more valuable to clients in the short term, increasing demand, but it is not possible to quantify this.

Ongoing benefits

6.67 As set out above, we expect these firms to benefit from an increased number of IPOs to work on. There may be changes to the scope of requirements for a prospectus for secondary issuances and to the offer document required, which may lead to savings. However, this is not possible to predict due to the influence of broader market trends.

Part 2: Crowdfunding stakeholders (affected by reforms to the Public Offers Regime)

Costs and benefits to crowdfunding platforms

6.68 According to the FCA, it regulates a total of 3,300 MiFID investment firms, and crowdfunding platforms only make up **28** of these 3,300. We expect that these firms will therefore benefit from a more streamlined regime tailored to them by the FCA.

6.69 If more companies begin to make offers on crowdfunding platforms, these platforms will see a benefit in the form of increased fees. It is difficult to generalise fees across platforms, but we can consider the following examples:

a. **Crowdcube:** funding on Crowdcube is available as equity investment or convertible loans. It is free for entrepreneurs to register and add a business pitch but once they have raised their target amount, Crowdcube deducts a fee of 7%.[33] There is a 2.49% investment fee, followed by a success fee of 5% if an investor makes a profit.[34]

b. **Seedrs:** investors pay a 1% investment fee and a success fee of 6% for all funds raised, alongside a £2,500 campaign competition fee (excluding VAT and payment processing fees).[35]

6.70 Whether crowdfunding platforms will need to apply for the new bespoke permission will depend on the current size of offers on their platform, and whether they wish to facilitate larger offers in the future given the costs associated with the new permission:

a. For platforms hosting offers solely below £5 million: this is below the new threshold and these platforms will not be affected. They can continue to operate their MiFID investment firm authorisation provided they continue to do business only below the £5 million threshold.

b. For platforms hosting some offers above £5 million: these platforms will have to make a decision either to operate below the £5 million threshold under their MiFID investment firm authorisation, or to apply for the additional permission if they wish to continue operating above the £5 million threshold.

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[33] Crowdcube, 'What fees does Crowdcube charge for raising finance on the platform?': https://help.crowdcube.com/hc/en-us/articles/206232464-What-fees-does-Crowdcube-charge-for-raising-finance-on-the-platform.

[34] Crowdcube, 'What are the fees for investing on Crowdcube?': https://help.crowdcube.com/hc/en-us/articles/360001527460-What-are-the-fees-for-investing-on-Crowdcube.

[35] Seedrs, 'Our fees': https://help-entrepreneur.seedrs.com/en/articles/1794518-our-fees.

c. Platforms which apply for the new permission will incur both one-off costs resulting from this SI and ongoing costs resulting from the FCA's rules, described below.

One-off costs

6.71 These platforms will have to familiarise themselves with this SI. We expect these platforms to incur one-time familiarisation costs of **£14,000** across 14 firms (see paragraphs 7.31-7.32).

6.72 Because of the creation of the public offer platform, and the requirement for crowdfunders who issue on this platform to become authorised by the FCA, these platforms will incur an initial cost if they apply for the new permission to allow raises over £5 million.

6.73 We estimate that, assuming half of crowdfunding platforms apply for the new permission, total costs would amount to roughly £104,125, or around **£100,000**, across all platforms which apply (see paragraphs 7.33-7.38). However, platforms will expect these costs to be offset in the longer term by increased fees and other benefits (see below).

6.74 Platforms which apply for the new permission may also incur transitional costs such as updating websites, training sales staff to give the correct information, and any possible systems changes. The exact nature of these costs will depend on precise details of the new regulatory requirements to which the firms will be subject, which will be determined by FCA rules.

Ongoing costs

6.75 Firms which apply for and receive authorisation for the new permission will incur ongoing costs of compliance with the new rules, but this will depend upon what new rules are deemed appropriate by the FCA. We would very roughly estimate annual costs of approximately £1,400,000 per annum across all firms (see paragraphs 7.39-7.40), but this is for the FCA to assess as part of its cost-benefit analysis for its new rules.

One-off benefits

6.76 We do not expect any one-off benefits to crowdfunding platforms.

Ongoing benefits

6.77 We expect that, under the new regime, the removal of the cap and the less burdensome requirements put in its place will result in an increased number of higher raises. This would represent a benefit to those firms which apply for the new permission as these higher raises would result in higher fees. It is not possible to quantify this benefit to crowdfunding platforms because their fees are dependent upon how many funding rounds meet their target and how much profit is made, but we would expect this to offset the costs of applying for the new permission significantly.

Costs and benefits to unlisted issuers on crowdfunding platforms

6.78 Existing issuers on crowdfunding platforms will be largely unaffected by these reforms, since (as shown in Figure 2 on page 7) these issuers are almost all below the threshold at which a prospectus is currently required, but will benefit from the new regime if they wish to conduct further raises on crowdfunding platforms. We can roughly estimate the number of unlisted issuers who currently have deals on crowdfunding platforms, and so

who could benefit from changes to the regime, from existing crowdfunding data. According to the data platform Beauhurst:[36]

a. The following numbers of equity funding rounds were announced via crowdfunding platforms each year, indicating a steady increase in activity over time:

Year	No. funding rounds
2018	369
2019	438
2020	484
2021	573
Total	**1,864**

b. At the time of the survey, there were 1,125 London-based businesses receiving investment from crowdfunders, representing 54% of all crowdfunded companies in the UK, meaning the total number of UK-crowdfunded companies would be 2,083.

c. In total, 2,107 UK companies secured equity crowdfunding between 2011 and 2021, across 3,300 funding rounds.

d. We can therefore estimate that there are roughly **2,100** issuers currently with deals on crowdfunding platforms.

6.79 Beauhurst data also shows that, in 2021, the median round size for crowdfunding deals was only £487,000, suggesting that the average round size is only around 6% of the current €8 million cap and less than 10% of the new £5 million threshold. We can therefore expect that the vast majority of issuers on crowdfunding platforms will not be affected by the removal of the €8 million cap nor the introduction of the new threshold.

6.80 Given that existing issuers on these platforms have already met the disclosure requirements of the current regime, they will only benefit if they wish to raise capital again through a crowdfunding platform in future. Those who do so will benefit from the FCA's new, more streamlined regime for crowdfunding platforms, under which the capital raising process is expected to be quicker and easier.

6.81 With regards to the impact on these issuers, the largest issuers who wish to raise more capital in the future will benefit from the facilitation of larger investment opportunities once the €8 million cap is removed and a prospectus is no longer required at this level, but the majority, who raise well under this threshold, will not be affected by its removal (see Figure 1 on page 6), and will therefore face no costs nor benefits.

One-off costs

6.82 This SI does not place any direct requirements on issuers aside from the need to go through a public offer platform for raises above £5 million. Therefore, we expect that most, if not all, issuers will take direction from the crowdfunding platform they use rather than reading the SI themselves. We therefore do not anticipate familiarisation costs for these firms.

Ongoing costs

[36] See statistics published on Beauhurst's website: https://www.beauhurst.com/blog/uk-equity-crowdfunding/.

6.83 Under the current regime, firms can raise over €8 million provided they produce a prospectus without going through a crowdfunding platform (although this is rare in practice – see Figure 2 on page 7). Although the burden of the prospectus requirement is being removed, the option to raise such amounts without admission to a crowdfunding platform will also be removed. The biggest issuers, who now have no choice but to offer securities at this level via a crowdfunding platform, will incur some costs. However, this will be offset by the benefit of no longer having to produce a prospectus (see below).

6.84 Firms that would previously have raised less than the €8 million prospectus requirement level, but above the new £5 million level, on crowdfunding platforms be faced with a smaller choice of platforms if not all crowdfunding platforms apply for the permission to host offers on or above the £5 million threshold.

One-off benefits

6.85 We do not expect any one-off benefits to unlisted issuers on crowdfunding platforms.

Ongoing benefits

6.86 Firms which wish to raise over €8 million will face a reduction in costs from the removal of a requirement to produce a prospectus. However, the number of firms who will raise above this level now the prospectus threshold is being removed is unknown, so we cannot quantify this benefit. We expect this benefit to offset any costs associated with the requirement under the new regime that raises of this size be offered publicly via a crowdfunding platform.

6.87 As above, the largest issuers will benefit once the new regime makes it easier to raise larger amounts of capital on crowdfunding platforms, which will no longer have the burden of producing a prospectus attached. However, it is difficult to quantify how many issuers will choose to do raise above the new threshold as there are so few issuers raising over the current cap, and it is difficult to predict accurately how issuer behaviour will change.

6.88 As above, these benefits are only applicable to those out of the 2,100 issuers who wish to conduct further raises; we cannot quantify this number as it is unknown how many issuers will wish to conduct further raises under the new regime.

NTDS issuers

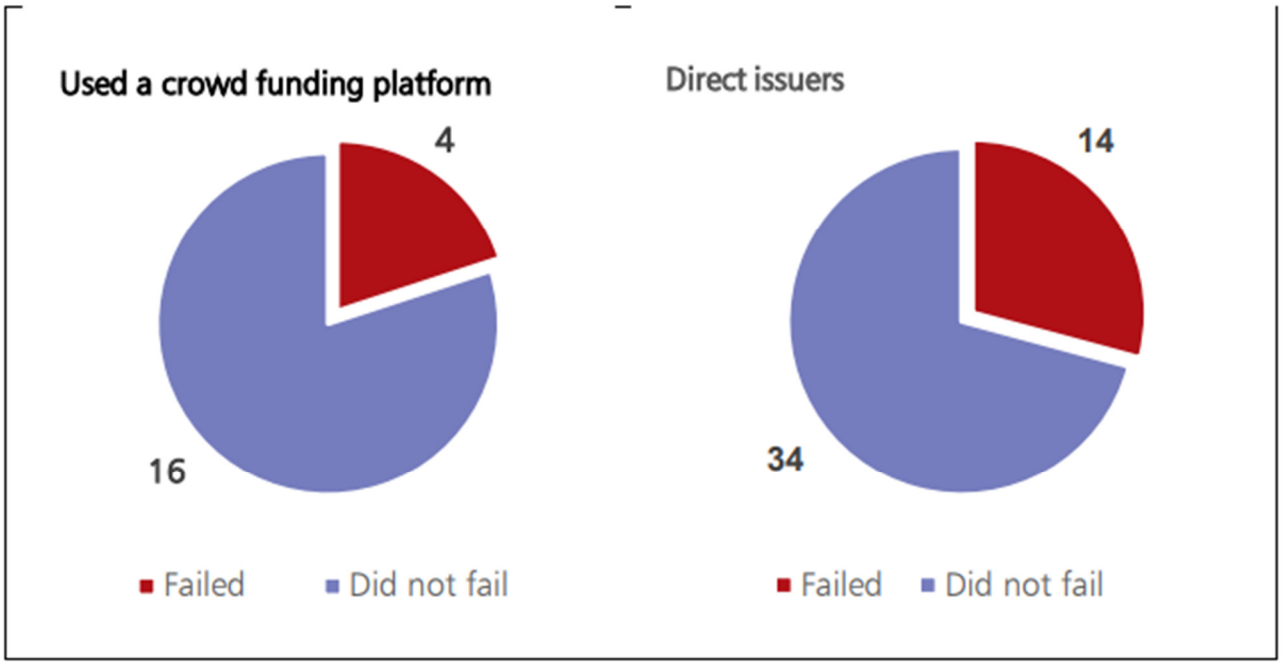
6.89 Our reforms will bring NTDS, such as minibonds, within the scope of the new Public Offers Regime, regulating certain types of securities which are currently unregulated. These will now be subject to the same regulations as other issuers, i.e. requiring admission to a crowdfunding platform for offers above £5 million. This means they may incur some costs due to the transition from being unregulated to being subject to some regulation. Bringing these securities into the scope of regulation was one of the recommendations of the Dame Elizabeth Gloster's review, conducted in response to the collapse of LCF, and the government considers increased regulation in this area to be appropriate in order to avoid future incidents of this kind.

6.90 Government-commissioned research by London Economics published in connection with the future regulation of NTDS, provides information on the role of crowdfunding platforms and direct offers in this market.[37] Based on this survey of 68 issuers of 152 minibonds, the failure rate was higher in the latter: 20% of minibonds using a crowdfunding platform

[37] 'Non-transferable debt securities: A Consultation': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/999743/Non-transferable_debt_securities_consultation_update__2_.pdf.

failed, versus 29% for direct offers (see Figure 3 below). This is attributable to the third-party checks on offerors provided by crowdfunding platforms.

Figure 3: Minibond failure rate: comparison modes of intermediation



Source: London Economics; HM Treasury analysis

6.91 The market for NTDS, particularly minibonds, has declined significantly in recent years following the introduction of the FCA ban on the mass-marketing of speculative minibonds to retail investors in January 2020. This has combined with investor wariness following the high-profile failures of minibond issuers, particularly the administration of LCF and Blackmore Bond, which caused an association between these kinds of unregulated securities and disreputable issuers.

6.92 Given the current lack of activity in this area, combined with our assessment that the majority of minibond issuances are under the new threshold, we expect this change to have a relatively minor impact in terms of the costs to business.

6.93 Bringing these securities into scope will provide further protection for investors in avoiding future episodes akin to LCF.

One-off costs

6.94 There may be some familiarisation costs to NTDS issuers who choose to read and understand the SI, but it is not possible to quantify this given there is no data on the number of NTDS issuers and they are likely to read only the portion of the SI relevant to them.

Ongoing costs

6.95 As above, although this market has declined, there may be some small costs to NTDS issuers by bringing these currently-unregulated securities into scope. The FCA will leave a period between the publication of their final rules and full implementation of the new regime to allow issuers time to adjust.

One-off benefits

6.96 We do not expect any one-off benefits to NTDS issuers.

Ongoing benefits

6.97 Reputable NTDS issuers may benefit from the increased regulation if it improves the reputation of the NTDS market among investors, but it is uncertain whether bringing these securities into regulation will be enough to overcome the negative associations the market has now acquired.

Investors on crowdfunding platforms

6.98 Investors using these platforms will also benefit from new FCA rules which will protect them from specific risks. An increased number of higher funding rounds would also allow them to benefit from an increased number of investment opportunities. Aside from this benefit, there are no specific direct impacts on investors on crowdfunding platforms.

One-off costs

6.99 We do not expect any one-off costs to these investors.

Ongoing costs

6.100 We do not expect any ongoing costs to these investors.

One-off benefits

6.101 We do not expect any one-off benefits to these investors.

Ongoing benefits

6.102 These investors may indirectly benefit from an increased number of higher funding rounds and therefore investment opportunities, but there are no direct benefits to them.

Part 3: Exemptions from the regime

6.103 As well as reforming the regimes outlining above, our SI contains a number of exemptions from the regime. These generally carry over the exemptions from article 1(4) of the existing Prospectus Regulation, but some have been expanded or amended to ensure the new exemptions are clear and do not cause disruption. For instance:

a. Offers made only to qualified investors will be exempt, as under the current regime.

b. Offers made to fewer than 150 persons (excluding qualified investors) will be exempt, as under the current regime.

c. Exemptions for offers of shares to existing shareholders to be substituted for shares in the same class, where there is no increase in share capital, and offers of dividends paid out in the form of shares, have been carried over from the existing regime and adapted to the new regime on public offers. There will also be a new form of own-shareholder exemption that applies where the offer is not made in conjunction with an admission of securities to trading, meaning that rights issues

will be able to be made by companies without securities that are traded on a market.

6.104 Some examples are given below of how many times, according to FCA data, some relevant exemptions have been used for IPOs and public offers under the current regime since the introduction of the Prospectus Regulation in 2018. All exemptions combined have been used for IPOs and public offers **6,071** times in total. A few examples of exemptions under the current regime are given below.

Exemption	Article in Prospectus Regulation	No. uses since 2018	Status in new regime
Offers solely to qualified investors	1(4)(a)	465	Retained
Offers to fewer than 150 people	1(4)(b)	626	Retained
Offer of securities denominated in amounts over €100,000	1(4)(c)	14	Threshold lowered to £50,000 to minimise disruption to UK institutional investor access to international wholesale bond markets
Further issuances under 20% of issued share capital	1(5)(a)	1,151	FCA to consider SCRR recommendation to raise threshold to 75%

6.105 However, there is no reliable data for exemptions that do not involve the public, such as for offers to a company's own shareholders (which will be retained).

6.106 Through these reforms, the government has sought largely to maintain exemptions to the current regime, in their current scope, in order to minimise disruption, except where there has been an active decision to change approach. The most significant new exemption is for public offers made on crowdfunding platforms, but there are other new exemptions, such as securities offered from the conversion or exchange of other securities under the banking special resolution regime (which is intended to avoid unnecessary or unintended regulatory hurdles in a situation where a bank is in a resolution scenario).

6.107 In drafting this SI, HM Treasury has engaged with industry to ensure the current exemptions are maintained and existing market activity is not disrupted.

6.108 We are therefore confident that, aside from the costs and benefits described above for changes such as the crowdfunding reforms and the inclusion of NTDS issuers, impact of the SI on firms taking advantage of the exemptions in the new regime will be minimal.

Part 4: Summary of all costs and benefits

One-off costs

Type of cost	Type of firm	Cost per firm	No. firms	Total costs
Familiarisation	Trading venues	£1,028.50	3	£3,085.50
Familiarisation	Advisory firms	£1,028.50	200	£205,700
Familiarisation	Crowdfunding platforms	£1,028.50	14	£14,399
FCA permission application costs	Crowdfunding platforms	£7,437.50	14	£104,125
Total one-off costs:				**£327,309.50**

Ongoing costs

6.109 For the reasons outlined above, the overall ongoing costs are very difficult to quantify.

6.110 For instance, given ongoing costs to crowdfunding platforms would be approximately £100,000 per firm, we would estimate ongoing costs to be approximately £1,400,000 across an estimated 14 firms, but this is only an estimate based on previous cost-benefit analyses of a similar type by the FCA.

6.111 However, this cost is only applicable if the FCA makes rules to accompany the new permission which are sufficiently complex and stringent as to require this level of compliance costs. If the FCA simply chooses to codify best practice and make requirements on crowdfunding platforms which align with their existing requirements under the MiFID investment firm authorisation, it is possible that these costs would be significantly lower. In any case, it is not possible to quantify this with confidence until the FCA has finalised its rules after this SI is laid.

One-off benefits

6.112 We are unable to quantify the majority of benefits of the new regime as we await the detailed rules which the FCA will set out.

6.113 We expect a more simplified set of rules for firms required to produce a prospectus, meaning the number of instances in which a prospectus is required will be reduced; however, the actual monetised value of this benefit is difficult to estimate at this stage. We would expect this to present a one-off benefit for firms that only perform a single equity round, but it would constitute an ongoing benefit for firms performing multiple equity rounds.

6.114 Advisors may welcome legislative changes which may increase demand for their services due to the unfamiliarity of the new regime, which they will need to interpret for clients. This may make their services more valuable to clients in the short term, increasing demand, but it is not possible to quantify this.

Ongoing benefits

6.115 For the reasons outlined above, ongoing benefits are not possible to quantify at this stage.

6.116 To summarise, these reforms are intended to produce the following key benefits:

a. Simplifying regulation;

b. Making it easier to produce a prospectus (in the case that this results from FCA changes to contents and format requirements), and therefore making offers to the public easier;

c. Removing the requirement for a prospectus in certain instances;

d. Tailoring the requirement for a prospectus proportionately to the circumstances where it is required; and

e. Increasing the number and size of public offers.

6.117 We also expect that the benefits to issuers and investors under our reforms will significantly outweigh any costs in the long term.

6.118 However, the extent of all the above benefits is extremely difficult to quantify, for the following non-exhaustive reasons:

a. We cannot quantify the benefits of simplifying regulation or know in how many instances the requirement to produce a prospectus will be removed without knowing the final, detailed rules for this regime, which will be determined by the FCA in due course;

b. The current cost of producing a prospectus is highly uncertain (since costs vary considerably depending on type of issuer and security, survey results on the costs of raising capital vary widely, and it is very difficult to estimate what portion of these costs is from the production of a prospectus), as is whether, and to what extent, costs will decrease under the new regime; and

c. The number and size of public offers in any given year is primarily driven by market trends – although the government expects that these reforms will have some effect, the regulatory regime is a minor factor, and even if these reforms achieve the desired result, it is expected that they will not make a significant difference to the number of IPOs compared to the impact of broader economic factors which are impossible to predict.

6.119 Furthermore, the benefits of our reforms are broader than any direct cost reductions in the process of producing a prospectus that may result. For example, firms may benefit not because the prospectus is necessarily cheaper to produce at IPO, but because of the changes made to when a prospectus is required for any secondary issuances, time saved in preparing for an offer, and/or the ability to time a placing with greater accuracy.

6.120 We have therefore explained throughout this IA where we expect to see benefits and why, and assessed them against the status quo as much as possible, but have not been able to quantify them because of the number of uncertainties outlined above.

Direct costs and benefits to business calculations

Part 1: Short-term familiarisation costs per firm

7.1 All the relevant firms and businesses identified above currently active in the activities that are affected by the new regime will need to read and understand the changes we have put forward. These familiarisation costs will apply to existing firms wishing to undergo further issuances on a trading venue; any new firms joining a trading venue; and new firms using a crowdfunding platform. As above, this does not apply to new issuers, who would have to familiarise themselves with either the current regime, if the status quo were sustained, or the new regime, meaning that there is no increased cost to new issuers either way.

7.2 In order to comply with the new regime, affected firms are likely to reach out to lawyers or consultants, or refer to in-house lawyers or compliance professionals, to understand the legislation. Larger firms tend to have in-house counsel, and so will have to pay their employees for time; smaller firms generally are more likely to commission external law or consultancy firms.

7.3 Our SI has 45 pages and around 18,700 words. At the time of writing, it has yet to undergo final legal checks – it is therefore difficult to know the precise length before a final version has been locked down, but we do not expect significant changes from the current length. At the lower end of an average reading speed of 100 words per minute (the lower range chosen given the complexity of the material), it would take approximately 3 hours to read the SI in its entirety.

7.4 Once lawyers and consultants have reviewed the changes, firms will then need to communicate them to relevant employees across the organisation and consider if any changes to their systems are needed. Most firms, regardless of size, have a compliance unit or officer who will coordinate this centrally.

7.5 It is likely that some firms will organise training sessions for employees or disseminate information about the changes internally to ensure that employees understand them. Where this is the case, the familiarisation costs are likely to be higher than firms that disseminate information about the changes in writing. It is not possible to quantify these because they are dependent on how individual firms operate.

7.6 There are likely to be further costs to some stakeholders – for instance, the costs of reading and understanding the FCA's rules, and costs to trading venues if they have to rewrite their own rules. These costs will depend upon decisions made by the FCA when designing its new rules. Only familiarisation costs from reading and understanding this SI are possible to estimate at this stage; the FCA's rules are likely to be significantly longer and therefore take longer to read and understand, but these are for the FCA to calculate. As part of developing its rules and guidance, the FCA will complete a full cost-benefit analysis as per its normal processes which will clarify the expected impact. It is difficult to estimate the costs and benefits of the new regime at this stage in the absence of a cost-benefit analysis of any proposals by the FCA.

7.7 The figures used to calculate familiarisation costs are therefore only indicative. They are based on the assumption that all affected firms will read the whole SI, although not all of the drafting will be relevant to all firms. They also do not account for the familiarisation to costs that unregulated firms may face.

7.8 HM Treasury has estimated the familiarisation costs for changes to each part of the regime by multiplying the number of businesses affected by the cost per firm. According

to HM Courts & Tribunals Service, the solicitors' guideline hourly rates for the City and Central London for 'solicitors and legal executives with over 8 years' experience' is £373, and the guideline hourly rate for 'solicitors and legal executives with over 4 years' experience' in the City and Central London is £289.[38] The average of these two figures is £331; we can therefore estimate a typical hourly rate of around **£330**. The cost per firm has therefore been calculated by multiplying the time spent on familiarisation by an assumed hourly rate of £330. This is in line with other IAs that relate to legislative changes to similar areas of financial services regulation[39] and is based on an assumption that affected firms will procure the expertise and advice of an external legal firm to read the legislation and advise on the impact.

7.9 The time spent on familiarisation is calculated by dividing the approximate number of words in the instrument by 100 and then dividing by 60 to convert into hours. As explained above, not all firms will be affected by all the changes in this SI, but given it is not possible to break down how many firms will read the whole of the SI or only part, the total number of words in the instrument has been used each time where we expect firms to read it.

a. 18,700 / 100 = 187.

b. (187/60) x £330 = £1,028.50.

c. This means it will cost the average firm around **£1,000** to familiarise themselves with the SI.

7.10 Approximate familiarisation costs have been calculated accordingly for each type of firm below, based on the number of firms likely to need to familiarise themselves with the new regime. As in Chapter 6, all rounded-up costs in this chapter are to two significant figures to reflect the uncertainty of these estimations.

Part 2: Costs and benefits to trading venue stakeholders

Trading venues

7.11 As above, we have identified the 3 trading venues which will be affected by our reforms. As the reforms incentivise new listings, they will benefit from the increased number of issuers described below.

a. £1,028.50 x 3 = £3,085.50.

7.12 Assuming similar familiarisation costs to the firms, it will cost around **£1,000** per venue for the cost of reading and understanding this SI, or **£3,100** across all three firms.

Existing issuers on trading venues

7.13 The LSE publishes some indicative data on numbers of further issuances. Aquis does not publish data on further issuances, but the LSE's Main Market and AIM represent the vast majority of existing listings: for instance, EY and UK Finance's Capital Markets Insights

[38] HM Courts & Tribunals Service, 'Solicitors' guideline hourly rates': https://www.gov.uk/guidance/solicitors-guideline-hourly-rates; see Grade A and B, London 2: City and Central London.

[39] See an example on the gov.uk website: https://assets.publishing.service.gov.uk/media/61364c7bd3bf7f05b7bcb562/DMA_PN_-_markets_in_financial_instruments.pdf

Report shows 2,017 companies listed on the LSE's Main Market and AIM together and 92 on Aquis, giving a total of 2,109 listings in total across the LSE and Aquis. This would mean LSE listings represent around 96% of listings, and therefore provide an appropriate number to approximate total further issuances, though this should be treated as a lower bound since it cannot account for further issuances on Aquis.

7.14 According to LSE data on further issuances,[40] the total number of further issues 2018-2022 on the Main Market and AIM combined was as follows:

Year	No. further issuances
2018	2,347
2019	2,197
2020	2,642
2021	2,885
2022	2,139
Total	**12,210**
Average (per annum)	**2,442**

7.15 We can therefore estimate that there are roughly **2,400** further issuances per annum.

7.16 Also according to LSE data,[41] the total number of further issues 2018-2022 on the Main Market was as follows:

Year	No. further issuances	Total amount raised
2018	763	£14,320,670,000
2019	667	£12,908,520,000
2020	759	£29,083,240,000
2021	867	£19,102,240,000
2022	687	£6,888,960,000
Total	**3,743**	**£82,303,630,000**
Average (per annum)	**748.6**	**£16,460,726,000**
Average (per firm):		**£21,988,680.20**

7.17 Therefore, we can roughly estimate that the average number of further issuances is around **750** and the average rate is around **£22 million**; however, this is an upper bound given that companies and raises tend to be larger on the Main Market than on AIM and Aquis. This only applies to the Main Market, but gives a sense of the typical size of further issuances. Furthermore, FCA analysis suggests that smaller issuances became

[40] See the 'Further Issuances Factsheets': https://www.londonstockexchange.com/reports?tab=further-issues. However, note that these do not always provide the amount raised.

[41] See the 'Main Market Factsheets' 2018-2022 here: https://www.londonstockexchange.com/reports?tab=main-market. The LSE also publish factsheets specific to new issuers which include AIM issuers, but these do not always provide the amount raised.

much more prevalent during the pandemic – this is indicates issuers' avoidance of the burden of producing a prospectus.

7.18 According to FCA internal data, the number of prospectuses produced for further issuances is as follows:

Year	No. prospectuses for further issuances
2018	241
2019	198
2020	224
2021	226
2022	167
Total	**1056**
Average	**211.2**

7.19 The average is therefore around **210** prospectuses for further issuances. It should be noted that this is much lower than the number of issuances where an exemption was used. We cannot calculate the familiarisation costs of these firms as it is unknown how many firms will perform further issuances in future years.

New issuers on trading venues

7.20 As stated above, the intention of these reforms is that more issuers will list on the market as a result of our new regime, but we cannot be certain of the number of companies which are currently private but will become public in the future. However, looking at current figures for initial public offerings can give a sense of a lower bound.

7.21 According to the LSE,[42] the total number of new issuers 2018-2022 was as follows:

Year	No. new issuers	Total raised
2018	82	£5,076,130,000
2019	50	£4,059,410,000
2020	54	£8,362,300,000
2021	86	£6,971,560,000
2022	55	£1,473,740,000
Total	**327**	**£25,943,140,000**
Average (per annum)	**65.4**	**£5,188,628,000**
Average (per firm):		**£79,336,819.57**

[42] See the 'Main Market Factsheets' 2018-2022 here: https://www.londonstockexchange.com/reports?tab=main-market.

7.22 We can therefore roughly estimate an average of **65** new issuers per annum raising around **£79 million** each. We cannot estimate the familiarisation costs of new issuers as it is impossible to predict the number of new issuances in future years.

Retail investors on trading venues

7.23 According to a study by the comparison website finder.com,[43] around 33% of the UK population own shares. According to ONS data,[44] the total UK population is approximately 67 million, of which 15.3 million are under 20. We may therefore estimate that roughly 51.7 million people in the UK are adults aged 20 or over. If 33% of these own shares, then we can estimate around **17 million** people in the UK may be classed as 'retail investors' at present.

7.24 However, this figure should be treated with caution given that there is likely to be a large number of people with legacy privatisation shares, with more active retail investors facing a higher level of risk representing a much smaller subset of this number.

Advisory firms

7.25 As stated in paragraphs 6.58-6.60, we estimate that there are around 200 advisory firms affected by our reforms. According to the Oxera study cited in paragraph 6.30, the combined cost of legal, accounting, and advisory fees for listing on major European and US markets accounted for approximately 3-6% of the funds raised for a typical issuer (so 4.5% for a midpoint figure). Advisory firms will benefit from an increased number of new issuers joining the market and paying these fees, but the number of new issuers we can expect in the future is impossible to quantify.

7.26 These estimations should also be caveated with the fact that advisory firms tend to 'bundle' their services, with a fee charged based on the size of the offer. This means that the 3-6% figure will cover not only the costs of assisting with the prospectus, but also the rest of the capital raising process. As a result, even if a prospectus becomes easier to produce as the result of these reforms, we cannot guarantee that this will generate a cost saving for companies in terms of advisor fees, and it is therefore difficult to quantify the impacts of these reforms.

7.27 We know that, under the current regime, there have been an average of 65 new issues per annum, raising an average of around £79 million per firm or around £5.2 billion in total across all firms per annum (see paragraph 7.21 and the accompanying table above).

7.28 Therefore, under the current regime, we would very roughly estimate the following amounts of fees earned by advisors, proportionate to the funds raised, as follows for all firms per annum (noting that this is an upper bound given not all firms may seek advice):

[43] See the study on finder.com's website: https://www.finder.com/uk/investment-statistics#:~:text=61%25%20of%20women-,How%20many%20people%20own%20stocks%20and%20shares%3F,Brits%20said%20they%20owned%20shares.

[44] See the ONS' 'Part 6: Population estimates data' here, especially 'Figure 10: annual full-time gross pay by occupation': https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2021.

Bound	Average total new issue raise per annum (£)	Advisory fees (% of raise as decimal)	Fees earned by advisors (£)
Lower bound	5,188,628,000	0.03	155,658,840
Upper bound	5,188,628,000	0.06	311,317,680
Average	5,188,628,000	0.045	233,488,260

7.29 Our internal estimate is that there are around 200 interested firms (see paragraphs 6.58-6.60). We would expect costs to them to be similar to other firms. Assuming all these firms familiarise themselves with the SI:

a. £1,028.50 x 200 = £205,700

7.30 We would therefore expect all advisory firms to spend around **£210,000** in total in short-term familiarisation costs.

Part 4: Costs and benefits to crowdfunding stakeholders

Crowdfunding platforms

One-Off Costs: Familiarisation

7.31 We may also consider the one-time familiarisation costs attached to the SI:

a. 1,028.50 x 14 = 14,399

7.32 This will therefore cost around £1,000 per firm, or **£14,000** across 14 firms.

One-Off Costs: Authorisation

7.33 It is impossible to predict how many firms will apply for the new permission, particularly without knowing what the FCA's rules will be, but assuming proportionate rules it should not represent a significant burden to firms, so we would expect that a significant number of crowdfunding platforms to apply. According to the FCA, it regulates 28 crowdfunding platforms. According to Figure 2 on page 7, there were 25 deals over £5 million over the period 2016-2020, suggesting an average of just below one per platform; however, it is likely in practice that bigger deals will be more prominent on the larger-than-average platforms, so these will be more likely to apply, and there is an incentive to apply for the permission given the new requirement that issuers raising above this level must raise on a crowdfunding platform (which is not required under the status quo). Based on conversations with the FCA and crowdfunding platforms, we would roughly estimate that around half of these – so 14 crowdfunding platforms – will wish to apply for the new authorisation and the other half will keep their current authorisation.

7.34 The FCA charges an estimated £5,000 for a 'moderately complex' application for authorisation.[45] An application for this permission is likely to fall within this category and therefore incur this fee.

[45] See the FCA's pricing categories for application fees here: https://www.fca.org.uk/firms/fees-and-levies/pricing-categories-application-fees. The costs by category are outlined here: https://www.handbook.fca.org.uk/handbook/FEES/3/Annex1A.html.

7.35 On top of this, firms will also incur legal and preparation fees from applying, for which we can generate a rough estimate. In previous cost-benefit analyses conducted by the FCA, such as their consultation paper on claims management companies (CMCs), the cost and requisite amount of a compliance officer's time for such an application is estimated to be, for a single person in charge of compliance, around 5 days for Class 1 CMCs (CMCs with an annual total income of £1 million or above).[46] This is based on prior FCA experience and knowledge and estimated compliance professional's time spent and average wages reported by CMCs for such applications.

7.36 These firms estimated that a compliance professional is paid a weighted average hourly cost of £65, or daily costs of £487.50 (assuming a 7.5 hour working day).

7.37 If one compliance professional works on an application for 5 days and is paid £487.50 per day, the preparation costs of a permission application would therefore cost £2,437.50 per firm; with the £5,000 FCA charge added, this comes to £7,437.50, or around **£7,400** per firm.

7.38 If 14 firms apply for the permission, this comes to £104,125 in total, or around **£100,000** across all firms.

Ongoing costs

7.39 On top of the initial costs of securing authorisation, firms will also incur ongoing costs of compliance with new rules. Ultimately, the new rules to which authorised crowdfunding platforms will be subject, and any additional fees charged to them, will depend upon what is deemed appropriate by the FCA. The FCA will be expected to ensure new rules are proportionate and seek to codify existing best practice in the industry.

7.40 For instance, the estimated annual oversight cost may be estimated based on the FCA's cost-benefit analysis on Consumer Credit,[47] based on its estimate for ongoing costs for 'high-level principles and conduct standards', which are 'up to £0.1 million' for large firms. We would therefore estimate an upper bound of £1.4 million in ongoing compliance costs per annum across all 14 platforms. This is an upper bound, given the resource may be taken out of other compliance team priorities. However, these and similar costs will be more fully appraised as part of the FCA's cost-benefit analysis when it finalises its rules.

[46] See the FCA's 'Claims management: how we propose to regulate claims management companies' consultation paper, Annex 2, p.68: https://www.fca.org.uk/publication/consultation/cp18-15.pdf.

[47] 'High-level proposals for an FCA regime for consumer credit', Annex 3, p.129: https://www.fca.org.uk/publication/consultation/fsa-cp13-07.pdf.

Risks and assumptions

8.1 When calculating the costs and benefits of the delegation of rulemaking powers to the FCA, there is a very high degree of uncertainty. It is impossible to provide figures on most aspects of the regime, given it will be for the FCA to decide the details of firm-facing rules under the framework power granted by HM Treasury. It will be for the FCA's cost-benefit analysis to assess the impact of FCA rules.

8.2 However, in an attempt to aid public scrutiny of these reforms, we have tried as much as possible to give a sense of how much costs and benefits that result directly from HM Treasury's SI are likely to be and have stated where figures are approximations.

8.3 For instance, many respondents to the various consultations and studies on the current Prospectus Regime felt they could not estimate the costs of producing a prospectus as there is no 'typical' issuer or circumstances. Any figures should be understood only as general indications in order to give an idea of the amounts involved, not as precise calculations. There are no precise statistics readily available so we have relied on estimates.

8.4 In our industry engagement since publishing the illustrative version of this SI, we have repeatedly heard from stakeholders that they do not feel they can judge the costs and benefits of the new regime fully until they have seen the FCA's rules. It has therefore been difficult to get a detailed sense from stakeholders about how they expect the regime to affect them, but we have included information that pertains to stakeholders from costs directly resulting from this SI as much as possible.

8.5 When calculating the benefits of removing the €8 million cap, it is difficult to predict how the behaviour of businesses will change in response to this. We have given a general idea of how this might change, with the expectation that the usage of the new facility will be greater.

8.6 Similarly, we expect that making it easier to produce a prospectus and removing the requirement for a prospectus will lead to increased activity, but it is difficult to predict the extent to which this will occur. We have hypothesised a percentage increase based on current activity to give a sense of how these increases might look.

Impact on small and micro businesses

9.1 Under the definition used by DBT (formerly BEIS) for its Business Population Estimates, a micro-business has 1-9 FTE employees and a small business has 10-49 FTE employees.[48]

Small and micro-businesses on trading venues

9.2 There is a minimum market capitalisation requirement for the LSE: this was £700,000 before 2021, when it was raised to £30 million, but they do not publish data on listed firms' number of employees. Listings tend to be favoured by larger companies, particularly on the Main Market; smaller businesses are better represented on AIM. According to published LSE data, as of February 2023:[49]

a. On the Main Market, there were **265** companies with an equity market value of less than £25 million, representing 24.2% of the market, but this likely constitutes a much broader category than small and micro-businesses (SMBs).

b. On AIM, companies with an equity market value of less than £25 million were represented as follows:

Equity market value range (£m)	No. of companies	Percentage of market total
0-2	30	3.7%
2-5	82	10.1%
5-10	98	12.1%
10-25	149	18.4%
Total	**359**	**44.3%**

9.3 The number of businesses of this size on Aquis is unknown, but given it is a growth market like AIM and has an estimated 100 companies, we might estimate a similar percentage of companies with a market value under £25 million as to AIM. We could therefore estimate **44** companies on Aquis with a market value under £25 million.

9.4 Adding together the number of companies with a market value of less than £25 million on LSE's Main Market, AIM, and our estimation for Aquis, we can therefore estimate an upper bound of **668** smaller businesses on these venues, with the caveat that many of these companies are likely have 50 or more FTE employees and would therefore be exempt from the definition of an SMB. Nevertheless, this gives us a rough idea of the number of smaller businesses in scope.

9.5 All SMBs on trading venues will be affected by this regime, since the government considers it proportionate that any company raising significant amounts of capital and/or raising from significant numbers of retail investors should be subject to an appropriate

[48] See statistics published on gov.uk: https://www.gov.uk/government/collections/business-population-estimates.

[49] See the 'Distribution by Market Cap' section of the LSE's Main Market and AIM factsheets: https://www.londonstockexchange.com/reports?tab=main-market; https://www.londonstockexchange.com/reports?tab=aim.

level of regulation in order to ensure investor protection. The regime therefore balances the needs of businesses with protections for ordinary people who invest.

9.6 It is impossible to predict what the number of SMBs conducting new issuances on these trading venues might be in the future.

Unlisted small and micro-businesses

9.7 Similarly, there is no data on the number of employees per firm for unlisted businesses or issuers on crowdfunding platforms. However, given the predominance of smaller raises on crowdfunding platforms, we would expect that the vast majority of companies on crowdfunding platforms are smaller businesses (though they may not all fit the definition of an SMB). Where SMBs conform to our *de minimis* exemptions, such as for offers made to fewer than 150 retail investors or raises below £5 million, they will be exempt from the regime.

9.8 As stated above in paragraph 6.78, we believe that there are over 2,100 issuers currently with deals on crowdfunding platforms. As Figure 2 on page 7 shows, only 25 raises between 2016-2020 out of a total of 1,859 were over £5 million, representing only around 1% of deals. This would mean the other 99% of issuers, or **2,079** out of the total, would be exempted from the regime. (This is caveated by the fact that this data represents 95% of the crowdfunding industry and is not an exhaustive survey.) To summarise, we would expect there are a large number of SMBs on crowdfunding platforms, but that they will not be directly affected by our reforms.

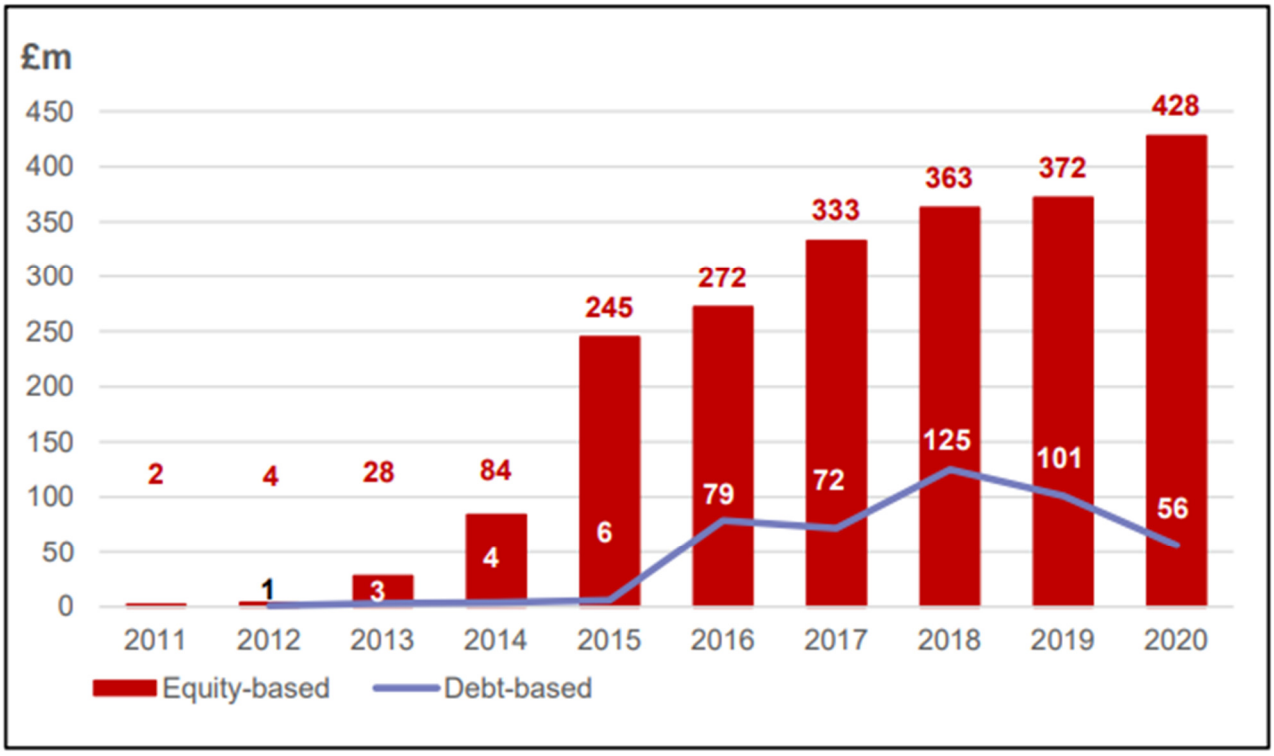
9.9 According to Beauhurst,[50] over the period 2011-2021, the majority of crowdfunding deals (53%) occurred at 'seed stage', the first official stage of equity fundraising, corroborating the view that that the majority are smaller businesses. However, this has trended downwards, from 82% at this stage in 2013 versus 39% in 2021. Only 8% are considered 'later-stage', meaning they are either 'growth' or 'established' companies.

9.10 If some SMBs wish to raise larger amounts, the government considers it proportionate that these companies should be subject to an appropriate level of regulation in order to balance the needs of these businesses with investor protection.

9.11 It is impossible to predict the number of SMBs who may use crowdfunding platforms in the future. However, given that crowdfunding activity has trended upwards over time (see Figure 4 overleaf, with data sourced from the government's consultation on Prospectus Regime Reform), but, according to Beauhurst, the number of small businesses has trended down, we would expect a modest increase (though the extent of this cannot be quantified at present).

[50] See statistics published on Beauhurst's website: https://www.beauhurst.com/blog/uk-equity-crowdfunding/.

Figure 4: Growth of UK securities-based crowdfunding, 2011-2018



Source: Judge Business School, University of Cambridge

Costs and benefits to small businesses under the new regime

9.12 Current costs in an IPO, including producing a prospectus, are disproportionately burdensome upon smaller companies, so small and micro-businesses in particular will benefit from our reforms to make this process easier. As explained above in paragraph 6.30, an Oxera study suggests that the cost of raising capital via an IPO comes to roughly 5-15% of gross proceeds and that this is inversely proportional to the magnitude of the amount raised by the IPO itself. Similarly, as also explained in paragraph 6.30, the EU found IPO costs were around 3-10% of the total issuing amount. This means that smaller companies raising smaller amounts are particularly heavily burdened by the current regime and will disproportionately benefit from the removal of the requirement of a prospectus in some instances.

9.13 This regulation may also have some costs to SMBs, which are disproportionately represented on crowdfunding platforms, due to increased regulation on these platforms, but this is hard to quantify before the FCA has made its rules in this area. However, smaller businesses on crowdfunding platforms are unlikely to be affected by the £5 million threshold, given their raises tend to be below this level (and, as stated in paragraph 6.79, the median round size in 2021 was only £487,000, well below the threshold, suggesting that smaller businesses will not be affected). This ensures smaller businesses are not subject to a disproportionate obligation and avoids overburdening them with regulatory requirements.

9.14 When the FCA comes to develop its rules, it will have to consider its objective of ensuring growth. This will mean, in practice, that it should avoid putting disproportionate or overburdensome obligations on issuers, particularly smaller issuers who have less resource to address the demands of regulatory requirements. Making the regime simpler to follow is a key objective of our reforms.

Wider impacts (consider the impacts of your proposals)

10.1 The government intends that the reforms to the Prospectus Regime which flow from both HM Treasury's SI and the FCA's new rules will boost public ownership in companies, increase opportunities for ordinary people who invest, and boost the UK's economic growth and competitiveness, among other benefits.

10.2 As discussed above, this measure will have an impact on the information available to investors when making investment decisions. This measure also seeks to facilitate wider participation in the ownership of public companies and achieve the other aims stated above.

10.3 There will also be broader benefits to businesses from taking much of this regulation out of legislation and putting it under the power of the FCA. We are proposing to simplify the regulation of prospectuses and remove unnecessary duplications. We are delegating power over certain rules to the FCA, who may decide to ease regulatory burdens, which would reduce costs to businesses. Ultimately it will be for the FCA to do a fuller cost-benefit analysis when it is deciding upon its new rules. The new regime will be tailored to the UK, rather than following the 'one size fits all' approach tailored by the EU.

Wider benefits to retail investors from bringing NTDS and other unregulated securities into scope

10.4 As outlined above, the government is bringing minibonds and certain other kinds of NTDS within the scope of the new Prospectus Regime. This is because these securities have, until now, been out of scope of regulation, and under the current regime have caused problems due to ordinary people investing in disreputable issuers such as LCF who later went into administration. In the case of LCF, the government decided to step in to compensate bondholders.[51]

10.5 By bringing these securities into scope, the government aims to ensure better investor protection and for there to be a positive effect on general market confidence.

Increasing the attractiveness of public equity relative to private equity

10.6 Private equity is a form of financing in which companies can get funding outside of the scrutiny and regulation of public markets. It involves institutional investors investing directly in companies which are not publicly listed, or engaging in buyouts of publicly listed companies, which results in their delisting.

10.7 Private market capital has grown globally at more than double the rate of public over the last two decades, with UK growth outpacing that of other developed countries. This is attributed to a number of causes, including:

a. Regulatory requirements, which have made it easier for private companies to raise capital due to eased restrictions on raising and trading capital privately, and because they are subject to lower disclosure requirements;

b. Public scrutiny, which is higher on public companies and their owners; and

[51] See the summary of the compensation scheme for LCF bondholders on the gov.uk website: https://www.gov.uk/government/news/details-of-compensation-scheme-for-london-capital-finance-bond-holders-announced.

c. Strategic approaches to reducing tax, given that private equity deals tend to use a high degree of leveraging to raise finance, taking companies private with debt on their balance sheet. Debt interest is deductible, making this type of financing advantageous from a tax perspective, particularly during a period of very low interest rates. (However, public companies can also leverage debt.)

10.8 Public markets support growth, which creates jobs and spreads wealth: this is why Lord Hill's UK Listing Review was set up to look at ways to make listing publicly more attractive, which resulted in Lord Hill recommending these reforms to the Prospectus Regime. Public markets also unlock new sources of investment capital into productive parts of the economy.

10.9 These reforms aim to increase public listings, meaning that the public listing environment will be able to compete on a more even footing with private equity, particularly as we move out of a period of low interest rates into higher interest rates and equity financing becomes more attractive and necessary.

A summary of the potential trade implications of measure

11.1 These reforms to the Prospectus Regime aim to improve trade and investment across the UK and improve our competitiveness against other major financial centres. However, we do not expect any direct impacts on international trade and investment which would require consideration by the Department of International Trade or the World Trade Organisation.

11.2 Under reforms legislated for through the FSM Act 2023, the FCA will have to adhere to new objectives to show how it has accounted for the UK's growth and international competitiveness in their rules. This will include rule changes it makes as part of our new regime.

11.3 Simplification of the regime will also improve the attractiveness of the UK as a listing destination for international issuances. This means the number of international issuances is likely to increase along the lines of what has been described for UK issuers above. However, this is difficult to quantify because a large number of factors influence such listing decisions, particularly the relative competitiveness of other jurisdictions, so this is more difficult to predict for international issuers than it is for UK issuers.

11.4 In our consultation, stakeholders expressed that they supported a new equivalence regime in which prospectuses from jurisdictions overseas may be deemed 'equivalent' to those drawn up according to UK rules. They expressed support for repealing and replacing the EU equivalence regime, which has never been used. However, they stated that this was not a priority relative to the reform of the Prospectus Regime itself. We will therefore bring in the market access regime at a later date when time allows. Our SI allows the government to maintain control of equivalence; this will not be within the remit of the FCA but will be further work for the government to develop.

Monitoring and evaluation

12.1 As discussed in previous chapters, our reforms will require further action to be taken in the form of regulator rules, as well as subsequent policy decisions regarding outstanding areas such as equivalence decisions for prospectuses completed to overseas standards.

12.2 The cost-benefit assessments outlined in this IA will therefore be built upon in future processes. For instance, the FCA are required by statute to conduct a cost-benefit analysis of their rule proposals, with no *de minimis* exemption. This will be undertaken for the new regime once more detailed rules are sufficiently mature to render it proportionate to expand the evidence base and analysis. Data will therefore need to be collected after the implementation of the FCA's rules to assess whether the policy has been successful.

12.3 The FCA already conducts post-implementation monitoring and evaluation of their rules. Furthermore, under the implementation of the SRF Review in line with the FSM Act 2023, there are proposed requirements for regulators including the FCA to keep their rules under review and publish a framework for reviewing their rules, in order to systematise their existing monitoring and evaluation. The FCA's new rules for our regime will be in scope of this.

12.4 Furthermore, a key objective of reforming the Prospectus Regime is to move regulation out of statute and into the FCA's rulebook in order to allow the FCA to adapt its rules to changes in the market. Under the FCA's growth and competitiveness objectives in the SRF and the requirement that it must have regard to increasing the participation of retail investors in our SI, it will be required to demonstrate how it has adhered to these goals as it implements the new regime.

12.5 The government will review this legislation and conduct post-implementation reviews in line with statutory requirements. HM Treasury will work with the FCA where appropriate to undertake these reviews and ensure these are in line with the Better Regulation guidance and the principles set out in the HM Treasury Magenta Book. The FCA is expected to continue its monitoring once the new regime is fully implemented.

12.6 The SI will include a review provision complying with section 28 of the Small Business, Enterprise and Employment Act 2015.[52]

12.7 Lastly, in line with the general requirement, HM Treasury will submit to the Treasury Select Committee, within three to five years of Royal Assent, a preliminary assessment of how the Act has worked in practice, relative to objectives and benchmarks identified during the passage of the Act and in the supporting documentation.

[52] 'Small Business, Enterprise and Employment Act 2015': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/674755/small-business-act-s31-statutory-review-requirements.pdf.