

EXPLANATORY MEMORANDUM TO

THE FINANCIAL SERVICES AND MARKETS ACT 2023 (PRIVATE INTERMITTENT SECURITIES AND CAPITAL EXCHANGE SYSTEM SANDBOX) REGULATIONS 2025

2025 No. 583

1. Introduction

- 1.1 This explanatory memorandum has been prepared by the Treasury and is laid before Parliament by Command of His Majesty.
- 1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

- 2.1 Emma Reynolds MP, Economic Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.
- 2.2 Tom Duggan, Deputy Director for Securities and Markets, at the Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

- 3.1 James Leahy at the Treasury (Pisces@hmtreasury.gov.uk) can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

- 4.1 This instrument establishes the Private Intermittent Securities and Capital Exchange System (PISCES) Sandbox, using the Financial Market Infrastructure (FMI) powers in the Financial Services and Markets Act (FSMA) 2023. These allow the Treasury to test the legal framework for a new type of stock market.
- 4.2 The instrument sets the framework for potential PISCES operators to apply to the Financial Conduct Authority (FCA), to operate intermittent trading events for participating private companies and investors.
- 4.3 The instrument provides a legal framework that operators and other participating persons will be subject to when interacting with a PISCES platform or PISCES trading events. They will be subject to all existing legislation that would otherwise apply, subject to the modifications made in the schedules to the instrument, and FCA rules. In some cases, legislative requirements will be modified or disapplied within the PISCES Sandbox with the FCA able to make rules instead.
- 4.4 This instrument creates the framework which will enable the FCA to operate the PISCES Sandbox and includes:
 - The activity and financial instrument in scope, which is operating a PISCES for the trading of private company shares;

- Who can participate within the PISCES Sandbox and general eligibility criteria, including who can apply to operate a PISCES;
- The arrangements to ensure the FCA can make rules and appropriately supervise the PISCES Sandbox; and
- The relevant legislation being modified, disapplied or applied to PISCES Sandbox participants.

Where does the legislation extend to, and apply?

- 4.5 The extent of this instrument is England and Wales, Scotland, and Northern Ireland.
- 4.6 The territorial application of this instrument is England and Wales, Scotland, and Northern Ireland.

5. Policy Context

What is being done and why?

Background and Rationale for Intervention

- 5.1 The government is prioritising reforms that ensure that the UK’s capital markets best support growth and the evolving needs of businesses. One area of recent change has been the increase in size of private markets, giving companies greater access to capital earlier in their growth stages.
- 5.2 A key challenge for private companies is that, at early stages in their growth, there are no standardised ways for shareholders to realise their gains (e.g., where their shares have increased in value) or to allow companies to rationalise their shareholder base by providing their early investors an exit route. Similarly, it is harder for investors to access companies that are not yet operating on public markets.
- 5.3 At present, there is also no practicable mechanism for private companies to have their shares admitted to trading on a multilateral system, with disclosure obligations applying only during those intermittent windows. Requirements such as the Market Abuse Regulation and public transparency requirements are important for public markets but are not suited to intermittent trading. Furthermore, existing arrangements do not allow private companies to, for example, decide when their shares may be traded, who is allowed to buy the shares, the price at which the shares are traded and who may receive information about the company or transactions in its shares.
- 5.4 This instrument, which together with the rule-making powers it provides to the FCA, will establish a hybrid regulatory regime that incorporates elements from public markets such as multilateral trading, and elements from private markets such as greater discretion for private companies over the trading of their shares. This will enable PISCES platforms to provide investors with concentrated liquidity in private company shares and provide private companies with easier access to new investors seeking to allocate capital to successful growing businesses. It should therefore strengthen private companies’ capital raising prospects outside of PISCES, and act as a stepping-stone to public markets.
- 5.5 The proposal to establish an intermittent trading venue for private company shares was initiated by the previous government, with a consultation on establishing PISCES published in March 2024. Following feedback, the Chancellor committed to develop PISCES as part of the government’s wider capital markets reform agenda and a response to the consultation was published in November 2024.

FMI Sandbox

- 5.6 FSMA 2023 allows the government to establish FMI sandboxes, which includes provision to temporarily modify or disapply certain legislation, to support market operators to trial new or developing FMI technology or practices.
- 5.7 As PISCES is a novel concept, the government is using the powers in Sections 13 and 16 of FSMA 2023 alongside the indicative powers in Schedule 4 to establish the regulatory framework for PISCES as an FMI sandbox. This sandbox environment allows the government and the FCA to check that the detailed regulatory requirements for PISCES are calibrated correctly, before considering whether the regime is made permanent, subject to parliamentary approval. It also allows the government to confer powers on the regulators (in this case the FCA) to do the same in connection with technical standards and rules.

Key Features of PISCES

- 5.8 Under the sandbox framework, PISCES will have the following key features:
- As a secondary market, it will facilitate the trading of existing private company shares.
 - The FCA will be given, among other things, rulemaking powers to create a new and bespoke disclosure and transparency regime for PISCES.
 - PISCES operators will be able to decide whether or not shares must be recorded into a Central Securities Depository (CSD).
 - Only shares in companies whose shares are not currently admitted to trading on a public market (in the UK or abroad) can be traded on PISCES. This includes UK private and public limited companies (PLCs) and overseas companies.
 - PISCES operators can determine any admission requirements for their markets, including any minimum corporate governance requirements.
 - Companies will have discretion on when the shares may be traded, who is allowed to buy the shares and the price at which the shares are traded, subject to their PISCES operator's business model and FCA rules.
- 5.9 In addition to the above key features,
- Only certain categories of investors will be able to trade on PISCES, such as professional investors and employees of participating companies. Most retail investors will be prohibited from trading on PISCES.
 - The instrument prohibits intermediaries from enabling PISCES companies to use the platform for buybacks.
 - PISCES will not facilitate primary capital raising through the issuance of new shares, or the trading of other securities (such as bonds).

FCA's role in the PISCES Sandbox

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

- 5.11 The Treasury is modifying FSMA 2000 to tailor, retain and, where relevant, extend the FCA’s supervisory and enforcement powers to sandbox activities. For example, given the nature of PISCES and its participants, the FCA will not have the power to order restitution, but they will retain a broad suite of enforcement powers such as the ability to impose financial penalties. The instrument also allows the FCA to apply, modify or disapply technical standards, and provides information gathering powers and a more general power of direction.

What was the previous policy, how is this different?

- 5.12 As noted above, PISCES is a new initiative, and under the current legal framework there is no practicable route through which private company securities can be traded on a multilateral system, with disclosure obligations applying only during those intermittent windows.

FMI activity

- 5.13 This instrument defines PISCES as a multilateral system which facilitates a secondary market for the intermittent trading of private company shares, and which should accommodate at least one of the possible features set out in regulation 3. This includes company discretion on who can purchase shares, the frequency of trading events and to whom company information (also referred to as ‘disclosures’) is disclosed. This instrument therefore also excludes PISCES from the definition of a ‘multilateral trading facility’ (MTF) under the UK Markets in Financial Instruments Regulation (UK MiFIR). This reflects the position that while PISCES will operate as a multilateral system, it will be subject to bespoke requirements within the PISCES Sandbox. The instrument also defines the concept of “intermittent” trading as being of limited duration and taking place on an occasional basis (for example, monthly, quarterly, annually or even on an ad-hoc basis).
- 5.14 As noted above, PISCES will facilitate the trading of existing private company shares, including where employees of companies have options to subscribe for equity shares. PISCES will not facilitate the trading of options, or other derivative products.

Persons who can operate a PISCES platform

- 5.15 To apply to the FCA for permission to operate a PISCES platform, firms will need to have either Part 4A permissions under FSMA 2000 to a) arrange deals in investments, b) operate an MTF, or c) operate an organised trading facility (OTF) or be a Recognised Investment Exchange (RIE) under FSMA 2000. If accepted into the PISCES Sandbox, an RIE’s statutory immunity will continue to apply in the normal way under Section 291 of FSMA 2000 in respect to the operation of the PISCES platform. Any approved Article 3 Markets in Financial Instruments Directive (MiFID) exempt firm operating a PISCES platform will be treated within the PISCES Sandbox as if it were a MiFID firm. If an applicant is successful, the FCA will issue them with a PISCES Approval Notice (PAN), which will enable an operator to operate a PISCES platform, subject to conditions, limitations and restrictions as set out by the FCA, thereby benefitting from the modifications provided for by the PISCES Sandbox.
- 5.16 The instrument also specifies a non-exhaustive list of the information that the FCA may require from a prospective PISCES operator to consider and determine their application. For example, such information could include a description of the firm’s proposed operating model, system for arranging the disclosure of company information to investors, admission requirements for participant companies and method for tackling abusive trading behaviours.

Other Sandbox Participants

- 5.17 The instrument provides a description of other persons who can participate in the PISCES Sandbox, including persons providing services (directly or indirectly) that relate to the trading of PISCES shares, such as brokers and other financial intermediaries. As with PISCES operators, these persons may be subject to regulatory requirements and the schedule of temporarily modified and disapplied legislation in this instrument and FCA rules related to the PISCES Sandbox may apply.
- 5.18 The Treasury has sought to strike a balance between allowing a sufficiently wide pool of investors to benefit from access to PISCES, while recognising the risks involved in investing in private companies and the need for appropriate investor protections. As set out in the instrument, persons eligible to buy shares on a PISCES include:
- Professional clients (as defined in UK MiFIR);
 - Those who meet the definitions of self-certified sophisticated investors, sophisticated investors, and high net-worth investors based upon the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005 (FPO);
 - Employees of participating companies and other “qualifying individuals” defined in regulation 6 (including consultants and employees within an immediate group of related companies as defined by Section 421ZA of FSMA 2000);
 - Share Incentive Plans and Employee Benefit Trusts.
- 5.19 Under regulation 7, financial intermediaries have an obligation to check the eligibility of a potential UK investor when taking an order to purchase. The requirement to undertake an eligibility check will fall on the firm who is interacting with the end client, whether that firm is a regulated intermediary (e.g., a broker or investment bank), or the operator of a PISCES platform where there are no intermediaries involved on the PISCES platform. The person carrying out the eligibility check must have a reasonable belief that their client, the person making the investment decision and placing the order to invest, will meet the criteria set out in this instrument at the time the order is executed. For example, where a family office trust or a fund wishes to buy shares on PISCES, the eligibility check should be performed on the trust or fund as the ‘end client’. The person would not need to consider whether the trust’s beneficiaries or the fund’s clients are retail investors.
- 5.20 For a firm to have reasonable belief that an investor is a high net worth individual or self-certified investor, the investor must have completed and signed a statement complying with Part 1 of Schedule to the FPO or Part 2 of Schedule 5 to the FPO respectively. This instrument also defines a PISCES sophisticated investor as an individual who has a certificate relating to them, signed by an authorised person, and dated no more than three years before the date of the relevant PISCES trading period. This certificate will be needed to confirm that a potential investor is sufficiently knowledgeable to understand the risks associated with investing in a share of a private company on PISCES.

PISCES Disclosure and Liability Provisions

- 5.21 The FCA have been granted rule-making powers to create a bespoke disclosure regime. Their proposed approach, currently under consultation, will seek to streamline the due diligence work undertaken in bilateral private market transactions, without replicating the disclosure requirements on companies whose shares are traded on public markets.

- 5.22 The instrument also provides that investors (including those who buy, sell, or hold shares) can claim compensation for untrue or misleading disclosures made by a participating company, provided it was reasonable for the investor to rely on the disclosures. There are two standards of liability in the provisions. Where information is required under core disclosures mandated by FCA rules, the company will be liable for loss caused by untrue or misleading information, unless the company can satisfy the court that the relevant officers reasonably believed the information was true, having made reasonable inquiries. For information which is not required to be disclosed under mandated core disclosures, but which the company is required to disclose under additional disclosure requirements, or has nevertheless decided to disclose to investors, the company will only be liable if the relevant officers knew or were reckless as to whether the information was untrue or misleading, or dishonestly concealed information. Should the FCA decide to mandate forward-looking information within core disclosures, this standard will also apply to that kind of information.
- 5.23 The PISCES liability regime does not establish entirely new rights of action and the intent is for this regime to be similar to arrangements that exist for disclosures by listed companies. The basic difference under the PISCES regime is that for some categories of misleading information the company would only be liable if it was reckless or dishonest, where in common law, it could (in some circumstances) be found liable if it merely acted negligently.
- 5.24 As noted above, PISCES will not be an MTF, or trading venue as defined under UK MiFIR. The transparency requirements for shares traded on a trading venue will therefore not apply by default to PISCES operators. The FCA have instead been granted rule-making powers to set bespoke requirements for pre- and post-trade transparency information on PISCES.

Financial Promotions

- 5.25 The instrument modifies the FPO to create a new exemption for PISCES operator's disclosure arrangements. The exemption does not cover disclosures shared outside of an operator's disclosures arrangements, other than information regarding when the trading events are taking place, the potential eligibility of a person to whom a communication is made and practical matters such as information regarding access to the disclosure arrangements of a PISCES operator, amongst other things.
- 5.26 The instrument amends article 3 of the FPO, using powers under FSMA 2000, to ensure that shares are not considered 'listed' under the FPO despite being traded on PISCES. This will ensure that companies and other persons can still benefit from the existing exemptions for unlisted companies in the FPO when communicating financial promotions to potential investors outside of the PISCES Sandbox.

Review and post-Sandbox period

- 5.27 The PISCES Sandbox will last up to five years, until 5 June 2030, with the possibility of extension by the Treasury. Subject to Parliamentary approval under the process set out in Section 15 of FSMA 2023, the Treasury will be able to extend the length of the sandbox via further legislation if more time is needed to assess whether the legislation modified under the instrument is achieving the intended outcomes. Alternatively, the Treasury can make permanent amendments to legislation, subject to Parliamentary approval, before the end of the sandbox. In any case, the Treasury is committed to providing transparency, certainty and clear communications to PISCES operators and market participants.

- 5.28 The Treasury will work with the FCA to monitor outcomes during the lifetime of the sandbox and assess market feedback. This will inform the view on whether legal and regulatory requirements for PISCES are calibrated correctly, and the government may make changes to PISCES requirements on that basis. For example, if there were later changes to broaden the categories of those who can invest in PISCES, or based on market conduct during the sandbox period, the Treasury may review the scope of the FCA’s supervisory and enforcement powers, such as their power to order restitution.
- 5.29 In cases where insufficient progress towards operating under a new regime is being made, and there is no realistic path to be capable of operating permanently, PISCES operators may have their permissions revoked by the FCA and be required to wind-down their activity in the sandbox in an orderly way. A wind-down could also be triggered for other reasons, including a commercial decision by the firm, or failing to meet requirements set by the regulators.

6. Legislative and Legal Context

How has the law changed?

- 6.1 PISCES is the second FMI sandbox to be set up under FSMA 2023, following the Digital Securities Sandbox (DSS). Sections 13,16 and 17 of, and Schedule 4 to, FSMA 2023 give the Treasury the power to create FMI sandboxes. Each instrument laid before Parliament provides the legal basis for each sandbox and allows for the temporary disapplication, modification, or application of relevant legislation for participants. The powers in FSMA 2023 are designed to be flexible enough to allow for the creation of different FMI sandboxes, so that different technologies and practices can be tested by different entities. The DSS will run in parallel to the PISCES Sandbox.
- 6.2 One key aspect of the powers, subject to the success of PISCES, is the ability to make permanent changes to legislation based on what is learned. To do this, the Treasury will report to Parliament on the operation of a particular sandbox, explaining why and how it intends to change UK legislation permanently. The permanent changes themselves would be enabled by the Treasury laying a further SI before Parliament via affirmative procedure.
- 6.3 The legislation being temporarily modified within the PISCES framework (which could involve its provisions being disapplied, being applied to PISCES where they otherwise would not have applied or being applied in a different way) is set out below. Aside from where legislation has been modified or disapplied, the general legislative framework will continue to apply to PISCES (where relevant) in unmodified form.
- Financial Services and Markets Act 2000,
 - Companies Act 2006,
 - The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges, Clearing Houses and Central Securities Depositories) Regulations 2001,
 - The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005,
 - Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012,

- Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC,
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

6.4 As referenced above, the Treasury also uses sections 21 (5) and (6) of FSMA 2000 to amend the FPO to ensure that PISCES companies remain unlisted companies so that they can access the FPO exemptions to support any future fundraising activities.

Why was this approach taken to change the law?

6.5 The powers in FSMA 2023 enable the Treasury to test this new practice in a limited way with careful supervision, without having to make permanent amendments to legislation on an untested new practice.

7. Consultation

Summary of consultation outcome and methodology

7.1 The previous government published a consultation in March 2024, which set out the proposed design of the regulatory regime for PISCES.¹ It was directed towards potential participants in PISCES such as companies, investors, and market operators; as well as regulated intermediaries (brokers, investment banks etc), professional service firms and trade associations.

7.2 Overall, the consultation was well-received, with respondents noting that PISCES could reduce the regulatory gap between public and private markets and support private company growth. The government published a consultation response in November 2024,² alongside a draft instrument³ and accompanying policy note.⁴ As outlined in the response, the government decided to proceed largely with the approach set out in the consultation with one key change. In response to feedback, there is no longer a PISCES market abuse regime based on the UK Market Abuse Regulation (MAR) as proposed in the March consultation. Stakeholders raised significant concerns about how such a regime would operate in practice. In particular they were concerned about the proposed arrangements for the identification and handling of inside information, with companies and other market participants suggesting this new regime would create disproportionate constraints and costs to comply with. The government therefore decided to proceed with a disclosure-based regime instead, with participating companies required to disclose key information to investors ahead of a trading event. This approach is modelled on private markets, which the government

¹https://assets.publishing.service.gov.uk/media/65e6f39e7bc329020bb8c279/Consultation___Private_Intermittent_Securities_and_Capital_Exchange_System.pdf

²https://assets.publishing.service.gov.uk/media/67374daf12f25d730812722c/PISCES_consultation_response_November_2024_vf.pdf

³https://assets.publishing.service.gov.uk/media/6735d1b42469c5b71dbc7afc/Financial_Services_and_Markets_Act_2023___Private_Intermittent_Securities_and_Capital_Exchange_System_Sandbox___Regulations_2025_DR_AFT.pdf

⁴https://assets.publishing.service.gov.uk/media/67374dbacb0e41c0dba0f764/Policy_Note_Draft_Financial_Services_and_Markets_Act_2023___PISCES_Sandbox___Regulations_2025_.pdf

considers more suitable for PISCES. The FCA will retain its role in enforcing the criminal market abuse regime, in relation to market manipulation, as it applies to PISCES. The FCA's rule-making powers include the ability to create a bespoke regime for the detection and prevention of abusive trading behaviours on a PISCES platform.

8. Applicable Guidance

- 8.1 The Treasury does not propose to provide any guidance in relation to this instrument. The FCA will provide information in due course on the operation of the PISCES Sandbox.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

- 9.1 A full impact assessment has not been prepared for this instrument because the impact of this instrument is small (the cost to businesses is < £10m per year). A de minimis impact assessment is published alongside the Explanatory Memorandum on the [legislation.gov.uk](https://www.legislation.gov.uk) website.
- 9.2 As participation in the PISCES Sandbox is voluntary, this measure does not impose any blanket costs on businesses. Where businesses do wish to participate, they will need to familiarise themselves with the legislation. There may be commercial costs for businesses involved in the PISCES Sandbox, for example for those interested in developing the trading platform itself or to have shares traded on one. Their decision to participate will be based on their own assessment of the commercial and economic benefit to them.

Impact on businesses, charities and voluntary bodies

- 9.3 There is no, or no significant, impact on business, charities, or voluntary bodies because participation in the PISCES Sandbox and on an approved PISCES platform will be optional. Therefore, firms will not incur any involuntary costs.
- 9.4 The legislation does not impact small or micro businesses.
- 9.5 This instrument places several requirements on the FCA, but there is no significant impact on the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

- 10.1 The approach to monitoring this legislation is set out under section 14 of FSMA 2023. As with each FMI sandbox, the Treasury must report to Parliament assessing the effectiveness of the PISCES Sandbox prior the end of the end of the 5-year sandbox period. This will inform which permanent legislative amendments it needs to put in place to support a long-term PISCES proposition, based on the modifications and disapplication to legislation tested in the sandbox. If the government intends to make permanent changes to legislation after the FMI sandbox, it can use the powers set out at section 15 of FSMA 2023, subject to parliamentary approval.
- 10.2 The government will keep all elements of the PISCES design under review, including whether further changes should be made after it has launched. The instrument does not include a statutory review clause, as the activities and outcomes within the PISCES Sandbox will be monitored during the 5-year sandbox period. In line with

the requirements of the Small Business, Enterprise and Employment Act 2015
Economic Secretary to the Treasury, Emma Reynolds MP has made the following
statement:

“It is not proportionate to include a review clause in this instrument because the
estimated annual net direct cost to business is less than £10 million and the number of
small businesses in scope is very low.”

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

- 11.1 FSMA 2023 provides the Treasury with powers to disapply, modify, or apply to new entities elements of existing legislation, as well as the ability to confer powers onto the FCA to operate and supervise an FMI sandbox. These powers were subject to parliamentary approval and scrutiny. The changes the government and regulators are making will allow firms to engage in activity that is not compatible with current regulation, while giving the regulators the necessary authority and powers to supervise this activity, in line with their statutory objectives. The Treasury has worked closely with the FCA in developing the PISCES Sandbox. The activity in the PISCES Sandbox will enable the Treasury, working with the FCA, to determine whether, and if so, how UK legislation should be permanently amended to accommodate new or different practices within financial services.

12. European Convention on Human Rights

- 12.1 The Economic Secretary to the Treasury, Emma Reynolds MP has made the following statement regarding Human Rights:
- “In my view the provisions of the Financial Services and Markets Act 2023 (Private Intermittent Securities and Capital Exchange System Sandbox) Regulations 2025 are compatible with the Convention rights.”

13. The Relevant European Union Acts

- 13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).