Written in the stars

The only stars in **Jon Moulton**'s eyes are the ones brought on by a dizzy turn from yet more regulation

You may have never heard of HM Treasury's proposed PISCES (Private Intermittent Securities and Capital Exchange System) platform, with which it hopes to provide a market for private company shares. And you may well believe that we already have an inadvertent intermittent stock exchange in AIM. A lot of AIM companies rarely trade, but perhaps no one reminded HM Treasury that this far from prosperous market is continuing to struggle on. Actually, unless the regulations ultimately agreed upon for the new PISCES regime are horribly onerous, I would think some AIM companies would consider moving from AIM to PISCES to save time and money. And that would not help AIM at all.

There is currently a 47-page HM Treasury consultation on PISCES. And *quelle surprise*, there are no estimates for the costs or for the benefits. The consultation booklet starts by claiming the new prospectus rules help companies. These are the 2024 Public Offers and Admissions to Public Trading Regulations and I don't think many people will master them, as they are not designed for 'normal' businesspeople to understand. It's a dense read from the start. The analogy between financial regulation and the use of Latin in English churches in medieval times, when the congregation had little clue as to what was being said, becomes more apt by the day.

Where's the need?

There have been private company markets for a long time, such as the over-the-counter market founded by Michael Nightingale in the 1970s and the market founded by JP Jenkins in 1991. More recently, the Guernsey-based International Stock Exchange arrived, as well as Asset Match. These have operated to varying levels of success, but without any significant disasters over a long period. They are not huge businesses as demand for a halfway house between public and private share liquidity is finite – you could say limited. There are no obvious signs I can see of demand for a new vehicle or structure.

What really troubles me is the nanny-state attitude of regulators. They can only see risk. Private companies have a different risk profile and so the consultation says it may be appropriate to limit the market to just institutional and professional investors.

Do we really need regulation and financial intermediaries for an individual buying £500-worth of shares in a company where he knows the CEO? Or perhaps he or she wants to buy shares in the local football club. It is still legal to bet in the UK and people are left to weigh up that risk.

The proposed rules as drafted will allow employees to be deemed 'professional' and eligible to trade. I really do not see any realistic distinction between an employee and any other potential shareholders. Working for a company does not fully inform a person. The majority of staff at Thames Water could not reasonably be expected to understand the pages of disclosure on their employer's derivative instruments. Thinking about it, I rather fear hardly anyone could understand that.

Disclosure is proposed under PISCES of "all inside information" as defined in the quite judgemental Market Abuse Regulation. This could be onerous and disproportionate when put in the context of what might well be a trivial volume of share trading. It could require disclosure that might have an adverse effect on the company's business and compliance costs may well exceed trading volumes.

It seems to me that the UK stock market worked better when disclosure was little more than annual accounts of modest size. Restricted information is inevitably a risk factor in most investments, but investors are not compelled to invest.

Whether a heavily and expensively regulated private company trading market will be economically viable for participants is, in my opinion, pretty obviously questionable.

The star sign Pisces runs from 20 February to 20 March and is ruled by Neptune and Jupiter – I'm not great on the pseudoscience of astrology. Neptune is the planet of intuition, dreams and illusion. Jupiter is the planet of expansion and prosperity. HM Treasury must be hoping Jupiter is in the ascendancy, and Neptune isn't.

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