

Stephen McGoldrick
Financial Conduct Authority
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By email

10 September 2025

Dear Stephen McGoldrick,

Listing Authority Advisory Panel response to the FCA's CP25/20: The SI regime for bonds and derivatives including Discussion Paper on equity markets

The FCA Listing Authority Advisory Panel (LAAP) is an independent statutory panel that advises the FCA on policy issues which affect issuers of securities, and on policy and regulation proposals from the FCA listings function. The FCA is required to establish and maintain this Panel under FSMA. The FCA Board appoints Panel members and not as representatives of any individual firm; they are expected to contribute to the Panel from the perspective of wholesale and securities markets or the primary market sub-sector in which they are working, drawing on their personal experience and expertise and industry sentiment more generally. This response reflects views widely held by LAAP and does not necessarily imply unanimity.

The Panel welcomes the opportunity to respond specifically to the FCA's paper on the future of UK equity markets. We are firm in our belief that UK equity markets must remain open, transparent and robust to sustain investor confidence and maintain the UK's global appeal for issuers.

Response to the FCA Discussion Paper on Equity Markets

After the most significant changes to the listing regime in a generation, turning to secondary markets is a logical next step to ensure companies choosing to list, and stay listed, in the UK can access vibrant and liquid capital markets while offering investors the best trade execution outcomes.

There has been a meaningful negative shift in the perception of liquidity in the UK Capital Markets over recent years. It is important to understand and address this if the UK's Capital Markets are to grow and remain globally competitive. Liquidity is now regularly a topic of conversation with (and within) companies that are assessing their listing venue. Often these companies are comparing the liquidity in London to other major capital markets globally and basing their decisions on where to list, or stay listed, on this data.

Total addressable monthly value traded on Central Limit Order Books (CLOBs) during the lit continuous phase of the trading day has fallen from 47.1% of all 'addressable liquidity' in January 2018 to 25.2% in June 2025 which is a decline of 46.5% in lit activity.

	Jan 2018	June 2025	Change in Share of Total Liquidity	% Change Relative to Jan 2018
Lit	47.1%	25.2%	-21.9%	-46.5%
Dark	7.6%	9.9%	+2.3%	+30.7%
Off Book / On Exchange	13.5%	12.6%	-0.9%	-6.8%
Off Exchange / OTC	4.0%	9.3%	+5.3%	+131.0%
Off Exchange / SI	13.8%	17.7%	+3.9%	+28.3%
Periodic Auctions	0.5%	5.2%	+4.7%	+891.2%
Regular Auctions	13.5%	19.7%	+6.3%	+46.5%

This means that UK now has the lowest level of lit activity of any major market in the world. The decline in lit markets has created several challenges which need to be addressed:

The first is one of fairness and price formation; efficient price formation is foundational to the functioning of fair and transparent capital markets. A liquid secondary market ensures that shares can be bought and sold quickly at transparent prices, and without causing significant changes in price. This ultimately makes it easier for companies to attract capital at a lower cost and facilitates the reallocation of capital within the economy by investors, driving the most efficient use of capital and promoting economic growth.

Ensuring that all market participants have equal access to liquidity on a level playing field is critical to the fair and orderly functioning of the UK Capital Markets. CLOBs perform this role and ensure a robust price formation process occurs in establishing reference prices, derived from deep and transparent liquidity. It is in the interests of all market participants, from investors to issuers, that this unique role remains a key component of a future competitive market. It should be noted that other forms of liquidity provision rely on the soundness and depth of these reference prices but have little or less incentive to contribute to them. This has weakened price formation, market structure and the perceived depth of market liquidity.

MiFID reforms rightly sought to create a more competitive market for that price-forming process, but there must be a balance between the interests of market structure, price formation processes with appropriate access and pre- and post-trade transparency and competition. Given that UK lit activity is already at the lowest level of any major market in the world, if the CLOB share of trading was to continue to fall there is a risk of fundamental damage to the long-term health of our market structure and follow-on impact to the wider economy. The main objective driving the FCA's work on market structure should be to ensure that equity trading is fair in its access, transparent, simple and efficient, protecting the integrity of UK price formation.

The second challenge is that the shift away from trading on lit venues has created an engrained perception that overall market liquidity has fallen. There are several factors leading to an underestimation of liquidity; challenges related to the collection,

dissemination, and interpretation of total market volume, addressable volumes that may be missing completely, and lack of clarity on volumes that are accessible to all. This underestimation of market liquidity has led to negative commentary about the true liquidity of UK markets and has an impact on efficient capital allocation. As investors determine the volume of capital to allocate to companies, they wish to invest in based (in part) on liquidity/ADTV metrics, the lack of clarity on the addressable (or sometimes accessible) volumes they should be considering, and the material risk of their understatement reduces the capital available to UK-listed companies – to their detriment.

There has been a persistent challenge in obtaining an accurate single source of truth of total liquidity as data vendors are still using only subsets of total liquidity, which has created a general mistrust among market participants. This means that investors are choosing not to use estimates of total liquidity data, even if they can access it, because of the uncertainty regarding the veracity of the data, interpretations of it, and the fact the data is not universally accessible.

Within this, there is an additional underrepresentation of trading volumes created by swap transactions. The FCA highlight how equity swap transactions, that reflect a transfer of economic ownership, may not result in a trade report being generated when the writer of the swap is able to hedge the economic exposure either through inventory or another swap. We consider this transaction to be addressable liquidity and therefore not reporting it underrepresents market liquidity. In turn, this artificially constricts the capital available to UK listed companies from global asset managers. We support the FCA's proposal for disclosure to be based on the transfer of economic ownership and believe this will become increasingly critical as the trading of these instruments continues to grow, including by retail investors.

As referenced above, fund managers may be limiting their capital allocation to UK companies based on a narrow definition of volume which is accessible to everyone. It is also clear that liquidity accessible to everyone is the liquidity they favour referencing. The lack of full information on how much has traded and commonly agreed definitions of addressable liquidity consequently restricts the capital available to companies. If we want to grow the UK Capital Markets, focusing on this metric is critical to ensure this decline does not continue. The resolution of it, should lead to greater capital being made available to UK listed companies, growth in the underlying value of issuance and more liquidity as a consequence.

Therefore, in parallel to reforms to preserve liquidity on CLOBs, we would encourage the FCA to take steps to rapidly facilitate the establishment of a post-trade equities tape providing a single reference point as to total liquidity to act as a legitimate capital allocation reference point. This would have many immediate benefits, including supporting on the key metrics, free float adjusted daily turnover, which companies and investors look at when opining on the attractiveness of the UK Capital Markets.

We welcome the FCA efforts to focus on market structure now as we should not wait until the equity markets break before fixing them given their critical importance to the economy. We would also caution the FCA against taking any further steps that reduce competitive lit continuous activity, thereby making the UK even more of an outlier amongst its peers. The focus should be to ensure that price formation remains robust and efficient and that structural threats are resolved before they cause potentially damaging destabilisation for consumers and competition alike.

In addition to the broader structural challenges facing UK equity markets, it is important to consider how current interpretation of trading rules impact specific corporate actions—particularly share buybacks. The current interpretation of the trading rules limits an issuer

and their broker to trading their buyback only on the lit continuous portion of the market, and trading in the closing auction is not permitted. Under UK MAR, trading of buybacks in dark pools is not explicitly prohibited, but there are important conditions that effectively discourage or limit it if a company wants to benefit from the Article 5 safe harbour against market manipulation claims. There is an argument that a more flexible framework for executing transactions would result in lower costs and reduced execution risks, allowing companies to access the liquidity of the dark pools and closing auctions, which is where many institutional shareholders deal.

We would welcome the opportunity to discuss any of these points further.

Yours sincerely,

[signed]

Mandy Gradden
Chair, FCA Listing Authority Advisory Panel