FINANCIAL CONDUCT AUTHORITY

Engagement Paper 4

Non equity securities

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Contents

Summary 3
What we want your feedback on 3
Introduction 4
Making the debt programme regime more efficient 6
Dual disclosure standards for 'wholesale' versus 'retail' issuances 7
Facilitating broader access to listed bonds 9
Structured finance and investment products 10
Secondary issuances 12
Green, social or sustainability labelled debt instruments 12
Professional Securities Market 15

Public Offers & Admissions to Trading

This paper is part of the FCA's series of Engagement Papers on the new Public Offers and Admission to trading regime. These Engagement papers set out our emerging policy thinking on how the FCA may use its rule-making powers under the new regime. Feedback on these papers is intended to create a dialogue between us and stakeholders which will inform further development of proposed rules, which the FCA will consult on formally during 2024.

Other papers in the series are available on the FCA's website: www.fca.org.uk/markets/new-regime-public-offers-and-admissions-trading

The FCA is seeking comments and suggestions on our initial thoughts as set out in this paper.

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Summary

1. In this paper we consider issues related to how we may improve the regimes for non-equity securities under the new public offers and admission to trading regimes.

2. This paper considers the following issues:

- How we may make the debt programme more efficient.
- Facilitating broader access to listed debt.
- Structured finance and investment products.
- Secondary issuances.
- Green, social or sustainably labelled debt instruments.
- The Professional Securities Market.

What we want your feedback on

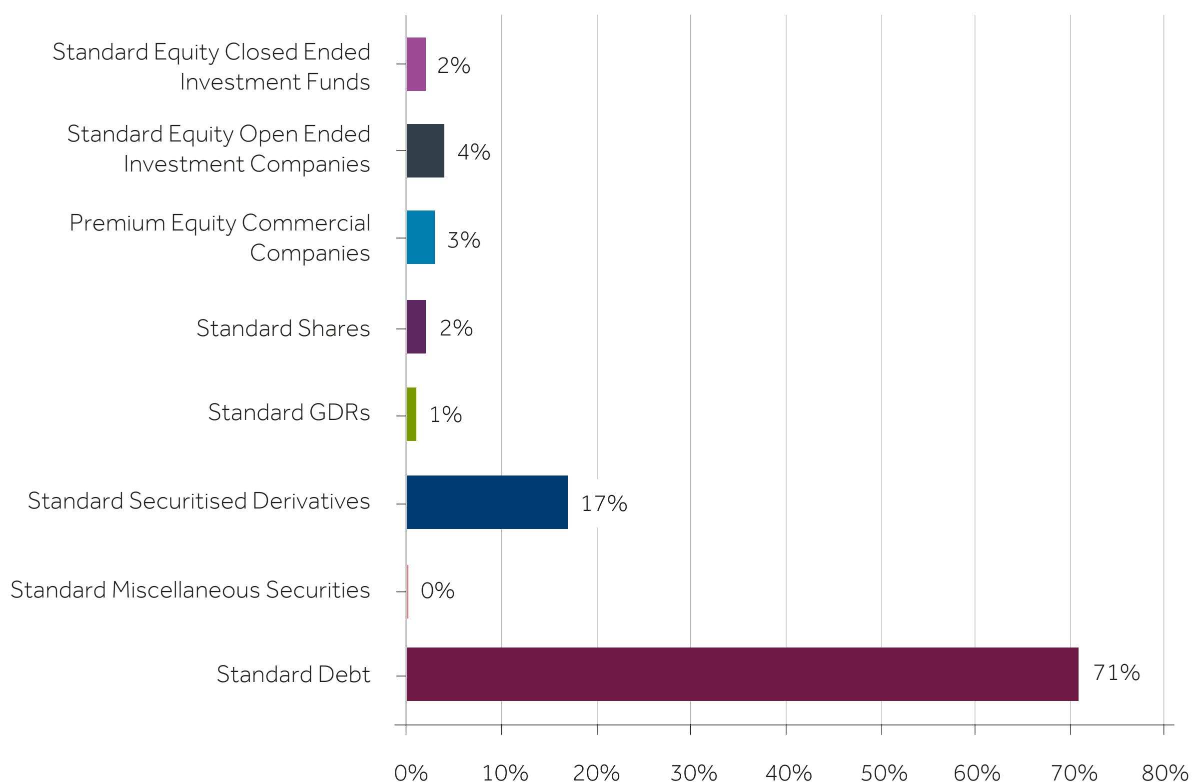
3. We are interested in your views on the following areas;

- We are interested in views on whether the current UK prospectus regime broadly works well in the context of wholesale, debt capital markets and whether there are any particular areas that work less well and that we should consider for amendment. We would also be interested in stakeholders' views on the exemptions from the requirement for a prospectus discussed in the Engagement Paper 1: Admission to trading on regulated markets in the context of wholesale debt capital markets.
- We are interested whether stakeholders would welcome the removal of the dual disclosure standards in non-equity prospectuses, and whether they agree that the existing wholesale disclosure annexes should be a starting point for a new single standard. We would also be grateful for stakeholders' views on whether there are any key items from the retail disclosure annexes which they believe would add value to such a revised disclosure regime.
- We are interested in shareholders' views on whether we should require additional disclosure for certain types of non-equity securities that are structured finance products or traded investment products and if so, what additional information they think would be useful for investors.
- We are interested in shareholders views on whether disclosure requirements for secondary issuances of non-equity securities should be revised and on the various options discussed here and in the Engagement paper on further issuances.
- We would welcome views on whether the discussed ESG disclosures would represent an improvement on the information available to investors, the information which should be required and the benefits or limitations of the two options described below.

Introduction

Non-equity securities

4. Non-equity securities comprise a wide array of instruments raising vast amounts of funds for a large variety of issuers. Approximately 89% of securities included in the FCA's Official List are non-equity securities[1].



5. There is a significant diversity of instruments that are subsumed under the heading of non-equity securities. They range from vanilla corporate bonds to highly complex structured finance instruments, from exchange traded commodities to covered bonds to Islamic finance instruments, and so on. Some non-equity securities are used to raise financing for corporates and other enterprises, as well as sovereign and other public issuers. Others are perhaps better described as structured finance products in security form or traded investment products.

6. On the whole, we think that the current prospectus regime works well for issuers of, and investors in, non-equity securities. We believe it is important that any changes to the regime do not introduce unwarranted obstacles to the smooth functioning of debt capital markets.

1 Source: Official List, May 2023

7. We also recognise that the UK debt capital market is itself part of a global debt capital market, and that many issuers of bonds in the UK access debt funding and operate debt programmes on a pan-European or global basis. We understand that stakeholders are keen that the new regime preserves issuers' ability to do so with ease.

8. So in our view, the current regime in this area does not need a major overhaul. Nonetheless, we want to review it to see whether there are any areas that could be improved in order to further our preferred outcomes for the new regime.

9. We consider below certain changes to the regime for non-equity securities admitted to trading on regulated markets. Some of these changes are process improvements aimed at minimising costs for issuers without impacting investors' ability to have sufficiently reliable information. Others are geared towards removing barriers to wider participation in certain non-equity products beyond larger institutional investors. We also consider whether the regime should make a clearer distinction between certain types of non-equity securities to enable investors to have sufficient reliable information on these securities and reduce risks of investor harm. Finally, we discuss the approach we could consider in relation to green, social or sustainability labelled debt instruments.

Wholesale debt capital markets

10. Early feedback suggests that the current UK prospectus regime works well in the context of wholesale, debt capital markets. Issuers in primary UK debt capital markets are able to access funding on a pan-European and international basis.

11. For example, in 2022, 2,422 new fixed income securities were admitted to the London Stock Exchange, raising £487bn. In 2021, over £510bn were raised. In terms of numbers of new bonds issued, the UK is now the second-placed international listing venue.

12. Many issuers maintain bond issuance programmes in multiple jurisdictions. We are aware that it is important to stakeholders that this ability to raise debt on a global basis is preserved. As a result, we believe that regulatory variances between jurisdictions are largely unwelcome to stakeholders; rather, stakeholders prefer consistent disclosure frameworks across jurisdictions. And the direction of travel of capital markets policy in recent decades is that of convergence rather than divergence. Our initial thinking is the new regime, as it impacts debt capital markets, will respect that view.

13. Nonetheless, we would be interested in industry views as to whether there are any particular areas that we should consider for amendment in this context.

14. To preserve the smooth functioning of the pan-European, including UK, wholesale market for new bond issues, stakeholders have previously urged us to ensure that the exemptions from the UK regime and UK wholesale thresholds are not narrower than the exemptions and wholesale thresholds in the EU regime.

15. Whilst the exemptions from the public offer regime will be set out in legislation, exemptions from the requirement for a prospectus for admission to trading will be set out in FCA rules. We discuss these in the Engagement Paper 1 on admission to trading on a regulated market. As explained there, for the new regime, the draft SI includes a definition of "excluded securities" that mirrors the list in Art.1(2) of the Prospectus

Regulation. In the draft SI, this definition is used to exclude these 'excluded securities' from the definition of "relevant securities", but not from the definition of "transferable securities". As a result, we could theoretically make admission rules and require a prospectus with respect to "excluded securities". However, our starting assumption is that in our rules we would mirror the exemptions in the draft SI and will want to exclude these securities from the requirements for a prospectus for admission to trading. Similarly, and subject to industry feedback, our initial view is that we should largely replicate the exemptions in Art. 1(5) of the Prospectus Regulation in the new regime. We would be interested in industry view as to whether the exemptions as proposed preserve the smooth functioning of the pan-European and global wholesale market for new bond issues.

Making the debt programme regime more efficient

16. While we would view the current regime as broadly working for new issues of wholesale debt securities, we see some scope to make it more efficient, and we would like stakeholders' views on this.

17. We note, for example, that previously stakeholders suggested certain changes to the rules for "incorporation by reference" to allow incorporation by reference of future financial information. Under the current UK regime, an issuer can incorporate by reference certain previously published regulated information in its prospectus. One possible enhancement could be the rules being amended to permit, in addition, a statement that specific named items of financial information are deemed to be incorporated by reference into the prospectus at the point those items are published. Under the current regime, this is not possible; instead, issuers need to publish supplementary prospectuses to incorporate information that is published after the publication of a prospectus. Allowing future financial information to be incorporated without the need for a supplementary prospectus would therefore further our preferred outcome of minimising costs for issuers.

18. Under the current regime, if a supplementary prospectus is required, this must be published "without undue delay". We could consider deviating from this for base prospectuses, and instead clarify that issuers have the option not to supplement a base prospectus so long as no new securities are issued under it. If the issuer wanted to resume issuing securities under the base prospectus, it would have to supplement or update the base prospectus.

19. Again, under the current regime, when financial information is incorporated by reference in a base prospectus via a supplementary prospectus, investors who have already agreed to purchase securities have a right to withdraw their acceptances. If instead, we would allow future financial information to be incorporated without the need for a supplementary prospectus, this would also mean – absent new rules providing to the contrary – that investors would not be granted withdrawal rights when future financial information is incorporated. We would be interested in stakeholders' views on this.

20. A more far-reaching change we could consider additionally would be to extend the validity of base prospectuses. Under the current regime, these are valid for twelve

months. We note that for example certain US shelf registration statements are valid for three years. We would be interested in stakeholders' views whether extending the validity of certain base prospectuses would be desirable.

21. We discuss, and ask for views on, Universal Registration Documents (URDs) in the Engagement Paper on Admission to trading on regulated markets.

Dual disclosure standards for 'wholesale' versus 'retail' issuances

22. The current prospectus regime requires more disclosure for issuances of non-equity securities with a denomination per unit below €100,000 than for non-equity securities with a denomination at or above that threshold (see box 1 for details). This dual standard of disclosure was intended to be a retail investor protection measure. Low denomination bonds are assumed to be investments that retail investors might participate in worthy of additional investor protection. That investor protection took the form of extra disclosures.

Box 1: Main differences between retail and wholesale disclosure requirements

The current regime sets out a distinct, reduced disclosure standard for prospectuses for non-equity securities with a denomination per unit at or above €100,000 (ie wholesale securities), comprising information requirements that are less onerous than those applying to non-equity securities offered below that threshold (ie retail securities).

Most saliently, the two standards diverge as follows:

- Only prospectuses for retail securities must include a summary.
- In retail prospectuses, additional details on the issuer's history and development, trends, business and share capital are required, as well as inclusion of cash flow statements and quarterly or half yearly financial information.
- More permissive requirements in regards to accounting standards for wholesale prospectuses.
- Retail disclosure standard requires details of the offer of securities to the public and additional narrative explaining certain complex features.

23. However, in our view the effect of this dual standard of disclosure has been to create an incentive to issue high denomination securities to avoid these extra disclosure obligations. In 2004, the year before the dual standard of disclosure was imposed via the original Prospectus Directive, 76 issuers had non-equity securities in retail denominations admitted to the Official List. In 2022, while the number of issuances admitted to the Official List overall had doubled, the number of issuers issuing low denomination securities had shrunk to only 20 (only 13% of overall issuers), and most of the low denomination securities issued were structured finance products.

24. The result appears to us to have been a significant market-wide effect: a bifurcation of debt capital markets between, on one hand, 'wholesale' and, on the other (and such as it is, given the number of issuances) 'retail'. Few well-known UK corporates have participated in the latter market.

25. We would welcome comment on this observation and its impact on overall market quality. It appears to us that the dual standard of disclosure is, at the very least, an impediment to our stated preferred outcome of creating a regime that encourages wider participation in well-regulated capital markets. We are therefore proposing to adopt a single standard for bond disclosure in the prospectus regime, with the existing wholesale disclosure annexes as a starting point. This is a regime we think works well.

26. We recognise that the €100,000 threshold in the current Prospectus Regulation was intended to be an investor protection measure. It is, however, indiscriminate, applying irrespective of the features of the security in question: a security might be extremely standardised, but if issued in low denominations, the extra disclosure is required. We do think the effect it has produced – this bifurcation between wholesale and retail markets – is unlikely to produce the best outcomes for retail. Firstly, the effect appears to have been to exclude smaller scale investors from the best products. Secondly, a product in which sophisticated institutional investors are prepared to invest is likely to offer better terms than a product aimed solely at retail investors: institutional investors are more likely and able to apply more scrutiny and due diligence on the issuer and the terms of a non-equity offer and it is the presence of sophisticated institutional investors that exerts pricing pressure on issuers in primary markets.

27. In any case, since the dual standard of disclosure was introduced into non-equity securities markets via the original Prospectus Directive there have been a number of developments in retail investor protection. These suggest that, should retail protection measures be necessary, there are now other, better tools available to us to ensure good consumer outcomes.

28. Firstly, the EU packaged retail and insurance-based investment products (PRIIPs) regulation came into force in the EU including the UK in 2018. The Government has since committed to replacing it in the UK and intends to provide the FCA with new rulemaking powers to establish a replacement disclosure regime for retail investments. In DP 22/6, in anticipation of that new regime, we invited discussion and feedback on how we can design and deliver a good disclosure regime for retail investments. Although that discussion paper does not concern prospectus disclosure specifically, and indeed suggests certain listed securities will likely be out of scope of the new regime discussed there, it is nonetheless relevant to our approach to new prospectus rules for non-equity securities. In DP 22/6 we considered how we can align the 'made available' rules with the Consumer Duty non-retail financial instrument definition and any subsequent changes to the Prospectus regime. We want to ensure retail disclosure is proportionate to the risk a retail investor is taking on while also reducing the distortions caused by a €100,000 minimum denomination.

29. Secondly, since the Prospectus Directive came in, we have introduced marketing restrictions on certain investment products which have features that pose significant

risks to retail investors. These have limited the distribution of the products in question. Where a product is truly unsuitable for retail investors, this option is available.

30. Thirdly, retail access to non-equity markets will be intermediated by authorised firms. We note the Consumer Duty will apply in relation to this intermediation. Again, we note the €100,000 threshold has had a market-wide effect. We think it is likely to be better that extra disclosures, risk warnings tailored to retail investors or other steps to ensure appropriate consumer outcomes – should they be necessary – should be provided at that point by the firm concerned, as opposed to by the issuer in prospectus documents.

31. We discuss below whether additional disclosure should be required in respect of certain structured finance and investment products. This might include certain markers to clarify whether these products have features that mean that they fall within the scope of for example marketing restrictions or bans, additional retail disclosure requirements or the Consumer Duty.

32. We also discuss below a scheme to facilitate broader investor access to low denomination bonds issued by UK-listed corporates.

Facilitating broader access to listed bonds

33. We are aware of calls among some UK market participants for measures to address what is seen as the exclusion of smaller scale investors from listed bond markets. The removal of the dual standard of disclosure proposed above is one measure which we believe will assist here. There remains, however, a question as to whether more might be done.

34. We think there may be an opportunity for a scheme which encourages the issuance by seasoned UK-listed corporates of simple standardised unsubordinated unsecured corporate bonds aimed at a wide range of investors, retail and wholesale. As we note above, a product in which sophisticated institutional investors are keen to invest is likely to offer better terms for all investors, including retail investors than a product aimed solely at retail investors due to the additional scrutiny and pricing pressure institutional investors exert. Such a scheme may be to the benefit of all participants, issuers and investors alike, giving issuers a new additional source of demand for their bonds and by giving investors better access to corporate credit.

35. Any scheme will be about encouraging and incentivising this kind of issuance. Importantly, no issuer will be compelled to participate; nor will participation rule out the issuance of other more complex (for example subordinated) product. The incentive would take the form of a reduction in disclosure obligations for certain types of UK-listed non-equity securities meeting certain specifications. This could apply to both the new prospectus regime, where issuances of securities in scope could benefit from a much-reduced securities note, and the proposed new retail investment product disclosure regime, where the benefit would be a clear exemption from any additional investment product disclosures. This would be on the basis that issuers in scope will be already providing significant disclosure and the instruments will be by their nature simpler to assess.

36. We welcome feedback on the idea and look forward to iterating details of the specifications in partnership with industry. Our initial thinking is the securities in scope would be debt securities which are:-

- issued by a company with premium listed equity (or similarly seasoned) or by a subsidiary;
- unsubordinated and unsecured (though benefiting from a parent guarantee if issued by a subsidiary, and from a negative pledge);
- denominated in low denominations;
- issued in GBP and bearing either fixed rate interest or a floating rate interest linked to SONIA;
- Additionally, the securities in scope would be issued using a trust structure, with an FCA regulated firm acting as Trustee.

37. While we see benefits in greater standardisation of terms and conditions (T&Cs), we recognise that issuers value flexibility and we are concerned that it may be difficult to achieve consensus on what should be standardised, and how. We therefore suggest that the T&Cs should meet certain minimum requirements in terms of the coverage of issues. We suggest the T&Cs should address modifications, early repayment, and events of default. The coverage of these matters is in any case market-standard for unsubordinated debt securities.

38. Getting the scope and specification right will be important. Given the complex capital structures of financial institutions, we are likely to exclude financial institutions. We would also wish to exclude non-equity securities that have certain risky, complex or non-customary features (see for instance the features described in paragraph (3)(b)(ii)-(iv) of the new definition of 'retail market business' relevant for the Consumer Duty) and structured finance products. And for obvious reasons, securities that have features that make them subject to retail marketing bans or restrictions would not qualify.

Structured finance and investment products

39. Non-equity securities comprise a very significant diversity of instruments, issued for a wide range of purposes, using many different types of structures and with a large variety of commercial and legal terms.

40. Nonetheless, the current prospectus regime prescribes the same annexure disclosure for all non-equity securities (other than asset-backed securities). And the vast majority of non-equity securities are included in the Official List under the listing category of "standard debt".

41. The current annexure, in our view, fits the structure of some non-equity securities better than others. For instance, the annexes prescribing the information to be included in securities notes are tailored to bonds with a variety of interest provisions, but they are also used, for example, for Exchange Traded Commodity securities (ETCs) which do not bear interest.

42. More fundamentally, some non-equity securities are used to raise financing for corporates, other enterprises, as well as sovereign and other public issuers. Others, however, are perhaps better described as structured finance products in security form or traded investment products.

43. This is not simply a distinction between so-called vanilla corporate bonds and more complex debt securities. Corporate and other issuers use more complex debt products to raise funding for their general corporate purposes or for project financing. For instance, corporates with cashflow-generating assets may use a 'traditional' securitisation structure to fund their corporate needs. This can be contrasted against a special purpose vehicle organised by an asset management type firm which pools investor's money and then sources investments for the vehicle so as to generate a return. The latter may be more properly viewed as a traded investment product in security form.

44. Put differently, we see a distinction between units of corporate, project or public finance on the one hand and products of the financial services industry on the other.

45. In our view, examples of traded investment products in security form include exchange traded funds (ETFs), exchange-traded notes (ETNs), exchange traded commodities (ETCs), securitised derivatives and other structured financial products. We have also seen examples of issuances of asset-backed securities where the originator/organiser/borrower does not own or control the underlying assets at the start of the structure. These vehicles were in effect 'blind pools' with assets to be sourced later from third parties by the originator. Such an investment vehicle is a different proposition to a traditional securitisation for which the asset-backed annexes were originally written.

46. Our aim is to ensure the correct regulatory and disclosure treatment of all non-equity securities, including those we view as traded investment products, and to protect the integrity of the regime. We believe that the current disclosure requirements are probably well tailored to most units of corporate or project finance. However, we may want to require different or additional disclosure for certain products of the financial services industry. For example, for securities issued by an issuer which is really an investment vehicle structured by an asset manager, we might require disclosure of the credentials of the promoter/organiser and the fees involved. When formulating these requirements, we might draw on the disclosure requirements developed for closed-ended funds, particularly as concerns investment managers.

47. Whilst this paper relates to the disclosure regime, we might also consider revising the listing rules to better make the distinction between these two types of non-equity securities, and to tailor the applicable listing rules, including eligibility requirements, to each. Where necessary we could impose eligibility rules to ensure the organiser/manufacturer (which may be overseas) is appropriately regulated.

Secondary issuances

48. We discuss requirements for secondary issuances of equity securities and funds in the Engagement Paper 2, on further issuances. We would also like stakeholders' views around the requirements for secondary issuances of non-equity securities. We believe tap issuances (further issuances of debt securities fungible with previously issued securities) avoid the fragmentation of liquidity among multiple lines of securities that occurs when new non-fungible lines are issued. In that sense, they are likely to contribute to depth and quality of markets. We would therefore be interested in exploring ways to encourage such issuances and could consider reducing disclosure requirements for certain issuances of non-equity securities.

49. The current regime exempts issuances of further securities that are fungible with securities already admitted to trading from the requirement to publish a prospectus. This is provided they represent, over a period of 12 months, less than 20 % or the securities already admitted. Options for non-equity securities include revising the threshold for non-equity securities in line with the approach taken for secondary issuances of equity securities and funds as discussed in the Engagement Paper 2 on further issuances. Other options might be a simplified prospectus bespoke for non-equity securities, or a much more reduced document more akin to the final terms documents used in issuance programmes when a base prospectus has been published, perhaps with a 'cleansing statement' in the document. These are discussed in more detail in the Engagement Paper 2 on further issuances.

50. Additionally, in furtherance of our preferred outcome of encouraging participation of a wider range of investors, we could consider alleviating disclosure requirements to encourage seasoned UK issuers with equity securities already admitted to regulated markets to issue low denomination non-equity securities. These reduced disclosure requirements would be available for issuances of corporate bonds, but not structured finance or investment finance products.

51. We would be interested in stakeholders' views on any of these options, the circumstances under which they should be available, and the level of disclosure that would be appropriate in a simplified or alternative offer type document.

Green, social or sustainability labelled debt instruments

52. We have sought views on our future approach to sustainability-related PR disclosures for general purpose debt instruments as part of Engagement Paper 1: Admission to trading on a regulated market. In this section, we focus more specifically on our approach to green, social or sustainability labelled debt instruments including Use of Proceeds (UoP) bonds (such as green, social or sustainability bonds) and sustainability-linked bonds (SLBs).

Box 2: Use of Proceeds and Sustainability-Linked Bonds

UoP bonds are a standard recourse-to-the-issuer debt obligation for which the proceeds are used for a specific project or to finance a sustainable economic activity that is linked to the issuer's investment framework for eligible projects. The market has developed various types of these instruments including green bonds, social bonds, blue bonds and sustainable bonds.

An SLB is any type of bond instrument for which the financial and/or structural characteristics (typically the coupon) can vary depending on whether the issuer achieves predefined sustainability and/or ESG objectives. These objectives generally refer to sustainability performance targets (SPTs), supported by more detailed key performance indicators (KPIs).

53. In CP 21/18 we sought views on UoP bonds and SLBs and set out our concerns about the gaps observed in some instances between the information provided to investors in prospectuses and in other documents, such as bond frameworks. Bond frameworks are documents produced by issuers to set out in more detail their approach to ESG-labelled instruments, typically in line with a set of industry standards such as the ICMA Principles or the Climate Bonds Initiative's Climate Bonds Standard. They may also be issued in line with a national bond standard (e.g., China Green Bond Principles). As we said in CP21/18, bond framework documents which form part of a communication that relates to an offer or admission of securities are likely to be advertisements for the purposes of the prospectus regime, so must comply with the Prospectus Regulation and the Prospectus RTS Regulation.

54. Disclosures in the bond framework are not part of the prospectus, however, and are not contractually binding. There is therefore a risk that issuers may indicate an approach in the bond framework which differs materially from that which they have committed to through the prospectus. This could be harmful where it leads to investors misunderstanding the green, social and sustainability labelled debt instruments they are purchasing. This may lead to securities being mispriced or to investors not achieving their sustainability goals. Bonds whose practical impact differs significantly from their stated purpose may also be regarded as a form of greenwashing, undermining trust and the integrity of the market.

55. As discussed in FS 22/4, several respondents commented on the need for alignment between the information presented in the prospectus and the bond framework documentation. There was broad support, notably from investors, for prospectuses to include minimum disclosures on the types of projects and activities for which an issuer will use the proceeds of an offering. However, respondents also highlighted some concerns about regulatory intervention, including the risk of regulatory fragmentation and the impact that new rules may have on the competitiveness of the UK market. There was little support for more ambitious measures such as regulatory requirements that the central elements of UoP bonds be reflected in contractual agreements and set out in the prospectus.

56. In response, we issued Primary Markets Bulletin 41, reminding issuers that where bond frameworks form part of a communication that relates to an offer or admission of

securities, they are likely to be advertisements for the purposes of the prospectus regime, and so must comply with the Prospectus Regulation and the Prospectus RTS Regulation. We also indicated that we would revisit this topic within the context of the update to the UK prospectus regime to understand whether further disclosure requirements are required.

57. We continue to have concerns about potential divergence between the information provided in the prospectus and that described in other documentation such as the bond framework. To mitigate these risks, we are therefore exploring the desirability of strengthening the connection between the prospectus and bond framework documents through new disclosure requirements. Enhanced transparency should prompt issuers to tie the prospectus more closely to wider materials and encourage issuers to consider in more detail the characteristics of specific issuances in the context of their wider strategy and sustainability ambitions thus providing investors with valuable, financially material, insights.

58. The FCA's focus is on improving transparency about the alignment between the instruments on offer and industry principles and guidance, to provide investors with more complete and accurate information. Our intention is not to replicate all the information typically included in contractual arrangements, require issuers to incorporate their bond frameworks by reference into the prospectus or set standards for ESG-labelled securities.

59. In terms of how any new disclosure requirement could be framed, the FCA is currently exploring two approaches. The first would be to focus on the connection between the prospectus and the bond framework at a high-level. This could apply to UoP as well as SLB instruments. This could entail requirements to disclose information around matters such as:

- Whether the issuer has a bond framework and where it can be found.
- Whether the bond is being issued in line with the framework.
- Whether the bond and/or framework has been issued in line with specific industry principles (such as the ICMA Principles) or a bond standard.
- Whether the issuer has sought any form of external review of the alignment of the bond or bond framework with these industry principles or standards (i.e., a second party opinion or pre-issuance verification of the framework), and where any related documents can be accessed.
- Whether the bond will be subject to post-issuance review. If so, what type and who will provide it.

60. A second approach would be that, in addition to the disclosures on bond frameworks detailed above, the FCA would also require more specific disclosures on UoP bonds and SLBs. This would allow the FCA to introduce requirements which are better tailored to the different types of instruments.

61. For UoP bonds, this information could include:

- Information on the projects which the bond is intended to finance
- An explanation of the approach to project evaluation and selection

- An explanation of how the issuer classifies projects as green, social or sustainable – for example, by reference to external standards.
- How proceeds will be managed.
- Whether the issuer intends to seek post-issuance review of their projects and of what form.
- The expected approach to reporting on the impact of the projects.

62. For SLBs, the FCA's assumption is that information on the Sustainability Performance Targets (SPTs) and relevant Key Performance indicators (KPIs), and the financial impact these could have on the bond (e.g., step-up and down mechanisms) will be included in the final terms of the bond. We want to gather views on the merits of prompting issuers to include additional information or to draw links to other documents (such as transition plans created in line with the Transition Plan Taskforce disclosure framework, once published) which are likely to be material for investors, especially sustainability-focused investors. For example, this could include:

- The rationale and process for setting sustainability KPIs and SPTs, how the organisation has ensured that these are ambitious and meaningful, and how these have been benchmarked.
- An explanation of how the KPIs and SPTs fit with the organisation's wider sustainability and business strategy.
- An explanation of why the financial consequences of failing to meet the intended SPTs and KPIs are deemed by the issuer to provide adequate incentives for the issuer to effect the necessary changes to achieve those targets, including, for example, in relation to how material any step-up or step-down is.
- What independent verification the issuer will seek post-issuance.
- The expected approach to post-issuance reporting.

Professional Securities Market

63. Under the new regime, operators of primary MTFs will be able specify their own admission document rules and those documents which will have the status of a prospectus. The LSE's Professional Securities Market (PSM) is a primary MTF for officially listed securities. No prospectus is required under the old regime as the market does not have Regulated Market status. Instead, an older type of official admission document, listing particulars, is prepared and published and is subject to review and approval by the FCA.

64. Under the new prospectus and admissions regime, MTF admission documents will have the status of a prospectus. The arrangements in place for the PSM are at odds with the new regime and may be viewed as unduly complex and difficult to understand once the new regime beds in. We therefore propose closing the PSM to new listings when the new regime comes into force. This would mean no new companies' securities could be admitted to the Official List and PSM. However, existing issuances could remain officially listed under transitional provisions. As an operator of Primary MTFs, the LSE could continue to operate the PSM as an unlisted market if it wishes and could make provision for PSM admission documents to have the status of a prospectus.

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