PISCES: A big fish in the capital markets pond or a red herring?

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An overview of the Private Intermittent Securities and Capital Exchange System (PISCES)

For many high-growth businesses, finding ways to offer liquidity to their shareholders while avoiding the complexities of traditional public market listing can be a significant challenge. The London Stock Exchange's AIM (Alternative Investment Market) has long been a go-to platform for companies seeking public market access, thanks to its lighter regulatory framework compared to the Main Market. However, while AIM has served as a stepping stone for many businesses, it is not without its shortcomings. Valuations often fall short of expectations and liquidity remains an ongoing concern.

For many scaleups, the idea of pursuing a traditional IPO can be overwhelming, with the pressures and requirements of a full market listing often too burdensome. This is where the PISCES framework, launched by the London Stock Exchange, may offer an innovative solution, providing a fresh alternative for private companies looking to enable shareholder liquidity without the rigorous demands of a full IPO.

What is PISCES?

PISCES is a legal and regulatory framework designed to provide a new approach to share liquidity for private companies. It seeks to bridge the gap between private and public markets by offering a secondary market for private company shares, allowing for the intermittent trading of these shares. Unlike traditional public markets, PISCES will not be used for the issuance of new shares but rather to enable the trading of existing shares of private companies during specific trading windows. The aim is to offer a pathway for private companies to provide liquidity to shareholders without needing to commit to the full regulatory burden and exposure that comes with an IPO.

At its core, PISCES provides a more flexible and less intrusive method for companies to offer shareholders the opportunity to realise value from their holdings while maintaining their private status. This represents a middle ground between the traditional private company model and the full, public market listing.

How will PISCES work?

PISCES will operate through a step-by-step trading process, designed to simplify and streamline the buying and selling of shares in private companies. Here's a closer look at how it will function:

Company eligibility: To be eligible to trade shares on PISCES, companies must first meet specific governance and financial reporting standards.

Due diligence portal: One of the key features of PISCES is the due diligence portal, which will give potential investors access to structured company data. Companies will use this portal to share key information such as financial reports, growth projections, and governance structures. The portal will only be accessible to investors during the trading windows and there will be no requirement for companies to disclose information to the public.

Trading windows: Unlike public markets, where trading occurs continuously, PISCES will offer intermittent trading windows. These windows will be specific periods during which shares can be bought and sold. This allows private companies to provide liquidity to shareholders without the pressures and reporting requirements of continuous trading.

Investor engagement: The platform is expected to cater primarily to institutional and accredited investors who can participate in these intermittent trading windows. By offering a structured platform for secondary share transactions, PISCES opens up new opportunities for private market participants, allowing them to buy and sell shares in private companies that they may not otherwise be able to access.

Ongoing reporting: Companies using PISCES will be required to maintain a level of ongoing transparency, providing regular updates on their financial performance, growth milestones and other relevant information. This helps to ensure that investors have access to up-to-date and accurate information, which is critical for making informed investment decisions. Although this information is shared with investors, it does not need to be disclosed to the public, keeping the company's privacy intact.

Potential benefits for growth companies

PISCES offers several advantages for growth companies, particularly those struggling to provide liquidity to their shareholders without resorting to a full IPO. Some of the key benefits include:

Enhanced liquidity: The primary benefit of PISCES is the liquidity it offers. For private companies, one of the most significant challenges is the lack of liquidity in their shares. PISCES creates a secondary market for private company shares, creating liquidity in a market that often struggles with it.

Regulatory oversight: PISCES operates under the oversight of the Financial Conduct Authority (FCA) and the regulatory framework is anticipated to align with broader efforts to enhance the transparency and integrity of UK capital markets.

Stamp duty exemption: Another advantage of PISCES is the proposal to exempt transactions from stamp duty and stamp duty reserve tax, which is similar to exemptions offered by the AIM and Aquis growth markets.

Simplified trading: The due diligence portal will simplify the process of trading shares by providing investors with all the necessary information in a structured and accessible way. It is hoped that this will help reduce friction in the process.

Potential challenges

While PISCES offers many potential benefits, there are some concerns that need to be addressed before it can be considered a viable alternative to public markets. Some of the main challenges include:

Liquidity issues: One of the main concerns surrounding PISCES is whether trading windows will provide enough liquidity to meet investor demand. Liquidity is crucial for ensuring investor confidence and engagement and intermittent trading may not provide the sustained momentum that some investors require.

Quality of participants: The success of PISCES depends on its ability to attract high-quality participants. While institutional investors are expected to be involved, the platform will need to attract a broad base of buyers and sellers willing to engage in secondary share transactions. If there is not enough activity on the platform, it could undermine the liquidity and value proposition of PISCES.

Information overload: The due diligence portal is designed to streamline the process of share trading but there is a risk that the volume of information provided could overwhelm both companies and investors. Ensuring that the portal is user-friendly and that the information provided is relevant and concise will be crucial to the platform's success.

What's next for PISCES?

PISCES is still in development, with a timeline for its official launch set for late 2025. In May 2025, a statutory instrument to establish PISCES is expected to be introduced and by July 2025, the government aims to legislate for the platform. Private companies and investors will then be able to use the platform within a regulatory sandbox by the end of the year.

If PISCES can overcome the challenges, it could provide a valuable solution for private companies looking to offer liquidity to their shareholders without the complexities of a traditional IPO. The success of PISCES will depend on its ability to deliver the promised benefits while minimising the risks and complexities that have left similar initiatives floundering in deep water in the past.

If you're a growth company or investor interested in how PISCES might assist your ability to buy and sell shares, please get in touch and I'd be happy to discuss what this new platform could mean for you.

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