



IPSOX Wholesale

A new capital market for institutional investors and companies holding commercial real estate

January 2020

What is IPSX Wholesale?

IPSX Wholesale has been designed to provide real estate owners with an onshore market that is capable of accepting a variety of different corporate structures within a flexible regulatory environment, including JV REITs. IPSX Wholesale will be a MTF, a multilateral trading facility that facilitates the exchange of financial instruments between multiple parties. This note provides information on the admission criteria for companies coming to market on IPSX Wholesale and on the market trading mechanism.

Proposed issuers

IPSX Wholesale has been designed for real estate owners holding commercial real estate in structures which may be more complex than the structures employed by issuers which are suitable for admission to IPSX Prime, and therefore be more suited for institutional investors.

The types of issuer could include more complex ownership structures, more complex legal arrangements, different leverage ratios (potentially impacting on returns), more unusual tenancy arrangements or tenancy covenants, and potentially issuers of commercial real estate companies where the assets are under development rather than fully established operating companies, i.e. property companies and investment companies.

These arrangements would all be subject to disclosure where material to investment decisions, and institutional investors would be capable of undertaking the more detailed due diligence required to inform their investment decisions.

We envisage that all of our issuers will have 'real assets' as their underlying assets. By this we mean that they will hold - or develop - buildings which could be used for purposes such as retail, commercial, student accommodation, health care or residential (large-scale rent to buy) and potentially this could include infrastructure, for example airports. The issuers could also be JV/club REITs and/or newly formed REITs.

The structure and age of the company, as well as breadth of ownership, may impact on how it is structured and securitised. IPSX will ensure all arrangements are appropriate for the nature of the market, the issuers and investors.

What are the admission criteria for companies coming to market on IPSX Wholesale?

IPSX Wholesale will enable issuers to be admitted to trading in the UK with:

- ***No prescribed minimum free float, consistent with other UK exchange-regulated markets***

As with other exchange-regulated markets, IPSX Wholesale will not prescribe the minimum free float. This is consistent with the principles-based approach of IPSX's rules which ensures they are relevant to the needs of each company within the baseline requirements of a public market. However, a company's free float is an important qualitative assessment, which can have a significant impact on the ability of the company to attract investors and the functioning of the secondary market. It is expected that a company's shares will trade on IPSX Wholesale, so the company and its IPSX Lead Adviser will need to demonstrate this as part of the admission process.

We will expect the IPSX Lead Adviser and the issuer to address the following factors during the application process:

- What is expected the market capitalisation at admission?
- What will be the anticipated free float?
- How many cornerstone investors will hold securities?
- What will be the expected spread and nature of the shareholders comprising the free float as well as the cornerstone investors?
- How are the securities likely to trade when admitted to IPSX Wholesale?
- If there is a limited free float, what is the rationale for the issuer to come to market and what are the longer-term plans in respect of free float?
- Where there are concentrated shareholdings, how will the issuer address the potential for conflicts which may manifest through corporate governance arrangements, strategic decision making, transparency and control?
- Are there further features of the issuer or the underlying asset(s) which might impact on the issuer's attractiveness to third party investment, such as:
 - o whether the assets are subject to (re)development, repurposing, retrofitting;
 - o whether the issuer has unusual corporate or legal structures impacting the issuer or underlying asset(s); or
 - o whether the issuer or asset(s) are subject to leverage in excess of 40% but less than 80% Loan to Value at admission.
- What are the potential risks of failing to raise initial target funds?

In considering the responses of an IPSX Lead Adviser and their issuer to the questions above, IPSX will be seeking to ensure that there is a realistic expectation that trading can and will take place in the company's shares. Accordingly, IPSX Wholesale is unlikely to be suitable for issuers with a market capitalisation below £100m; those with only one cornerstone investor (unless there is a free float in excess of 10%); and those with a de minimis free float.

- ***Preparation of an Admission Document, with the help of an IPSX Lead Adviser, consistent with other UK exchange-regulated markets***

Transparency is a key feature of IPSX Wholesale and is particularly important where issuers' securities might be thinly traded, and an investor must look to other information in addition to last traded price to determine the right price at which to trade.

In the event there is less liquidity, it will be important to ensure there is adequate information about the issuer at the point it comes to market, as well as on an ongoing basis. The Admission Document will contain all material information an investor needs at the point of admission.

- **Preparation of a RICS compliant Red Book Valuation, a novel feature of IPSX to provide further transparency to third party investors**

To further aid transparency and price formation, IPSX will require all issuers to commission an Approved Valuer to produce a RICS compliant Red Book Valuation as part of their application for admission. On a six-monthly basis, IPSX will further require issuers to produce a Red Book Valuation of the underlying assets and publish the Executive Summary, as well as publish the Net Asset Value (“NAV”) of the company.

Who will be IPSX Wholesale MTF participants and what are the opportunities for interaction with each other in respect of price formation?

In addition to IPSX issuers, there will be three types of market participants who will be active on the MTF.

In the primary market, there are two types of **Advisory Members** that will be active in supporting issuers:

- **IPSX Lead Advisers** will ensure the issuer complies with IPSX Wholesale rules and will ensure relevant disclosures are made by the issuer to impact price formation.
- **Approved Valuers** will be appointed to undertake initial asset valuations. The publication of these asset valuations could impact on the price of the issuer’s securities.

In the secondary market, **Trading Members (Brokers) as well as Advisory Members** will actively participate in IPSX Wholesale. IPSX Wholesale rules will require cornerstone investors, through the issuers, to appoint and retain Brokers to represent their trading interests. There will be no market makers in place with an obligation to make two way prices, the only trading being between appointed Brokers.

These Broker names will be published on IPSX’s website and will be publicly available for the market to see for each issuer. Each issuer will also be expected to have their own investor relations webpage¹. Prospective investors will be able to see which Brokers represent the trading interests of the significant shareholders. They may either approach these members directly or use the services of other Brokers approved to be active on IPSX Wholesale.

In the secondary market, **Advisory Members’** activities will include:

- **IPSX Lead Advisers** supporting issuers for certain key transactions
- **Approved Valuers** who will undertake six-monthly asset valuations for the issuer, the Executive Summaries of which will be published.

IPSX will encourage the widest possible participation on its platform by any firms and issuers eligible to join.

IPSX Wholesale MTF rules

The IPSX Wholesale Rules for Issuers, along with the IPSX Rules for Members which include a specific section for Wholesale Brokers will ensure the market operates in accordance with FCA requirements.

The IPSX Wholesale Rules anticipate a variety of issuer types and structures, including investment companies as well as operating companies. This ensures issuers with development projects as well as established properties could be eligible for admission to trading.

¹ The IPSX Wholesale part of IPSX’s website will be clearly demarcated from the rest of IPSX’s website so it is understood that IPSX Wholesale is a market only for institutional investors.

The IPSX Rules for Members will provide an opportunity for all market participants to actively participate in the market. In particular, the rules (and the market model described in the section below) provide ample opportunity for the Brokers active on IPSX Wholesale to interact with each other in respect of price formation. Key features to allow this include:

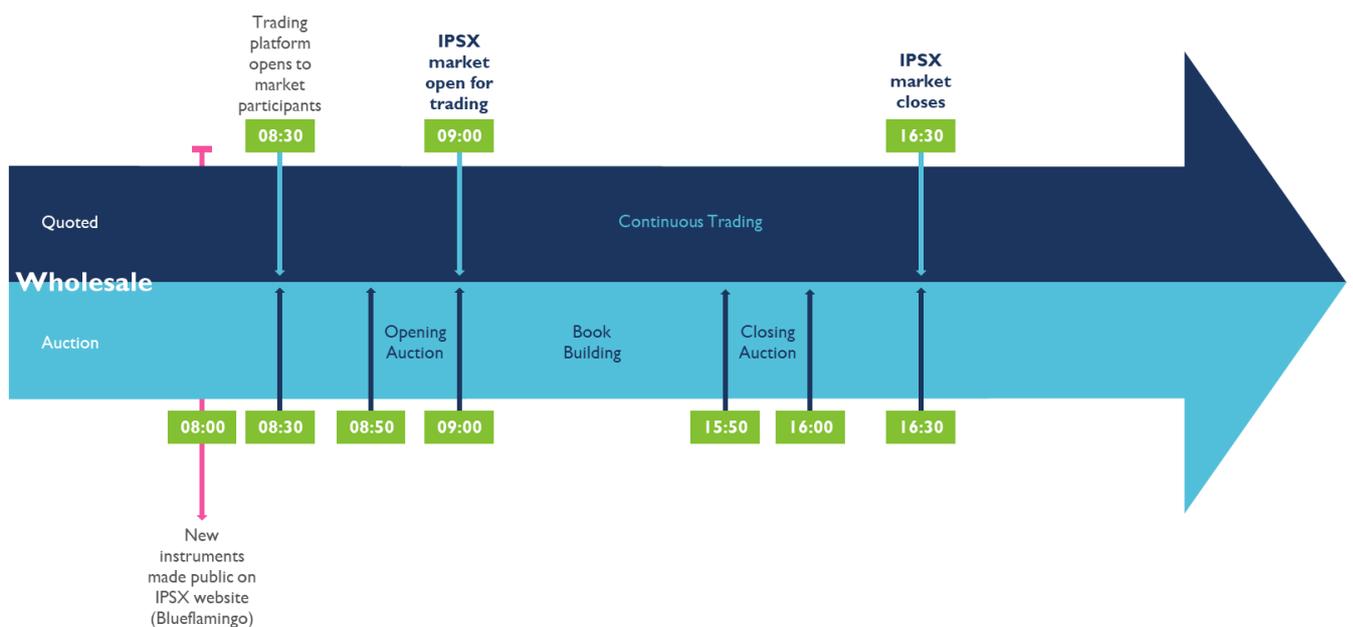
- Pre and post-trade transparency of bids and offers and transactions.
- All Brokers will be able to buy/sell the shares on behalf of end-clients. These clients could be the cornerstone investors or new investors.
- Rules which will ensure orders are placed such that new investors are able to participate in trading.
- Requirements for orderly trading (trades should be in volumes reflective of investor interest and at least compliant with Exchange Market Size and at market prices).

In addition to meeting FCA’s regulatory requirements, the IPSX Wholesale Rules require further transparency from issuers in respect of six-monthly asset valuations to inform market prices. Additional transparency in respect of the issuer and the assets should encourage better price formation on the venue.

How will trading work?

IPSX Wholesale will have multiple active Brokers who will be able to buy and sell securities. There is no formal delineation between Brokers who represent cornerstone investors in an issuer and other Brokers, except the names of the Brokers representing the cornerstone investors will be clearly identified on IPSX’s website as being active in the issuer’s securities.

IPSX will offer two modes for trading IPSX Wholesale securities. The proposed trading modes will mirror the timing of the trading modes of IPSX Prime and look as follows:



- *Continuous Trading Mode*

All activity on IPSX Wholesale is subject to pre-trade transparency requirements and there will be no deployment of MiFID pre-trade transparency waivers.

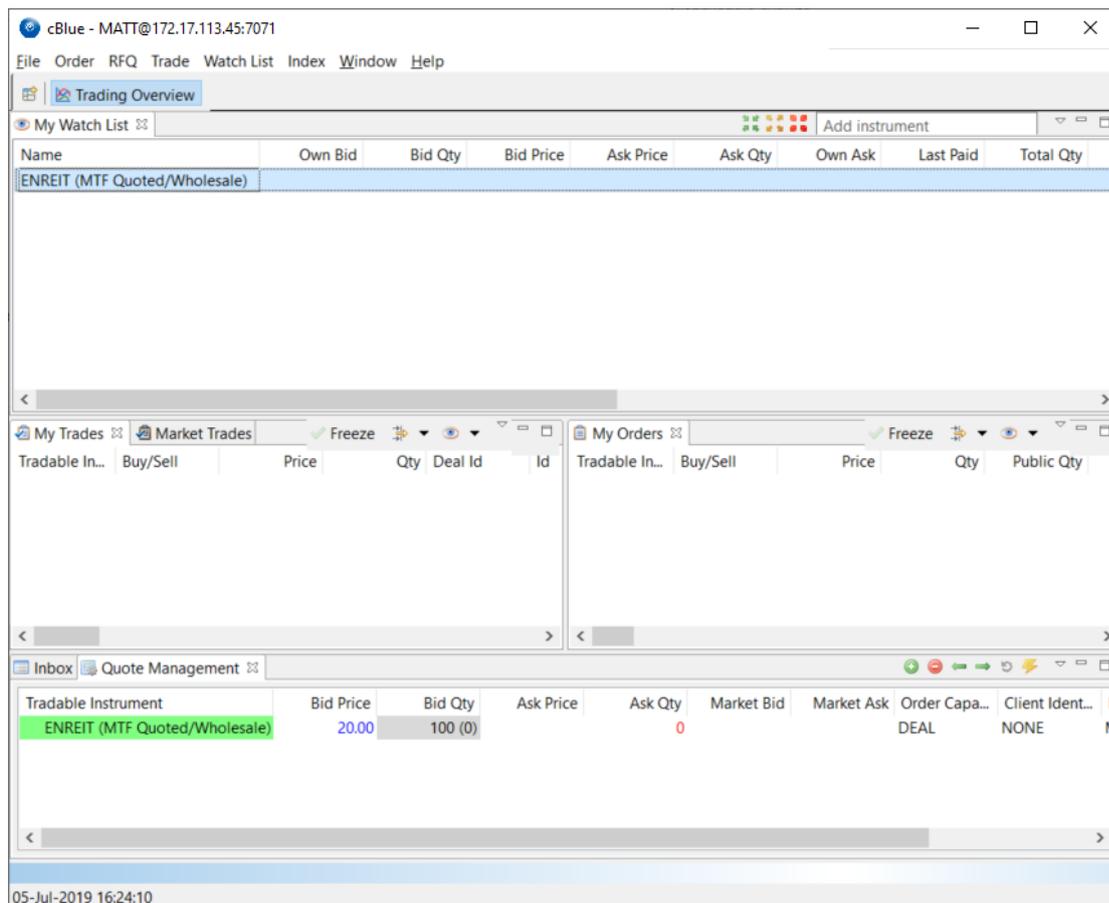
An investor wishing to buy/sell shares will approach a Broker. Any buying or selling interest must be visible to the other Brokers active on IPSX Wholesale through the Broker posting a ‘firm’ one-way quote to the order board. A ‘firm’ quote requires the Broker to transact at the price and volume they have made public, on a first-come, first-served basis. The quote will ‘rest’ for the day on the IPSX Wholesale order board, unless the posting Broker is contacted by a party who would like to trade.

If the original posting Broker is approached by another Broker and asked to deal at a different price or size, this approach must be made transparent to the market in the form of a revised quote by the original Broker, or the approaching Broker must post the terms of their request to deal as a firm one-way quote on the order board.

All quotes must rest on the order board for a prescribed minimum period² to give third party investors an opportunity to react to any quotes. All trades must be in accordance the minimum Exchange Market Size³.

The screenshot below from the IPSX Trading System, Cinnober’s C-Blue, shows a one-way quote being added to the trading venue.

Screenshot 1: one-way quote being added to the IPSX Trading System



² Proposed as two minutes minimum resting time.

³ Proposed as £50,000 minimum value.

To effect the trade, the Broker will remove the quote and submit a trade report to the exchange which finalises the trade (see the screenshot 2. on the next page which illustrates the trade data being entered onto IPSX's Trading System). The Broker must transact with the first party who expresses their willingness to trade at the price and volume they have posted, but only after the order has sat on the order board for the prescribed minimum resting time.

Screenshot 2: trade-half being added to the IPSX Trading System

The IPSX Rules for Members will impose these continuous trading obligations on Brokers.

- *Auction Trading Mode*

In addition to continuous trading, IPSX proposes to mirror the same auction periods of IPSX Prime, the regulated market, for IPSX Wholesale. Holding auctions at multiple times of the day is an effective way of concentrating the trading interest in IPSX issuers to increase the likelihood of execution.

To participate in an auction, the Brokers will enter orders into an electronic auction (see screenshot 3 on the next page). Orders can be entered during the book building phase and/or during the auction itself. Once the auction reaches the uncross, orders are matched electronically. Any matching orders generate trades, which are automatically trade reported to the exchange. As such, there is no need to enter a trade report for trades undertaken in the IPSX Wholesale auction. IPSX will operate a fully transparent electronic auction platform for securities admitted to the market. Each auction will have three phases:

- **Book building:** Brokers submit limit orders that are received by the system but not matched or disseminated to the market. Orders entered during the book building phase are not visible to other Brokers. Each Broker can manage and cancel their own orders.
- **Auction phase:** once the auction phase begins, all orders become visible to other Brokers. Brokers will still be able to enter, amend and cancel orders. The IPSX Trading Platform will continuously calculate and disseminate the individual orders that will participate in the auction equilibrium price (the price, size and identity of the firm placing the order will also be published by the system).
- **Uncross:** during the uncross, the orders are matched and allocated at the latest equilibrium price. Trade reports in respect of each of the individual trades resulting from the auction process will be published.

Screenshot 3: Auction Phase – order entered onto the IPSX Trading System

Orders input to the opening auction that do not get executed during the uncrossing will be retained on the order book and will participate in the closing auction (unless cancelled by the Broker that originally input the order). See screenshot 4 which depicts how the order is retained.

Screenshot 4: Auction screen with order in 'My Orders' screen (bottom right) and trade (bottom left) in 'My Trades' screen

Market	Closing Price	Equilibrium...	Member	Name	Own Bid	Bid Qty	Bid Price	Ask Price	Ask Qty	Own Ask	Last Paid	Total Qty	Turnover	High Price	Low Price	Open Price	State
MTF Auction	12.20	12.10 - 12.10		ABC_Auc...		100	12.10	12.10	50	50@12.10		0	0.00				Open

Tradeable In...	Buy/Sell	Price	Qty	Dest Id	Id	In Aggressor	Own Private...	Buy Member	Buy User	Freeze	Sell User	Sell Member	Own	Tradeable In...	Buy/Sell	Price	Qty	Public Qty	Open Qty	Minimum C...	Minimum C...	User	Acting User	Public Mem...	Member	Trading M	
ABC,Quote	Sell	12.10	200	638669627...	6386696271244						ABC,TRAD...	ABC,TRAD...	ABC	ABC,Auction	Sell	12.10	50	50	50		None	ABC,TRADL...	ABC,TRADL...	ABC,TRADL...	ABC,TRADL...	ABC,TRADL...	BAF
																										BAE	
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Orders that do not get executed in the closing auction will be deleted and will not automatically transfer to the opening auction of the next business day.

The IPSX Rules for Trading Members will impose obligations on Brokers to interact in ways which encourages liquidity and interaction.

How will issuers join the market?

IPSX Wholesale issuers must appoint an IPSX Lead Adviser and an IPSX Approved Valuer to help them through the admission process. The IPSX Market Regulation Team will review the admission documents and determine eligibility for admission. This review process is expected to involve multiple interactions with the IPSX Lead Adviser, the Approved Valuer and the issuer.

Progression to a regulated market

Like growth markets operated by other RIEs, the IPSX Wholesale MTF is anticipated to provide a platform for newly established issuers, or companies new to UK public markets, to trade on a public market in a controlled way. Issuers can become accustomed to public market disciplines, such as the initial and ongoing disclosure regime and the Market Abuse regime and build their confidence in being admitted to a public market. Issuers can also build their public market 'track record' which will make them more attractive to third party investors.

Whilst not required, it is envisaged that once such issuers become comfortable with their obligations as a publicly traded company, they will look to expand their shareholder base and increase their free float. They may do this through IPSX Wholesale or may look to migrate to a regulated market, such as IPSX Prime.

How will members join the IPSX Wholesale market?

IPSX Wholesale issuers must appoint an IPSX Lead Adviser and an IPSX Approved Valuer to help them through the admission process. Their cornerstone investors must also appoint Brokers representing their trading interests. Each of these participants must first be vetted and approved by IPSX.

Application forms for IPSX Membership are available on IPSX's website, along with the rules and eligibility criteria they must meet.

If IPSX Market Regulation determine the member is eligible for admission, the member must then pay the requisite fees, which are set out on IPSX's website. Approved Members are displayed on IPSX's website⁴.

Investors

Investment in IPSX Wholesale issuers will be available to Institutional Investors only (much like the London Stock Exchange's Professional Securities Market or the professional compartment on Euronext Paris). As is the case with many IPOs, we expect an issuer will come to market with a number the cornerstone investors already in place, but this is not a precondition of admission to trading.

Brokers will only be able to trade on behalf of institutional investors such as:

- Unit trust scheme trustees/managers authorised by the FCA, or equivalent
- Open-ended investment companies

⁴ <https://www.ipsx.com/member-directory/>

- Collective investment schemes
- Pension fund trustees/managers
- Insurance companies
- Firms authorised by the FCA, or equivalent
- Sovereign wealth funds
- REITs and offshore REIT equivalents

The above list comprises institutional investors who would meet the FCA criteria for Professional Clients or Eligible Counterparties, as well as the Corporation Tax Act 2010 definition of institutional investor for the purpose of REITs. Other institutional investors meeting the FCA criteria would also be able to invest.

Summary

In summary, the key features of IPSX Wholesale MTF are as follows:

- Multiple members (Brokers, IPSX Lead Advisers, Approved Valuers).
- Transparency of active Brokers on IPSX website: names of Brokers representing cornerstone investors published on the IPSX website.
- Market Structure:
 - o Continuous trading mode throughout the day to allow Broker interaction throughout the trading day.
 - o Auction mode to concentrate and encourage liquidity at key times in the day.
- Rules which:
 - o anticipate active trading and multiple participants.
 - o impose specific quoting obligations on Brokers to increase opportunities for members to interact.
 - o anticipate a wider set of issuers to encourage wider set of issuers and members to participate in IPSX Wholesale.
 - o require issuer to disclose their proposed free float.
- Incentives to encourage more liquidity e.g. zero fee trading.
- Due diligence by IPSX on issuer's free float and plans for more dispersed shareholdings.

For more details on IPSX Wholesale, please contact Lisa Walker Head of Market Regulation

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