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## London Stock Exchange plc Brexit Implementation Assessment (18 December 2020)

### Summary update

On 18 December 2020, London Stock Exchange plc (the “Exchange” or “London Stock Exchange”) updated its Brexit Implementation Assessment to support market participants’ contingency planning. The UK formally withdrew from the European Union on 31 January 2020 and the agreement governing this withdrawal introduced a transition period that is due to end on 31 December 2020. As we approach this date, London Stock Exchange has updated this Assessment again to support contingency planning as set out below.

Any queries on this Notice should be addressed to your relationship manager or the UK Regulation Team [stockexchangenotices@lseg.com](mailto:stockexchangenotices@lseg.com)

### Agenda

Detailed impact assessment .....	2
1. Share Trading Obligation.....	4
1.1 Settlement .....	4
1.2 Clearing Inter-operability .....	5
2. Ability to access London Stock Exchange markets for trading of securities.....	5
3. London Stock Exchange rulebooks .....	7
4. MIFID II Transparency Calculations .....	7
5. CurveGlobal Markets .....	7
6. TRADEcho .....	7
7. Transaction reporting.....	8
8. Primary Markets loss of passporting right for EEA Equity and Fixed Income prospectuses.....	8
9. Primary Markets prospectuses for further issues.....	9
10. Primary Markets - Listing requirements for ETFs.....	9
11. Quoted Eurobond Exemption .....	10
12. Qualification of bonds listed on London Stock Exchange as ECB eligible collateral.....	10

## Detailed impact assessment

London Stock Exchange is a Recognised Investment Exchange under Part XVIII of the United Kingdom's (UK's) Financial Services and Markets Act 2000 (FSMA 2000). The Exchange operates the world's most international capital market, with companies from over 100 countries quoted across our markets. London Stock Exchange's markets include the Main Market – London's flagship venue for equity, debt and exchange traded products and AIM, the world's leading market for growth companies. Issuers accessing our markets access a highly global investor base<sup>1</sup>.

London Stock Exchange is a wholly owned subsidiary of London Stock Exchange Group (LSEG). In the context of the future relationship between the UK and the European Union (EU), we believe an ambitious and comprehensive free trade agreement would support financial stability, reinforce global regulatory cooperation and reduce uncertainty for our customers around the world. In the [Political Declaration](#) agreed between the UK and EU on 17 October 2019 (and published by the UK government on 19 October), setting out a desired framework for the future relationship, the two sides set out their intention to establish "an ambitious, broad, deep and flexible partnership". On 3 February 2020, the European Commission published a [Recommendation for a Council Decision authorising the opening of negotiations for a new partnership with the United Kingdom of Great Britain and Northern Ireland, which envisages a comprehensive new partnership](#). On the same date, the UK government published a [written statement](#) which sets out its proposed approach to the negotiations with the EU - one which also envisages a comprehensive free trade agreement.

We must however recognise that there is no guarantee that this will be the outcome of the ongoing negotiations between the two sides. There is a possible scenario in which the UK and the EU are unable to reach an agreement and therefore the basis of the future relationship defaults to World Trade Organisation (WTO) terms. At this stage, although some positive equivalence determinations have been issued by the European Commission and HM Treasury, they do not cover all areas of the financial services regulatory framework. In light of this risk, we continue to work with our customers and market participants to execute contingency plans in line with published statements from the UK and EU authorities.

As a systemically important financial markets infrastructure business, London Stock Exchange is fully committed to maintaining orderly markets and providing continuity of service to its customers and market participants across the UK and internationally. We firmly believe that global capital markets are best served by continued access for all participants and service providers, including from the European Economic Area (EEA). This would enable continued interaction of EEA participants with other participants in our market, particularly those from the UK and outside the EEA.

This note provides an update on the latest planning assumptions we are working to in the event that the UK and the EU are unable to reach an agreement on a future relationship (or other arrangements) by the end of the transition period (31 December 2020), resulting in the relationship defaulting to WTO terms. We will keep the market updated should significant new information become available which enables us to change these planning assumptions. Due to the varied nature of our customer base, various participants may be affected in different ways and we encourage participants to familiarise themselves with these planning assumptions when developing their own contingency arrangements. We remain available to discuss any questions you may have on your arrangements.

For the purposes of contingency planning we are also assuming in this scenario that London Stock Exchange has no MiFID authorisation and that the UK and the Exchange are not granted equivalence under MiFIR Article 23 (Share Trading Obligation)<sup>2</sup>. An explanation of the implications of this is provided below in the section on Trading Obligations. We note that a number of EU Member States have made provisions to assist access by trading firms located in their jurisdiction to UK trading venues.

In December 2017, the UK Government announced that it would introduce a temporary permissions regime for inbound passporting of EEA firms and investment funds. The FCA confirmed that its temporary permissions regime (TPR) will enable relevant firms and funds which passport into the UK to continue operating in the UK when the current passporting regime falls away at the end of the transition period. The FCA invited EEA firms to notify them of their wish to use the temporary permissions regime on 30

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<sup>1</sup> <https://www.ons.gov.uk/economy/investmentpensionsandtrusts/bulletins/ownershipofukquotedshares/2016#rise-in-uk-shares-owned-outside-of-the-country-continues>

<sup>2</sup> [https://ec.europa.eu/info/sites/info/files/180208-notice-withdrawal-uk-financial-instruments\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180208-notice-withdrawal-uk-financial-instruments_en.pdf) (See page 3)

September 2020<sup>3</sup>. The FCA expects the regime to be in place for a maximum of three years within which time firms and funds will be required to obtain authorisation or recognition in the UK<sup>4</sup>.

We appreciate the substantive efforts made by market participants to put in place contingency arrangements to deal with possible scenarios based on these assumptions. This together with our own preparations means that London Stock Exchange and the wider ecosystem around our market is well placed to manage any plausible outcome. Given the immediate proximity of the end of the transition period, and the current lack of clarity around an agreed position on the shape of any future relationship between the UK and EU, it is important that participants continue with their preparations. We continue to engage in dialogue with the UK, EU and other regulators and stakeholders.

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<sup>3</sup> <https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr>

<sup>4</sup> <https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr/considerations-firms-leaving#:~:text=The%20maximum%20duration%20of%20temporary,services%20when%20the%20regime%20ends.>

## 1. Share Trading Obligation

MiFIR Article 23(1) introduced a requirement for EU investment firms (the “Share Trading Obligation” or “STO”) to ensure that the trades they undertake in shares admitted to trading on a regulated market, or traded on a trading venue in the EU, take place on a regulated market, MTF or systematic internaliser in the EU or a third-country trading venue that is considered to be equivalent to a regulated market by the European Commission. ESMA confirmed in November 2017 that whenever an EU investment firm is part of the transmission of an order in a share subject to the share trading obligation, it should ensure that the ultimate execution of that order complies with the requirement under MiFIR Article 23 ([link](#)).

ESMA published an updated legal interpretation on 19 March 2019 ([link](#)) about the Share Trading Obligation together with a list of EU27 and GB ISINs subject to the STO, and this was followed by a revised statement with a further revised legal interpretation on 26 October 2020 ([link](#)). It confirmed the application of the obligation to the trading of shares with a European Economic Area (EEA) ISIN but noted it would be possible to trade these shares on UK trading venues if they are traded in GBP. On 4 November 2020, the FCA issued a statement outlining their approach to the UK STO ([link](#)). It will use their Temporary Transitional Powers (TTP) to allow UK firms to continue trading all shares on EU trading venues and Systematic internalisers. They noted that in their view, the ISIN or currency should not determine the scope of the STO and explained that the use of their TTP was intended to avoid disruption where possible. They reiterate their commitment to mutual equivalence between the UK and EU as the best outcome

We consider that the present scope continues to include EU ISINs which have significant liquidity on London Stock Exchange. We consider there may be many unintended consequences for the ability of market participants, in particular EU27 firms and their clients, to manage their portfolios and risk positions and to achieve best execution.

The Exchange continues to seek an appropriate equivalence decision avoiding the operational, legal risks and market distortion that could otherwise occur. The Exchange has fully implemented MiFID II/MiFIR and this is reflected in UK law. An equivalence determination would be straightforward and would recognise that EU firms need to access primary venues such as London Stock Exchange to fulfil their best execution obligations. Equivalence decisions have already been confirmed for a number of global exchanges including ASX, HKEX, Nasdaq and NYSE.

Whilst Exchange Traded Funds (ETFs) may not be directly within the scope of the Share Trading Obligation, related participants including brokers, liquidity providers and fund managers that are subject to MiFID will need to consider the STO when trading underlying securities that are subject to the share trading obligation, including in the creation and redemption process and may be constrained in obtaining best execution.

Depository receipts, including depository receipts over underlying EU shares, fall outside the scope of the EU share trading obligation.

London Stock Exchange envisages that Swiss authorities would take steps to disapply, to UK venues, the current restriction on the trading of Swiss securities on EU trading venues in response to the EU removal of equivalence for the Swiss Stock Exchange (as they will no longer be considered to be EU venues) following the end of the transition period. London Stock Exchange will work to reinstate on-exchange trade reporting for Swiss stocks as soon as possible in this scenario.

### 1.1 Settlement

All SETS order book business is settled by Euroclear UK & Ireland (EUI) (based in the UK). Most electronic International Order Book business and all order book executions on International ETFs are settled in Euroclear Bank (EB) in Belgium. UK-based participants (such as UK-based banks and custodians) should continue to be able to participate in EB and EB should be able to continue to settle trades in securities executed on the Exchange. Whilst EUI acts as the settlement CSD for Irish issuers, including those dual or sole listed on London Stock Exchange, the Central Bank of Ireland has confirmed its intention for Irish incorporated securities to migrate to EB by March 2021, regardless of the outcome of negotiations between the UK and the EU. The migration of Irish Securities Settlement from EUI to Euroclear Bank as Issuer CSD is scheduled to be effective on Monday, 15 March 2021. After Irish issuer migration, SETS order book executions in these securities will continue to settle in EUI but from that time are expected to be in Depository Interest (DI) or Crest Depository Interest (CDI) form.

On 25 November 2020, the European Commission announced its decision to determine the legal and supervisory requirements for UK central securities depositories (CSDs) as equivalent to those in the EU until 30 June 2021. Further to this, ESMA has granted recognition for EUI until 30 June 2021 which will enable EUI to continue offering CSD services to Irish issuers and issuers of depositary interests constituted under the laws of Cyprus, The Netherlands and Luxembourg for this period

EUI offers Euro Settlement through its status in the EuroSystem's TARGET2 system as an 'ancillary system'. EUI has confirmed that these arrangements are scheduled to expire on Monday 29 March 2021 and is investigating alternative arrangements to support Euro as a settlement currency in the CREST system. EUI has advised that unless it can secure alternative arrangements beforehand, the final date for Euro settlement in Euroclear UK & Ireland will be Friday, 26 March 2021.

### 1.2 Clearing Inter-operability

The clearing for London Stock Exchange's main SETS securities is on an interoperable basis between LCH Ltd (UK), SIX x-clear (Switzerland) and EuroCCP (Netherlands). Under the Withdrawal Agreement, existing interoperability arrangements will be able to continue until the end of the transition period. Thereafter, existing interoperability arrangements may not be possible unless equivalence determinations and related central counterparty recognition decisions are concluded by UK and EU authorities. On 21 September 2020, the European Commission published an equivalence determination for UK central counterparties to be effective for the period from 1 January 2021 until 30 June 2022. The EU determination encompasses the clearing of all asset types by UK central counterparties, including equities, ETFs and depositary receipts cleared by LCH Ltd.

## 2. Ability to access London Stock Exchange markets for trading of securities

Membership of London Stock Exchange provides firms with the ability to trade directly on London Stock Exchange trading services. Clearing brokers are also required to be members of the Exchange. The table below details considerations for member firms.

Members	Brexit Contingency planning assumptions
UK member firms and EEA member firms trading through a UK branch	<p>1 No access change for UK member firms. However, UK member firms that use an EEA firm as their execution broker, can no longer be assured that they will, in all circumstances, be able to trade all shares admitted to trading on London Stock Exchange through that broker after the end of the transition period and should develop contingency plans and notify the Exchange of these, if they have not already done so.</p> <p>London Stock Exchange does not foresee access changes for EEA member firms, from a country which it accepts members from (see below), trading through a UK branch. Such firms will need to consider any other obligations applicable to it, including the implications of the EU Share Trading obligation and any potential UK share trading obligation and should consult their relevant competent authorities in their home Member State and the UK.</p>
Non-EEA member firms	<p>2 No access change for existing non-EEA member firms. However, member firms that use an EEA firm as their execution broker, can no longer be assured that they will in all circumstances, be able to trade all shares admitted to trading on the Exchange through that broker after the end of the transition period. They should develop contingency plans and notify the Exchange of these, if they have not already done so.</p>

EEA member firms not trading through a UK branch 3 Any EEA member firm not trading through a UK branch, from a country which London Stock Exchange accepts members (see below), must ensure that its systems can provide the necessary transaction reports to the Exchange as set out in Section 7 below and have successfully completed testing of their transaction reporting systems through the testing environment by the close of business on 18 December 2020.

Such member firms will need to consider the implications of the EU Share Trading obligation and other obligations applicable when trading equities on London Stock Exchange. We expect that such firms will be able to continue to trade all ETFs, ETCs, ETNs, depositary receipts on the International Order Book, as well as derivative and fixed income securities.

EEA General Clearing Members 4 The provision of General Clearing Member services to London Stock Exchange member firms by EEA member firms will not be affected by the EU Share Trading Obligation<sup>5</sup>.

Countries from which firms can seek membership of London Stock Exchange 5 London Stock Exchange has obtained licences and dispensations in Germany, Italy and the Netherlands to be able to continue to offer membership to firms located in those jurisdictions. No licensing requirements for London Stock Exchange are expected in France (subject to member firms confirming that they will not provide access to London Stock Exchange for non-professional clients), Cyprus, Denmark, Ireland, Luxembourg, Spain and Sweden. These arrangements will allow membership from these designated EEA Member States. Any firms seeking access from other EEA Member States should contact the Exchange.

EEA member firms establishing a UK subsidiary company and applying for authorisation from the FCA continue to be welcome to apply for London Stock Exchange membership for their UK entities in advance of their authorisation being conferred. London Stock Exchange also accepts direct trading members from non-EEA jurisdictions such as Australia, Cayman Islands, Dubai, Hong Kong, Israel and Switzerland, and remains willing to consider other jurisdictions should this be of assistance in the planning for any existing EEA member firm. Approval is being sought from the Monetary Authority of Singapore.

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<sup>5</sup> On 13 November 2017, ESMA published a Q&A clarifying the application of the trading obligation for shares where there is a chain of transmission of orders. However, a chain of transmission of orders does not include General Clearing Members, the role of which concerns the post-trade processing of transactions” - ESMA’s share trading obligation clarifications in a no-deal Brexit, 19 March 2019 ([link](#))

### 3. London Stock Exchange rulebooks

The UK's withdrawal from the EU requires technical changes to London Stock Exchange rulebooks to reflect the UK's new legal and regulatory framework and follow the legislative amendments the UK Government has brought forward under the European Union (Withdrawal) Act 2018. Revised rulebooks for the cash markets can be found here ([link](#)) under references N20/20 and N21/20 for the Primary and Secondary Market Rules respectively. The revised CurveGlobal Markets Rules are available here ([link](#)). These will apply following the end of the transition period on 31 December 2020.

### 4. MIFID II Transparency Calculations

Following the end of the transition period, the FCA will be responsible for calculating the transparency attributes for instruments traded on UK trading venues. ESMA will continue to calculate transparency attributes for instruments traded on the EU trading venues. As a result, the FCA will implement their own version of the ESMA transparency databases, FIRDS and FITRS. The FCA FIRDS and FITRS will provide reference data and transparency attributes for all instruments traded on UK trading venues. The FCA has published a Supervisory Statement on the operation of the pre- and post-trade transparency regime for secondary markets at the end of the Brexit transition period ([here](#)). In addition, the FCA have provided a timeline detailing the cutover from ESMA systems to the FCA system ([here](#)) and the instruments, which will be included in the FCA FIRDS and FITRS databases. It is expected that the first publication of full and delta files by FCA FIRDS and FITRS will be available on 2 January 2021.

London Stock Exchange recognises that there are instruments with the same ISIN that are traded on both UK and EU trading venues. There is the possibility that transparency attributes could diverge for the same instrument when traded on an UK trading venue compared to an EU trading venue. Member firms should note that London Stock Exchange will continue to publish instrument reference data and applicable transparency attributes for instruments traded on London Stock Exchange in the XLON instrument reference data file published daily to subscribers at 02:00 UK time.

### 5. CurveGlobal Markets

We do not expect any impacts to CurveGlobal Markets' services following the end of the transition period.

### 6. TRADEcho

TRADEcho is an Approved Publication Arrangement (APA) service provided by London Stock Exchange for the reporting of off-exchange trades and those by Systematic Internalisers (SIs) to allow clients to remain compliant with their MiFID transparency obligations.

London Stock Exchange Group has set up a new EU based APA Service (UVTE B.V.) in the Netherlands to continue to offer TRADEcho's APA services to EU-27 customers from Amsterdam. This received regulatory approval from the Autoriteit Financiële Markten on 27<sup>th</sup> February 2019 and launched on 30<sup>th</sup> November 2020.

TRADEcho will continue to allow trade reporting services across a single member ID of the combined EU27 and UK instrument universe. Customers have been granted access to the new EU APA service under their current agreements. Customers need to indicate to which APA they are reporting via a new field (Target APA) in the inbound trade report message.

For market dissemination, the outbound, publishing GTP message indicates the relevant APA by disseminating its APA MIC code as "Venue of Publication".

The Smart Report Router (SRR) supports both TRADEcho APAs, along with the existing external APAs (including any new EEA APAs being set up). The SRR has been modified to introduce new rules to

distinguish reporting obligations in the relevant jurisdiction of the submitter and its counterparty. SRR customers should review their rulesets and make any necessary changes at the end of the transition period.

## 7. Transaction reporting

Member firms should note that following the end of the transition period, London Stock Exchange will have to report transactions directly to the FCA for trades executed by any firms trading on the Exchange other than those which have a direct reporting obligation to the FCA (e.g. a UK firm or a UK branch of a third country firm that has notified the appropriate UK competent authority that it will use the TPR). EEA firms who are member firms of the Exchange outside these categories will have to establish arrangements with London Stock Exchange to allow them to undertake transaction reporting for their trades.

London Stock Exchange has produced a Third Country Member Transaction Reporting Guide ([link](#)), which contains the necessary technical and operational steps for member firms to provide London Stock Exchange with transaction reports for their trades. Member firms who need to set up these arrangements are advised to contact the Membership team. In the event that a Third Country member firm does not complete conformance testing by close of business on 18 December 2020, the Exchange will be unable to guarantee the member firm's continued access to its trading services from 4 January 2021.

## 8. Primary Markets loss of passporting right for EEA Equity and Fixed Income prospectuses

The Financial Conduct Authority (FCA) is responsible for the approval of Prospectuses in the UK. The FCA has issued guidance in relation to Prospectus arrangements in a no-deal scenario, which is periodically updated and communicated via its Primary Market Bulletins. The guidance below reflects publications made by the FCA; however, please visit the [FCA website](#) for their latest positions.

[Primary Market Bulletin 22](#) published in March 2019 set out that after Brexit EEA issuers would no longer be able to passport prospectuses into the UK. This guidance was further updated in [Primary Market Bulletin 24](#) in October 2019 to reflect the coming into force of the Prospectus Regulation in the UK on 21 July 2019, with the FCA noting that the content of PMB 22 remains substantially correct. As such, a company wishing to admit to both an EEA Regulated Market and London Stock Exchange's Main Market would therefore need to ensure that a Prospectus is approved by the FCA and separately by any EEA competent authority, unless the EU and UK take equivalence decisions with respect to prospectuses approved by their respective competent authorities. This was confirmed by ESMA in [Q&As](#) published on 9 November 2020 setting out the new approvals required for issuers wishing to continue to offer securities to the public within the EU.

More recently, in Primary Markets Bulletin 32, the FCA has strongly encouraged issuers and their advisers to arrange any requests for passports well ahead of the end of the transition period in order to avoid possible delays given the potential for an increased number of requested passports in the period up to 31 December. The FCA has also stated that if there is a delay in processing passport requests, this will not affect the validity of prospectuses passported into the UK before the end of the transition period for use in the UK.

With regard to issuers admitted or considering admission to AIM, as AIM is an MTF and not a Regulated Market we expect the impact of failing to reach an agreement on the future relationship post the transition period to be minimal as issuers usually structure transactions within the parameters of the Prospectus exemptions.

On 11 April 2019, HM Treasury made an equivalence determination that EU-adopted IFRS can continue to be used to prepare financial statements for Transparency Directive requirements and for preparing a prospectus under the prospectus regime, which has been carried through as the Prospectus Regulation come into force in the UK on [21 July 2019](#).

Under the new UK Prospectus Regulation Rules (PRR), any non-equity securities issued by:

- (i) the government of any country or territory,
- (ii) a local or regional authority of any country or territory,
- (iii) a public international body of which any state is a member,
- (iv) the European Central Bank or the central bank of any state; and
- (v) any securities unconditionally and irrevocably guaranteed by the government or a local or regional authority of any country or territory

will be outside the scope of the Regulation, and thus as such will be treated as Prospectus-exempt issuances. If such issuers used a passport to previously admit securities to the Official List or the Main Market, in the future they will not be required to do so and can admit securities to the Official List and the Main Market as other Prospectus-Exempt issuers.

## **9. Primary Markets prospectuses for further issues**

The EU prospectus framework provides a number of exemptions from the general requirement to prepare a prospectus when admitting shares to a regulated market or when offering shares to the public, as specified in the EU Prospectus Regulation.

Issuers must ensure that they assess whether an offer of securities or admission of shares to trading could trigger the requirement for a Prospectus under both the UK and the EU Prospectus Regimes or qualifies for a relevant exemption under both regimes. For example, issuers who also have a listing on an EU regulated market alongside their listing in the UK and are intending to increase their share capital by more than 20% will be required to produce a prospectus compliant with the EU Prospectus Regulation and also the UK Prospectus regime in the event of equivalence recognition not being granted post the transition period. Issuers are unlikely to be able to rely on documents approved by the UK authorities for the purposes of compliance with the EU Prospectus Regulation. Documents approved by EU authorities will need to go through a separate UK approval process for the purposes of admission to the regulated markets in the UK.

## **10. Primary Markets - Listing requirements for ETFs**

Currently, all London Stock Exchange Main Market admitted exchange traded funds (ETFs) utilise the Undertakings for Collective Investment in Transferable Securities (UCITS) EU harmonised regulatory framework. All UCITS ETFs established in another EEA country must be recognised under section 264 of the FSMA 2000 before they can be passported for UK retail investor distribution.

With the end of the transition period section 264 FSMA will be repealed and non-UK funds will need to seek recognition from the FCA under section 272 FSMA to operate in the UK. To enable existing UCITS ETFs that have been FCA recognised prior the end of the transition period to continue to be able to operate in the UK post the end of the transition period the FCA are operating the TPR.

The TPR will permit existing UCITS ETFs (that have notified under the TPR prior to the end of the transition period) to continue to be marketed in the UK after the end of the transition period and funds that have already notified under the TPR can admit new sub-funds to the TPR after the end of the transition period; more information can be found at <https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr/adding-new-sub-fund-umbrella-scheme-tmpr>.

UCITS ETF that has not notified under the TPR will not be able to market its securities in the UK and its securities will be suspended when the market closes on 31 December 2020.

## 11. Quoted Eurobond Exemption

Issuers on London Stock Exchange's Main Market, Professional Securities Market (PSM) and International Securities Market (ISM) will continue to benefit from the Quoted Eurobond Exemption. The UK Government is making minor adjustments to tax legislation to ensure references to EEA/EU are amended to incorporate a reference to the UK with respect to MTFs as part of The Taxes (Amendments) (EU Exit) Regulations 2019.

## 12. Qualification of bonds listed on London Stock Exchange as ECB eligible collateral

London Stock Exchange published a [factsheet](#) related to contingency planning for qualification of bonds admitted to London Stock Exchange's Main Market as European Central Bank (ECB) eligible collateral post the end of the transition period.

The Exchange introduced an arrangement by which issuers of bonds admitted to London Stock Exchange's Main Market and International Securities Market will be able to maintain ECB collateral eligibility via an additional admission to MTS BondVision Europe MTF ("BondVision"), subject to the securities meeting the MTS admission criteria<sup>6</sup> and satisfying all the other ECB eligibility criteria. This arrangement is live, and this agreement will not be affected by the potential divestment of London Stock Exchange Group Holdings Italia S.p.A ("LSEG Italia"), the parent company of Borsa Italiana, including MTS S.p.A.

As noted in the [factsheet](#), the process of admission of bonds is automatic and without recourse to the issuer. We therefore do not expect that issuers will become subject to continuing obligations from the perspective of the EU Market Abuse Regulation.

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<sup>6</sup> BondVision Europe Market Rules can be found [here](#). MTS can apply additional criteria.

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