

27 November 2014

N12/14

Update on the Central Securities Depositories Regulation (CSDR) Article 3

Introduction

1. This Notice is published further to Stock Exchange Notice N08/14 which discussed the EU Regulation on Central Securities Depositories (CSDR), the requirements of Article 3(2) and their impact on the Rules of the London Stock Exchange (“the Exchange” and “the rules”).
2. N08/14 confirmed the Exchange’s intention to amend its rules with effect from 5 January 2015 so that on Exchange transactions would be able to comply with the requirements of Article 3(2). These requirements specify that where transactions in transferrable securities take place on a trading venue (Regulated Market, MTF, OTF), the relevant securities should be recorded in book entry form in a Central Securities Depository (“CSD”) on or before the intended settlement date (unless already so recorded).

Further clarification on the interpretation of CSDR Article 3(2)

3. The Exchange has received clarification that transactions that are negotiated privately, but only reported to a stock exchange do not fall within the scope of Article 3(2).

Impact on issuers/securities admitted to trading on the Exchange

4. There are a small number of securities admitted pre-2000 that trade on the SETSqx trading service which do not settle electronically within a CSD. The SETSqx trading service includes order book functionality and accordingly, these trades may fall within the scope of Article 3(2), the Exchange will, therefore, continue to work with these issuers to establish whether their securities can be enabled for electronic settlement on or before 5 January 2015. Should an issuer be unable to meet this requirement by 5 January 2015, the relevant line of security will be moved to a segment/sector without an order book pending enablement of electronic settlement.
5. The Exchange expects affected issuers to update investors on their progress in meeting the above deadline.

Update on “Regulation S, Category 3” issuers

6. As outlined in N08/14, there are a small number of AIM “Regulation S, Category 3” traded securities which are currently not eligible for electronic settlement. The Exchange has been working with Euroclear UK & Ireland (“EUI”), affected issuers

Market Notice

27 November 2014

and their advisers. The intention is to agree with EUI and other relevant parties a resolution that will allow for such securities to be able to be settled electronically in the settlement system, CREST. Whilst progress has been made in this respect further work is required to establish the viability of an electronic settlement solution. It is not envisaged that electronic settlement in the CREST system could be enabled before the second quarter of 2015.

7. Therefore, the requirement for AIM "Regulation S, Category 3" issuers to be eligible for electronic settlement will be deferred until 1 June 2015. These securities will remain in their current trading service sectors.

Update on rules impact

8. As a result of the above clarification, the Exchange does not propose to amend its settlement rules relating to non-electronic settlement. However, the Exchange will notify the market in due course of its intention to introduce a new rule requiring order book trades to be settled electronically in order to be compliant with CSDR Article 3(2).

Queries

9. Any comments or queries on this Notice from issuers should be addressed to primarymarketregulation@lseg.com

Any queries on this Notice in relation to the Exchange's rules should be addressed to Dagmar Banton, telephone +44 (0)20 7797 1210 (STX 31210) or email dbanton@lseg.com

Denzil Jenkins
Head of UK Compliance & Group Regulatory Policy

This Stock Exchange Notice will be available on the website at
<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnoticesnew/>

Calls to London Stock Exchange plc may be recorded to enable London Stock Exchange to carry out its regulatory responsibilities