

N13/13

Change to post-trade processing of central counterparty trades settled in CREST

Introduction

1. This Notice outlines a change to the method of post-trade processing of central counterparty (CCP) trades executed on London Stock Exchange's ("the Exchange's") SETS and SETSxq trading services where settlement takes place in Euroclear UK & Ireland's (EUI's) CREST system. There will be no impact to on Exchange trades executed off book, or to SETSxq executions in non-CCP securities, where settlement takes place on a bilateral basis.

Post-trade processing models

2. Currently, there are two models used for the clearing of electronically executed order book trades which are settled in CREST. The first model was adopted by the Exchange when CCP clearing was first introduced into UK equity trading in February 2001. In this model EUI receives the gross level trade feed, with its own CCP services providing settlement netting and onward transmission to CCPs currently clearing trades executed on SETS and SETSxq (LCH.Clearnet Ltd and SIX x-clear) for risk management.
3. An additional model has subsequently emerged where the CCP itself receives the gross level trade feed from a specific trading venue allowing it to provide settlement netting as well as risk management, prior to sending a settlement instruction to CREST. This model can allow firms to operate a more efficient post-trade process. This model has been further enhanced by the ability to cross platform net, which was introduced this year. The Exchange will therefore adopt this post-trade model for the applicable SETS and SETSxq trading services.

New post-trade model and Stamp Duty Reserve Tax (SDRT) Assessment

4. Under the new SETS and SETSxq post-trade CCP arrangements, member firms that choose to use their CCP to undertake their settlement netting will be able to use EUI's enhanced SDRT Assessment Service to ensure that their underlying gross transactions remain visible to both EUI and the appropriate tax authority. The enhanced SDRT Assessment Service has been developed in consultation with key participants and stakeholders at the request of HM Revenue & Customs.
5. The new SDRT Assessment Service is expected to go live in June 2014 and the Exchange will adopt its revised post trade model from the confirmed launch date. More information of the SDRT Assessment Service is available at <http://www.hmrc.gov.uk/so/sdrt-assessment.htm>

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6. It is understood that EUI will be releasing a revised Service Manual (“White Book”) in relation to the enhanced SDRT Assessment Service by the end of the year and will also be organising customer clinics early in the New Year to help member firms make the transition. It is also understood that EUI will be providing customer testing from 5 May 2014.
7. As a result of the change outlined above, member firms are requested to review their existing post-trade arrangements in order to adapt their processes for the transition to the new post-trade model. This is likely to require member firms to engage with their General Clearing Member or CCP, as necessary.
8. Further information including any customer testing with the Exchange will be made available in due course. However, should you wish to discuss this further in the meantime please contact Tim Beckwith at tbeckwith@lseg.com or telephone: +44 20 7797 1402.

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<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnoticesnew/>

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