

International Order Book Consultation Document

December 2013

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1. Introduction

The International Order Book (IOB) enables the trading of Depositary Receipts (DRs) based on instruments issued in different countries from Central and Eastern Europe, Asia, the Middle East and Russia and South America.

Since its inception in 2001, the IOB has grown rapidly and London Stock Exchange has undertaken regular enhancements to it. These have included introducing LCH.Clearnet Limited as central clearing counterparty (CCP) in 2009, provision of a buyer protection election service for cleared IOB securities in 2010, and the introduction of electronic market makers to the IOB in 2012.

Purpose of document

The purpose of this document is to encourage members to respond to proposed changes to be made to the IOB segment by London Stock Exchange.

Any comments should be returned by email before 27 December 2013 to clients@lseg.com.

Readership

The consultation document should be read by trading, IT, trade support and compliance staff at member firms, issuers of depositary receipts admitted to trading on the IOB, advisors, and any other participants that currently use or plan to use the IOB in the future.

Further information available at www.lseg.com/iob or please call 00 44 20 7797 3107.

2. Proposals for change

2.1. Change to trading hours

The current times for the trading cycle for the IOB as set out in the Millennium Exchange Business Parameter document available at www.lseg.com/tradingservices are shown in the table below. All times below are London time and for normal full day trading.

Order Book	Session * = subject to 30 second random periods and any price or market order extensions ~ = delayed by 5 minutes if 1 extension or by 10 minutes if more than 1 extension	Standard Day Start London time	Standard Day End London time
SETS-IOB	Pre-Trading	07:00:00	08:00:00
	Opening Auction Call	08:00:00	*08:15:00
	Regular Trading	*08:15:00	15:30:00
	Closing Auction Call	15:30:00	*15:40:00
	Closing Price Publication Session	*15:40:00	*15:40:01
	Closing Price Crossing Session	*15:40:01	~15:45:00
	Post Close	~15:45:00	17:15:00

In order to align the IOB with the SETS market, from 1 February 2014, we propose to start the Opening Call Auction at 07:50, with regular trading beginning at the earliest at 08:00 London time, subject to extensions as above.

Q1 Do you have any comments on this proposal?

Q2 For the closing auction, would you prefer the time of this to:

- a. remain the same;
- b. align with the SETS auction at 16:30 London time; or
- c. remain the same, but to extend the Closing Price Crossing Session (CPX) until 4pm. The CPX allows trading at the closing auction price only.

2.2. Changes to tick sizes

The **current** tick table for both the cleared and uncleared IOB market segments is shown below.

<u>Dynamic Price Format FESE2 International Order Book</u>		
Range	Price Format Description	Price Format Value
Less than 0.5	One ten-thousandth	0.0001
0.5 - 0.9995	One two-thousandth	0.0005
1 - 4.999	One thousandth	0.001
5 - 9.995	One two-hundredth	0.005
10 - 49.99	One hundredth	0.01
50 - 99.95	One twentieth	0.05
100 - 499.9	One tenth	0.1
500 - 999.5	Halves	0.5
1000 - 4999	Whole	1
5000 - 9995	Five	5
10000 or more	Ten	10

We propose using the following new tick table for the most liquid names on the IOB

<u>Dynamic Price Format schedule FESE1 for FTSE 100 Index securities on granular tick regime</u>		
Range	Price Format Description	Price Format Value
Less than 0.9999	One ten-thousandth	0.0001
1 - 4.9995	One two-thousandth	0.0005
5 - 9.999	One thousandth	0.001
10 - 49.995	One two-hundredth	0.005
50 - 99.99	One hundredth	0.01
100 - 499.95	One twentieth	0.05
500 - 999.9	One tenth	0.1
1000 - 4999.5	Halves	0.5
5000 - 9999	Whole	1
10000 or more	Five	5

From 1 February 2014, in order to align the treatment of FTSE 100 stocks on SETS and the IOB, we propose to change the tick size for the most liquid IOB names based on the DR's Average Daily Turnover (ADT) for the previous 3 months. DRs with ADT of more than \$30 million dollars will move to the FESE1 tick table. This threshold will be reviewed each quarter in line with the FTSE quarterly review, but stocks will remain on the same tick table for a minimum of 6 months.

As at the end of October 2013, this would affect the following DRs: Lukoil, Gazprom, Sberbank, Rosneft, MMC Norilsk, Uralkali, Novatek and Magnit.

Q3 Do you have any comments on this proposal?

2.3. Minimum Order Size

At its inception, the IOB had a minimum order size of 50 DRs for each underlying IOB security regardless of price, company size etc. After market consultation, this was removed completely in September 2010.

Q4 Do you have any comments regarding minimum order size for the IOB?

London Stock Exchange proposes a development to the IOB trading service for less liquid securities in order to improve the depth available for execution at touch. It is proposed to introduce a minimum order size for new resting orders to enter the order book and create a new Best Bid Offer (BBO).

Under this proposal, orders of any size could still be submitted to SETS.

All aggressive orders that execute without resting on the book would be completely unaffected.

Only passive orders that are sized to a pre-determined percentage of the Exchange Market Size or greater would be able to set a new BBO.

Smaller passive orders priced at or outside current BBO would be processed as per current practice today. However, submitters of smaller passive orders within the current BBO would receive an acknowledgement message confirming that their order had been re-priced to join the ruling BBO.

Q5 Would you support this development in less liquid securities and what securities do you consider should fall into this category?

3. Changes to Standard Settlement Period

Under the Central Securities Depository Regulation (“CSDR”), which aims to harmonise EU securities settlement cycles, the standard settlement period for cash equities across Europe is being moved to T+2 on October 6th 2014. Please see London Stock Exchange notice N14/13 regarding this.

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/sen-home.htm>

Q6 Do you foresee any technical or operational problems with the move from T+3 to T+2 for IOB securities?

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