

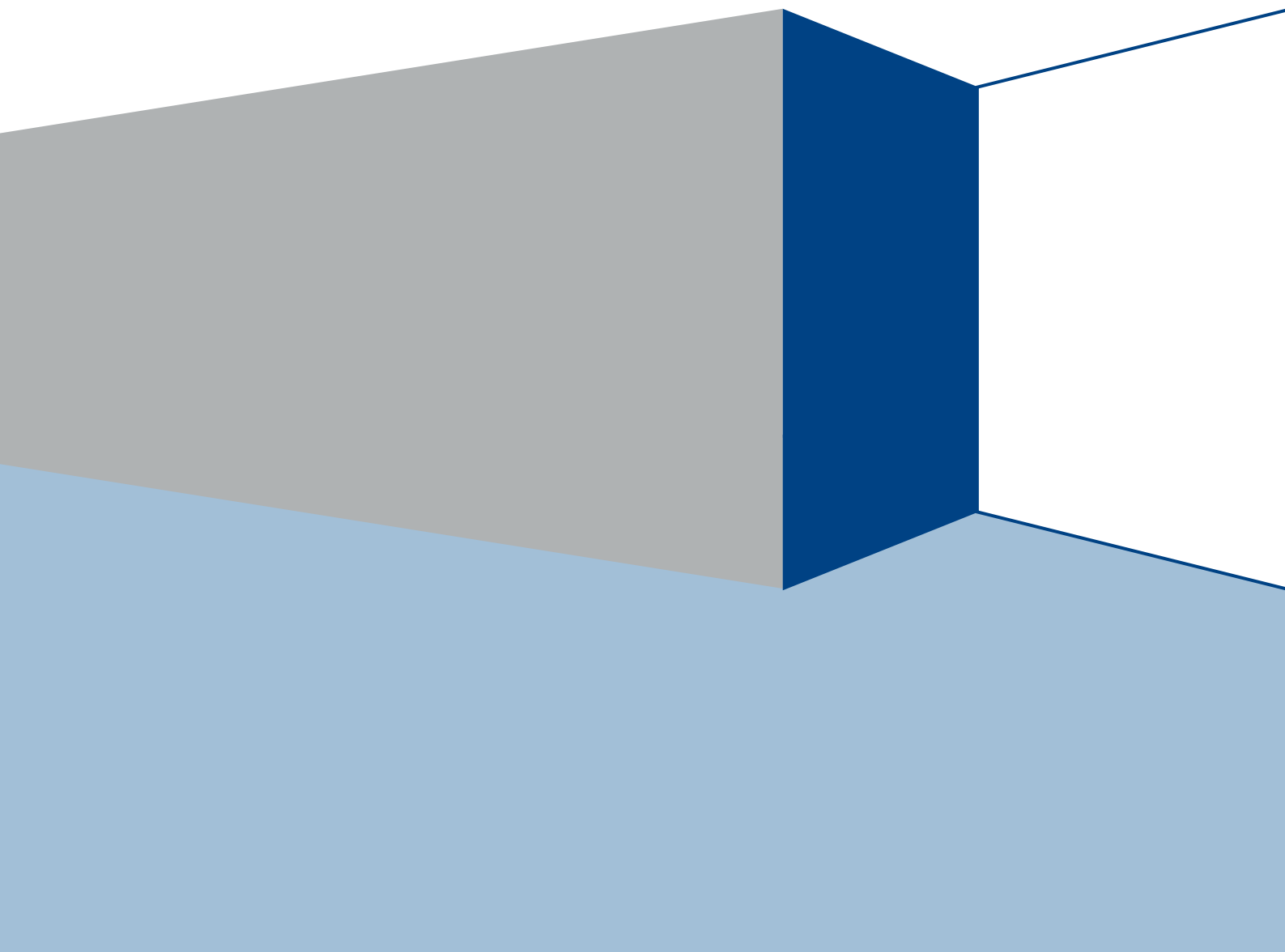


London
Stock Exchange

RESPONSE TO CONSULTATION DATED MARCH 2010

International Order Book

**- including introduction of buyer protection for cleared trades
impacted by corporate actions**



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1 Introduction

The International Order Book (IOB) enables investors to unlock the potential of some of the world's fastest growing markets. It offers easy and cost efficient access to markets around the world via depositary receipts (DRs).

The market has grown rapidly since its inception with some of the most heavily traded securities on the London Stock Exchange (the Exchange) being traded on the IOB. To facilitate its continued growth, in March 2009 LCH.Clearnet became the central counterparty (CCP) for trades in the most liquid IOB securities.

1.1 Purpose of this document

In March 2010 a consultation document was issued requesting market feedback on a number of aspects in connection with the operation of the IOB trading service. This included a proposal for LCH.Clearnet to introduce a manual service for processing corporate action elections on cleared unsettled IOB transactions.

The original consultation document issued on 15 March 2010 can be found here:

<http://www.londonstockexchange.com/iob>

The purpose of this document is to provide an overview of the feedback received in connection with the March 2010 consultation and the steps that are being taken to continue to improve the operation of IOB. Both the Exchange and LCH.Clearnet would like to thank the market participants that provided feedback to this consultation.

1.2 Readership

This consultation document should be read by member firms and in particular those member firms operating as Clearing Members. It is also useful for prospective participants who may wish to commence trading on the IOB.

It should specifically be read by those departments at member firms that are involved with trading, clearing, settlement and risk.

1.3 Contact details

To contact the Exchange:

- Please contact the Business Development team at:
clients@londonstockexchange.com

To contact LCH.Clearnet:

- Please contact Diane Krivda on +44 (0) 20 7426 7638
diane.krivda@lchclearnet.com

2 Corporate action processing

2.1 Overview

The vast majority of corporate actions in IOB securities are processed without any issues arising. However, since the introduction of the CCP service, for cleared executions, to date it has not been possible to provide buyer protection facilities in relation to corporate actions with options i.e. to allow the buyer of a security that is the subject of a corporate action with options to elect to accept any option apart from the default. This is in contrast to the service available for securities traded on SETS for example, where buyer protection, via ACON functionality, is provided by Euroclear UK and Ireland.

2.2 Current IOB service

Currently, if a corporate action with options occurs on an IOB cleared execution, the default option is delivered by LCH.Clearnet to the buyer if their trade is unsettled at the last time acceptances can be made.

2.3 Feedback

Question 1: Would respondents prefer to retain the current service or instead request LCH.Clearnet to provide a manual service for buyers of unsettled cleared trades to be able to elect in corporate actions?

The majority of the respondents supported the introduction of a manual service to allow buyer protection in the event of a corporate action in an unsettled, cleared IOB execution. Since the consultation closed, the Exchange and LCH.Clearnet have been working with interested parties to refine the processes required to successfully implement such a scheme. More details of the new service can be found in section 2.4 below.

Question 2: What deadlines should be set in connection with the efficient operation of the manual buyer protection scheme?

Since the consultation closed there has been ongoing dialogue with interested parties on this issue. There is always going to have to be a trade off in the timetable to allow fair treatment of both buyer and seller as well as provide LCH.Clearnet adequate time to process these manual arrangements.

The timetable that will be implemented is as follows:

An Entitled Holder must submit a Buyer Election Notice by 6pm two business days prior to Euroclear Bank's Deadline (CCP Deadline).

Seller must receive instruction from CCP by 1pm on day before Euroclear Bank's Deadline (Allocation Deadline).

Question 3: Concerned respondents views on an administration charge for this service.

Most respondents recognised that it was not unreasonable to charge a fair administration charge for the provision of the service. There were differing views on whether it should be levied on the buyer, the seller or both.

From the commencement of the service, LCH.Clearnet will not be levying any charge for taking buyer elections, this will be reviewed based on the volume of work the operation of the service generates.

Question 4: Concerned respondents views that LCH.Clearnet is unable to accept liability for any losses or damages arising from inaction on a Buyer Election?

This generated comment from several respondents, although has been accepted as a necessary precondition in order for LCH.Clearnet to be able to offer the Buyer Election service.

2.4 New buyer protection service

The new LCH.Clearnet manual buyer protection election service will be available for corporate actions on IOB securities that are announced from 18 October 2010 onwards, providing that the cleared execution concerned had not been undertaken before this date.

In order to facilitate the new service the Exchange has announced a minor revision to its rules to cross-reference to the instruction deadlines of the CCP.

These deadlines (Appendix 2D.B of Section 2D) along with the full operational guidelines (2D.15.5 of Section 2D) governing the service will be set down in the LCH.Clearnet Ltd Rule book. This will be updated before 18 October 2010 and can be found at:

http://www.lchclearnet.com/rules_and_regulations/ltd/default.asp

To activate an election in a specific corporate action (initially at no cost) requires the submission of a Buyer Election Notice to LCH.Clearnet. This can be found as Appendix 2D.F of Section 2D at above link.

3 Other aspects of IOB service

3.1 Extension of IOB securities included within the cleared service

Question 5: Do respondents have any objections to the immediate addition to the cleared service of new IOB securities that are clearly expected to be liquid?

There were no major objections to this approach.

It was noted that there is a need to match benefits of CCP against the higher margin calls for less traded securities and also the provision of adequate notice of any security moves to the cleared service. Other respondents had expressed a preference to move all IOB securities to the cleared service.

The approach going forward will be that new liquid IOB securities will be introduced immediately to the cleared IOB trading segment (IOBE). Datasync will continue to give details of the trading segment of the new securities admitted to trading, as today. This brings IOB in line with the principles adopted for the equity SETS service.

The Exchange will continue to review existing non-cleared IOB securities (on trading segment IOBU) as part of its quarterly review process, any changes which would still be with reference to the security's liquidity would then be advised by Service Announcement and Datasync (as today).

3.2 IOB market opening hours

Question 6: Would respondents support a revision to the start of the opening auction call to 07:50? Is there a requirement for any further revision to either the start or end time of automated trading on IOB?

Feedback was mixed with no clear consensus as to whether either the start or end time of the trading day should be revised. We will continue to discuss this with market participants and keep IOB operational hours under ongoing review.

3.3 Minimum Order Size

Question 7: Would respondents support a revision of the minimum order size of 50 units?

Whilst there was limited support for a low value based minimum order size the majority of respondents requested its complete removal. This was incorporated into the September 2010 quarterly review as per Service Announcement [001/100910](#) and as from 20 September 2010, the minimum order size in all IOB securities has been 1 unit.

3.4 Revision of dynamic price format schedule

Outside of this specific consultation market participants have been leading a consolidated review of price format codes (“tick sizes”) used by European trading venues. This has led to the creation of a series of standard dynamic tick size tables. These tables are designed to maintain consistent bands in terms of the tick size as a percentage of the share price, to avoid excessive jumps when price thresholds are crossed, and to remove anomalies where tick sizes are large and restricting spreads. Following the implementation of two such standard tick size tables across FTSE 350 securities last year, we have now introduced one of these tables for IOB securities.

This was incorporated into the September 2010 quarterly review as per Service Announcement [001/100910](#) and as from 20 September 2010, the dynamic price format code schedule based on FESE Table 2 has been introduced for all IOB securities.

Full details of all dynamic price format codes operated by the Exchange can be found within the TradElect Parameters document which can be found at:

www.londonstockexchange.com/tradingservices

4 Ongoing improvement of IOB service

The Exchange is committed to continue to develop the IOB service. It would be keen to receive further feedback on matters covered in this document or any other aspect of the admission and secondary trading of depository receipts on Exchange. Please contact your usual contact or alternatively email: clients@londonstockexchange.com

4.1 Further sources of information

- More information on the International Order Book can be found on the Exchange's website at:

www.londonstockexchange.com/iob.

- To help you keep your trading database synchronised on a real time basis, you may wish to subscribe to either the Datasync Email Service or the Datasync Daily Tradable Instrument Report (DTI). To find out more please contact:

Tel: +44 (0)20 7797 1220, STX: 31220

Email: datalect@londonstockexchange.com

- Full details of the trading thresholds in operation for IOB are contained in the TradElect Parameters document which can be found at:

www.londonstockexchange.com/tradingservices

- Sign up to receive Service Announcements at:

<http://www.londonstockexchange.com/products-and-services/technical-library/service-announcements/service-announcements.htm>

- Sign up to receive Stock Exchange Notices at:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/2010/home-2010.htm>



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