



London
Stock Exchange



The London Stock Exchange's Order book for Retail Bonds (ORB)

ACT Breakfast Briefing
5 July 2011

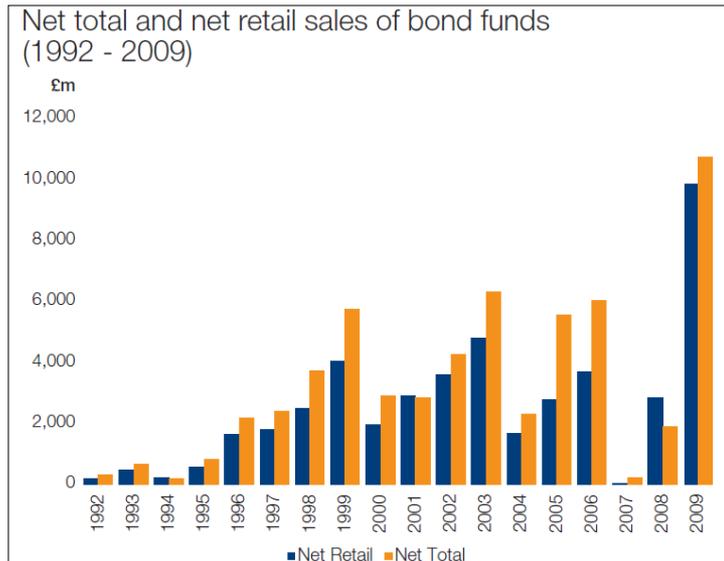


Investor Demand

- increasing private investor focus on fixed income
 - seeking alternative asset classes given current low interest rates and recent equity market volatility
- private investors using bond funds are keen to take more active role in managing their portfolio by selecting and trading individual bonds
 - trading in individual debt securities allows investors to select particular bond issues and tailor their portfolio

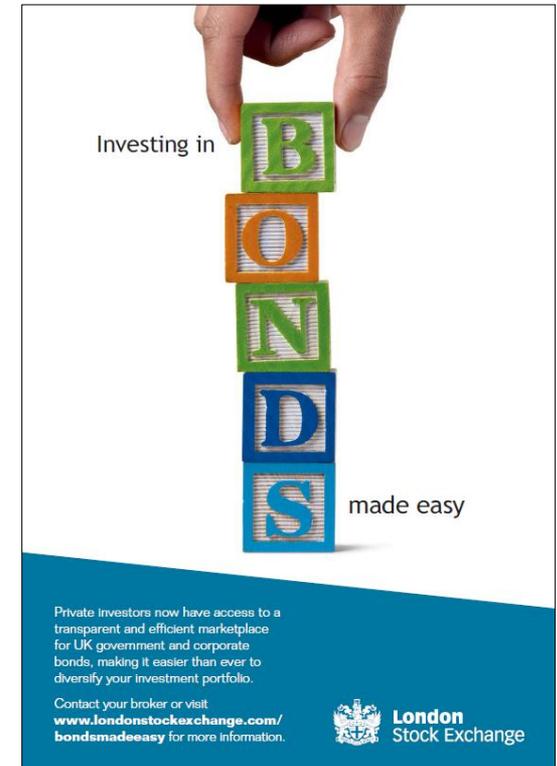
IMA Asset Management Survey 2009/10

- total invested in bond funds up 27% on previous year
- 2009 saw highest ever inflow into bond funds, net total of £10.7bn
- this inflow driven almost entirely by private investors (90% of total)
- corporate bonds were best-selling sector



Launch of Order book for Retail Bonds

- strong demand from UK private client brokers for greater access to retail bonds
- customers seeking cost-effective, transparent mechanism for retail price discovery in secondary markets for UK sovereign and corporate bonds
- strong appetite for wider range of retail-size corporate bonds to be made available
- key aims of ORB are to develop both an efficient, transparent **secondary** market in bonds for UK private investors and establish a **primary** market for distribution of dedicated retail bonds
 - opening up new sources of capital for companies seeking to diversify their funding



Investing in

B
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made easy

Private investors now have access to a transparent and efficient marketplace for UK government and corporate bonds, making it easier than ever to diversify your investment portfolio.

Contact your broker or visit
www.londonstockexchange.com/bondsmadeeasy for more information.



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Key features of the new market model

- **Transparency**
 - dedicated market makers are committed to quoting two-way prices in a range of retail bonds throughout the trading day
 - means that private investors can see continuous tradeable prices on-screen and easily monitor the value of their bond portfolio
 - open model for all participants, offers new opportunities for price improvements
 - prospectuses for all the bonds on ORB are available to download free from our website
- **Regulatory supervision**
 - high degree of market monitoring and supervision
 - EU regulated market, highest standards of disclosure and transparency

Electronic Order Book

- new market model means private investors are able to see prices on-screen and trade in bonds in a similar way as they currently do for shares

PFG7.L PROVIDENT FINANCIAL 7.00i Pr Cls 102.48 GBP							
LSE	EMS	1,000	Seg	UKCP	Sect	UKC2	ISIN XS0496412064
Last		103	AT	1,000	11:46	Sts	MCNT Ind A
Trade Hi	103	Open	103	Mid	▲ 103.25		+0.77
Trade Lo	103	VWAP	103	Mid Hi	103.25		+0.75%
Trades	1	Total Vol	1,000	Mid Lo	101.98		
Pub Lvl	1,000	Prev Vol	0	AT Vol	1,000		
Uncrossing	0	Uncr Vol	0	ADT			
Buy Vol	58,513			Sell Vol	51,000		
1	237		103 - 103.5	25,000	1		
237		237	103	103.5	25,000	EVO	25t
1,837		1,600	102.85	104	1,000	SCAP	26t
3,426		1,589	102.75	104.5	25,000	NUMS	51t
5,926		2,500	102.5				
30.9t	NUMS	25,000	102.5				
32.5t		1,587	102				
57.5t	EVO	25,000	101.5				
58.5t	SCAP	1,000	101.5				

Bonds available on electronic ORB

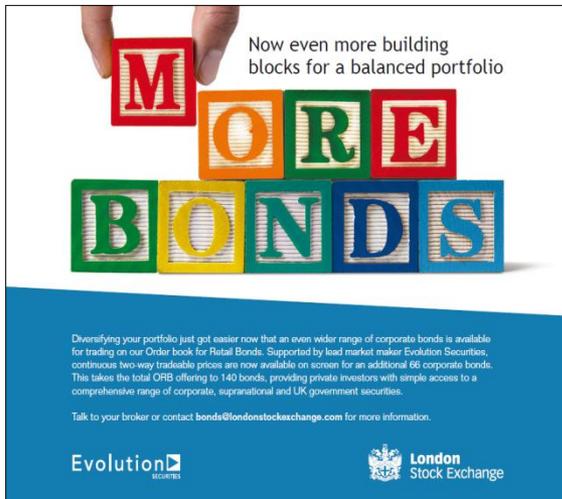
- initial offering has now expanded to support over 90 corporate and four supranational bonds
 - at launch, a number of existing retail-size bonds were made available for continuous quoting on the electronic order book
 - key issuers such as BT, Imperial Tobacco, Marks & Spencer, National Grid and Rolls Royce
- also offers range of around 50 gilts
 - covers range of maturities, standard gilts (excludes strips, undated, rump issues)
 - includes inflation-linked gilts

New bond issues on ORB

- **Royal Bank of Scotland** bond, tradable in £100 denominations, issued on the launch day of new market
- **Provident Financial** introduced a £1 denomination bond in April 2010
- **Lloyds TSB** launched £100 denomination retail bond in June 2010, raising £75 million
- RBS launched inflation-linked and floating rate bonds in November 2010, followed by inflation multiplier and step up bonds
- **Tesco Bank** listed dedicated retail bond on ORB in February 2011, raising £125 million
- Provident Financial brought a second bond onto ORB in March 2011, raising £75 million
- **European Investment Bank** launched a new sterling retail bond on ORB in March 2011
- Lloyds TSB issued a second new bond in March 2011, raising £150 million
- **Places for People**, the first non-bank issuer on ORB, launched a fixed rate bond in June 2011 - raising £140 million

Market Partners

- ORB is currently supported by five market makers:
 - Evolution Securities in gilts and corporates
 - Shore Capital and Collins Stewart in a range of corporates
 - RBS in the new RBS Royal Bond
 - Numis in the new Provident Financial bond
- we are working with market partners to further develop the ORB and to support new admissions with press/marketing activity
- dedicated partner logos may be displayed by key participants



Now even more building blocks for a balanced portfolio

MORE BONDS

Diversifying your portfolio just got easier now that an even wider range of corporate bonds is available for trading on our Order book for Retail Bonds. Supported by lead market maker Evolution Securities, continuous two-way tradable prices are now available on screen for an additional 66 corporate bonds. This takes the total ORB offering to 140 bonds, providing private investors with simple access to a comprehensive range of corporates, supranational and UK government securities.

Talk to your broker or contact bonds@londonstockexchange.com for more information.

Evolution SECURITIES  London Stock Exchange



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MARKET MAKER

ORDER BOOK FOR RETAIL BONDS



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ISSUER

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BROKER

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Education

LISTING AND ADMITTING RETAIL BONDS

Order book for Retail Bonds

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Trading Bonds on the London Stock Exchange

A Guide for Private Investors

The new electronic order book for retail bonds

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Electronic order book for retail bonds

EFFICIENCY AND TRANSPARENCY IN TRADING BONDS FOR PRIVATE INVESTORS

Order book for Retail Bonds

Accrued Interest - A Guide for Private Investors

London Stock Exchange

Introduction

This guide aims to provide an overview of accrued interest for private investors wishing to trade bonds on the London Stock Exchange's new electronic Order Book for Retail Bonds (ORB). It provides summary information on the various calculation methods and gives worked examples.

This guide may serve as a comparison to the publication, *Trading Bonds on the London Stock Exchange - A Guide for Private Investors*, which gives an overview of the various types of bonds available and the types of issues, in addition to providing introductory information on bond pricing and yields.

Clean and Dirty Prices

On the electronic Order Book for Retail Bonds prices are quoted on a 'clean' basis. This follows the standard quoting convention in the professional bond markets. A 'clean' price is one where accrued interest is not included. When an investor buys a bond however, they will pay the bond's 'dirty' price, which is the clean price plus the accrued interest.

When a bond is traded between coupon payment dates, accrued interest is paid to compensate the seller for the period during which the seller has held the bond, but for which they will receive no interest from the bond's issuer (as the seller will not be holding the bond when the next coupon payment date arrives). Because both the seller and the buyer will only own the bond for part of the interest earning period, but the buyer will receive the full coupon by holding the bond on the coupon date, the buyer compensates the seller with a pro-rata share of the next coupon payable.

Calculating Accrued Interest

A simplified example will highlight how the accrued interest amount for a particular bond is calculated. If a bond pays an annual coupon of 5%, the bond holder will receive an interest payment of £50 each year for a £1,000 nominal holding in that bond.

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Electronic order book for retail bonds

Offering increased efficiency and transparency in trading bonds for private investors

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The London Stock Exchange's new electronic Order Book for Retail Bonds (ORB) has been launched in response to growing private investor demand for easier access to trading bonds. It offers a cost-effective, transparent and efficient mechanism for concentrating on screen liquidity and facilitating price discovery in a range of UK fixed income securities.

An initial selection of gilt and retail-size UK corporate bonds tradable in denominations of £1,000 or similar is now available for trading on our electronic order book. The new market also offers an efficient mechanism for corporate issuers wishing to distribute bonds to retail investors and is expected to stimulate new issues of bonds tradable in retail-size denominations.

The benefits offered by the new electronic Order Book for Retail Bonds include:

- an open and transparent market model for trading in retail size
- dedicated market makers will quote buy/sell prices in a range of retail bonds throughout the trading day at all registered member participants will also be able to enter orders into the book
- new market model means private investors will be able to see prices on screen and trade in bonds in a similar way as they currently do for shares
- greater efficiency of electronic on-book execution and option to trade straight through processing to settlement system
- settlement of order book trades can be instructed automatically by an X-TRM post trade market via direct input to CREST
- increasingly available for trade data on electronic securities will be fed into X-TRM which will calculate the accrued interest payable and interest settlement in CREST to benefit of the counterparty
- cost effectiveness and simplicity of transaction charging
- flat transaction fee for retail bond trades charged at the same per executed order
- regulation and market supervision
- all of the bonds available on the electronic order book are London-based securities admitted to the EU Regulated Main Market, ensuring a high level of regulatory oversight
- all trading on the electronic order book will be subject to the London Stock Exchange's high standards of market supervision and monitoring
- standardisation of market structures
- standard settlement calendar, following T+1 for gilts and T+2 for all corporate bonds, applied for all bonds available on the electronic order book
- no-fee - minimum price movement for all retail bond bonds will be standardised at 0.01 (one penny)
- new opportunities for issuers wishing to offer retail bonds to UK investors in a cost-effective and efficient way
- the development of a legal, transparent secondary market for retail bonds will bring into focus the benefits of retail coupon programmes as an additional source of funding for companies wishing to raise capital from a wider pool of investors

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Order book for Retail Bonds

Accrued Interest on X-TRM - Further Information for Brokers

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For London Stock Exchange Members wishing to see straight through processing for CRE transactions, the post trade route X-TRM automatically calculates the accrued interest for each electronic trade and sends settlement instructions via direct input to CREST. This tool provides details of the data inputs used in X-TRM to calculate accrued interest and defines terminology in the X-TRM designation of day count conventions.

X-TRM designates three different variants of the ACT/ACT convention. All use the actual number of days in the interest settlement period and the actual number of days in the coupon period. However there are variations in the coupon amount input to the calculation.

In the X-TRM designations, ACT/ACT/EMA uses the actual coupon rate. For CRE securities, the day count method is only applied to bonds with an annual coupon payment schedule.

The X-TRM ACT/ACT convention uses the coupon amount for the relevant coupon period and an CRE is applied to bonds with a semi-annual or quarterly coupon payment schedule. Under X-TRM ACT/ACT, the coupon amount input to the calculation is the actual rate divided by the number of coupon payments per year.

GLTS/ACT/ACT is a variant of X-TRM ACT/ACT which differs in the manner in which the number coupon payments per year but where an divided date are also taken into account. GLTS/ACT/ACT is able to support the calculation of negative accrued interest when the settlement date of an CRE transaction falls after the last coupon date.

The value of this day count convention calculation, designated as ACT/360/EMA, ACT/365/EMA and 365/360/EMA, EUR/CPAN, all follow standard market conventions.

X-TRM day count convention	Interest days for period between previous coupon payment and trade settlement date	Annual basis	Coupon	Notes
365/360/EMA EURO/CPAN	actual 30 days in each month	360	annual rate	30 European method of trade settlement date. Not on 21st, taken to be 20th. If previous coupon date falls on 21st, this is maintained as 21st
ACT/360/EMA	actual	360	annual rate	
ACT/365/EMA	actual	365	annual rate	
ACT/ACT	actual	actual days in coupon period	annual rate divided by number of coupon payments per year	
ACT/ACT/EMA	actual	actual days in coupon period	annual rate	same as ACT/ACT but uses annual coupon rate
GLTS/ACT/ACT	actual	actual days in coupon period	annual rate divided by number of coupon payments per year	same as ACT/ACT but factors in ex-dividend dates

Further Information

For full details of X-TRM see our site and the X-TRM manual which can be downloaded at the following locations. See the website on the London Stock Exchange website at www.londonstockexchange.com/x-trm

For further information, please contact the CRE team:
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Order book for Retail Bonds

Accrued Interest on Conventional and Index-Linked Gilts

London Stock Exchange

Introduction

This guide aims to provide additional information on accrued interest for private investors wishing to trade gilts on the London Stock Exchange's new electronic Order Book for Retail Bonds (ORB). It provides summary information on the various calculation methods for both conventional and index-linked gilts and gives worked examples.

This guide may serve as a comparison to the brochure, *Trading Bonds on the London Stock Exchange - A Guide for Private Investors*, which gives an overview of the various types of bonds available in addition to introductory information on bond pricing and yields. In particular, the brochure should be read in conjunction with the leaflet, *Accrued Interest - A Guide for Private Investors*, which provides summary information and worked examples of the various calculation methods for corporate bonds but which also provide a simple calculation for conventional gilts.

Accrued Interest on Conventional Gilts

For all gilts, the standard day count convention is ACT/ACT. This means that the calculation for accrued interest takes the actual number of days on which the seller has accrued interest (the period between the previous coupon date and the settlement date of the bond trade) and divides this by the actual number of days in the interest period to determine which proportion of the coupon amount should accrue to the bond seller.

Conventional gilts

For conventional gilts, a fixed coupon is paid throughout the lifetime of the security until maturity when the gilt is redeemed and the full nominal principal amount invested is returned to the gilt holder.

Accrued interest for conventional gilts is calculated as follows:

$$\text{Accrued Interest} = \frac{\text{actual days between previous coupon and sett. date}}{\text{actual days in coupon period}} \times \frac{\text{coupon amount}}{2}$$

The coupon amount in the above accrued interest formula is divided by 2 because coupon payments on gilts are made semi-annually. The relevant amount when calculating the accrued interest is therefore the amount paid for the six month period in question and not the annual interest rate.

Example: Accrued Interest on Conventional Gilt (standard divided period)

CRE Identifier:	ORB Identifier
ISIN:	GB00B5TFSF94
TICKER:	TREASURY 4.5% TREASURY GILT 19
ISIN:	119
ISIN:	GB00B5TFSF94
Coupon Dates:	7 March and 7 September
Annual Coupon:	4.5%
Trade Date:	13 April 2011 (T+1 settlement on 12 April 2011)
Clean Price:	106.81

$$\text{Accrued Interest} = \frac{26 \text{ (period between 7 Mar 2011 and 12 Apr 2011)}}{184 \text{ (period between 7 Mar and 7 Sep 2011)}} \times \frac{4.5}{2} = 0.44021791$$

Dirty price = 106.810214 (Clean price + accrued interest)

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Further Information

Fixed Income

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