



London
STOCK EXCHANGE

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**For the attention of the
chairman/senior partner/compliance officer,
all member firms**

N06/08

STOCK EXCHANGE NOTICE

NOTIFICATION – GUIDANCE ON RIGHTS ISSUES

Background

1. The Exchange has received a number of queries regarding the trading and settlement of securities which are subject to a renounceable rights issue. As a result, this Notice is being issued in order to provide firms with further guidance and clarification as to how the Rules of the London Stock Exchange (“the rules”) are applicable when executing on Exchange transactions in a rights issue.

Sources of information

2. Details regarding the timetable and other key information applicable to a rights issue are published by the Exchange in a Stock Situation Notice. For further information about how to receive Stock Situation Notices please follow the link provided below:
<http://www.londonstockexchange.com/en-gb/products/informationproducts/corpactions/>

Exchange rules 5500 – 5590 provide a framework for the trading and settlement of rights issues. Firms are reminded that these rules contain a number of important deadlines that help facilitate the orderly processing of trades in rights issues which are executed on the Exchange.

Trading of Nil Paid Rights

3. The Exchange commences trading in nil-paid rights at the start of business on the ex rights date. Nil-paid rights trade on the SETS order book on a T+1 settlement cycle clearing through the central counterparty (CCP). At the close of business two days prior to the call payment date the nil-paid rights are replaced on the SETS order book with the fully paid rights. The nil-paid rights are moved to a non-CCP segment of SETSqx and trading can continue

bilaterally or through the automated uncrossing process. The ISIN for the nil-paid rights is removed from TradElect™ at the close of business on call payment date.

Firms should be aware of the following points:

- On Exchange or OTC – firms need to be clear at the point of execution whether a trade in the nil-paid rights is on Exchange or OTC (rule 3000). This is especially important where a firm is interposed between two trades as the firm needs to be aware of its obligations if one trade is executed on Exchange and the other is OTC (i.e. depending upon the terms of the trades the firm's obligations in relation to both trades may differ).
- Buyer Protection - where firms continue to trade the nil paid rights after the deadline for passing lapsing instructions (rules 5580 - 5583), the seller is obliged to protect the buyer and take up the rights (rule 5550). In relation to non-CCP trades, the buyer can only agree otherwise by negotiation with the seller at the time of trade execution. Firms need to be aware of this when deciding whether to execute orders automatically via the uncrossing process on SETSqx or bilaterally with another firm. This is also the case where firms continue to trade the nil-paid rights after the call payment deadline.
- Delivery deadlines – firms are reminded that nil-paid rights should not be delivered after the deadline for the delivery of nil-paid rights (close of CREST settlement processing) on the day before the call payment date (rule 5540). A buyer is not obliged to accept a delivery of rights after that time.

Fully Paid Rights

4. Firms are also reminded that the ISIN for the fully paid rights is removed from TradElect™ at the close of business on call payment date.
5. Any queries on this Notice should be addressed to Dagmar Banton, Trading Services, telephone +44 20 7797 1210 (STX 31210) email: dbanton@londonstockexchange.com

Nick Bayley
Head of Trading Services

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 the Exchange to carry out its regulatory responsibilities.