



# The Professional Securities Market

## Introduction

The Prospectus Directive ("PD") was implemented in the UK on 1 July 2005. In anticipation of concerns surrounding the introduction of PD, the London Stock Exchange enhanced its market structure. The Professional Securities Market was introduced to address those concerns and help maintain London's pre-eminent position as a listing venue for debt, convertibles and depository receipts ("DRs").

## The impact of PD on issuers of debt, convertibles and DRs

PD introduced two regimes that may be followed for the production and publication of a prospectus, where the securities concerned are to be offered to the public and/or admitted to trading on a regulated market.

The regime to be followed depends upon whether the securities are intended for a retail or a wholesale audience. Retail offers require more detail in respect of the information to be provided in the prospectus. Wholesale offers require less detail to be disclosed in the document. Whether an offer is retail or wholesale is not determined by reference to the target audience for an issue, as was the case previously, i.e. a retail offer being one to the general public and a wholesale offer being one to professional investors; it is instead defined by reference to the type of security and its unit value, or its denomination.

Issuers of debt securities and DRs that are denominated below €50,000 (or the equivalent amount in another currency) are required to follow the requirements of a retail regime. The wholesale regime is available only to issuers of such securities that are denominated at or above €50,000 (or the equivalent amount in another currency).

Issuers of debt securities that are convertible or exchangeable into equity securities, which as a class are already admitted to trading on a regulated market also have to follow the retail or wholesale requirements as above, depending on the denomination of the securities. However, issuers of debt securities that are convertible to trading on

a regulated market, will have additional disclosure requirements aligned with those of equity issuers.

## The new requirements

Convertibles  
Equity disclosure

RETAIL  
Regulated Market

Securities denominated  
below €50,000\*

CONVERTIBLES  
Equity disclosure

WHOLESALE  
Regulated Market

Securities denominated  
at or above €50,000\*

\*or the equivalent in another currency

## International Financial Reporting Standards ("IFRS")

A key difference between the retail and wholesale regimes is in the preparation of financial information. An issuer following a retail regime will be required to prepare its financial information to IFRS, or an equivalent standard, for any financial year starting on or after 1 January 2007. This applies to all issuers of convertible securities required to provide disclosures aligned with those of equity issuers, irrespective of denomination. Preparing financial information to IFRS is not a requirement under a wholesale regime and local accounting standards will be acceptable. Issuers instead will be required to provide a description of the key differences between the accounting standards used and IFRS.

These requirements have raised concerns for some issuers who may want to list convertible bonds or securities denominated below €50,000, as the retail or equity regime they will be required to follow could be costly to comply with. This is particularly

<sup>1</sup> The requirement under a wholesale regime to provide a narrative description of the differences between IFRS and the local accounting principles adopted by the issuer may be waived for issuers admitting to the Professional Securities Market.



so for those issuers from outside the EU, whose accounting standards may not be deemed equivalent to IFRS. The cost of re-stating or providing additional disclosures under a retail regime could be prohibitive.

**London's solution to these concerns**

To address this issue the London Stock Exchange and the Financial Services Authority ("FSA") - the UK's competent authority for listing - introduced an additional element to complement the new listing processes launched under PD. This provides a third option for issuers listing in London, which enables them to follow a wholesale regime irrespective of the type or denomination of security.

Since 1 July 2005, issuers listing debt, convertibles or DRs in London had the choice of being admitted to the Main Market, which is a regulated market, or the Professional Securities Market, which is operated and regulated by the Exchange. Both are recognised and defined within the directives.

The rationale in taking this approach stems from the fact that PD and the Transparency Directive ("TD") apply to securities that are admitted to regulated markets within the EU. Therefore, the FSA is able to exercise flexibility in the implementation of the directives where issuers choose to admit to the Professional Securities Market, as this is not a regulated market as defined in the directives.

In following the Professional Securities Market route to listing, issuers are able to admit any type of debt security or DR, including those carrying a right to convert or acquire equity, of any denomination and follow a wholesale regime, without the requirement for additional equity disclosure for convertibles. In addition, the FSA is able to exercise flexibility in its application of the wholesale requirements for issues onto the Professional Securities Market. For example, issuers from many jurisdictions will not be required to provide a description of the key differences between their local accounting standards and IFRS.

**London's third option**

**CONVERTIBLES**  
Equity disclosure

Securities denominated below €50,000\*

**RETAIL**  
Regulated Market

**CONVERTIBLES**  
Equity disclosure

Securities denominated at or above €50,000\*

**WHOLESALE**  
Regulated Market

\*or the equivalent in another currency

**WHOLESALE**  
Professional  
Securities Market

Debt securities, DRs, convertible and exchangeable securities and those carrying rights to acquire equity - of any denomination

**The benefits for issuers listing in London**

The creation of the Professional Securities Market has provided an important choice for issuers. Companies wanting to raise capital, without being restricted in the type or value of securities they issue, may do so without the additional cost of following a retail or equity regime. Issuers of debt, convertibles and DRs are not required to report historical financial information to IFRS or an EU approved equivalent standard either in listing documents or as a continuing obligation requirement, as the FSA allow these issuers to use their domestic accounting standards following the implementation of TD in January 2007.

The Professional Securities Market also provides the best option for those issuers already listed in London, who are concerned about the impact of both PD and TD going forward. Companies already listed and

<sup>2</sup> A regulated market is defined under MiFID (Markets in Financial Instruments Directive - to be implemented on 1 November 2007), previously the Investment Services Directive. The Professional Securities Market is operated and approved as a Multilateral Trading Facility (MTF), also defined under MiFID.





admitted to trading on the Main Market may choose to move to the Professional Securities Market free of charge, without the need to produce further listing documentation and without losing their status as Officially Listed companies.

The London Stock Exchange believes that a consistent approach is the right way forward for issuers, providing the flexibility to address the specific issues it has identified.

This alignment with the Financial Services Action Plan that is the new standard for the EU provides more comfort for investors who want the assurance of a robust regulatory approach.

### Institutional investment

Issuers choosing to admit to the Professional Securities Market will have their listing particulars approved by the UK Listing Authority and be admitted to listing, so a key requirement for investment by funds and institutional investors will have been met. Investors may also be assured that the disclosure obligations for listed companies will apply to the Professional Securities Market, excepting of course the requirement to report financial information to IFRS. Therefore, important regulatory information, such as annual reports and on-going disclosures, will be readily available to investors.

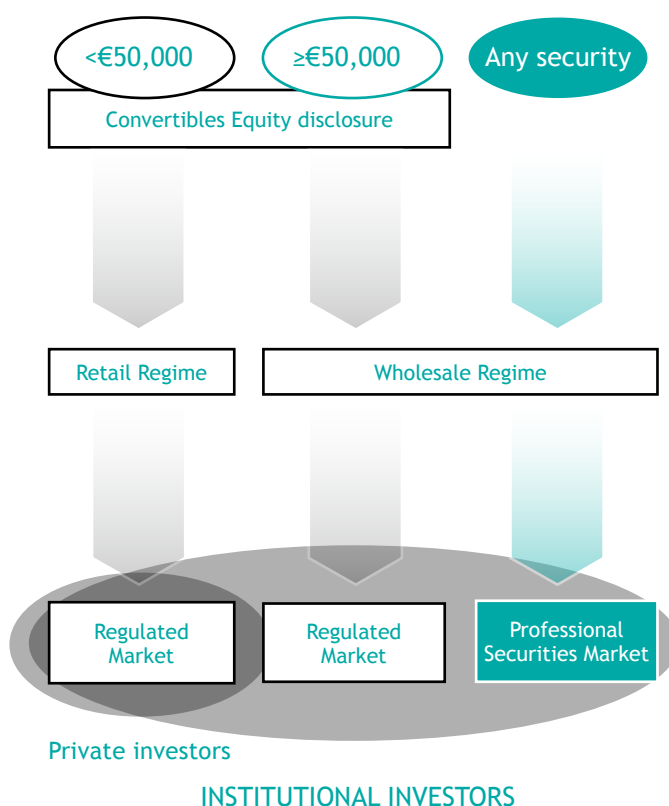
The Professional Securities Market is an integral part of the London Stock Exchange and is operated within the scope of its status as a Recognised Investment Exchange. This means that the high regulatory standards currently applied to its markets, in respect of on-going monitoring and enforcement, also apply to the Professional Securities Market.

The London Stock Exchange has examined the statutory and regulatory restrictions on investment by UK institutions and considered the impact of any such restrictions on investment in securities that are traded on the Professional Securities Market. It is our opinion that there are no material restrictions imposed on UK institutional investors trading on the Professional Securities Market, over and above those applied to regulated markets.

The London Stock Exchange has also confirmed with HM Revenue and Customs that eurobond securities issued by a company and carrying a right to interest, which are both admitted to listing by the UK Listing

Authority and admitted to trading on the Professional Securities Market, meets the definition of a “quoted Eurobond”. They are therefore able to pay interest gross. This applies to new issues on the Professional Securities Market as well as to existing eurobond securities that transfer from the Main Market.

### The choices for listing debt, convertibles and DRs in London





## The Practical Steps

The Professional Securities Market was launched on 1 July 2005. Existing issuers of securities on the London Stock Exchange's debt markets who want to migrate to the Professional Securities Market may do so free of charge. Issuers deciding to remain on a regulated market for the time being may wish to review their options if proposing a further issue of new securities or until they have assessed the impact of TD.

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This note is for guidance purposes only and it is not intended and should not be used as a substitute for professional advice in any specific situation. For further information on the Professional Securities Market or any aspect of listing and trading debt, convertibles and DRs in London, please contact us at the Exchange:

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