



**London**  
Stock Exchange

INTRODUCING AND OPERATING ETFS IN THE UK

# Exchange Traded Funds



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# 1 Introduction

In April 2000, the London Stock Exchange (the Exchange) launched the first UK listed ETFs. The market was launched in recognition of developments in financial products and is designed to provide trading access and visibility for those wishing to deal in them, both institutional and retail.

Since then the London ETF market has enjoyed extraordinary growth, and with the merger of the London Stock Exchange and Borsa Italiana in 2007, the combined group has become one of Europe's leading trading venues.

The Exchange is committed to developing the UK as a leading centre for Exchange Traded Funds, and encourages potential issuers to discuss their plans from the start of the project. Please contact the Product Management team on +44 20 7797 1608.

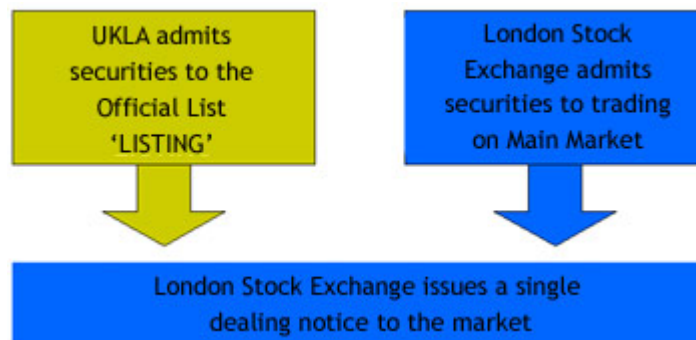
This brochure provides a guide to the steps that are required for launching ETFs in the UK.

## 2 Introduction to the admission process in the UK

The admission process in the UK is made up of two stages; listing and admission to trading.

Admission of companies to the Official List is controlled by the UK Listing Authority (UKLA), a division of the Financial Services Authority (FSA). The FSA retains responsibility for the approval of prospectuses, however issuers seeking admission to the Official List will also need to submit listing particulars to the UKLA. The London Stock Exchange is responsible for admitting securities to trading on the Main Market.

An ETF issuer seeking a London listing for its securities must apply for admission to the Official List (a 'listing') through the UKLA. The listing is dependent on the securities gaining admission to trading on the Main Market through satisfying the Exchange's Admission and Disclosure Standards.



ETFs which are already listed with an EEA Competent Authority (CA) can apply directly to the London Stock Exchange for admission to trading on the Main Market. This route does not provide a London listing, however it will allow investors to trade the securities on the London Stock Exchange.

### 3 Overview of introducing ETFs into the UK

Issuers have a choice of two routes to market:

1. Apply to the UKLA for an official London listing and to the London Stock Exchange for admission to trading on the Main Market.
2. Apply to the London Stock Exchange for admission to trading on the Main Market based on an existing EEA listing.

Both options require the fund to be UCITS III compliant and to gain recognition from the FSA. The most common underlying legal entity used for ETFs is an open-ended investment fund. It is with this form in mind that the procedures and regulations outlined in this document are based.

An overview of the two processes is detailed below:

|                      | UKLA listing and admission to trading on the Main Market   | Admission to trading on the Main Market based on EEA Listing  | Timescales  |
|----------------------|--|---|---|
| <b>Prerequisites</b> | <div style="background-color: #4a69bd; color: white; padding: 2px; text-align: center;">Certificate of UCITS Compliance from Home CA</div> |   |   |
|                      |  | <div style="background-color: #4a69bd; color: white; padding: 2px; text-align: center;">Listed by an EEA CA</div> |   |
| <b>Process</b>       | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Discuss plans with the Exchange</div>                            |   |   |
|                      | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Submission of UCITS prospectus to FSA for recognition</div>      |   | <b>At issuers choice</b>                          |
|                      | <div style="background-color: #4a69bd; color: white; padding: 2px; text-align: center;">FSA grant recognition for admission</div>          |   | <b>2 months</b>                                   |
|                      | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Appoint Sponsor</div>  |   | <b>At issuers choice</b>                          |
|                      | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Admission application to the LSE</div>                           |   | <b>At least 2 weeks prior to start of trading</b> |
|                      | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Listing application to the UKLA</div>                            |   | <b>At least 1 week prior to start of trading</b>  |
|                      | <div style="background-color: #4a69bd; color: white; padding: 2px; text-align: center;">Admission to the UKLA's Official List</div>        |   | <b>At least 1 week</b>                            |
|                      | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Final documents submitted to the LSE</div>                       |   | <b>3 business days prior to start of trading</b>  |
|                      | <div style="background-color: #4a69bd; color: white; padding: 2px; text-align: center;">LSE approve admission to trading</div>             |   | <b>1 business day</b>                             |
|                      | <div style="background-color: #cccccc; padding: 2px; text-align: center;">Start of Trading on the Main Market</div>                        |   |   |

**Issuer action**  
 **Admission requirement**

The main parties that will have to be approached in order to admit ETFs are:

- Financial Services Authority (FSA)
- UK Listing Authority (UKLA) (if listing)
- London Stock Exchange
- Euroclear UK & Ireland

Whilst particular authorities have set times for review, the overall timetable depends on the issuer and their schedule for the project. A typical admission from first submissions to the start of trading is about three months.

## 4 Financial Services Authority

### 4.1 Fund recognition

At the first stage of implementation, the Financial Services Authority (FSA) will require a review of the fund for UCITS compliance and to grant 'recognition' for admission into the UK. 'Recognition' status allows the fund to be marketed to private investors, a primary customer base for Exchange Traded Funds, and hence an essential requirement for ETFs.

The review for UCITS compliance and obtaining recognition status is conducted in one submission by the Collective Investment Scheme Department, and takes a mandatory two months.

The fund will have to provide, among others, the following documents:

- a certificate of UCITS compliance from the home regulator
- a copy of the fund prospectus
- a recognition application form (acquired from the FSA)
- details of the fund – registered office address, marketing plan etc.

Prospective fund issuers are advised to seek their own advice on admitting investment funds in to the UK.

### 4.2 Approval of associated parties

Any company acting for the fund in the UK, namely the fund manager and custodian, need to be approved by the FSA in order to operate.

The process to obtain approval to conduct investment business in the UK is separate from that of obtaining 'recognition' status for the issuing fund.

The fund and its associated parties are advised to seek their own advice and approach the FSA directly with regard to conduct authorisation.

## 5 UK Listing Authority

The UK Listing Authority (UKLA), a division of the FSA, took over the function of admitting to the Official List from the London Stock Exchange in May 2000. Although part of the FSA, the listing procedure is separate from the process of gaining recognition for the fund. Issuers are only required to complete the UKLA listing process if they are seeking a London listing for their fund.

### 5.1 Framework of rules for Exchange Traded Funds

The listing rules that become applicable to ETFs are determined by the legal entity of the issuer. The usual form an issuer takes is that of an open-ended investment company, and is addressed accordingly in the FSA Handbook.

The FSA Handbook sets out all the rules for securities on the Official List, covering both listing approval and continuing obligations.

<http://fsahandbook.info/FSA/html/handbook/D85>

### 5.2 Listing procedure

The steps taken to acquire a London listing through the UKLA are as follows:

- A sponsor will need to be appointed by the fund in order to manage the listing, and will act as the contact between the Fund and the UKLA. A list of sponsors is available from the UKLA or on their website:

[www.fsa.gov.uk/Pages/Doing/UKLA/index.shtml](http://www.fsa.gov.uk/Pages/Doing/UKLA/index.shtml)

- The sponsor will advise on the contents of the FSA Handbook and assist in the production of the listing document/prospectus that will be submitted to the UKLA for approval.
- The sponsor submits the prospectus to the UKLA.
- The prospectus review by the UKLA is typically a few days. It is advisable to submit the prospectus as soon as possible, and not just prior to the desired date for the start of trading.
- Once UKLA approval has been granted, the Exchange can process the application for admission to the Exchange and initiate trading readiness, such as the allocation of ISINs.

## 6 London Stock Exchange

Exchange Traded Funds seeking admission to the London Stock Exchange will be admitted to one of the dedicated segments within SETS. It is possible to trade an ETF in sterling, euros and US dollars. The same ETF may be traded in all three currencies.

The Exchange currently maintains criteria on fund characteristics to ensure the characteristics are favourable to the market and maintaining liquidity:

- the underlying vehicle for the ETF is an open-ended investment fund
- the fund is UCITS compliant
- the ETF is settleable in CREST.

### 6.1 Fund admission

The application for admission to the Exchange can be administered by the Fund's sponsor or directly by the issuer.

As soon as possible in the admission process (ie once it has been determined what funds are to admit) it is necessary to arrange for the creation of the relevant trading codes.

- ISIN/SEDOL - ISINs are normally allocated by the country of domicile of the issuer. The Exchange is then responsible for allocating a SEDOL code which is a unique instrument identifier. Please email the Pricing Supplement(s) to [smfnewissues@londonstockexchange.com](mailto:smfnewissues@londonstockexchange.com) and allow 48 hours for these to be assigned.
- TIDM - a Tradable Instrument Display Mnemonic (TIDM) is the three or four character identifier specific to the London Stock Exchange. Issuers may request a specific TIDM which will be issued provided it is not already in use or reserved. Once reserved, these are held for a period of six months. Requests should be made to the Issuer Implementation team, who manage new admissions to the London Stock Exchange. Please email the **issuer name** and the **description** of each line (multi-currency lines require unique TIDMs), making it clear that it is a TIDM request to:

[IssuerImplementation@londonstockexchange.com](mailto:IssuerImplementation@londonstockexchange.com)

fax: +44 (0)20 7920 4607

Phone: +44 (0)20 7797 4513

In order to admit an ETF to trading the following documentation will be required:

**For all funds:**

- form 1 (draft)
- static data form.

**For funds admitting on the basis of an EEA listing:**

- certificate of UCITS compliance from the home CA
- evidence of FSA recognition status
- prospectus/pricing supplement
- stamped listing particulars from an EEA CA.

The above are required from the issuer 11 business days (12.00pm deadline) before admission.

**For all funds:**

- form 1 (final, signed).

**For UKLA listed funds:**

- prospectus/pricing supplement.

The above are required from the issuer three business days (12.00pm deadline) before admission.

## 6.2 Multi-currency lines

Each ETF can trade in up to three currencies: sterling, euros or US dollars. Multi-currency lines are additional trading lines for the same fund, which allow the investor to trade the ETF in an alternative currency.

They can be applied for with the original application, or at a later date. If applying for multi-currency lines at a later date, we require the same documentation to the same timetables as above, with the exception of the prospectus/pricing supplements (these are not required). Each line is required to have a registered market maker to support pricing.

These lines will require unique TIDMs and SEDOL codes, however the ISIN of the multi-currency line will be identical to that of the original line.

Any forms and other listing documentation for ETFs can be found on the website

[www.londonstockexchange.com/en-gb/products/membershiptrading/securitytypes/etfs/Information+for+issuers/](http://www.londonstockexchange.com/en-gb/products/membershiptrading/securitytypes/etfs/Information+for+issuers/)

Please forward this documentation to the Issuer Implementation team at the Exchange as above.

### 6.3 Issuer fees

Admission fees and annual fees are payable by issuers on each individual ETF admitted to trading on the London Stock Exchange's Main Market, excluding multi-currency lines.

Full details can be found in the Fees for Issuers document which is available at:

<http://www.londonstockexchange.com/en-gb/products/membershiptrading/securitytypes/etfs/Information+for+issuers>

### 6.4 Market Maker registration

For a Market Maker to register in the security they must complete and send in a Registration Information Form (RIF) before 1.00pm the day prior to listing, although we strongly suggest this is sent in earlier if possible to account for any corrections to the form that may be needed. Completed forms should be submitted to:

[mktops\\_supervision@londonstockexchange.com](mailto:mktops_supervision@londonstockexchange.com)

Fax: + 44 (0)20 7920 4526

### 6.5 Exchange membership

The fund and fund manager are not obliged to be members of the London Stock Exchange, though the Fund Manager would have to be authorised by the FSA in order to conduct investment business (this is a separate process to that of obtaining fund approval, outlined above).

Membership of the London Stock Exchange would allow access to all Exchange markets, not just ETFs.

If fund agents or prospective market intermediaries want to become a member, they should:

- have an initial meeting with the Exchange's Membership team to discuss their prospective requirements
- complete an application form and submit to the Exchange together with associated documentation
- work with the Membership team to ensure appropriate trading and settlement links.

An application form for membership is available on the London Stock Exchange website at

<http://www.londonstockexchange.com/en-gb/products/membershiptrading/membership/becomingamember.htm>

Market participants acting as Exchange Market Makers, trading, creating and redeeming ETF shares would have to be members of the London Stock Exchange.

## 6.6 Trading environment for Exchange Traded Funds

The market for ETFs operates in an order driven environment on SETS with integrated Market Maker liquidity provision, delivering guaranteed two-way prices. Market Makers must provide continuous bid-offer orders throughout the trading day in a minimum size and maximum spread regime.

It is the responsibility of the issuer to arrange at least one registered Market Maker per security, however to ensure competitive pricing and protection from any individual member firm's system issues it is advised that issuers should look to engage at least two Market Makers to register in each ETF.

The order book provides continuous execution from after the open auction (which takes place from 7.50am to 8.00am) until the start of the closing auction at 4.30pm on all London business days. Participants are able to use both limit and unpriced orders during continuous trading.

The closing auction runs from 4.30pm until at least 4.35pm and allows users to participate and trade at the single closing price, generated at the level that would provide the greatest uncrossing volume. The exact uncrossing time is dependent on random end times and price monitoring periods. Market Makers are required to maintain quotes until the completion of the closing auction to ensure that an appropriate closing price is set. This includes the random end period and any price monitoring extensions. The latest possible time of uncrossing is 4.49pm. If no closing auction occurs the closing price will be the mid price of the best bid/offer at the end of the closing auction.

The below link provides details of Market Maker obligations for ETFs on the London Stock Exchange.

<http://www.londonstockexchange.com/en-gb/products/membershiptrading/securitytypes/etfs/Information+for+issuers>

Real-time market surveillance is provided throughout the trading day. ETFs are treated as ordinary equity in the Exchange rulebook, except with regard to the creation and redemption of ETFs shares, which is covered below.

## 6.7 Information dissemination and publication of NAV

Issuers usually provide details regarding the status of the fund, such as the Net Asset Value and number of shares in issue, on a daily basis to an approved disclosure system such as the London Stock Exchange's Regulatory News Service. The entity that has contact with RNS is typically the entity that conducts the fund valuations, which in most cases is the depositary.

## 6.8 Trade reporting

Under paragraph 3000.3 of the 'Rules of the London Stock Exchange', executions in ETFs admitted to trading in London which involve at least one Member Firm are required to be trade reported to a venue with at least equivalent transparency to the Exchange. The requirement to ensure compliance with this rule falls to the Exchange member.

When creating and redeeming ETF shares, only the transfer of the underlying needs to be reported. The reciprocal transfer of ETF shares is considered to be a primary market activity and therefore not reportable to the Exchange. The redemption of ETF shares is reported in the same way.

The Exchange operates a voluntary OTC Trade Reporting service to allow executions in European ETFs which are not admitted to trading on the London Stock Exchange to be published where participants choose to do so. This service is provided to support transparency to the market, and is open to both Member Firms and non-members. There is no obligation for any participant to use the OTC Trade Reporting service.

Where an issuer wishes to allow voluntary OTC trade reporting in a European listed ETF/ETC that is not admitted to trading on the London Stock Exchange, they should contact the Product Management Team on +44 207 797 1608.

## 7 Euroclear UK & Ireland

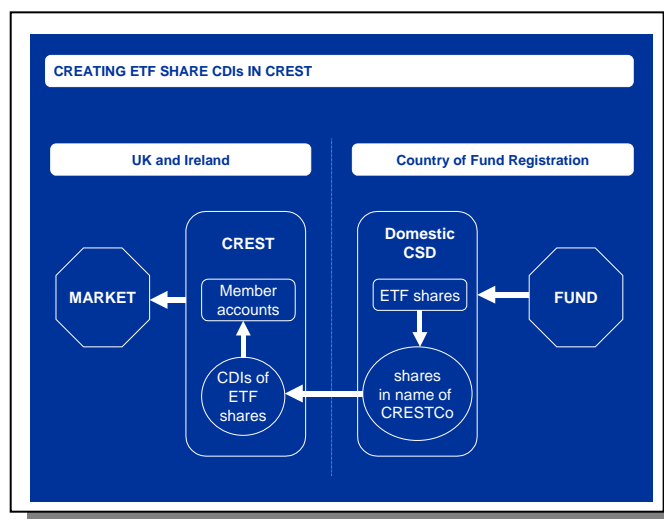
In order for ETFs to trade on the London Stock Exchange ETF platform, the shares must be able to settle in CREST, the central settlement depository for the UK, accessed by market intermediaries and agency brokers. The ETF issue must allow for dematerialised settlement but this does not mean however that the ETF issue must be exclusively dematerialised. In practice, however, all UK ETFs operate on a dematerialised basis.

### 7.1 Admitting shares into CREST

The fund, or fund's agent, will have to notify Euroclear UK & Ireland for the shares to be admitted to CREST.

### 7.2 Settling non-UK and non-Irish registered ETF shares in CREST

Exchange Traded Funds registered outside the British Isles can be settled in CREST, providing a Crest Depository Interest (CDI) is created. This legal mechanism means that Euroclear UK & Ireland can hold the ETF shares on the investor's behalf in the domestic settlement house of the ETF fund, and create a 'shadow' instrument that is traded on the UK market. Creating CDIs is only possible if CREST has a link with the domestic settlement house of the fund. CREST has extensive links covering Europe and the US.



It is advisable that settlement issues, especially creating CDIs, are discussed further with Euroclear UK & Ireland as there are specific issues relating to investment funds.

### 7.3 Access to CREST

The fund and fund manager are not obliged to become members of CREST. The depository, acting for the fund as holder of the assets, would have to be a member.

It is likely that the trades of the fund manager would be settled through the depository's CREST account. This applies equally to creation and redemption as well as secondary market trades that arise from rebalancing the portfolio.

Should the fund or its associated parties want access to CREST they may either become direct members of CREST or utilise the service of a General Clearing Member, which clears and settles all transactions on the party's behalf, mitigating the need for the party to maintain extensive connection networks.

### 7.4 Becoming a CREST member

If the fund or any associated party would like to become a direct member of CREST, they must take the following steps:

- The firm should notify the Exchange's Client Implementation team at least 28 days before going live. An Exchange liaison contact will be assigned to assist the member firm through the procedures.
- Approach the CREST Membership Office, who will assign the member firm a relationship management team contact. The Relationship Management team will advise the member firm on its requirements and all aspects of the admission process.
- Following the Relationship Management consultation, a CREST Membership Agreement will be issued which must be signed when all systems and connections are in place and trialling is complete.
- The member firm must obtain a network connection to CREST – which can be obtained from the London Stock Exchange amongst others. Network connection is accessed through one or more of the gateways supplied by the network providers.
- Software to access CREST can be obtained from CREST or third party providers.
- The prospective member must obtain a contract with one of the registered payments banks, in order to obtain their assured payment services. An account must be set up for each currency in which the member is to trade.
- Once the CREST connection and banking arrangements are in place, the firm, together with the London Stock Exchange and CREST, undertakes a minimum of three days trialling. Trial slots have to be booked, as there is only one a month.
- Once CREST trials are complete, the member firm should get final approval to begin trading from the London Stock Exchange, through the liaison contact.

## 7.5 Settlement in the secondary market

The settlement cycle for ETFs is T+3, with LCH.Clearnet Limited as the Central Counterparty for all on book executions. CREST allows the settlement of both materialised and dematerialised trades, and it is at the choice of the issuer whether both are permitted.

## 8 Other issues

### 8.1 Stamp duty and the Stamp Office

Stamp duty is payable on those funds registered in the UK. Funds registered outside of the UK are free of stamp duty.

Issuers are advised to approach the Stamp Office to obtain a market intermediary exemption, if the fund is to be registered in the UK and also to facilitate the purchase of the underlying free of stamp duty.

### 8.2 Utilising tax-free wrappers

The fund should seek its own confirmation from its tax advisor or the Inland Revenue as to the eligibility of the ETF as a security that can be included in the PEP/ISA/SIPP wrappers.

### 8.3 Regulatory capital

Market participants and fund associates are advised to consult with the FSA over the regulatory capital requirements for the ETF, as specific circumstances may exist for each fund.



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