London
Stock Exchange Group

London Stock Exchange guide for private investors

Learn more about our markets

Contents

Background

London Stock Exchange Group recognises the essential role that private investors have to play in the financial markets and we are committed to providing this core investor constituency with the information, tools and incentives they need to improve their interaction with the stock market.

We have been working hard to ensure private investors have access to the broadest range of asset classes – from international equities, to retail bonds, ETFs and exchange traded commodities, as well as a large and growing range of derivatives – within the most efficient, transparent infrastructure.

We want to encourage UK private investors to become aware of the opportunities available to them, especially in light of a resurgent UK IPO market. Individuals play a crucial part in providing funding and liquidity to UK listed businesses. Companies, particularly SMEs, do not have adequate access to funding, so it is vital private investors are able to fully contribute to growth and job creation through investment.

We cannot act alone in improving the investor landscape but over the last year the UK Government has made two bold and widely applauded decisions: to abolish stamp duty on the purchase of AIM shares and to allow these shares to be included in ISAs. These were moves we, alongside a wide range of shareholder and industry associations, campaigned heavily for.

London Stock Exchange is proud of the achievements, together with the UK government and business actors, it has accomplished in bringing more private investors to the financial markets. We will continue to innovate and work hard to help guarantee further opportunities for this vital investor group.

"We want to encourage UK private investors to become aware of the opportunities available to them, especially in light of a resurgent UK IPO market."

Equity Securities

As of August 2014, there are around 1300 Main Market companies and 1100 AIM quoted companies on London Stock Exchange. For the trading of these securities, London Stock Exchange operates several trading services:

Several trading services operated by London Stock Exchange

Trading Services for Equity Securities

All of London Stock Exchange's trading services operate within the Rules of London Stock Exchange.
The Rules of London Stock Exchange can be found at **www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm**

The allocation of a security to a trading service is an important factor in ensuring that a security is supported by the trading service that is most appropriate for its liquidity profile. Operating several trading services for smaller securities ensures that as a market operator, London Stock Exchange provides choice to companies, their advisers, liquidity providers and the wider market.

SETs

SETS is London Stock Exchange's flagship electronic order book, trading FTSE 100, FTSE 250, FTSE Small Cap index constituents as well as liquid AIM, Irish and London Standard Listed securities.

These are underpinned by the provision of Market Maker electronically executable quotes throughout the trading day, providing liquidity in at least one Exchange Market Size (EMS).

Where there are no matched closing auction orders, the closing price is set by the mid of the Best Bid Offer.

— Highly accessible to trading participants
— Order book users can place order types such as 'limit' and 'immediate or cancel' directly onto the order book, allowing them to participate directly in the price formation process
— Provision of the closing auction and the follow-up Closing Price Crossing Session allows order book users the opportunity to trade at the day's actual closing price.

More information on the SETS trading service can be found at: **www.lseg.com/sets**

SETSqx

SETSqx (Stock Exchange Electronic Trading Service – quotes and crosses) is a trading service specifically designed for securities less liquid than those traded on SETS. SETSqx combines a periodic electronic auction book with standalone non-electronic quote-driven market making providing guaranteed liquidity in at least one Exchange Market Size (EMS) throughout the trading day.

Auctions are scheduled at 9.00am, 11.00am, 3.00pm and 4.35pm[1]. Electronic orders can be named or anonymous on submission and, for most securities, order book executions will be centrally cleared.

— Provides investors a choice of being able to trade against Market Maker firm quotes, or submitting orders into the auctions
— Where there are no matched closing auction orders, the closing price is set by the mid of the Market Makers collective Best Bid Offer
— Provision of the closing auction and the follow-up Closing Price Crossing Session allows order book users the opportunity to trade at the day's actual closing price
— Suitable for less liquid instruments that are more reliant on Market Maker quotes
— Investors can participate in the price formation process by trading in the auctions
— Provides investors the ability to access prices in less liquid securities.

More information on the SETSqx trading service can be found at: **www.lseg.com/setsqx**

[1] From 15 September 2014.

SEAQ

SEAQ is London Stock Exchange's non-electronically executable quotation service that allows Market Makers to provide firm quotes in AIM securities that are not traded on SETS or SETSqx. It is not available for new securities.

SEAQ is underpinned by guaranteed liquidity provision by Market Makers throughout the trading day, ensuring the provision of two-way prices in at least one EMS.

— Suitable for less liquid instruments that would be more reliant on Market Maker quotes
— Only registered Market Makers can directly participate on screen in the price formation process
— There is no maximum spread regime or CCP provision. A minimum of 2 registered Market Makers are required.

More information on the SEAQ trading service can be found at: **www.lseg.com/setsqx**

"Operating several trading services for smaller securities ensures that as a market operator, London Stock Exchange provides choice to companies, their advisers, liquidity providers and the wider market."

Accessing the market

How do I access the market?

To access the market as a private investor, you have to place your orders through a stockbroker. A directory of London Stock Exchange Member Firms can be found at the following link:
www.londonstockexchange.com/exchange/prices-and-markets/stocks/tools-and-services/find-a-broker/locate-a-broker-search.html

What are the different types of stockbroker?

Advisory
An advisory service is where your stockbroker will provide you with advice and, subject to your requirements conduct trades on your behalf only with your prior consent.

Execution Only
These stock brokers execute trades based on your instruction. An execution only service generally provides internet based dealing, or on the phone. Many execution only stock broking firms also provide market data.

Discretionary
In a discretionary service, based on your requirements, your stockbroker can execute trades on your behalf without your prior approval.

What are the different ways of accessing the market for equity securities?

Retail Service Provider network ("RSP")
The RSP network is a service that is used by the majority of retail brokers in the UK. It facilitates the interaction of retail brokers and Market Makers / liquidity providers. The RSP is a Request for Quote network where upon transmission of your buy or sell request through your stockbroker, a number of Market Makers are polled. Market Makers then return their quote to your stockbroker, who selects the best price. You then have a period of up to 30 seconds to decide whether to deal..

Direct Market Access ("DMA")
DMA services allow you to interact, via a web interface to your broker, directly with the SETS electronic order book or SETSqx auction service. DMA gives you more control of your order as it is placed in the central order market and is available for execution by all market participants. DMA services allow participants to also interact with SETS auctions.

Market Data

Pre trade and post trade data for all of London Stock Exchange's trading services are available for private investors. Data is available on a real time or delayed basis.

What is the difference between Level 1 and Level 2 data?

Level 2: Includes full depth of the book with all quotes, orders and Level 1 data including trades, open price, close price, uncrossing price plus volume, best price plus volume

Level 1: Includes best price and volume, value traded per security, indicative uncrossing volume, opening prices, trade high and low individual trades, closing prices, order book VWAP, all trades VWAP, cumulative volumes, uncrossing price and volume, Post Trade and Off Book data.

How do I access Level 1 or Level 2 data?

Private investors generally access London Stock Exchange market data through a Stockbroker or through a market information vendor.

"Pre trade and post trade data for all of London Stock Exchange's trading services are available for private investors."

Key terms

Auction
A period where no automatic execution takes place in order to concentrate available liquidity. During an auction call period, orders can be entered, modified or deleted. Following the auction call period an auction uncrossing takes place. The auction uncrossing generates the auction uncrossing price.

Closing auction
The closing auction sets the closing price in a SETS security. The closing auction call period starts at 4.30pm and the closing auction ends at 4.35pm, subject to 30-second random period(s) and any price or market order extensions.

Closing Price Crossing Session (CPX)
A 5-minute trading session that follows the closing auction. Trades can be executed at the closing auction price.

Exchange Market Size (EMS)
The minimum quote size at which Market Makers are obliged to trade. EMS is set by London Stock Exchange for each security.

Executable quote
A Market Maker's two-sided, electronically executable SETS order book quote displaying identity, price and size.

Firm quote
A Market Maker's two-sided, non-electronically executable SETSqx or SEAQ book quote displaying identity, price and size.

Market Maker
Firms that quote both a buy and sell price in a security. Market Makers are bound by obligations set out in the rules of the London Stock Exchange.

Opening auction
The opening auction sets the opening trading price in a SETS security. The opening auction call period starts at 7.50am and the opening auction ends at 8.00am, subject to 30-second random period(s) and any price extensions or market order extensions.

Exchange Traded Funds

Exchange Traded Funds (ETFs) are instruments which track an index. Indices can be country or region specific and based on emerging markets, developed markets, fixed income, money markets and many other asset classes. These instruments give investors instant diversification as one unit represents an investment in multiple companies and sectors. ETFs are listed on-exchange and are traded like shares. Market Makers are committed to provide two-way prices throughout the trading day.

>797
equity ETFs across 30 countries, 16 regions and 25 sectors

Most ETFs are passive instruments which means they aim to replicate the performance of the underlying index rather than outperform it. Other key features include:

- Professionally managed
- Open-ended
- UCITS compliant – regulated like funds
- Low tracking error
- Free of UK stamp duty when traded on the secondary market
- Can trade in multiple currencies
- Providers are authorised by the Financial Conduct Authority (FCA)
- No exit fees.

For a helpful overview of ETFs please visit www.londonstockexchange.com/etfvideoresources

Different types of ETFs

There are two types of ETFs:

Cash-based (physical ETFs)
A cash-based ETF physically holds the shares of constituent companies of the underlying index being tracked.

Swap-based (synthetic ETFs)
A swap-based ETF does not hold shares of constituent companies of the index being tracked but instead replicates the performance of the index via a swap arrangement. The ETF holds a basket of securities unrelated to the index and enters into a swap agreement with a counterparty who undertakes to deliver the performance of the index to the ETF and it will in turn deliver the returns of its basket to the counterparty.

All ETFs are open-ended which means that the issuer can create or redeem units in the fund according to investor demand.

UCITS
Because swap-based ETFs rely on the swap counterparty to deliver the returns of the underlying index, this represents a degree of counterparty risk. Counterparty risk is also present for cash-based ETFs, due to the securities lending that may occur. Under UCITS, an ETF's derivative commitment may not exceed 10% of its net asset value (NAV) which means the maximum exposure to counterparty risk is limited to 10%. ETFs are also collateralised and some are over-collateralised to mitigate counterparty risk. The collateral is typically made up of assets like shares and must cover at least 90% of an ETF's NAV. Securities held as collateral are marked-to-market ensuring the value does not fall below the regulatory limit. Collateral levels can range between the 90% minimum and above 100% (over-collateralisation). Investors can find out about an ETF's collateral management policy by contacting the issuer. Cash-based ETF investors are also protected under UCITS collateralisation requirements. The collateral is ring-fenced so that investor assets are segregated to provide protection if ETF providers fail.

Exchange Traded Funds

£135bn
total ETF value traded in 2013

Benefits of ETFs

Cost-efficiency
ETFs have low management fees in comparison to actively managed unit trusts/mutual funds and are much cheaper than buying the underlying assets to obtain the equivalent level of exposure. Diversification – ETFs are not limited to European blue-chip companies. Investors can gain exposure to domestic and international sectors and markets which may otherwise be difficult to access in a cost-effective way.

Flexibility
ETFs can be used on their own to gain exposure to an index or in combination with other investment products to form investment strategies within a portfolio.

Liquidity
Traded like shares, ETFs can be as liquid as the underlying securities they represent. Market Makers quote two-way prices with tight spread requirements set by the Exchange.

Simplicity
ETFs are traded during the regular trading hours just like shares.

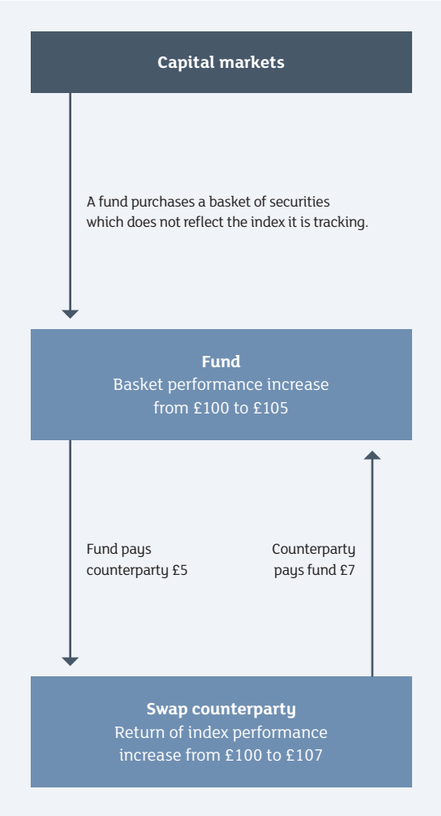
Transparency
Components of the underlying are fully visible to the investor. Issuers produce a factsheet for their ETFs which state what investors are being exposed to. Tracking performance is also published.

Investor-owned assets
Assets out of which ETFs are created, by law, is the exclusive property of ETF holders. Even in the case of insolvency by the ETF manager, administrator or issuer, these assets are protected.

Structure of swap-based ETFs

Swap-based ETFs do not hold securities of constituent companies which make up the index being tracked, but they are backed by physical assets. The ETF issuer instead enters into a swap agreement with a counterparty who is tracking the returns of the index and the two will swap the returns on the assets they hold.

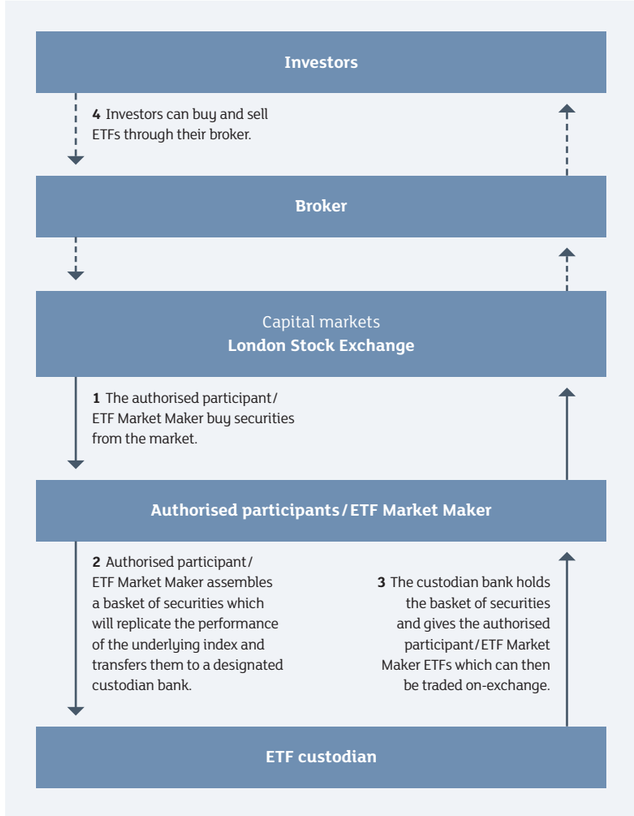
This arrangement allows the ETF issuer to access markets overseas or international sectors which could otherwise be difficult or costly to reach. The swap counterparty will also benefit from the agreement in the same way.



Structure of cash-based ETFs

These ETFs are units of a fund which holds a portfolio designed to track the performance of an underlying index. The creation process for these ETFs starts with an authorised participant or a Market Maker buying securities from the open market which reflect the composition of the benchmark index. These securities are deposited with a custodian bank which will hold them and issue the authorised firm/Market Maker with ETFs. These ETFs are then traded on London Stock Exchange where private investors can buy and sell them through their broker.

The redemption process is the reverse. The authorised participant/Market Maker will buy ETFs from the open market and swap these for the related underlying securities with the custodian bank and these securities can then be sold on the open market.



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Portfolio construction: choosing and using ETFs

ETFs are leading the charge in a new democratic world of investment where investors are increasingly taking control of their own portfolio. Why? Firstly because they are simple to trade. Just like regular shares, ETFs can be purchased through a UK stock broker using a share dealing account, ISA or SIPP. The second reason is diversification. ETFs are intrinsically diverse. For example, instead of building your own portfolio of UK equities, and paying costs and fees on multiple securities, you can purchase a single ETF that provides exposure to the top 100 UK companies through the FTSE 100 index.

Not only are the vehicles themselves diverse, but with a product range spanning different market sectors, regions, themes, commodity baskets or fixed income strategies, and the whole risk spectrum from government bonds to single country emerging markets, ETF investors can easily create a well diversified core portfolio. Furthermore, with both income paying (distributing) ETFs and growth (capitalising) ETFs available, they can capture both growth and income.

ETFs can also be used tactically to take advantage of short term trends. The combination of core and satellite allocations means that investors can build a portfolio to suit their specific views and investment budget. Small portfolios can be built with a handful of ETFs, and larger portfolios with very specific exposures can achieve even greater diversification.

The third major factor is cost. Passive ETFs are significantly cheaper than actively managed products and Total Expense Ratios (TERs) typically range between 0.15% and 0.85% per year. This TER is the annual charge that includes costs such as custody fees, marketing costs and index licensing costs. On top of this, investors will be charged a brokerage fee in the same way as when buying shares.

Importantly though, the TER is not a true measure of the Total Cost of Ownership (TCO). Although all ETFs share the same aim – to track an index as cost effectively and precisely as possible – some do it much better than others. Tracking difference and tracking error are two measures that describe how precisely and consistently the ETF tracks its benchmark. As anything less than the index performance is a cost to you, it is important to look at these variables. The bid/ask spread will also impact performance as the difference between buy and sell price is key to your trading cost.

As with any investment product, ETFs carry a number of risks. Most ETFs are index tracking funds, meaning the performance of an ETF will rise and fall with the underlying index which may be complex and/or volatile, exposing investors to market risk. Investors' capital is at risk, and you may not get back the amount originally invested. Investors may be exposed to counterparty risk resulting from the use of securities lending in physical ETFs, or from the use of an OTC performance swap with an investment bank for synthetic ETFs. If the index or the constituents of the index are denominated in a currency different to that of the ETF, investors are exposed to currency risk from exchange rate fluctuations.

Accessing the market

Investors can access the market via a broker:

Execution-only brokers will buy or sell according to investor instructions providing no investment or trading advice. Advisory brokers provide advice and execute trading decisions made by the investor.

Discretionary brokers will execute trades on investors' behalf and may also make investment decisions without investors' prior approval.

Some brokers offer a Direct Market Access (DMA) service whereby member firms of London Stock Exchange can directly submit customer orders to the order book via their own systems.

DMA allows sophisticated investors to take greater control over their trades by enabling them to place buy and sell orders directly on London Stock Exchange's order books and execute with other market participants.

Further information

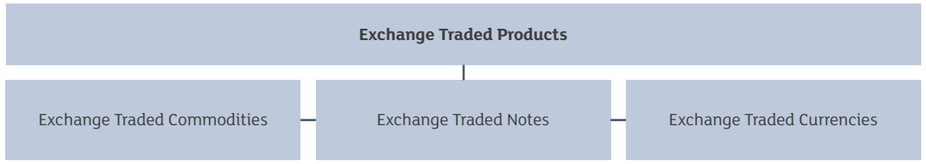
For a full list of ETFs available on London Stock Exchange, please visit **http://www.londonstockexchange.com/traders-and-brokers/security-types/etfs/downloads/etfsforprivateinvestorsguide.pdf**

Exchange Traded Products

Exchange Traded Products (ETPs) such as Exchange Traded Commodities (ETCs) and Exchange Traded Notes (ETNs) are listed exchange traded securities structured as notes which track the performance of an underlying index or a single commodity. They trade on London Stock Exchange's Main Market ensuring a high level of regulatory oversight. These securities trade and settle like ordinary shares with Market Makers providing continuous liquidity on both sides of the order book. With these instruments, investors can gain exposure to the performance of various commodities, indices and even currencies. There are a variety of ETPs on London Stock Exchange offering access to previously difficult and expensive-to-reach

Simple products. Sophisticated strategies.

What are ETPs?



ETPs such as ETCs and ETNs are structured as debt securities but unlike conventional bonds these instruments pay no interest and are not rated. ETPs can give investors a means of diversifying investment portfolios without the need to:

— enter into swap agreements or forward contracts,

— take physical delivery of the underlying commodity, or

— hold securities which constitute the underlying index.

As the ETP market has developed, it has expanded beyond the original commodity instruments (ETCs), and now includes notes (ETNs) and currencies (Currency ETCs).

It is important to note that ETPs are different to ETFs in a number of ways. ETPs such as ETCs and ETNs are not funds and therefore lie outside of the remit of UCITS – the Undertakings for Collective Investments in Transferable Securities.[1]

[1] UCITS (Undertakings for the Collective Investment in Transferable Securities) products are governed by the UCITS IV Directive (2009/65/EC). The Directive introduces a number of requirements/safeguards that funds must meet to be authorised as UCITS (e.g. segregated assets and limited liability between sub-funds, increased transparency, investment diversification limits, robust risk management).

	ETPs	ETFs
Type of security	Notes linked to the performance of commodities, indices, currencies and volatility	Open-ended index tracking funds
UCITS	Non-UCITS compliant	UCITS compliant
Collateral	No regulatory collateral requirements – some ETPs are fully collateralised and some are unsecured	UCITS collateral requirements

Collateralisation

There are number of ways ETPs can be collateralised and this will to a degree depend on the underlying.

In ETPs where the underlying is a physical commodity such as gold or other precious metals, the physical commodity itself can be used as collateral secured in a custodian vault.

In cases where the underlying is perishable or is impractical to hold, for example grains or crude oil, collateralisation may be in the form of matching contracts (futures and swaps) purchased from commodity counterparties held by the collateral manager in a pledge account.

Some can be backed by other assets such as Eurozone bonds and UCITS funds held in a segregated account.

Different types of ETPs

Commodity ETCs, Currency ETCs and ETNs – including short and leveraged products

>350

ETPs listed on London Stock Exchange

The term ETP is an umbrella term that encompasses ETFs, ETCs (commodities and currencies) and ETNs. In the following note we will briefly outline the key characteristics of ETCs, ETNs and short and leveraged ETPs.

Exchange Traded Commodities and Currencies

Commodity ETCs are designed to give exposure to an individual commodity or a basket of commodities. They are subject to a different regulatory treatment to ETFs and are not governed by UCITS rules. This allows them to provide exposure to a variety of commodities, covering precious metals, energy, agriculture and industrial metals sectors.

Commodity ETCs are typically structured in two ways – physically or synthetically. Physical commodity ETCs are backed by a specific quantity of a commodity and aim to provide exposure to commodity spot prices. In contrast, synthetic commodity ETCs do not hold a physical underlying asset; instead they track futures indices which are constructed to simulate a continuous exposure to futures contract returns.[1]

The currency ETC structure has also been used to offer investors access to currencies, whether as currency pairs or a currency basket. The most traded currency pairs are the US Dollar against the Euro (EUR/USD), the Japanese Yen (USD/JPY) and the British Pound (GBP/USD) with these three currencies making up just half of all foreign exchange transactions.[2] Currency ETCs typically track forward indices which are constructed to simulate a continuous exposure to currency forwards returns.[3]

[1] A futures contract is an agreement to purchase a commodity at an agreed price, with delivery and payment to take place at a specified point in the future.

[2] Bank of International Settlements Triennial Survey 2013.

[3] Forward contracts are similar to futures contracts however they are private transactions and do not trade on-exchange unlike the latter. This means forward contracts can be tailored to meet the needs of the contracting parties (e.g. delivery dates and size).

Single commodity
Aluminium, copper, gold, platinum, silver, nickel, zinc, corn, soya beans, wheat, crude oil, natural gas

Commodity sector
Agriculture, energy, grains, livestock, industrial metals, precious metals, soft commodities

Commodity broad
All commodities, ex-agriculture, ex-energy

Foreign exchange
Pound Sterling, Euro, US Dollar, Canadian Dollar, Australian Dollar, New Zealand Dollar, Swedish Kroner, Norwegian Kroner, Swiss Franc, Japanese Yen, Chinese Renminbi, Indian Rupee

These are the exposures available through London local listings.

£995m

value traded in leveraged ETFs and ETPs in 2013

Short and leveraged ETPs

An investor can gain both short and leveraged exposure to a variety of different asset classes through tactical use of short and leveraged ETPs. Short and leveraged ETP exposures include equities, fixed income, commodities and currencies. Short ETPs provide negative exposure to the performance of a benchmark. Therefore an investor holding a short ETP will profit if the value of an underlying benchmark goes down. Leveraged ETPs are designed to provide exposure to a multiple of the performance of a benchmark. For example, a 3× or -3× leveraged ETP will be designed to reflect three times the daily percentage change in a given unleveraged underlying benchmark (before fees). Both long and short positions can be leveraged.

When investors purchase short and leveraged ETPs they should be aware of the effects of compounding. Short and leveraged ETPs are typically reset on a daily basis which means that a stated leverage factor should apply to the returns of that day. Compounding is when the gains and losses from one period are added to the base from which the next period's returns are calculated. Compounding could have both positive and negative effects, depending on how the benchmark moves. The effects of compounding are magnified when investments are held for longer periods of time.

£26bn

value traded across all ETPs in 2013

"It is more cost-effective to trade ETPs than physical assets."

ETNs

Unlike ETCs, ETNs are generally issued by banks and hold no assets. An underwriting bank will agree to pay the return of a reference benchmark (less fees), meaning ETNs are entirely reliant on the creditworthiness of the issuing entity. They are not restricted by the UCITS diversification requirements therefore allowing them to provide exposures not otherwise permitted under UCITS rules.

Volatility
Short term futures, mid term futures

Commodity broad
S&P GSCI Index TR, Commodity Index TR

Commodity sector
Agriculture, energy, grains, livestock, industrial metals, precious metals, soft commodities

Single commodity
Gold

These are the exposures available through London local listings.

Different types of ETPs

Benefits of ETPs

Choice and ease of access to markets
The range of ETPs trading on London Stock Exchange covers a wide spectrum of markets such as agriculture, energy, livestock, metals and foreign exchange. Investors can use ETPs to gain exposure to markets which are otherwise difficult and complex to reach.

Cost-efficiency
It is more cost effective to trade ETPs than physical assets to attain the same level of exposure. Holding physical assets can be costly, impractical and in some cases impossible for most investors.

Liquidity
These instruments are traded on-exchange with Market Makers committed to providing two-way prices. This means investors should always be able to see a tradable price for an instrument.

Portfolio diversification and flexibility
ETPs can be used on their own or in combination with other investment vehicles to form an investment strategy suited to individual investment needs. Investors can trade in and out of ETPs as easily as ordinary shares giving investors greater flexibility and control when cash extraction or a change in portfolio weighting is required.

Individual Savings Accounts (ISAs) and Self Invested Personal Pensions (SIPPs) qualification
Some ETPs qualify for inclusion in ISAs and SIPPs providing a shelter for profits from capital gains taxation.

Tradable in multiple currencies
Some ETPs trade in multiple currencies – Sterling, Euro and the US Dollar. Investors can avoid currency risk if their base currency is one of these three.

Capital gains tax
Unlike conventional debt instruments, ETPs are non-interest bearing so investors will incur capital gains tax only when the ETC or ETN is sold, allowing investors to better manage their tax position.

Stamp exemption
There is no stamp duty payable on purchases in the secondary market. Investors should seek their own professional tax advice on the implications of subscribing and disposing of ETPs under the law of their jurisdiction. Tax legislation may change.

ETPs in your portfolio

ETPs offer investors diversification, providing access to various global markets and sectors through a single security traded just like ordinary shares, as well as potential tax advantages.

Issuers produce factsheets for their instruments and these are generally available on issuers' websites. Factsheets will typically contain information on investment objectives, collateralisation, trading parameters, key features of the product and details of the corresponding index or commodity.

Investors will incur a management fee usually expressed in basis points or a percentage of the return. The rate will vary across different issuers and individual instruments. Investors are advised to understand fully the investment objectives and mechanisms of an ETP before undertaking to subscribe for these instruments. If in doubt, investors should consult their broker.

Accessing the market

Investors can access the market via a broker and there are a number of services available:

Execution-only brokers will buy or sell according to investor instructions providing no investment or trading advice.

Advisory brokers provide advice and execute trading decisions made by the investor.

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Further information

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Order Book for retail bonds (ORB)

London Stock Exchange's electronic Order book for Retail Bonds was launched in February 2010 in response to growing private investor demand for easier access to trading bonds. It offers a cost-effective, transparent and efficient platform for concentrating on-screen liquidity and facilitating price discovery in a wide range of UK fixed income securities.

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more than 60 gilts and over 100 corporate bonds (tradable in denominations of £1,000 or less)

Benefits of ORB

Open and transparent market model for trading in retail-size
The new order book brings transparency to the bond market in three ways: all participants simultaneously access executable prices and have equal opportunity to trade at the best available price; everyone can see the price discovery process through our and third-party data feeds; and all private investors are able to see prices on-screen and trade bonds in a similar way as they currently do for equity shares.

Regulation and market supervision
All securities admitted to trading on the electronic Order book for Retail Bonds are approved by the UK Listing Authority and admitted to the Main Market, which is classified as an EU Regulated Market. This ensures a high level of regulatory oversight and offers the benefits of the transparency afforded by the Financial Services Authority's disclosure and continuing obligations regimes; and all trading is subject to London Stock Exchange's highest standards of market supervision and monitoring by our experienced market surveillance team.

Improved liquidity
The centralised trading mechanism concentrates liquidity while dedicated Market Makers provide two-way prices throughout the trading day. All other registered member participants are also able to enter orders into the order book, giving private investors the opportunity to take or make a price in a security.

Tax Efficient
The bonds can be held in a tax-efficient wrapper such as an ISA or a SIPP and thus be protected against both income tax and capital gains. There is also no stamp duty paid on bond or gilt purchases; all bonds currently admitted on ORB are flagged as exempt from STDR.

Creating an electronic bond market in the UK

Many investors have traditionally gained exposure to fixed income markets by buying units in managed bond funds, but a growing number of private investors are becoming increasingly knowledgeable about debt securities and are seeking to take a more active role in managing their assets.

Acknowledging this trend we were inspired to create a bond market for private investors using the wide range of debt securities already admitted to our markets. In fact there are over 10,000 listed bonds available on our systems but up until the introduction of the ORB none were traded on our electronic order books.

Instead, transactions in bonds were typically agreed in the over-the-counter (OTC) market between counterparties and the details of the trade then reported. This means that the secondary market for retail bonds was fragmented and private investors found it difficult to access the bonds they would like to include in their investment portfolios.

Order Book for retail bonds (ORB)

Key features of the order book

- Open and transparent market structure for trading in retail-size bonds
- Electronic order-driven model
- Dedicated Market Makers quoting bid and offer prices in a range of bonds throughout the trading day.
- Possibility for registered members to enter orders into the book (through which private investors may access the market)
- Trading day starts at 8.00 followed by continuous trading until market close at 16.30.
- Standardised minimum price movement, also known as the 'tick size', for all order book bonds at 0.01
- All order book trades are reported automatically and published immediately.

The unit in which each corporate bond is tradable follows the trading denomination specified in the particular bond's prospectus documentation. For "ORB dedicated" bonds this is typically £100 although other retail bonds may be tradable in multiples of £1,000 or £10,000. For gilts, the standard lot size on the ORB is £1, meaning that gilts can be traded in multiples of whole pounds.

Settlement

All trades on the ORB are executed on a "clean" basis, i.e., excluding accrued interest. At the time of settlement, however, the buyer will pay the "dirty" price, which is equal to the "clean" price plus the accrued interest (i.e. a pro-rata share of the next coupon payable by the issuer).

The standard settlement timetable for corporate bonds on the order book is T+3. In keeping with the market standard, the settlement timetable for all gilt securities is T+1.

ORB Retail Bonds in your portfolio

Retail-size' denominations

Under the Prospectus Directive, the regulatory regime distinguishes between 'wholesale' bonds, which are tradeable in units of £100,000 or greater, and 'retail' bonds which are tradable in smaller size, often in denominations of £1,000 for example. Most bonds are typically 'wholesale' bonds and are therefore not accessible to private investors because of the large size of the denominations in which they must be traded. These bonds are allowed some exceptions from the disclosure rules and are usually marketed to institutional investors including fund managers and asset managers

The aim of the ORB is to make a wider selection of 'retail-size' bonds available. 44 dedicated new bonds have already been issued onto the ORB which are available in manageable trading sizes, some as small as £100 or even £1. These bonds are subject to enhanced disclosure requirements and are usually marketed through an extended book-build to retail investors via their stock brokers.

In keeping with the aims of transparency and accessibility, all of the prospectus documentation, which previously could be rather difficult to access, is now available for all ORB bonds and can be downloaded for free from London Stock Exchange website. There is also a free 15-minute delayed pricing service where investors can see bid/offer prices, last trade information and make use of a variety of innovative charting and analytical tools.

For further investor education, we have developed a dedicated site for private investors at **www.londonstockexchange.com/bondsmadeeasy** where there is a range of resources available for free, including guides to the mechanics of bonds and dedicated fact-sheets on pricing and accrued interest calculations.

Diversification on ORB

Following its establishment in February 2010, large UK household names tapped the ORB market, including Tesco Personal Finance, Lloyds TSB and National Grid. Since then, the market has evolved and an increasingly diverse range of issuers has been approaching the retail bond space, thereby increasing the opportunities for investors and fostering the development of the market.

Investors can benefit from diversification of their corporate bond portfolio and spread their exposure across a range of maturities, industries and credit risk. They can choose among almost 180 retail denominated issues on the platform which include government gilts, corporate and supranational bonds.

Accessing the electronic Order book for Retail Bonds

Types of broker

Execution-only brokers will only buy or sell bonds according to your instructions, providing no investment or trading advice. This allows you to select the bonds in which you wish to trade and simply direct your broker to execute the trade for you.

Advisory brokers provide advice and also execute the trading decisions you make.

Discretionary brokers will buy and sell bonds on your behalf and may also have the authority to make investment decisions without your prior approval.

Direct Market Access

You may also wish to choose a broker who offers Direct Market Access (DMA), a service whereby London Stock Exchange Members are able to submit directly customer orders to the order book via their own systems.

DMA allows sophisticated private investors to take greater control of their trades by enabling them to place buy and sell orders directly on London Stock Exchange's order books and execute with other market participants.

"ORB has proved popular with a wide range of investors, providing easier access to an attractive asset class."

Contact information

For further information, please contact

Equity Trading Services

Email; clients@londonstockexchange.com
Website; www.lseg.com/tradingservices

Exchange Traded Funds

Email; etfs@londonstockexchange.com
Website; www.londonstockexchange.com/etfs

Exchange Traded Products

Email; etps@londonstockexchange.com
Website; www.londonstockexchange.com

Order Book for retail bonds (ORB)

Email; bonds@londonstockexchange.com
Website; www.londonstockexchange.com

London
Stock Exchange Group

www.londonstockexchange.com