London
STOCK EXCHANGE

10 Paternoster Square
London EC4M 7LS
Telephone +44 (0)20 7797 1000
www.londonstockexchange.com

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

N18/07

STOCK EXCHANGE NOTICE

CONSULTATION ON PROPOSED RULE AMENDMENTS – REGISTERED ORGANISATIONS FOR AIM SECURITIES

Introduction

1. AIM Notice 18 of April 2006 outlined the Exchange's concerns about the impact on regulatory standards of potential fragmentation of trading in AIM securities and consulted on some possible primary market rule changes to address this issue. In AIM Notice 20, the Exchange confirmed that it did not intend to introduce the proposed AIM primary market rule changes at that stage but that it would keep this issue under review.

2. Following discussions with market participants, and other trading venues, and in light of the feedback from the Exchange's Rules Consultation on MiFID (Stock Exchange Notice N08/07), it is clear that there is a requirement for greater clarity on this matter. The Exchange has now reviewed the situation, and has concluded that it should seek to introduce rule amendments to its Rulebook for member firms in relation to trading of AIM securities.

3. The purpose of this Notice is to outline the proposed regulatory framework for the trading of AIM securities to ensure the maintenance of high regulatory standards and to describe those venues on which member firms can trade AIM securities. Attachment 1 to this Notice details the relevant rule and guidance changes.

4. The Exchange notes the recent announcement by HM Treasury of proposed changes to the stamp duty regime and, in particular, the changes that will apply to securities admitted to Multilateral Trading Facilities. The announcement also asked that the Financial Services Authority consider the regulatory implications of the proposed changes to the stamp duty regime and report back to HM Treasury ahead of the pre-Budget report due in Q4 2007.

Transparency in the AIM market

5. MiFID will be implemented later this year, introducing higher standards of post trade transparency across Europe for all shares that have been admitted to trading on a regulated market in the EU whilst at the same time allowing for a choice of trading venues. This increased transparency will bring the whole of the European Union into line with UK standards. MiFID will result in several changes to the Exchange's Rules. The Exchange's consultation period for N08/07 ended on 2 April. It is clear from early feedback that there is a need for greater clarity on trade reporting responsibilities, including those for AIM securities.

6. MiFID transparency rules do not apply to AIM securities. However, the Exchange considers it imperative that equally high standards of transparency and regulation are maintained for the trading of AIM securities. Comprehensive post-trade transparency is vital for investors, helps investment firms to ensure that best execution is achieved and makes an important contribution to price formation.

7. The Exchange therefore intends to maintain, in its Rules, a transparency regime for the trading of AIM securities that is very similar to the MiFID regime, supported by the Exchange's trade reporting rules.

AIM and the Exchange's role

8. Unlike the UK Main Market, for which responsibility for primary market regulation resides with the UKLA, AIM is operated and regulated by the Exchange alone. The Exchange's primary market regulation of AIM, coupled with the Exchange's secondary market regulatory responsibilities, should ensure that a proper market is maintained for AIM; meaning investors are provided with appropriate and sufficient information to determine the valuation of a company's shares.

9. To maintain AIM's regulatory standards and ensure the provision of a proper market, the Exchange must be confident that it has sufficient visibility of the trading being conducted in AIM securities that is directly reliant upon the Exchange's regulation of the AIM issuers. Alternatively, other venues that admit the securities of AIM issuers must have a direct regulatory relationship with the issuer and therefore be able to exert primary market regulatory control over those companies, under their own rules.

Registered Organisation Regime

10. The Exchange proposes to create a new Registered Organisation regime that is specific to AIM. This will give member firms the ability to report their AIM business to other venues, whilst allowing the Exchange to maintain a level of oversight that is sufficient to enable it to fulfil its primary market regulatory responsibilities.

11. The regime will introduce specific criteria that will allow the Exchange to assess the suitability of any venue wishing to trade AIM securities under the Rules. These criteria are set out in Appendix 2 of this Notice.

12. The proposed regime will recognise two different types of AIM Registered Organisations:

- Venues that have a primary market relationship with the AIM issuer (typically by the issuer deciding to list there) may be eligible to qualify as an AIM primary market registered organisation; and

- Venues that have no formal relationship with the AIM issuers of the securities that it admits to trading and where that venue has entered into appropriate information sharing relationships with the Exchange, may be eligible to qualify as an AIM secondary market registered organisation.

13. It is intended that, subject to comments received during consultation, these Rules will come in effect and venues will be approved to trade AIM securities ahead of MiFID implementation.

14. Member firms, other customers and interested parties are invited to comment on the contents of this Notice by 21 May 2007. Comments or queries on this Notice should be addressed to Rosie Murphy Williams, Rules Development & Advice, phone +44 (0) 20 7797 3172, STX 33172, email rmurphywilliams@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.