



**London**  
Stock Exchange

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13 February 2009

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

**N08/09**

## **STOCK EXCHANGE NOTICE**

### **CONSULTATION ON PROPOSED RULE AMENDMENTS FOR THE INTRODUCTION OF CENTRAL COUNTERPARTY CLEARING ON THE INTERNATIONAL ORDER BOOK**

#### **Introduction**

1. As previously announced, the London Stock Exchange (“the Exchange”) is introducing a central counterparty (“CCP”) clearing service for trades in the most liquid securities on the International Order Book (“IOB”). This Notice consults on proposed amendments and additional guidance to the Rules of the London Stock Exchange (“the rules”) required for implementation. This Notice should be read in conjunction with “IOB Clearing (Phase 1) Outline Service and Technical Description” available at:  
<http://www.londonstockexchange.com/information-providers/technical-library/technical-guidance-notes/iob-clearing.pdf>

#### **Scope**

2. The central counterparty service will provide clearing for all automatically executed trades in the new IOBE segment. This segment will contain the most liquid IOB securities and will have a default place of settlement of Euroclear Bank. The default place of settlement for all other IOB securities will not change. An optional netting service will enable firms to net same day, same security trades at central counterparty level. The settlement of off book trades can continue to be agreed bilaterally between trade participants.

#### **Rule amendments**

3. There are no changes to the order book and off order book trading rules. All proposed rule changes are within the Settlement, Clearing and Benefit rules with a minor change to a definition. The rules being amended relate to the processing of optional benefit distributions and stock situations in those IOB

securities which are cleared through the CCP. Member firms should note that, unlike CCP processing for SETS securities, CCP processing for the IOB will not include election instructions for optional events. Where a corporate action event has options, buyers from the CCP will receive the default option. Member firms should take care to ensure that there is no mismatch in expectation of an outturn, where they trade IOB central counterparty securities on a back to back basis with clients on and off the IOB.

4. The following rules have been amended, and additional guidance added to reflect the fact that some CCP services will not have the facility for buyers to submit election instructions. These are:
  - rule 5302 (provision of an instruction to a counterparty in order to receive a benefit)
  - rule 5520 (issuing of a claim to a counterparty in a rights issue); and
  - rule 5710 (entitlement claims).
5. In addition, the Exchange proposes to introduce a new rule 5740 (Central Counterparty Instructions). The purpose of this rule is to disapply the operation of a number of stock situation rules where the CCP does not support the provision of instructions. Minor amendments to rules 5800, 5910, 5930 and 5932 are proposed in order to link them into this new rule. The Exchange also proposes to amend the definition of “liable party” in order to make it generic and to remove specific reference to settlement venue.

### **Clearing arrangements**

6. All member firms that wish to continue to trade electronically on the IOB will need to set up the necessary clearing arrangements prior to implementation. As part of this process the IOB CCP Static Data Form will need to be completed by close of business on Friday 20 February to ensure participation when IOB Clearing commences. **Member firms should be aware that if the appropriate clearing arrangements are not in place ahead of the implementation of IOB Clearing they will cease to have access to on book trading in IOB securities.** IOB CCP Static Data Forms are available at: <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/formsagreements/formsagreements.htm>
7. Member firms may require assistance from their settlement providers and / or General Clearing Members to complete the relevant sections of the IOB CCP Static Data Form. Any queries in relation to completing the form can be directed to the Client Implementation Team at the Exchange on 020 7797 3232 or to [jobccpstaticdata@londonstockexchange.com](mailto:jobccpstaticdata@londonstockexchange.com). Completed Static Data Forms should also be sent to this dedicated email address. Other details on the service, as well as guidance for completing the IOB CCP Static Data Form can be found at <http://www.londonstockexchange.com/traders-and-brokers/products-services/trading-services/international/clearing/clearing.htm>

8. Attachment 1 to this Notice details the relevant rule changes. Member firms, other customers and interested parties are invited to comment on the proposed rule amendments and any such comments must be provided to the Exchange by close of business on 13 March 2009, at the very latest.
9. Comments or queries on this Notice should be addressed to Dagmar Banton, Trading Services, telephone +44 (0)20 7797 1210 (STX 31210) or email [dbanton@londonstockexchange.com](mailto: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.