



London
Stock Exchange

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

N47/09

STOCK EXCHANGE NOTICE

Consultation on Proposed Rule Amendments – Electronic Order Book for the UK Retail Bond Market

Introduction

1. The London Stock Exchange (“LSE”) has previously announced its intention to introduce a new electronic, order-driven trading service to provide retail investors with access to an on-screen secondary market in UK government and corporate bonds. This Notice outlines proposed amendments to the Rules of the London Stock Exchange (“the rules”) in order to accommodate the implementation of this service.

This Notice should be read in conjunction with the Service and Technical Description which is available on the LSE’s website at:

<http://www.londonstockexchange.com/information-providers/technical-library/technical-guidance-notes/uk-mot-service-tech-description.pdf>

Key features of the new service

Market model

2. The new trading service will be order-driven with continuous two-way pricing provided by market makers. Consequently, the service will be subject to the relevant rules for order book trading and market making in order-driven securities. Trading following the initial implementation will not be supported by a central counterparty, but will benefit from straight-through settlement processing into CREST.
3. The trading day will be made up of an initial opening auction phase (8.00 to 9.30 hours London time) followed by continuous trading until market close (16.30 hours). There will be no closing auction. All prices will be quoted on a

“clean” basis (i.e. excluding accrued interest).

4. Market makers registered in securities on the new service will be able to enter named, electronically executable quotes. All participants in the service will be able to enter limit orders and market orders. Hidden, iceberg and named order types will not be supported on this service.
5. To enable electronic trading to take place, two new segments will be added to TradElect: UKGT (for gilt-edged securities) and UKCP (for UK fixed interest securities).
6. For securities to be admitted to the electronic bond market they must have the support of a market maker and be eligible for settlement in CREST. The initial list of securities available for electronic trading will be published by Service Announcement prior to go-live, with subsequent updates provided through the Reference Data Service.

Settlement

7. Trades executed in the new UKGT segment will settle on a T+1 settlement cycle and trades executed in the new UKCP segment will settle on a T+3 settlement cycle. Post-execution, the LSE’s post trade router X-TRM will calculate the accrued interest applicable to each transaction and will route trade information to Euroclear UK & Ireland. All trades on the new service will be automatically instructed for settlement into CREST.

Buying in

8. Buying in will be available for electronic trades executed in securities admitted to the order book. Amendments to reflect this will be made to the buying-in section on the LSE’s website.

Access

9. Member firms that wish to sign up to this service must complete a new static data form which will be published by the end of November 2009 and will be available on the Regulatory forms & agreements section of the LSE website.

For assistance with this process participants can contact the Client Implementation Team on +44 (0)20 7797 3232 or by email at clientimplementation@londonstockexchange.com.

Trade reporting

10. Order book trades will be trade reported automatically and published immediately. Manual trade reporting arrangements for non-electronically traded gilt-edged and fixed interest securities will remain in place. Manual trade reports will not feed into the X-TRM post-trade router and will continue to publish in accordance with existing thresholds and processes.

Proposed rule amendments

11. The implementation of the new service requires a number of minor changes to the LSE's rules and guidance which are outlined below:
- the guidance to rule 2110 relating to contra requests has been amended to clarify when the Market Supervision department is required to intermediate in the contra process;
 - additional guidance to rule 2120 has been drafted to provide parameters for Exchange enforced cancellation of automated trades in gilt-edged or fixed interest securities where the trades are erroneous;
 - the guidance to the market maker registration rule 4000 has been amended in order to provide flexibility where a gilt-edged or fixed interest security moves into or out of an order driven segment; and
 - rule 4101 has been amended in order to define further the market maker quote obligations as there is no closing auction for securities included in the new service.

The attachment to this Notice outlines the proposed amendments to the rules and associated guidance.

12. Member firms are invited to comment on the proposed rule amendments by 17 December 2009. Comments or queries on this Notice should be addressed to Dagmar Banton, UK Regulation, telephone +44 (0)20 7797 1210 (STX 31210) or email dbanton@londonstockexchange.com

Nick Bayley
Head of UK Regulation

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.