



Consultation on the market structure for the introduction of an intra-day auction for SETS Equities and IOB

Closing date for responses 17 April 2014

Issued 19 March 2014



Contents

1. Executive summary
2. Introduction
3. Timetable and contact details
4. Respondent Details
5. Questions regarding Intra-Day Auctions

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March 2014

1.0 Executive Summary

London Stock Exchange is conducting a market consultation into potential enhancements to auctions on London Stock Exchange. This paper focuses on the potential introduction of an intra-day auction for SETS equities.

Feedback from this consultation will be used to help define the future development of auction trading on London Stock Exchange.

March 2014

2.0 Introduction

In order to ensure that our trading service continues to meet the needs of a wide range of customers and investors, London Stock Exchange is undertaking this market consultation.

Auctions currently occur for SETS Equities on the London Stock Exchange as follows:

- London Stock Exchange's order book trading day commences with an opening auction
- If a security in regular trading breaches its price monitoring levels it will enter an auction call period
- Order book trading ends each day with a closing auction
- FTSE 100 securities have an expiry auction at 10:10 on the third Friday of the month and FTSE 250 securities have an expiry auction at 10:10 on the third Friday of March, June, September and December.

Before an auction generates an execution it will check whether:

- ☐ a market order extension should be invoked;
- ☐ a price monitoring extension should be invoked; and
- ☐ any volume check prevents the execution taking place (SETSqx auctions only)

To avoid participants knowing the exact time of uncrossing a configured random period of up to 30 seconds precedes invocation of each extension and the final uncrossing.

For more details, please refer to "London Stock Exchange MIT201 – Guide to the Trading System" which is available from the London Stock Exchange Group website using this link:

www.lseg.com/tradingservices

March 2014

3.0 Timetable and Contact details

The consultation period is 4 weeks, and responses are requested by 17 April 2014.

Responses can be sent by email to: clients@lseg.com

Alternatively, they can be posted to:

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March 2014

4.0 Respondent Details

Type of Firm (indicate as many functions as appropriate)	Institutional Investor ☐ Hedge Fund ☐ Banks or Institutional Broker ☐ Market Maker ☐ Proprietary Trader ☐ Retail Broker ☐ Clearing Firm ☐ Index publisher ☐ Regulator ☐ Trade Association ☐ Individual Investor ☐ Other (Please Specify below) ☐
Name of Organisation/Individual	
Business Functions Represented (we request one response per-entity representing that entity's corporate view):	
Roles of Individuals contributing:	
Name of Individuals contributing (optional);	
Contact details:	

March 2014

5.0 Intra-Day Auctions

In addition to the current SETS auctions (opening, closing, expiry and price monitoring) the London Stock Exchange is considering the introduction of a new intra-day auction.

Recent feedback from a broad range of market participants has indicated that an intra-day auction would be a welcomed addition to the options available for executing orders. Feedback we have had focused in particular on the advantages of trading larger sized orders in a price forming environment. Based on this information, London Stock Exchange would plan to implement an intra-day auction as follows:

- I. Daily auction at 14:00 – feedback has been that this would be a more useful auction time for the market rather than 12:00.
- II. Call period of 3 minutes, with a randomised end of up to 30 seconds (as per current auctions)
- III. Possibility to move Expiry auction from 10:10 to this 14:00 auction (subject to discussions with all relevant stakeholders and further analysis)
- IV. Move the current SETSqx 15:00 auction to 14:00 to coincide with the auction in SETS securities

If introduced, London Stock Exchange would review the arrangements after a period of 3 months.

The proposals would apply to all SETS equity securities. Due to the trading hours for IOB securities, we seek some specific feedback for these equities in question 8.

Questions

1. Would you make use of an intra-day auction if introduced?
2. How would an intra-day auction affect your trading behaviour? (Please consider effects prior to auction, during call phase and in the period after the auction)
3. Would you consider an intra-day auction as a good opportunity for trading larger orders?
4. Is 14:00 an appropriate time for an intra-day auction?
5. Is a 3 minute call period appropriate?

March 2014

6. If a 14:00 intraday auction is adopted, would you support in principle the moving of the current 10:10 expiry auction to 14:00 in order to coincide with the intra-day auction (note that such a move would require discussions with all relevant stakeholders and further analysis)
7. Further the Consultation on the Trading of Smaller Securities, dated 10 December 2013, regarding the trading of smaller cap securities (see link below), would you support moving the 15:00 SETSqx auction to coincide with the proposed 14:00 intra-day auction?
8. Continuous trading for IOB securities ends at 15:30 with a closing auction. Would you consider a 14:00 intraday auction would be useful for IOB securities? If not, would you consider a different time more suitable?
9. If an intra-day auction were introduced, what is your estimate for time required to make appropriate preparations for your trading technology (where relevant)? What level of effort would this require?
10. Are there any other comments you would raise?

Consultation on the Trading of Smaller Securities – for anyone wishing to reference the consultation we carried out earlier this year regarding the trading of smaller cap securities, please follow the below link:

www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/2013/n1613_attach1.pdf

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