

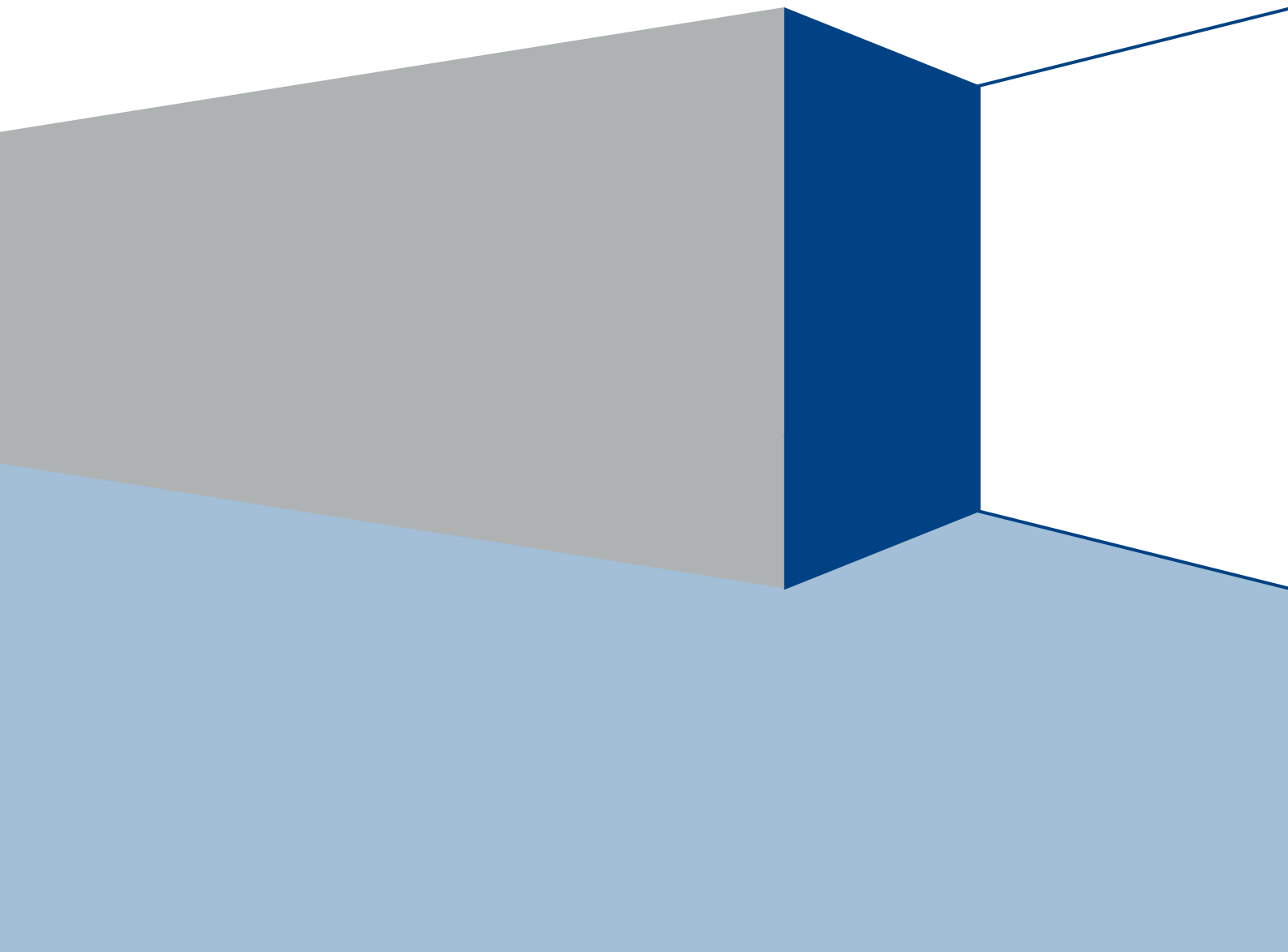


London
Stock Exchange

CONSULTATION DOCUMENT - FEBRUARY 2012

International Order Book

- including proposal to introduce integrated electronic market making
from 2 April 2012



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1 Introduction

The International Order Book (IOB) enables investors to unlock the potential of some of the world's fastest growing markets. It offers easy and cost efficient access to markets around the world via depositary receipts (DRs).

The market has grown rapidly since its inception in 2001, with five of the twenty most heavily traded securities on the London Stock Exchange (the Exchange) being traded on the IOB in the second half of 2011. To facilitate its continued growth, the Exchange undertakes regular enhancements to the service. This has included the introduction of LCH.Clearnet Ltd as the central counterparty (CCP) for trades in the most liquid IOB securities in March 2009. This in turn was supplemented by the provision of a buyer protection election service for corporate actions on cleared IOB securities from October 2010.

1.1 Purpose of this document

The purpose of this document is to provide an overview of the Exchange's plans to introduce integrated electronic market making to IOB from 2 April 2012, subject to market feedback resulting from this consultation. Participants will be able to register to a commitment to provide a displayed, two-way quote on a security by security basis. This will see the removal of the named order functionality which is currently available to all IOB users.

IOB users have until **9 March 2012** to provide their feedback on this and other comments on the operation of IOB by email to:

clients@londonstockexchange.com

1.2 Readership

This consultation document should be read by trading, IT, trade support and compliance staff at member firms, issuers of depositary receipts admitted to trading on the Exchange, advisers and other participants that currently use or plan to use the IOB in the future.

1.3 Contact details

More information on the IOB can be found at:

www.londonstockexchange.com/iob

To provide feedback to this consultation or for further information please contact the Exchange's Equities and Derivatives Market team at:

clients@londonstockexchange.com

2 Introduction of Market Maker Executable Quotes to the IOB

2.1 Current IOB service

Unlike the SETS trading service for UK equities, there is currently no registration process for a member firm to sign up to take on formal market maker obligations on the IOB. When the IOB was launched in 2001 there was no demand from member firms to act in this capacity and instead Named Orders were made available. This allows any IOB trading participant to enter a single sided bid or offer, which will display its name against a specifically priced and sized order of its choosing.

Named Orders are currently very lightly used on IOB. In January 2012 around 0.1% of value traded on book involved a Named Order on at least one side of the execution.

2.2 Overview of proposed change from 2 April 2012

The Exchange has been approached by number of member firms who are keen to be recognised as registered market maker in one or more IOB securities. Subject to market feedback resulting from this consultation, as of 2 April 2012 the Exchange plans to replace the Named Order functionality on IOB with Executable Quote functionality, effectively bringing IOB in line with the SETS market model and providing the opportunity for additional liquidity. The full impact of this change is detailed below and it is planned that it would be reviewed after the first 3 months of operation.

Should the change go ahead an update to the Millennium Exchange Business Parameters document and the Exchange's Trading Service Price List will be made and will be notified to the market by Service Announcement.

2.3 Detail of proposal to introduce market makers to the IOB

Change	Additional Information
Executable Quote functionality will be available to registered market makers on a security by security basis. There is no obligation on an issuer to have a registered market maker to remain on the IOB There is no upper limit to the number of firms that can register as a market maker in an individual IOB security	Existing rules 4000 to 4110 of the Rules of the London Stock Exchange will apply to each registering market maker. (See Appendix 1). Registration Information Form can be found at: http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/formsagreements/formsagreements.htm
Named Orders will be withdrawn from all participants, in all IOB securities (even if there is no registered market maker in that security)	Sector Breakdown of the Millennium Exchange Business Parameters document will be updated to reflect change (see Appendix 2)
Registered market makers in an individual IOB security are obliged to provide a two sided electronically Executable Quote in at least Exchange Market Size for 90% of the continuous trading period and throughout the entire closing auction (including any extensions). There is no requirement to provide quotes during any intra-day (price monitoring) auctions or once the closing auction has completed.	Exchange Market Size is broadly set at approximately US\$35,000 and is reviewed each quarter as part of the Exchange's quarterly review process.
Market makers registered in IOB securities on the CCP service (trading segment IOBE): - Maximum Spread 5% subject to a floor of having to go no lower than US\$0.01. - Monthly market maker registration fee per security £20. - Exchange Charge unchanged	Full list of IOB CCP securities at: www.londonstockexchange.com/iob
Market makers registered in IOB securities on the non- CCP service (trading segment IOBU): - Maximum Spread 10% subject to a floor of having to go no lower than US\$0.03. - Monthly market maker registration fee per security £nil. - Exchange Charge for all IOB executions in that registered security is 0.2 basis points of value of order executed subject to minimum charge of 10p per executed order.	Full list of IOB non CCP securities at: www.londonstockexchange.com/iob Executions on IOBU will be included in the Smaller Company Registered Market Maker scheme which is detailed in note 6.4 of the Exchange's Trading Services price list, the current version of which can be found here: www.londonstockexchange.com/prices

2.4 Specific Feedback Requested by 9 March 2012

Question 1: Do you support the replacement of Named Orders with registered market makers providing electronically Executable Quotes on the basis outlined in this consultation?

Question 2: Would you register as a Market Maker in any IOB securities and if so which ones would you consider?

Question 3: Do you agree that a 3 month initial period is suitable before reviewing the impact of the changes made? If not what would your preferred period be?

3 Other aspects of IOB service

3.1 IOB market opening hours

The opening auction call starts at 08:00 London time with the scheduled uncrossing scheduled from 08:15. Continuous trading continues until 15:30 when IOB moves into the closing auction call, with the scheduled closing uncrossing at 15:40.

Question 4: Do respondents support the current IOB market hours? Is there a requirement for any further revision to either the start or end time of automated trading on IOB?

3.2 Re-introduction of a closing auction volume check

On previous trading systems the Exchange has operated a volume check that would cancel a closing uncrossing where following the invocation of both price monitoring extensions the indicative uncrossing price was still in excess of the ruling parameter and the potential matching quantity was less than 50% of the ruling EMS. Where the closing auction fails in the above circumstances, the closing price would instead be created by the fall back method (last order book traded price in case of IOB). Millennium Exchange also supports this functionality but it is currently not activated for IOB.

Question 5: Would respondents support the re-introduction of the volume check in the case of a large price movement to improve the quality of IOB closing prices?

3.3 Minimum Order Size

Since 20 September 2010, the minimum order size in all IOB securities has been 1 unit rather than 50 as before.

Question 6: Do respondents support the continuation of no minimum order size in IOB securities?

3.4 Price format (tick size”) schedule

Since 20 September 2010, the dynamic price format schedule used for IOB securities is that known as FESE Table 2, which was developed as part of the pan-European review to standardise regimes used across Europe.

Full details of all this and all other dynamic price format schedules operated by the Exchange can be found within the Millennium Exchange Business Parameters document which can be found at:

www.londonstockexchange.com/tradingservices

Question 7: Do respondents support the current price format regime in place for IOB securities? If not what changes would you like to see?

4 On-going improvement of the IOB service

The Exchange is committed to continue to develop the IOB service. It would be keen to receive further feedback on matters covered in this document or any other aspect of the admission and secondary trading of depositary receipts on Exchange. Please contact your usual contact or alternatively email: clients@londonstockexchange.com

4.1 Further sources of information

- More information on the International Order Book can be found on the Exchange's website at:

www.londonstockexchange.com/iob.

- To help you keep your trading database synchronised on a real time basis, you may wish to subscribe to either the Datasync Email Service or the Datasync Daily Tradable Instrument Report (DTI). To find out more please contact:

Tel: +44 (0)20 7797 1220, STX: 31220

Email: datalect@londonstockexchange.com

- Full details of the trading thresholds in operation for the IOB are contained in the Millennium Exchange Business Parameters document which can be found at: www.londonstockexchange.com/tradingservices

- Full version of the Rules of the London Stock Exchange:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm>

- Sign up to receive Service Announcements at:

<http://www.londonstockexchange.com/products-and-services/technical-library/service-announcements/service-announcements.htm>

- Sign up to receive Stock Exchange Notices at:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/2012/home-2012.htm>

5 Appendix 1

5.1 Excerpt from the current Rules of the London Stock Exchange

MARKET MAKER RULES

Registration

Registration and de-registration for all market makers [4000-4003]

4000	A member firm that intends to act as a market maker shall register as such with the Exchange .
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Guidance to Rule:

Registration as a **market maker** shall be effective in a single security unless the **Exchange** considers it appropriate to do otherwise. Provided an application to become a **market maker** is received by the Exchange by 17.30 hours on the day prior to the effective date of the registration and all relevant requirements relating to the application are met, registration shall normally become effective at the start of the next day. A request made outside of this requirement should be made to the Market Supervision department on 020 7797 3666. These will be dealt with on an individual basis and registration may not be actioned the requested date.

Where a security is moved from one trading service to another or is subject to a change in the security line (for instance in the event of a corporate action or re-structuring), the **Exchange** will automatically carry over the **market maker** registrations where appropriate, unless the **market maker** specifically requests otherwise.

Registration as a **gilt-edged market maker** shall be in one of the following:

- in all **gilt-edged securities** that are not **index-linked gilt-edged securities**;
- in all **index-linked gilt-edged securities** only; or
- in all **gilt-edged securities**.

(Amended N26/10 – effective 14 February 2011)

4001	Unless otherwise agreed with the Exchange a market maker may not de-register from a security within three months of its initial registration or re-register in a security within three months of de-registration in respect of the same security.
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4002	Where the Exchange considers it appropriate it may de-register a market maker from a security.
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Guidance to Rule:

The **Exchange** may deem it necessary to de-register a **market maker** from one or more securities where that firm is consistently in breach of market maker obligation rules.

4003	In exceptional circumstances a member firm may request from the Exchange a temporary withdrawal from its market making obligations.
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Guidance to Rule:

Any request for a withdrawal must be made to the Market Supervision department on 020 7797 3666. An example where permission may be granted includes where a **member firm** is acting both as broker and **market maker** to an issuer that is subject to a bid situation or where the **member firm** has system problems in accordance with rule 1050 & 1500 in core rules.

Treatment of member firms which include a market maker [4010]

4010	For the purpose of market maker obligations, a member firm that operates under only one member ID which also includes a market maker shall be treated as if it was a market maker .
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Guidance to Rule:

*The rule applies only where there is no clear segregation by **member ID** of a **member firm's market making** and non **market making** operations.*

Market makers in order driven securities

Obligations of market makers in order driven securities [4100-4105]

4100	The market maker obligation rules apply unless exception rule 4110 applies or as varied by a market situation in accordance with rule 1520.						
4101	A market maker must maintain an executable quote in each security in which it is registered. The executable quote must be maintained: <table border="0"> <tr> <td>4101.1</td><td>for at least 90% of continuous trading during the mandatory period;</td></tr> <tr> <td>4101.2</td><td>for the duration of the closing auction until market close, including any extensions; and</td></tr> <tr> <td>4101.3</td><td>where relevant, throughout the duration of the scheduled intra-day auction for the FTSE index expiries.</td></tr> </table>	4101.1	for at least 90% of continuous trading during the mandatory period ;	4101.2	for the duration of the closing auction until market close , including any extensions; and	4101.3	where relevant, throughout the duration of the scheduled intra-day auction for the FTSE index expiries.
4101.1	for at least 90% of continuous trading during the mandatory period ;						
4101.2	for the duration of the closing auction until market close , including any extensions; and						
4101.3	where relevant, throughout the duration of the scheduled intra-day auction for the FTSE index expiries.						

Guidance to Rule:

Market makers in order book securities will not be able to enter **executable quotes** that are outside the maximum spread, if they attempt to do so a rejection message will be sent to the **market maker**.

Rule 4101.1

*The 90% threshold is measured daily for each security in which a **market maker** is registered. Where an intra-day auction has been triggered in a security due to a price monitoring breach, the time in which the security will have been in **continuous trading** will be reduced. Therefore, **market makers** will be required to maintain an **executable quote** for 90% of the reduced period.*

Rule 4101.3

Market makers must maintain their **executable quotes** during the FTSE index expiries. The following expiries are covered by this rule:

- FTSE 100 monthly options
- FTSE 100 quarterly futures
- FTSE 250 quarterly futures

(Amended N21/10 – effective 1 June 2011)

4102	The Exchange may, on the request of a market maker , suspend or vary market maker obligations.
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Guidance to Rule:

*The Exchange occasionally allows **market makers** to relax spreads when an individual security is subject to wide price movements. This is very rare and normally will not last more than a day.*

*In order to relax **market maker** spread obligation when there are wide price movements, the **Exchange** may temporarily increase the maximum spread regime to an existing spread level, for*

example move a security with a 5% spread to a 10%, 15% or 25% tolerance rather than provide a blanket waiver.

(Amended N21/10 – effective 1 June 2011)

4103	If a market maker and its customer or counterparty conduct an on Exchange trade away from the trading system , the market maker is obliged to deal at least at its displayed price and size.
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(Amended N21/10 – effective 1 June 2011)

Exceptions to obligations to market makers in order driven securities [4110]

4110	A market maker has no obligation to maintain its executable quotes :
4110.1	in a security during the opening auction or where an unscheduled intra-day auction has been triggered due to a price monitoring breach;
4110.2	in a security during the closing auction on the Order book for Retail Bonds;
4110.3	in a covered warrant when it is the expiry day of that covered warrant ;
4110.4	in a security where there is a public holiday on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing ;
4110.5	in a security where there is a trading halt on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing and may delete its executable quotes . A market maker must re-enter its executable quote on resumption of trading; or
4110.6	in an exchange traded fund or an exchange traded product , where no firm price is available for at least 10% of the underlying securities or instruments which make up the exchange traded fund or exchange traded product .

Guidance to Rule:

Rule 4110.5

A **market maker** shall be responsible for informing the **Exchange** and seeking permission for suspension of market making obligations by contacting the Market Supervision department on (0044) 20 7797 3666 option 2, STX 33666, where it believes that there is no firm price available for 10% or more of the underlying securities or instruments in an **exchange traded fund** or **exchange traded commodity**. If approved, the suspension applies to all **market makers** in the particular **exchange traded fund** or **exchange traded commodity**. This suspension only applies to the day in question and a **market maker** must make separate requests on a daily basis, if necessary.

(Amended N16/11 – effective 26 September 2011)

6 Appendix 2

6.1 Proposed revision to Millennium Exchange Business Parameters document

Excerpt from proposed Millennium Segment & Sector Breakdown effective 2 April 2012 (changes in red & bold)

Relevant paragraph of Rules of London Stock Exchange 3012.2											
Segment Code	Sector Code	Sector Name	Market Maker quote type Minimum size 1* EMS	Market maker trade reporting responsibilities	Central clearing of automated order book executions & where relevant CCP	Default place of settlement	named orders (non Market Maker)	Max Spread %	Max Spread Floor £ / € / \$	Dynamic Price Monitoring %	Static Price Monitoring %
IOBE	LLHE	IOB LONDON LISTED EB CCP SECS.	Executable	8 IOB	Y - LCH	EB	N	5	0.01	10	10
IOBE	INHE	IOB ATT EB CCP SECS.	Executable	8 IOB	Y - LCH	EB	N	5	0.01	10	10
IOBE	IPHE	IOB PSM EB CCP SECS .	Executable	8 IOB	Y - LCH	EB	N	5	0.01	10	10
IOBE	INNE	IOB ATT NON LISTED EB CCP SECS .	Executable	8 IOB	Y - LCH	EB	N	5	0.01	10	10
IOBU	LLLU	IOB LONDON LISTED NON CCP SECS. DTC	Executable	8 IOB	N	DTC	N	10	0.03	25	25
IOBU	INLU	IOB ATT NON CCP SECS. DTC	Executable	8 IOB	N	DTC	N	10	0.03	25	25
IOBU	INNU	IOB ATT NON LISTED NON CCP SECS. DTC	Executable	8 IOB	N	DTC	N	10	0.03	25	25
IOBU	IPLU	IOB PSM NON CCP SECS. DTC	Executable	8 IOB	N	DTC	N	10	0.03	25	25
IOBU	LLLN	IOB LONDON LISTED NON CCP SECS. EB	Executable	8 IOB	N	EB	N	10	0.03	25	25
IOBU	INLN	IOB ATT NON CCP SECS. EB	Executable	8 IOB	N	EB	N	10	0.03	25	25
IOBU	IPLN	IOB PSM NON CCP SECS. EB	Executable	8 IOB	N	EB	N	10	0.03	25	25



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London Stock Exchange
10 Paternoster Square
London EC4M 7LS
Telephone: +44 (0)20 7797 1000

www.londonstockexchange.com