

GUIDANCE ON RIGHTS ISSUES



This guidance provides member firms with clarification as to how the Rules of the London Stock Exchange (the “Exchange” and “the rules”) are applicable when a firm executes ‘on Exchange’ transactions in a rights issue. This guidance updates previous rights issue guidance which was published in 2008 in Stock Exchange Notice N06/08.

Sources of information

Details regarding the timetable and other key information applicable to a rights issue are published by the Exchange in a Stock Situation Notice. For further information about how to subscribe to Stock Situation Notices please follow the link provided below:

[Corporate Actions | London Stock Exchange](#)

In respect to trading in rights issues, member firms should also be familiar with the updated stamp duty relief guidance published by HM Revenue & Customs:

[STSM042105 - Exemptions and Reliefs: reliefs: Intermediary Relief –shares regularly traded only on an multilateral trading facility \(MTF\) - HMRC internal manual - GOV.UK](#)

Trading of Nil-Paid Rights

Rules 5400 - 5471 provide a framework for the trading and settlement of rights issues. Firms are reminded that these rules contain a number of important deadlines that help facilitate the orderly processing of trades in rights issues which are executed on Exchange.

The Exchange commences trading in nil-paid rights on its MTF (MIC Code: XLOM), at the start of business on the ex rights date. Trades in nil-paid rights executed electronically on the order books (either SETS or SETSqx) settle on a T+1 basis and are usually central counterparty (CCP) cleared.

At the close of business two days prior to the call payment date, the nil-paid rights are replaced on the relevant order book with the fully paid rights. The nil-paid rights are then moved to a non-CCP cleared segment of SETSqx where trading can continue bilaterally, or through the automated uncrossing process. The ISIN for the nil-paid rights is removed from the trading system at the close of business on the call payment date.



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Member firms should be aware of the following points:

- On Exchange or OTC - firms need to be clear at the point of execution whether a trade in the nil-paid rights is on Exchange or OTC (Rule 3000). This is especially important where a firm is interposed between two trades as the firm needs to be aware of its obligations if one trade is executed on Exchange and the other is OTC (i.e. depending upon the terms of the trades the firm's obligations in relation to both trades may differ).
- Buyer Protection - where firms continue to trade the nil-paid rights after the deadline for the passing of lapsing instructions (Rules 5470 - 5471), the seller is obliged to protect the buyer and take up the rights (Rule 5440). In relation to non-CCP trades, the buyer can only agree otherwise by negotiation with the seller at the time of trade execution. Firms need to be aware of this when deciding whether to execute orders automatically via the uncrossing process on SETSx or bilaterally with another firm. This is also the case where firms continue to trade the nil-paid rights after the call payment deadline.
- Delivery deadlines – firms are reminded that nil-paid rights should not be delivered after the deadline for the delivery of nil-paid rights (close of CREST settlement processing) on the day before the call payment date (Rule 5430). A buyer is not obliged to accept a delivery of rights after that time.

Fully Paid Rights

Firms are also reminded that the ISIN for the fully paid rights is removed from the trading system at the close of business on call payment date. Purchasing member firms are obliged to accept delivery of the underlying security after the call payment date following the completion of the buyer protection process.



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