

Trading Services Enhancements

April 2001

Overview



London **STOCK EXCHANGE**

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1 Introduction

In October last year, we made clear our intention to continue to expand and develop our services. Specifically, we set out plans to continue development of our core trading systems, increase the overall efficiency of the central market and focus on services to support the retail community.

In addition to our existing service development plans, such as the introduction of the central counterparty in February, informal consultation has taken place over the past three months to refine a number of other development proposals. Documents describing some of the changes brought together in this paper have already been distributed.

This document summarises these proposals and sets out the full scope of the next release of our trading and information systems (TSE April 2001), which will underpin the new service offerings.

Compared to previous releases, the technical impact is minor – limited to new configurations of existing functionality and the enabling of the committed principal or 'named order' type. We have sought to bring these minor technical changes into a single release in order to minimise the impact of changes on our customers.

In summary this release, due to go live on 30 April 2001, will:

- introduce an order book for a limited selection of existing SEAQ International securities
- introduce a new Retail Service in international securities
- enhance the existing SEAQ Auctions services.

2 SEAQ International order book

Our objective for our existing international equity trading service is to provide a central marketplace that is attractive to issuers, intermediaries and institutional investors alike. This will help London remain the market of choice in these securities and enable London to capitalise on an increasing interest in issuing and trading, in particular, GDRs.

Taking advantage of this market's potential depends on maintaining the right trading services to maximise participation, facilitating the continued provision of capital commitment and marketing the real benefits that London has to offer.

This initiative specifically addresses the need to develop the trading service through the introduction of an order book, for a number of the more liquid securities currently trading on SEAQ International. The key features of the order book proposal are:

- the introduction of a SETS-style order book
- availability of 'named orders'¹ for use by participants to display their identity next to their order²
- the most liquid emerging markets securities will trade on the order book and the remaining securities will continue trading on the SEAQ International service with market maker quotes
- trade reporting and publication of trades in order book securities both on and off the order book
- the order book will not make use of the central counterparty.

¹ 'Named Orders' are referred to as committed principal orders in system documentation.

² A fuller explanation of the operation of the service is contained in the document 'Enhancing Trading in SEAQ International Securities, *Order Book for the most liquid depositary receipts*' – November 2000.

3 SEAQ Auction enhancements

SEAQ Auctions were introduced in May 2000 on a selection of FTSE 250 securities. Our research into the use of SEAQ Auctions has confirmed that while demand for such a service remains, usage is very limited. To address this, we plan to make some changes to the way the current process works and to focus on increasing awareness of the facility amongst intermediaries and their institutional clients.

We will make the following changes to the operation of the service:

- the service will be extended to encompass all SEAQ FTSE 250 securities, a more recognisable instrument set than the 80 pilot stocks currently in scope
- the auctions will become imported price crosses, with the price taken from the mid of the yellow strip price
- order entry will be allowed throughout the trading day, rather than just in the 15 minutes prior to each auction
- market order entry will also be allowed
- a third cross will be introduced at 16:45, with execution at the closing price formed at 16:30. Crosses will also still take place at 11:00 and 15:00
- the service will remain blind with no details of orders being disseminated to provide pre-trade anonymity
- trades will be included within the central counterparty service to provide post-trade anonymity.

4 International Retail Service

The International Retail Service has been designed specifically to meet private client broker needs to offer retail investors significantly lower cost trading and settlement of non-domestic securities.

This service will make available, via existing infrastructure, firm prices in non-domestic securities with electronic execution and settlement in CREST.

The key features of the service are:

- target stock coverage will be the major European blue chips
- in their chosen securities 'Committed Principals³' (comparable to market makers) will be obliged to maintain two-way sterling prices in at least a minimum size throughout the mandatory period and within a maximum spread
- only Committed Principals will be able to make prices in the form of two-way orders. Committed Principals will be competing to form the best price. Execution can occur between committed principal (CP) orders, to avoid a choice price or a backwardation
- Committed Principals will use the committed principal (CP) order type. These orders are similar to the limit orders used in SETS but are displayed with the firm's name in the same way as a market maker quote
- any London Stock Exchange member firm that has been enabled to use the service will be able to execute against the orders by using an aggressive order type, such as an 'at best' or 'execute and eliminate' order
- when entering an aggressive order it will be possible for a participant to specify a preferred counterparty. Execution will take place against them provided they are making the best price in the market
- following each automatic execution against them, the Committed Principal's order will be reduced by the size of the trade. Rules will specify when the Committed Principals must refresh their orders
- following execution, trade reports will be generated automatically and published immediately
- rules will require the reporting and publication of eligible business conducted away from the central execution service
- settlement will be possible within CREST using CREST Depository Interests (CDIs)
- this service will not make use of the central counterparty.

³ To date five firms have signed up to make prices from day one.

5 Implementation

The TSE April 2001 enhancements will go live on 30 April 2001.

We will provide a number of support measures to assist customers with their development, testing and market readiness activities:

- 29 January 2001 – publication of a detailed guide to TSE April 2001
- 29 January 2001 – launch of Customer Testing services
- End January 2001 – publication of market rules
- Early February 2001 – customer seminars
- March – communication and marketing activities.

6 Further information

If you have any questions concerning these changes please either:

- call the Business Development Helpline on **020 7797 3456**
- email **businessdevelopment@londonstockexchange.com**
- visit our website at **www.londonstockexchange.com/techlib**

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