



London
Stock Exchange

Attachment 1 to Market Notice N01/14

International Order Book - Response to December 2013 Consultation Document

January 2014



London
Stock Exchange Group

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1. Executive Summary

This document provides details on changes to the International Order Book trading service on London Stock Exchange effective from 10 February 2014 following responses to a formal market consultation launched on 2 December 2013 and completed on 27 December 2013.

The changes will be made available for member testing in Customer Development Service (“CDS”) as of 13 January 2014 and in Production from 10 February 2014. The changes are summarised as follows:

- Align the market open with SETS securities by bringing forward the start of regular trading to 08:00 (following a ten minute auction) compared to 08:15 presently.
- Extend the Closing Price Crossing Session (a continuous trading session at a single price determined by the closing auction) by up to 15 minutes, finishing at 16:00.
- Introduce smaller tick sizes (equivalent to the tick sizes used for the most liquid FTSE 100 securities) for securities with an average daily order book turnover of greater than \$30m. Six securities in total will be changed from the effective date with quarterly reviews to follow subsequently.

2. Introduction

The International Order Book (IOB) enables the trading of Depositary Receipts (DRs) based on instruments issued in different countries from Central and Eastern Europe, Asia, the Middle East and Russia and South America.

Since its inception in 2001, the IOB has grown rapidly and London Stock Exchange has undertaken regular enhancements to it. These have included introducing LCH.Clearnet Limited as central clearing counterparty (CCP) in 2009, provision of a buyer protection election service for cleared IOB securities in 2010, and the introduction of electronic market makers to the IOB in 2012.

Purpose of this document

In 2 December 2013 a consultation document was issued requesting market feedback on aspects of the IOB trading service.

The purpose of this document is to provide an overview of the feedback received, and communicate any changes to be made to the IOB trading service by London Stock Exchange.

We thank you for your interest.

Readership

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

Further information available at www.lseg.com/iob or please call 00 44 20 7797 3107.

3. Proposals for change and responses

3.1 Change to trading hours

The current times for the trading cycle for the IOB as set out in the Millennium Exchange Business Parameter document which can be accessed from:

www.lseg.com/tradingservices

The table below shows the current position for a normal full day trading.

Order Book	Session * = subject to 30 second random periods and any price or market order extensions ~ = delayed by 5 minutes if 1 extension or by 10 minutes if more than 1 extension	Standard Day Start London time	Standard Day End London time
SETS-IOB	Pre-Trading	07:00:00	08:00:00
	Opening Auction Call	08:00:00	*08:15:00
	Regular Trading	*08:15:00	15:30:00
	Closing Auction Call	15:30:00	*15:40:00
	Closing Price Publication Session	*15:40:00	*15:40:01
	Closing Price Crossing Session	*15:40:01	~15:45:00
	Post Close	~15:45:00	17:15:00

In order to align the IOB with the SETS market it was proposed to start the Opening Call Auction at 07:50, with regular trading beginning at the earliest at 08:00 London time, subject to extensions as above.

Q1 Do you have any comments on this proposal?

All respondents were in favour of this.

Q2 For the closing auction, would you prefer the time of this to:

- a. remain the same;
- b. align with the SETS auction at 16:30 London time; or
- c. remains the same, but to extend the Closing Price Crossing Session (CPX) until 4pm. The CPX allows trading at the closing auction price only.

Response: Whilst a number of participants saw benefit in extending the IOB trading day and bringing its closing timing in line with SETS, others were more cautious. However, participants against the extension of IOB regular trading at the end of the day were broadly supportive of extending the Closing Price Crossing session as this provided additional trading opportunities for those that wanted them, without disturbing the current IOB closing process and timing. Closing Price Crossing session will therefore be extended to 16:00.

The revised trading hours for IOB from 10 February 2014 will be:

Order Book	Session * = subject to 30 second random periods and any price or market order extensions	Standard Day Start London time	Standard Day End London time
SETS-IOB	Pre-Trading	07:00:00	07:50:00
	Opening Auction Call	07:50:00	08:00:00
	Regular Trading	*08:00:00	15:30:00
	Closing Auction Call	15:30:00	*15:40:00
	Closing Price Publication Session	*15:40:00	*15:40:01
	Closing Price Crossing Session	*15:40:01	16:00:00
	Post Close	16:00:00	17:15:00

Current parameters to be used in auctions and general trading are also available in the Millennium Exchange Business Parameters document. This will be updated with the new parameters after end of trading on 7 February 2014.

3.2 Changes to tick sizes

The **current** tick table for both the cleared and un-cleared IOB market segments is shown below.

<u>Dynamic Price Format FESE2 International Order Book</u>		
Range	Price Format Description	Price Format Value
Less than 0.5	One ten-thousandth	0.0001
0.5 - 0.9995	One two-thousandth	0.0005
1 - 4.999	One thousandth	0.001
5 - 9.995	One two-hundredth	0.005
10 - 49.99	One hundredth	0.01
50 - 99.95	One twentieth	0.05
100 - 499.9	One tenth	0.1
500 - 999.5	Halves	0.5
1000 - 4999	Whole	1
5000 - 9995	Five	5
10000 or more	Ten	10

It was proposed to introduce the current FESE 1 tick table for the most liquid names on the IOB

<u>Dynamic Price Format schedule FESE1 for FTSE 100 Index securities on granular tick regime</u>		
Range	Price Format Description	Price Format Value
Less than 0.9999	One ten-thousandth	0.0001
1 - 4.9995	One two-thousandth	0.0005
5 - 9.999	One thousandth	0.001
10 - 49.995	One two-hundredth	0.005
50 - 99.99	One hundredth	0.01
100 - 499.95	One twentieth	0.05
500 - 999.9	One tenth	0.1
1000 - 4999.5	Halves	0.5
5000 - 9999	Whole	1
10000 or more	Five	5

In order to align the treatment of the most liquid securities on both FTSE 100 on SETS and the IOB, it was proposed to change the tick size for the most liquid IOB names based on the DR's Average Daily Turnover (ADT) for the previous 3 months. DRs with ADT of more than \$30 million dollars will move to the FESE1 tick table. This threshold will be reviewed each quarter in line with each FTSE quarterly review, but stocks will remain on the same tick table for a minimum of 6 months.

Q3 Do you have any comments on this proposal?

Response: A change in tick size was welcomed for the most liquid names. Based on feedback, we will be using an Average Daily Turnover threshold of £30 million. Based on the turnover from October to December 2013, from Monday 10 February, the following securities will be moving to the FESE1 tick table will be

ISIN	TIDM	ISSUER	INSTRUMENT
US3682872078	OGZD	OAO GAZPROM	LEVEL 1 ADS (REPR 2 ORD)
US6778621044	LKOD	LUKOIL (OAO)	ADR (EACH REPR 1 ORD RUB0.025)
US80585Y3080	SBER	SBERBANK OF RUSSIA	ADR (EACH REPR 4 ORD SHS)
US46626D1081	MNOD	MMC NORILSK NICKEL	ADR (10 ADRS EACH REP 1 ORD)
US67812M2070	ROSN	OJSC OC ROSNEFT	GDRS (EACH REPR 1 ORD) (REGS)
US6698881090	NVTK	OAO NOVATEK	GDR (EACH REPR 10 ORD) 'REG S'

Due to the timing of this implementation, the first quarterly review will be in June 2014, based on the average daily turnover between March and May 2014. The result of this review will be communicated as part of the normal Quarterly Review Service Announcement on the First Friday of June 2014.

Participants can request to be added to the Service Announcements distribution list and access previous versions at the following link:

www.londonstockexchange.com/products-and-services/technical-library/service-announcements/2014/home-2014.htm

3.3 Minimum Order Size

At its inception, the IOB had a minimum order size of 50 DRs for each underlying IOB security regardless of price, company size etc. After market consultation, this was removed completely in September 2010.

Q4 Do you have any comments regarding minimum order size for the IOB?

Response: It was widely felt that re-introducing a minimum order size would add a level of complexity that was not helpful for market participants. However, more research will be done in this area on less liquid stocks.

London Stock Exchange proposed a development to the IOB trading service for less liquid securities in order to improve the depth available for execution at touch. It is proposed to introduce a minimum order size for new resting orders to enter the order book and create a new Best Bid Offer (BBO).

Under this proposal, orders of any size could still be submitted to SETS.

All aggressive orders that execute without resting on the book would be completely unaffected.

Only passive orders that are sized to a pre-determined percentage of the Exchange Market Size or greater would be able to set a new BBO.

Smaller passive orders priced at or outside current BBO would be processed as per current practice today. However, submitters of smaller passive orders within the current BBO would receive an acknowledgement message confirming that their order had been re-priced to join the ruling BBO.

Q5 Would you support this development in less liquid securities and what securities do you consider should fall into this category?

Response: Respondents were supportive of introducing measures that could prevent some small orders creating misleading Best Bid Offers, closing prices or multiple small fills. This is not only limited to the International Order Book. More investigation and consultation will be done on this by London Stock Exchange.

4 Changes to Standard Settlement Period

Under the Central Securities Depository Regulation (“CSDR”), which aims to harmonise EU securities settlement cycles, the standard settlement period for cash equities across Europe is being moved to T+2 on 6 October 2014. It is planned that standard settlement for IOB will also move to t+2 at this time. Please see London Stock Exchange notice N14/13 regarding this.

www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/sen-home.htm

Q6 Do you foresee any technical or operational problems with the move from T+3 to T+2 for IOB securities?

Response: No problems were specifically raised with this change. More information on this will be communicated in due course. If you do have any questions regarding this, please contact Tim Beckwith, Post-Trade Manager tbeckwith@lseg.com.

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