London
Stock Exchange

SETSqx

Evolutionary trading technology

SETSqx (Stock Exchange Electronic Trading Service — quotes and crosses) is the London Stock Exchange's new trading service for less liquid securities. Developed in partnership with the investment community, this new service combines the best of the Exchange's existing market maker quote model (SEAQ) with additional order book functionality.

Introduction

Part of a four-year wholesale upgrade of the Exchange's technology systems, SETSqx is a key service within our new trading system – TradElect™. In common with all Exchange systems, TradElect™ delivers industry-leading technology that's fast, reliable and built around the needs of its users.

SETSqx provides greater flexibility and choice than the trading services it replaces, and also brings with it significant regulatory benefits. It provides a central solution for all member firms to comply with MiFID's limit order display requirement set out in Article 22.

Scope of SETSqx

SETSqx replaced SEATS Plus upon the introduction of the Exchange's new trading system, TradElect, in June 2007. SETSqx replaced SEAQ for all Main Market securities in October 2007, prior to the introduction of MiFID in November. A list of SETSqx securities can be found at www.londonstockexchange.com/SETSqxsecurities.

Figure 1: Example SETSqx trading screen

Source: Fidessa

Features of SETSqx

- combines Market Maker quotes with periodic auctions

- Market Makers provide continuous liquidity throughout the trading day

- MiFID compliant platform, as it allows you to display limit orders

- order book execution through periodic auctions: four electronic uncrossings designed to concentrate liquidity

- both Market Makers and non Market Makers can participate in auctions. These auctions take place at:

| 08:00 | 11:00 | 15:00 | 16:35 |

(see figure 2 for more detail on the SETSqx trading day)
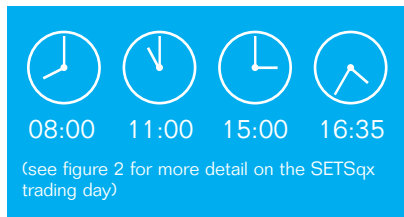
There are up to two possible PMEs for the closing auction, but only one for each of the first three uncrossings each day.

Market Maker obligations

- certain obligations are similar to "SEAQ":

1*NMS via the phone

No maximum spread requirement

- however, there are some differences:

Mandatory quoting from 08:00 until end of closing auction (16:35 subject to PME (see figure 2))

Optional involvement in auctions

Order types

To provide maximum flexibility, the order book supports both named and anonymous limit orders.

Any member firm has the option to phone the counterparty behind a named order and fill this before the next uncrossing if terms are agreed.

To avoid the risk of trading on a stale price, there is no support for market orders. Iceberg orders are not supported either due to the limited liquidity in these securities.
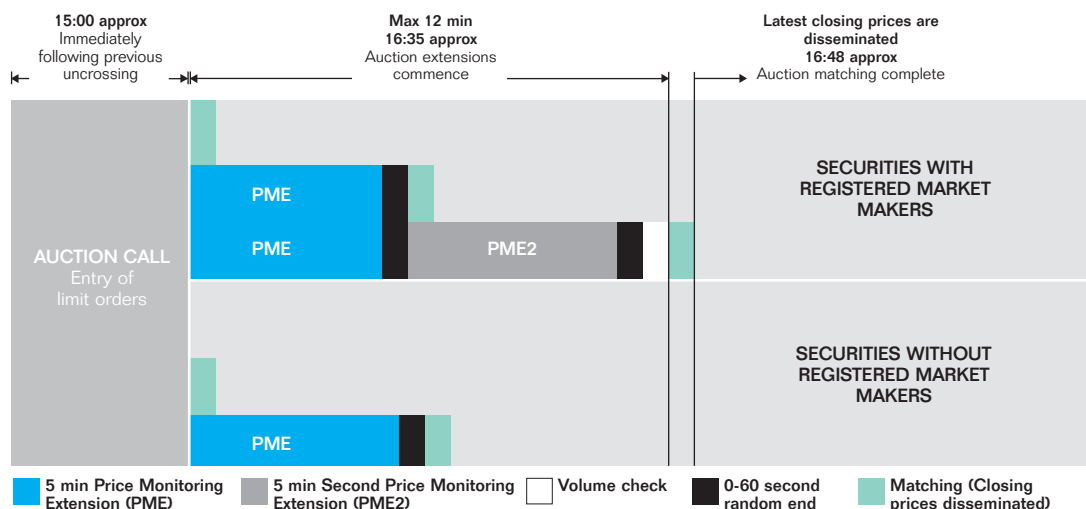
Parked order functionality is supported.

Order types summary

Limit (anonymous)	✔
CP (named)	✔
Icebergs	✘
Market	✘

Price formation and display

As with SEAQ, the SETSqx yellow strip displays information regarding the current best bid and offer for the security based on the Market Maker quotes only. In securities with no registered Market Maker, however, the yellow strip comprises the best bid and offer orders available. The indicative/actual uncrossing price is displayed as a separate field within the Level 1 data feed. Depending on the individual vendor implementation, the time of the next auction is also displayed.

Figure 2: SETSqx closing auction timetable

| 15:00 approx Immediately following previous uncrossing | Max 12 min 16:35 approx Auction extensions commence | Latest closing prices are disseminated 16:48 approx Auction matching complete |

AUCTION CALL Entry of limit orders

PME
PME
PME2

SECURITIES WITH REGISTERED MARKET MAKERS

PME

SECURITIES WITHOUT REGISTERED MARKET MAKERS

- 5 min Price Monitoring Extension (PME)
- 5 min Second Price Monitoring Extension (PME2)
- Volume check
- 0-60 second random end
- Matching (Closing prices disseminated)

Trade reporting

As with SETS, all SETSqx trades executed on book are published immediately and no further reporting is required. Negotiated trades must be reported as per our rules.

Closing prices

Closing prices for SETSqx securities with registered market makers are determined in the following priority:

- price resulting from executions in the closing auction (subject to a volume check* if there is a second price monitoring extension)

- if there is no trade in the closing auction, then the closing price is based on the mid of the best Market Maker bid and offer price at the end of the closing auction.

Where a security has no registered Market Makers, closing prices are determined as follows:

- price resulting from executions in the closing auction (with no volume check)

- if there is no trade in the closing auction, then the closing price is based on the previous automated trade.

Trade publication

For compliance purposes, the trade publication regime for SETSqx is in line with MiFID for Main Market securities.

AIM securities trading on SETSqx, which are outside the scope of MiFID, follow the existing AIM SEAQ publication regime where the block trade is only available to Market Makers (except in securities with no registered Market Makers, where the delay is available to all counterparties). This will remain consistent with any future changes to the AIM SEAQ publication rules.

Clearing and settlement

The majority of securities trading on SETSqx are cleared centrally via a CCP for all on book electronic executions. To participate in uncrossings, either directly or via a General Clearing Member, a clearing relationship with a central counterparty is required. However, where securities are not supported by the central counterparty, they will be identified with a separate segment and settle bilaterally in CREST (as with SEAQ securities).

All off book executions also settle outside a central counterparty.

Trading on SETSqx

There are number of ways SETSqx can be accessed:

Member firms:

- by negotiating trades with Market Makers over the phone or through existing electronic links throughout the mandatory quote period

- by accessing the order book to place named or anonymous limit orders into the auction, either through your own connection or via another broker's order routing facilities

- by negotiating trades between auction uncrossings by phoning the counterparty behind a named limit order and agreeing terms.

Non member firms:

- by negotiating trades with Market Makers over the phone or through existing electronic links throughout the mandatory quote period

- by accessing the order book to place named or anonymous limit orders into the auction, via a member firm's order routing facilities.

Find out more

If you would like more information on any aspect of the SETSqx trading platform and what it means for your business, please contact your primary account manager or email pams@londonstockexchange.com
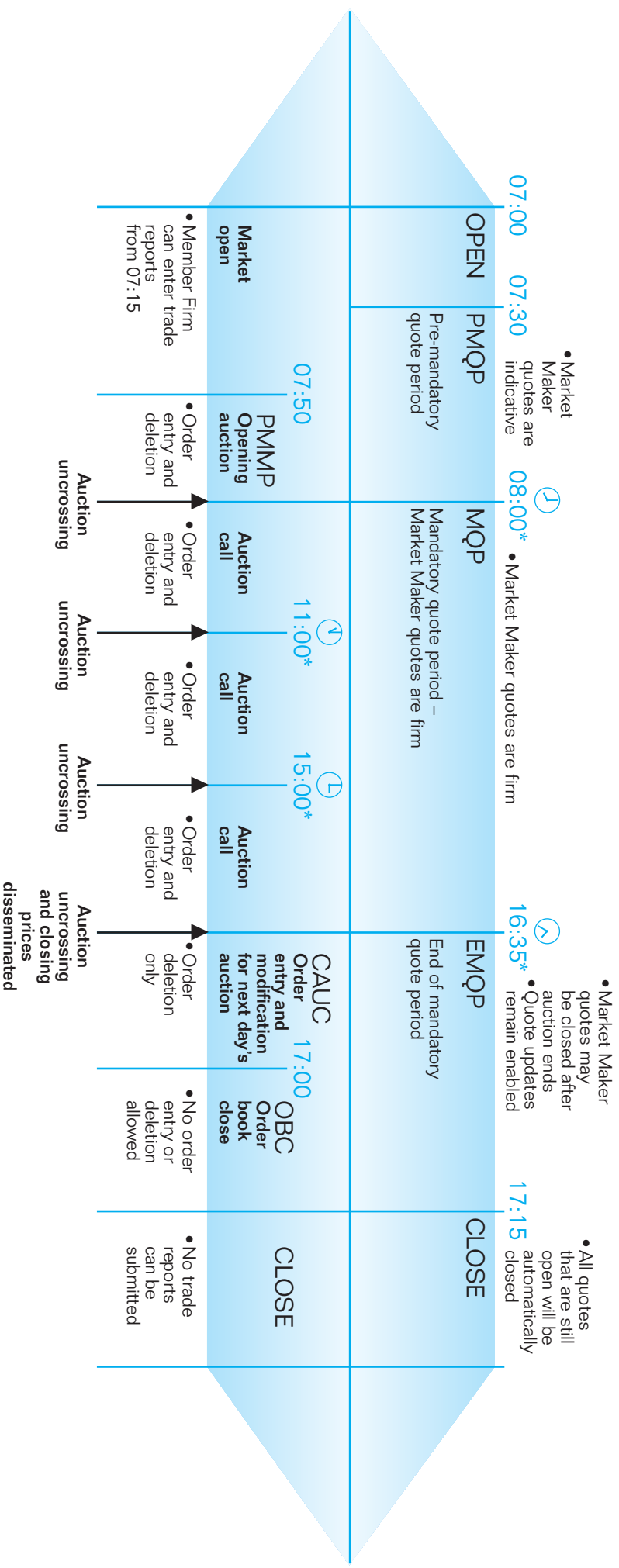
These links are a useful source of the counterparty information needed for settlement purposes:

www.londonstockexchange.com/membership/infosheets

www.londonstockexchange.com/membership/directory

*A volume check is implemented for the closing auction which prevents an uncrossing occurring if the volume to be executed in a particular security is less than 50% of EMS and outside the price monitoring tolerance of 15% relative to the reference price.

SETSqx trading day

07:00	**07:30**	**07:50**	**08:00*** ⏱	**11:00*** ⏱	**15:00*** ⏱	**16:35*** ⏱	**17:15**

OPEN
- Market Maker quotes are indicative

PMQP
Pre-mandatory quote period

PMMP Opening auction

MQP
Mandatory quote period – Market Maker quotes are firm
- Market Maker quotes are firm

EMQP
End of mandatory quote period
- Market Maker quotes may be closed after auction ends
- Quote updates remain enabled

CLOSE
- All quotes that are still open will be automatically closed

Market open
- Member Firm can enter trade reports from 07:15

Auction uncrossing
- Order entry and deletion

Auction call
- Order entry and deletion

Auction uncrossing
- Order entry and deletion

Auction call
- Order entry and deletion

Auction uncrossing
- Order entry and deletion

Auction call
- Order entry and deletion

Auction uncrossing and closing prices disseminated
- Order deletion only

CAUC
Order entry and modification for next day's auction

OBC Order book close **17:00**
- No order entry or deletion allowed

CLOSE
- No trade reports can be submitted

⏱ *Auction match starts after 60 second random interval and subject to possible price monitoring extensions

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