A guide to London Stock Exchange trading services for equity securities
This guide provides an overview of the trading services that London Stock Exchange operates for the trading of equity securities. The criteria and process for allocating securities to London Stock Exchange trading services are also explained.

This guide is therefore relevant to FTSE All Share, FTSE Fledgling, AIM and smaller Main Market securities not in an index. Smaller securities are defined as those outside of the FTSE 350 index, excluding ETFs and International Order Book securities.

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>879,200</td>
<td>Daily average number of SETS order book trades</td>
</tr>
<tr>
<td>218</td>
<td>Admissions to AIM and the Main Market in 2014, raising £19.7 billion</td>
</tr>
<tr>
<td>2,388</td>
<td>Companies (1,104 on AIM; 1,284 on Main Market)</td>
</tr>
<tr>
<td>36</td>
<td>Registered Market Makers in equity securities¹</td>
</tr>
<tr>
<td>FTSE 100</td>
<td>Daily average value traded – £3.723 billion²</td>
</tr>
<tr>
<td>FTSE 250</td>
<td>Daily average value traded – £520 million²</td>
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</tbody>
</table>

¹ As of March 2015
² On book

539,200
FTSE 100 daily average number of trades²
<table>
<thead>
<tr>
<th>Sector</th>
<th>Code</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity investment instruments</td>
<td>A</td>
<td>402</td>
</tr>
<tr>
<td>General financials</td>
<td>B</td>
<td>167</td>
</tr>
<tr>
<td>Mining</td>
<td>C</td>
<td>165</td>
</tr>
<tr>
<td>Support services</td>
<td>D</td>
<td>158</td>
</tr>
<tr>
<td>Oil and gas producers</td>
<td>E</td>
<td>151</td>
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<tr>
<td>Software and computer services</td>
<td>F</td>
<td>131</td>
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<td>Media</td>
<td>G</td>
<td>92</td>
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<tr>
<td>Real estate investment and services</td>
<td>H</td>
<td>88</td>
</tr>
<tr>
<td>Travel and leisure</td>
<td>I</td>
<td>87</td>
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<tr>
<td>Pharmaceuticals and biotechnology</td>
<td>J</td>
<td>66</td>
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<tr>
<td>General retailers</td>
<td>K</td>
<td>60</td>
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<tr>
<td>Banks</td>
<td>L</td>
<td>50</td>
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<tr>
<td>Debentures and loans</td>
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<td>48</td>
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<tr>
<td>Industrial engineering</td>
<td>N</td>
<td>47</td>
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<tr>
<td>Food producers</td>
<td>O</td>
<td>46</td>
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<tr>
<td>Electronic and electrical equipment</td>
<td>P</td>
<td>46</td>
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<tr>
<td>Construction and materials</td>
<td>Q</td>
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<tr>
<td>Healthcare equipment and services</td>
<td>R</td>
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<tr>
<td>Technology hardware and equipment</td>
<td>S</td>
<td>38</td>
</tr>
<tr>
<td>Industrial metals</td>
<td>T</td>
<td>36</td>
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Equity securities are found on one of three different trading services operated by London Stock Exchange.

The three trading services operated by London Stock Exchange for Main Market and AIM securities are:

**SETS**
A full electronic order book with integrated Market Maker executable quotes and Central Counterparty Clearing, permitting anonymous pre- and post-trading

**SETSqx**
A trading service which combines a continuous quote-driven market (supported by Market Makers) with four electronic auctions (09:00, 11:00, 14:00 and 16:35) which are open to all market participants

**SEAQ**
A trading service used for AIM and some fixed income securities whereby at least two competing registered Market Makers provide non-electronic Market Maker quotes.


Trades executed on SETS or in SETSqx auctions and trades reported to London Stock Exchange are subject to the Rules of the London Stock Exchange.


The section on obligations of Market Makers in order-driven securities (rules 4100–4110.5) covers trading services where registered Market Makers use executable quotes (EQs) to display their quote.

The section on obligations of Market Makers in quote-driven securities (rules 4200–4334) covers trading services where registered Market Makers use firm quotes to display their quote.

Further information on the criteria for trading service inclusion and the process for trading service selection can be found in the section on criteria and process for trading service selection on page 09 of this document.

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**Equity securities by trading service**

<table>
<thead>
<tr>
<th>Trading Service</th>
<th>Quantity</th>
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<tbody>
<tr>
<td>A: SETS</td>
<td>922</td>
</tr>
<tr>
<td>B: SETSqx</td>
<td>958</td>
</tr>
<tr>
<td>C: SEAQ</td>
<td>523</td>
</tr>
</tbody>
</table>

* as of March 2015
Advantages of SETS

— Highly accessible to trading participants
— Order book users can place order types such as ‘limit’ and ‘immediate or cancel’ directly onto the order book, allowing them to participate directly in the price formation process
— Provision of the closing auction and the follow-up Closing Price Crossing Session allows order book users the opportunity to trade at the day’s actual closing price.

Features of SETS

— Underpinned by the provision of Market Maker electronically executable quotes throughout the trading day, providing liquidity in at least one Exchange Market Size (EMS)
— Where there are no matched closing auction orders, the closing price is set by the mid of the Best Bid Offer
— Optimal trading conditions exist where the order book is a mixture of Market Maker executable quotes and other anonymous, displayed orders. Therefore:
  — a new stock to SETS must have the support of at least one Market Maker prepared to provide an EMS of at least £2,500,
  — a maximum spread regime exists for Market Maker bids and offers, and
  — stocks that would typically be solely dependent on Market Maker executable quotes for liquidity provision are not suitable for inclusion on SETS.
— London Stock Exchange provides a full off-book trade reporting service for executions bilaterally agreed away from the order book
— Customers who prefer that their off-book executions are not subject to the Rules of the London Stock Exchange can still use our MiFID OTC and SI Trade Reporting service for the relevant securities
— Where a trade in an AIM security is executed outside of the Rules of London Stock Exchange, the trade must instead be executed in accordance with an AIM primary registered organisation or an AIM secondary registered organisation. An example of this would be where a trade is executed off order book under the rules of another market and reported to that market.
SETS screen

- Cumulative volume traded on and off order book during the current trading day
- Sector/segment of the LSE trading system where the stock is traded
- Volume weighted average price
- VWAP for automated trades

Last trade price

Volume of shares traded automatically (on book)

Yellow strip: best buy/sell prices and corresponding volume and number of orders at that price

Market Maker executable quotes
SETSqx (Stock Exchange Electronic Trading Service – quotes and crosses) is a trading service specifically designed for securities less liquid than those traded on SETS. SETSqx combines a periodic electronic auction book with standalone non-electronic quote-driven market making providing guaranteed liquidity in at least one Exchange Market Size (EMS) throughout the trading day.

### Advantages of SETSqx

- Suitable for less liquid instruments that are more reliant on Market Maker quotes
- Investors can participate in the closing price formation process by trading in the closing auction
- Provides investors the ability to access prices in less liquid securities
- Investors have a choice of trading in either the quote-driven or order book auction service.

### Features of SETSqx

- No Market Maker maximum spread
- Auctions are scheduled at 08:00, 09:00, 11:00, 14:00 and 16:35. Electronic orders can be named or anonymous on submission and, for most securities, order book executions will be centrally cleared
- Provides investors a choice of being able to trade against Market Maker firm quotes, or submitting orders into the auctions
- Where there are no matched closing auction orders, the closing price is set by the mid of the Market Makers collective Best Bid Offer
- Trades reported to London Stock Exchange subject to its rules benefit from the framework underpinning the Market Maker obligations and must not be on terms worse than any individual Market Maker quote after taking into account relevant trading, settlement and clearing costs, as laid out in Rule 3081 of the Rules of the London Stock Exchange
- Customers who prefer that their off-book executions are not subject to the Rules of the London Stock Exchange can still use our MiFID OTC and SI Trade Reporting service for the relevant securities
- Where a trade in an AIM security is executed outside of the Rules of London Stock Exchange, the trade must instead be executed in accordance with an AIM primary registered organisation or an AIM secondary registered organisation. An example of this would be where a trade is executed off order book under the rules of another market and reported to that market.
SETSqx screen

- Mid price of best bid/offer
- Yellow strip: best buy/sell prices and corresponding volume and number of orders at that price
- Sector/segment of the LSE trading system where the stock is traded
- Volume weighted average price
- Auction timer indicating time until next uncrossing
- Market Maker firm quotes
- Auction book orders
SEAQ is London Stock Exchange’s non-electronically executable quotation service that allows Market Makers to provide firm quotes in AIM securities that are not traded on SETS or SETSqx. It is not available for new securities.

**Advantage of SEAQ**

— Guaranteed liquidity provision by Market Makers throughout the trading day, ensuring the provision of two-way prices in at least one EMS.

**Features of SEAQ**

— Suitable for less liquid instruments that would be more reliant on Market Maker quotes
— Only registered Market Makers can directly participate on screen in the price formation process
— There is no maximum spread regime or CCP provision. A minimum of 2 registered market makers are required
— Trades reported to London Stock Exchange subject to its rules benefit from the framework underpinning the Market Maker obligations and must not be on terms worse than any individual Market Maker quote after taking into account relevant trading, settlement and clearing costs, as laid out in Rule 3081 of the Rules of the London Stock Exchange
— Where a trade in an AIM security is executed outside of the Rules of London Stock Exchange, the trade must instead be executed in accordance with an AIM primary registered organisation or an AIM secondary registered organisation. An example of this would be where a trade is executed off order book under the rules of another market and reported to that market.
Criteria and process for allocating securities to trading services

A quarterly review process is carried out to ensure that a security is allocated to the trading service that is most appropriate. This process aims to provide issuers and advisers with an informed and comprehensive view of the suitability of a security to a particular trading service.

Quarterly review process

Every three months London Stock Exchange reviews the securities that are traded on its markets.

The review process encompasses:
— implementation of FTSE Group’s indices review;
— implementation of trading service selection review; and
— revision of EMS (Market Maker obligation sizes) of securities.

London Stock Exchange operates a 3-step quarterly review process to identify SETS securities that would be more suited to SETSqx. A move as part of the quarterly review process is subject to the non-objection of the issuer.

Outside of the quarterly review process, issuers/advisers may still request their stock be traded on a specific trading service if they meet the eligibility criteria for the service:
— SETSqx – no extra criteria for stocks not in one of the listed indices
— SETS – acceptance for central counterparty clearing and that at least one Market Maker is prepared to quote the EMS of at least £2,500 on SETS.

For further information on the eligibility criteria for SETS and SETSqx, please see the Appendix.

The 3-step quarterly review process for moving from SETS to SETSqx

1. **Step 1**
   London Stock Exchange identifies the securities that are more than 50% reliant on Market Maker executable quotes

2. **Step 2**
   London Stock Exchange contacts the top 5 member firms by value traded (on and off book) in each security to determine their preference

3. **Step 3**
   Where the weighted majority of firms vote for a move to SETSqx, the issuer/adviser is contacted. Provided no objection is raised the security is moved to SETSqx

Process of a security migrating to SETS from quote-driven at issuer request

1. **Step 1**
   Issuer or adviser contacts London Stock Exchange requesting move of trading service

2. **Step 2**
   London Stock Exchange puts issuer in touch with registered Market Makers to determine market sentiment for the move

3. **Step 3**
   Where the issuer has the long term support of at least one Market Maker (current or new), and the security is CCP eligible, the security can move to SETS
The trading service for a new issuer is dependent on the free float and market capitalisation of the security. London Stock Exchange will provide support to the issuer and its adviser to aid the process of trading service selection. If the security is likely to qualify for index inclusion, it is automatically allocated to SETS.

In all other cases, the issuer and its adviser make the decision as to trading service selection. For Main Market, the issuer and adviser can specify their preferred trading service on Form 1, question 24. Form 1 can be found at www.londonstockexchange.com/companies-and-advisors/main-market/documents/application/form.htm

For AIM the issuer and adviser can specify their preferred trading service on the AIM Company Application Form, at the Equity Trading Service section. The AIM Company Application Form can be found at www.londonstockexchange.com/companies-and-advisors/aim/advisers/rules/regulation.htm

More information
More details about London Stock Exchange’s trading services can be found at www.lseg.com/tradingservices

Trading services enquiries
Enquiries in connection with London Stock Exchange’s business operations of its trading services should be emailed to clients@lseg.com
Glossary of terms

**Average Daily Turnover (ADT)**
Yearly turnover, divided by the number of trading days, excluding negotiated trades

**AIM**
A Multilateral Trading Facility (MTF) for smaller growing companies operated by London Stock Exchange

**AIM primary market registered organisation**
A trading venue that is included in the AIM primary organisation list that London Stock Exchange maintains and publishes on its corporate website. Trading venues will be considered for inclusion on this list upon request of London Stock Exchange member firms

**AIM secondary market registered organisation**
A trading venue that does not have a primary market relationship with AIM companies and meets the criteria as set out by London Stock Exchange from time to time

**Auction**
A period where no automatic execution takes place in order to concentrate available liquidity

**Closing auction**
The closing auction sets the closing price in a SETS security. The closing auction call period starts at 16:00 and the closing auction ends at 16:35, subject to 30-second random period(s) and any price or market order extensions

**Closing Price Crossing Session (CPX)**
A 5-minute trading session that follows the closing auction. Trades can be executed at the closing auction price

**CCP**
Central Counterparty Clearing House

**Common trade types**
**AT** Automated Trade (on order book)
**UT** Uncrossing (auction trade)
**PT** Closing Price Crossing Session Trade (on order book)
**O** Ordinary Trade (off book)
**OK** Ordinary Trade, delayed publication (off book)
**NT** Negotiated Trade (off book)
**NK** Negotiated Trade delayed publication (off book)

**Depth weighted spread**
A measurement of a security’s spread for a prescribed number of shares or consideration value

**Exchange Market Size (EMS)**
The minimum quote size at which Market Makers are obliged to trade. EMS is set by London Stock Exchange for each security.

**For SETS securities:**
1% of ADT divided by average share price for period of ADT calculation
Subject to an upper cap of around £25k and; a lower cap of £2,500

**For SETSxq and SEAQ securities:**
2% of ADT divided by average share price for period of ADT calculation
Subject to a minimum standard EMS of £250
Increases are limited to 100% for securities with a current EMS greater than £1,000

**Executable quote**
A Market Maker’s two-sided, electronically executable SETS order book quote displaying identity, price and size

**Firm quote**
A Market Maker’s two-sided, non-electronically executable SETSxq or SEAQ book quote displaying identity, price and size

**Market Maker**
Firms that quote both a buy and sell price in a security. Market Makers are bound by obligations set out in the rules of the London Stock Exchange

A European Union law which came into effect on 1 November 2007. The law brings harmonised regulation to financial markets across the European Economic Area

**MiFID securities**
Shares that are admitted to trading on an EU Regulated Market

**Opening auction**
The opening auction sets the opening trading price in a SETS security. The opening auction call period starts at 07:00 and the opening auction ends at 08:00, subject to 30-second random period(s) and any price or market order extensions

**Over the counter – OTC**
A trade that is executed off order book bilaterally between two counterparties and not under the rules of an exchange

**Volume weighted average price**
A single price taking into account both execution prices and quantities executed over a defined period

**Trade reporting**
Where a trade executed off order book bilaterally between two counterparties is reported to a market. If a trade is executed subject to the Rules of the London Stock Exchange, once reported to London Stock Exchange, that trade is deemed to be an on Exchange trade

**Spread regime**
Denotes the maximum spread in a security, usually between 1.5% and 25%, depending on security. Not applicable to quote-driven securities.
Appendix

Criteria for the SETS and SETSqx trading services

**SETS**
- A stock is included within the FTSE 100, FTSE 250, FTSE Small Cap or FTSE AIM UK 50 indices or their reserve list (if applicable)
- New trading lines that by their size are likely to fall within the above criteria within the next three months
- At issuer/adviser request provided acceptance for central counterparty clearing and that at least one market maker is prepared to quote the EMS of at least £2,500 on SETS.

**SETSqx**
- Subject to the non-objection of the issuer/adviser, SETS stocks outside the above mentioned indices would be allocated to SETSqx as part of the quarterly review process where:
  - Over the previous three months Market Maker executable quotes have contributed to at least 50% of the depth spread at the EMS at least 50% of the time; and
  - The weighted majority of the top five member firms (that express an opinion) as measured by value traded (on/off book) over the previous three months request it.