

The Professional Securities Market

1.0 Introduction

The Prospectus Directive ("PD"), implemented in the UK on 1 July 2005, introduced new documentation requirements for securities admitting to trading on Regulated Markets (RM) in the EEA. In response to these changes and to offer increased flexibility to issuers, the London Stock Exchange enhanced its market structure and introduced the Professional Securities Market ("PSM"). The PSM offers an alternative documentation regime for issuers of debt, convertibles and depository receipts ("DRs").

2.0 PD requirements for issuers of debt, convertibles and DRs

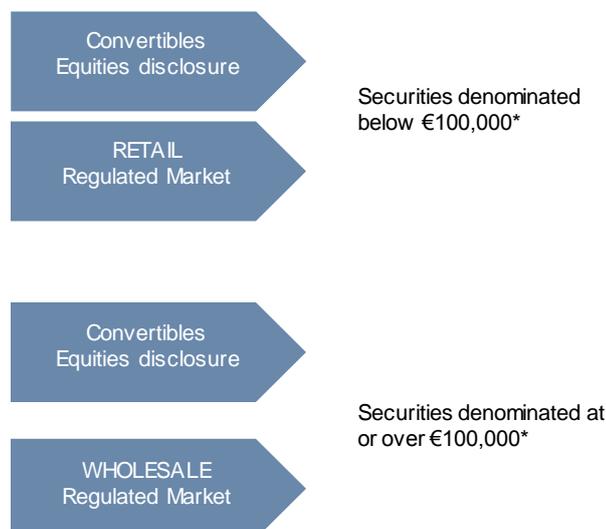
PD introduced two regimes that may be followed for the production and publication of a prospectus, where the securities concerned are to be offered to the public and/or admitted to trading on a regulated market.

The regime to be followed depends upon whether the securities are intended for a retail or a wholesale audience. Retail offers require more detail in respect of the information to be provided in the prospectus. Wholesale offers require less detail to be disclosed in the document. Whether an offer is retail or wholesale is not determined by reference to the target audience for an issue, as was the case prior to the PD, i.e. a retail offer being one to the general public and a wholesale offer being one to professional investors; it is instead defined by reference to the type of security and its unit value, or its denomination.

Issuers of debt securities and DRs that are denominated below €100,000 (or the equivalent amount in another currency) are required to follow the requirements of a retail regime. The wholesale regime is available only to issuers of such securities that are denominated at or above €100,000 (or the equivalent amount in another currency).

Issuers of debt securities that are convertible or exchangeable into equity securities, which as a class are already admitted to trading on a regulated market, also have to follow the retail or wholesale requirements as above, depending on the denomination of the securities. Under the PD issuers of debt securities that are convertible to trading on a regulated market have additional disclosure requirements aligned with those of equity issuers.

2.1 The Requirements



* or the equivalent in another currency

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3.0 International Financial Reporting Standards (“IFRS”)

A key difference between the retail and wholesale regimes is in the preparation of financial information. An issuer following a retail regime under PD is required to prepare its financial information to follow IFRS standards, or an equivalent standard, for any financial year starting on or after 1 January 2007. This applies to all issuers of convertible securities required to provide disclosures aligned with those of equity issuers, irrespective of denomination. Preparing financial information to follow IFRS standards is not a requirement under a wholesale regime and local accounting standards are acceptable. Under PD, issuers instead are required to provide a description of the key differences between the accounting standards used and IFRS¹.

These requirements may not suit some issuers who want to list convertible bonds or securities denominated below €100,000, but with the intention to target professional investors only. This is particularly so for those issuers from outside the EU, whose accounting standards may not be deemed equivalent to IFRS. The cost of re-stating or providing additional disclosures under a retail regime could be prohibitive.

4.0 London’s solution

To offer increased flexibility and to meet the needs of issuers not wishing to issue to retail investors, the London Stock Exchange and the Financial Conduct Authority (“FCA”) – the UK’s competent authority for listing – introduced an additional element to complement the listing processes launched under PD. This provided a third option for issuers listing in London, which enables them to follow a wholesale regime irrespective of the type or denomination of security.

Since 1 July 2005, issuers listing debt, convertibles or DRs in London have had the choice of being admitted to the Main Market, which is a Regulated Market, or the

Professional Securities Market, which is operated and regulated by the Exchange. Both are recognised and defined within the directives².

The rationale in taking this approach stems from the fact that PD and the Transparency Directive (“TD”) apply to securities that are admitted to Regulated Markets within the EU. Therefore, the FCA is able to exercise flexibility in the implementation of the directives where issuers choose to admit to the Professional Securities Market, as this is not a Regulated Market as defined in the directives.

In following the Professional Securities Market route to listing, issuers are able to admit any type of debt security or DR, including those carrying a right to convert or acquire equity, of any denomination and follow a wholesale regime, without the requirement for additional equity disclosure for convertibles. In addition, the FCA is able to exercise flexibility in its application of the wholesale requirements for issues onto the Professional Securities Market. For example, issuers from many jurisdictions are not required to provide a description of the key differences between their local accounting standards and IFRS.

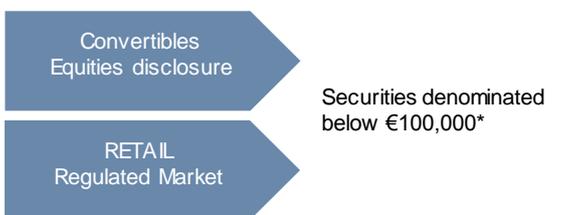
1 The requirement under a wholesale regime to provide a narrative description of the differences between IFRS and the local accounting principles adopted by the issuer is waived for issuers admitting to the Professional Securities Market.

2 A regulated market is defined under MiFID (Markets in Financial Instruments Directive - to be implemented on 1 November 2007). The Professional Securities Market is operated and approved as a Multilateral Trading Facility (MTF), also defined under MiFID.

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5.0 London's listing choices



* or the equivalent in another currency



6.0 The benefits for issuers listing in London

The creation of the Professional Securities Market provided an important choice for issuers. Companies wanting to raise capital may do so without the additional

cost of following a retail or equity regime, and with additional flexibility in terms of type of security and denomination. Issuers of debt, convertibles and DRs are not required to report historical financial information using IFRS standards or an EU approved equivalent standard either in listing documents or as a continuing obligation requirement, as the FCA allow these issuers to use their domestic accounting standards following the implementation of TD in January 2007.

The Professional Securities Market also provides an option for issuers already listed in London. Companies already listed and admitted to trading on the Main Market may move to the Professional Securities Market free of charge, without the need to produce further listing documentation and without losing their status as Officially Listed companies.

7.0 Institutional investment

Issuers choosing to admit to the Professional Securities Market will have their listing particulars approved by the UK Listing Authority and be admitted to listing, so a key requirement for investment by funds and institutional investors will have been met. Investors may also be assured that the disclosure obligations for listed companies will apply to the Professional Securities Market, excepting of course the requirement to report financial information using IFRS standards. Therefore, important regulatory information, such as annual reports and on-going disclosures, will be readily available to investors.

The Professional Securities Market is an integral part of London Stock Exchange and is operated within the scope of its status as a Recognised Investment Exchange. This means that the high regulatory standards currently applied to its markets, in respect of on-going monitoring and enforcement, also apply to the Professional Securities Market.

London Stock Exchange has examined the statutory and regulatory restrictions on investment by UK institutions and considered the impact of any such restrictions on investment in securities that are traded on the

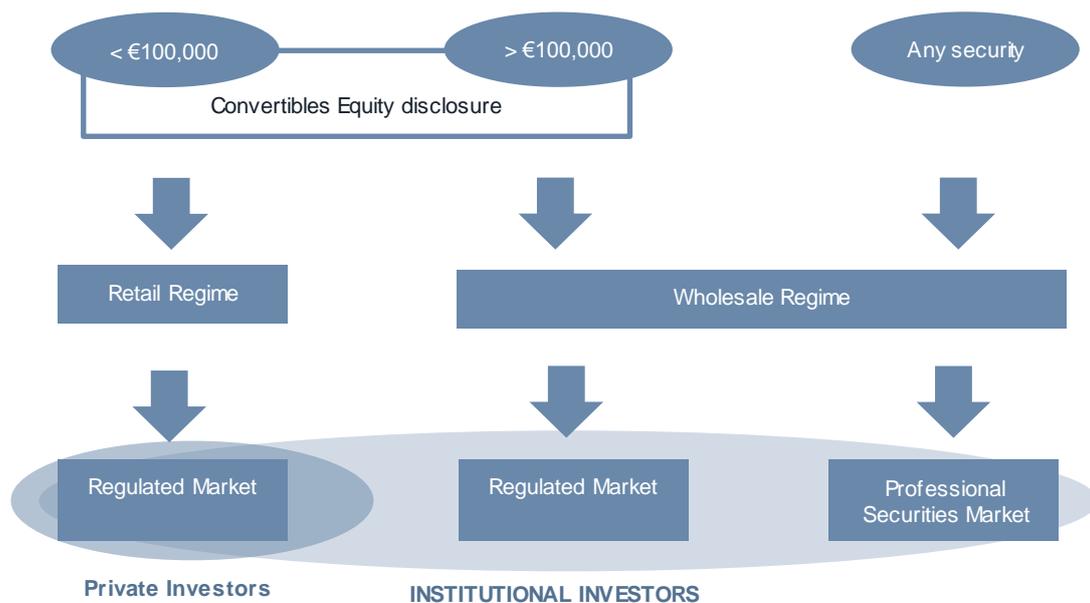
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Professional Securities Market. It is our opinion that there are no material restrictions imposed on UK institutional investors trading on the Professional Securities Market, over and above those applied to regulated markets.

London Stock Exchange has also confirmed with HM Revenue and Customs that eurobond securities issued by a company and carrying a right to interest, which are both admitted to listing by the UK Listing Authority and admitted to trading on the Professional Securities Market, meets the definition of a "quoted Eurobond". They are therefore able to pay interest gross.

8.0 The choices for listing debt, convertibles and DRs in London



This note is for guidance purposes only and it is not intended and should not be used as a substitute for professional advice in any specific situation. For further information on the Professional Securities Market or any aspect of listing and trading debt, convertibles and DRs in London, please contact us:

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