

1. Do you have any other comments on the application of a closing auction session? Please explain your view.
2. Do you support the proposal to introduce a closing auction session? Why or why not? Please explain your view.

Barclays is supportive of a closing auction session. We believe a closing auction will improve efficiency by making the price discovery process more orderly. With the increasing use of derivatives, it is particularly important to have a replicable closing price and a closing auction will facilitate this.

3. Are there any other suggestions on the proposed features / trading arrangements of the closing auction which we ought to consider? Please explain your view.

For the proposed features / trading arrangements of the closing auction, we would like to highlight the following:

Remove at market order type

When at-market orders are permitted, the following restrict the range of the closing price in such a way that market-on-close orders may be unexecutable.

- a) IEP (Indicative Equilibrium Price) "will be calculated ... only if the highest bid price ... is equal to or higher than the lowest ask price" and
- b) IEP "falls within the range of the highest bid price of the buy at-auction limit orders and the lowest ask price of the sell at-auction limit orders".

Suggestions that the pre-opening auction has operated smoothly are misplaced given that we often have market-on-open orders which fail to get executed due to the above logic / mechanism. For an auction, in which market orders are accepted, to operate effectively, it is essential for all market orders to be fully executed. Therefore the points above should be amended/removed accordingly. One solution would be to disallow at-market order types and force limit prices to be input.

We believe that market orders have no particular value to the price discovery process over limit orders - so they should not be given preferential treatment. Limit orders should always be allowed (we are not in favour of any period during which ONLY market orders can be placed.).

Allowing amendment and Cancellation of orders

We are not in favour of having any period during which orders cannot be amended nor cancelled. Amendment and cancellation should always be allowed. The inability to amend and/or cancel orders inhibits price discovery by restricting order flow.

Trading hours

We are in favour of extending derivative trading hours to, say, 16:30. This would allow greater time for risk management following cash close.

4. What would be the estimated lead time required for changes to systems and operations of your firm to cater for the proposed closing auction session?

Lead time for system changes would be minimal - say 2 weeks.

5. Do you have any comments on the random closing approach? Please explain your view.

As above, it would be preferable to have a random closing time rather than fixed. My experience in other markets has shown that such a feature vastly reduces the occurrence of orders which are sent/amended/cancelled for the purpose of affecting the clearing price.

6. Are there any other issues regarding the introduction of a closing auction session not mentioned in this consultation paper that we ought to consider? Please explain your view.

While we have no problem with the current FSP (Final Settlement Price) for derivative products, if the price were changed to an auction mechanism then it would be preferable to use an open auction price rather than the close. Before this is done the opening auction method would need to be reviewed to address the points we have made above. By using the opening auction, it extends the time during which suspended stocks can resume trading and whose opening price can be used to determine the settlement price. Use of the opening auction can also increase liquidity at expiry by allowing liquidity providers to take risk which they can unwind shortly afterwards without having to house the risk overnight.