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# Regulation Briefing

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Regulation Briefings are issued quarterly and contain information on a number of regulatory issues. The intended audience is member firms.

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Regulation Briefings from 2001 are now also available to view on the Exchange's website at [http://www.londonstockexchange.com/regulation/reg\\_briefing.asp](http://www.londonstockexchange.com/regulation/reg_briefing.asp)

## **SEATS PLUS - Obligations of Member Firms before effecting Transactions**

This guidance repeats guidance issued in the Regulation Briefing of October 1999. Rules 4.45 (SEATS) and 17.16 (AIM) require a member firm, before effecting a transaction in a SEATS or AIM security, to check whether there are any firm exposure orders displayed on SEATS PLUS which are at a price which is the same or more competitive than the price of its proposed transaction. If any such orders are displayed, the rules require that these must be executed before the remainder of the transaction is completed.

This obligation applies to all member firms, both those initiating the transaction and those completing it. Therefore, if a broker approaches a market maker who is quoting 42-48 to purchase 1,000 shares in XYZ Plc, and there is an order to sell 2,000 shares at 45p, which is not a single fill order, both the broker and the market maker will be in breach of the rules if he accepts a price of 45p or more from the market maker and the market maker does not also complete the displayed order. The broker and the market maker can only bypass the order if the price given is better than 45p.

These rules also apply where the broker is using an automated execution system run by the market maker, though if the market maker guarantees to the broker that he will ensure compliance with rules 4.45 and 17.16, then the broker will not be at fault for a breach. In the absence of this guarantee both parties may have breached the rule.

### **Misleading Acts, Conduct and Prohibited Practices**

The Exchange understands that there are often legitimate reasons for cancelling orders entered to auctions. However, Stock Exchange Notice N25/01, issued on 19 July 2001, provided guidance on rule 2.9 in relation to auctions. The guidance stated that *firms should not enter orders into the auction with the intention of deleting or otherwise amending them before the auction uncrossing, to give a potentially misleading impression of the likely auction uncrossing price and volume to other participants*. The Notice is available at [http://www.londonstockexchange.com/regulation/notices/notices\\_pdf/N2501.pdf](http://www.londonstockexchange.com/regulation/notices/notices_pdf/N2501.pdf)

### **Buying-In**

Where a buying-in request is submitted in respect of a central counterparty ("CCP") transaction, the Exchange's systems will find the linked sale transaction across LCH to determine the liable party and issue the buying-in request. In a limited number of circumstances, this link will be broken and the sale transaction will have settled. In such instances, the Exchange will allocate the oldest unlinked unsettled sale(s) making up the required volume and issue buying-in notices against these.

Firms should note that, if the requestor's trade should settle before the trade proceeds to buying-in, the Exchange will still exercise the buying-in notice against the oldest unlinked unsettled sale. This is also the approach that should apply to buying-in once net settlement is introduced for the CCP in 2002.

### **Member Firms Information Sheets on the Exchange's Website**

Since 4 June 2001, the Exchange has published Member Firms Information Sheets on its website. Member Firms Information Sheets are issued regularly by the Exchange to inform the market of new member firms and updates on existing firms. They contain information about member firms' business profile changes, name changes, changes to settlement arrangements and trading code amendments or additions. The Information Sheets are located in the Rules and Regulatory Guidance section of the Exchange's website, [www.londonstockexchange.com](http://www.londonstockexchange.com), and the site also provides a search facility for all information sheets issued since January 2000. The Exchange also offers users the ability to search on the website for firm's trade codes.

If you have not yet registered your email address for receipt of Member Firms Information Sheets, or wish to update any current contact details please email the Membership team at the following address: [mfis@londonstockexchange.com](mailto:mfis@londonstockexchange.com). You can also call us with queries, or comments, on any Member Firms Information Sheet on 020 7797 3232 or STX 33232.

## Disciplinary Action

If the Exchange has reason to believe that a member firm is in breach of any of its rules it may refer the matter to the Disciplinary Committee or the Executive Panel. Pursuant to rule 14.87, the Executive Panel may issue the firm with a written warning or impose a fine of up to £25,000 for each breach. Details of the cases heard by the Executive Panel are published in this Regulation Briefing for the benefit of other member firms.

For the period 18 May 2001 to date, the Executive Panel heard two cases, both of which resulted in fines. The details are as follows:

Rule 4.64(e) - A firm was fined for failing to have sufficient order management procedures and controls in place resulting in a mis-sized order executing at the closing auction. The Exchange noted that the firm had failed to have controls in place to ensure that the trader was familiar with alert functionality and responded appropriately to system generated warnings.

Rule 17.16 - A firm was fined for failing to satisfy a displayed order at the same price as a trade it subsequently entered into away from SEATS PLUS. This was the second occasion during a one month period that the firm had breached the rule and the firm was advised that subsequent breaches of the rule may lead to further disciplinary proceedings.

## Stock Exchange Notices

The following Stock Exchange Notices have been issued from 18 May 2001 to date. All these Notices are available on the Exchange's website at [www.londonstockexchange.com/regulation/notices/](http://www.londonstockexchange.com/regulation/notices/)

N16/01	18/05/01	British Telecommunications - Rights Issue
N17/01	22/05/01	Notification of Revised Admission and Disclosure Standards
N18/01	25/05/01	Declaration of Default W & R Morrogh
N19/01	12/06/01	Confirmation on Proposed Rule Changes Non-ISD Proprietary Trading Firms
N20/01	22/06/01	Domestic Equity Market When Issued Dealing PHS Group Plc
N21/01	22/06/01	Amendment to the List of Approved Organisations
N22/01	26/06/01	Domestic Equity Market When Issued Dealing PHS Group Plc
N23/01	26/06/01	Domestic Equity Market When Issued Dealing PHS Group Plc

N24/01	06/07/01	Trading Service Enhancements 2001 - 30 April 2001 - Rule Modifications and Guidance
N25/01	19/07/01	Misleading Acts, Conduct and Prohibited Practices