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# Market regulation briefing

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This is the first Market Regulation Briefing to be issued electronically. These briefings are issued quarterly and contain information on a number of regulatory issues. The intended audience is member firms.

## Order Management Systems, Procedures and Controls

Member firms are reminded of their obligations in relation to the submission of orders to the order book under paragraph 4.64(e) of the Exchange's rules. In particular, where a member firm uses a third party product for the submission of orders, it remains responsible for ensuring that the procedures and controls provided by the system and any parameters set are suitable for the business the firm executes on the order book.

## AIM Admission Rules

Stock Exchange Notice N01/01 dated 12 January confirmed the removal of the Aim Rules (Chapter 16) and Appendix 1 (Model code for AIM securities) from the Rules of the London Stock Exchange. The rules have since been re-issued as a separate booklet called "The AIM Rules" which is now available on the Exchange's website at [www.londonstockexchange.com/aim](http://www.londonstockexchange.com/aim). A copy of the notice can be found at [www.londonstockexchange.com/regulation](http://www.londonstockexchange.com/regulation).

## Trade Compensation Scheme

Following the introduction of CCP on Monday, 26 February 2001, the Exchange will cease to operate its Trade Compensation Scheme ("TCS"). Therefore, the last order book trades eligible for cover under the TCS will be those executed on Friday 23 February 2001 and the last date for which cover will be provided is Wednesday, 14 March 2001.

## **Nil paid rights in the Central Counterparty**

Where a central counterparty security is traded on SETS, any nil paid rights will also be traded on SETS. However, nil paid rights will only be accepted into the central counterparty service if they are also settled in CREST. Whilst CREST can settle rights issues, there is no obligation on the issuer to make rights issues eligible for CREST settlement. As the Trade Compensation Scheme will be discontinued from 26 February, member firms are therefore reminded that there will be no counterparty risk protection for trades in nil paid rights traded on the order book which are not settled in CREST.

The Exchange asks member firms who are brokers to companies traded on SETS to encourage those companies to make rights issues CREST eligible.

## **Disciplinary action**

For the period 15 November to 22 February 2001, 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 £20,000 for having insufficient order management procedures. The firm was relying on a manual check, which, on the occasion in question, failed to detect erroneous errors being entered onto the order book. Furthermore, the firm was unable to remove the order prior to the scheduled end of the automatic suspension period, requiring the Exchange to manually extend the suspension period in order to prevent an execution at an unrepresentative price.
- Rule 4.64 (e) - A firm was fined £10,000 for having insufficient order management procedures. A trader at the firm over-rode system warnings allowing the submission and execution of an erroneous order, which had an impact on the Volume Weighted Average Price.

## **Stock Exchange Notices**

The following Stock Exchange Notices have been issued from 15 November - 22 February 2001. All these notices are available on the Exchanges' website at [www.londonstockexchange.com/regulation/notices/](http://www.londonstockexchange.com/regulation/notices/)

N63/00	24/11/00	SETS closing auctions - Additional Price Monitoring Extension
N64/00	08/12/00	Consultation on proposed rule amendments Introduction of T+3 Standard Settlement Period

N65/00	18/12/00	Domestic Equity Market Thomson-CSF ("Thomson CSF") (to be renamed "Thales" subject to approval at the next Annual General Meeting).
N01/01	12/01/01	<b>Confirmation of rule amendments</b> - AIM Admission Rules
N02/01	15/01/01	<b>Confirmation of rule amendments</b> - Introduction of Central Counterparty
N03/01	24/01/01	<b>Confirmation of rule amendments</b> - Introduction of T+3 Standard Settlement Period
N04/01	01/02/01	Buying-in system following the introduction of the Central Counterparty
N05/01	05/02/01	Trading Services Enhancements - April 2001
N06/01	06/02/01	Domestic Equity Market When Issued Dealing - Orange SA
N07/01	13/02/01	<b>Confirmation of rule effective date</b> Introduction of Central Counterparty