



Regulation Briefing

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

To receive Regulation Briefings and London Stock Exchange Notices via email please register your details on the Exchange’s website at <http://www.londonstockexchange.com/regulation/notices/registration.asp>

Regulation Briefings from 2001 to date are available on the Exchange’s website at http://www.londonstockexchange.com/regulation/req_briefing.asp

FSA DP17 Short Selling

In April 2003, the FSA published its feedback statement on DP17. In particular, FSA has noted that short selling is a “legitimate investment activity that plays an important role in supplying efficient markets”. As such, FSA does not consider that wholesale changes to the short selling regime are required. The FSA has however proposed a number of measures aimed at increased transparency, namely, CRESTCo publishing securities lending and settlement failure data.

The FSA has also asked the Exchange to consider a number of measures including a reduction of the buying-in timeframe for less liquid securities and the possible release of market status messages informing market participants of those stocks experiencing particular settlement problems. The Exchange is currently considering both of these measures. In particular, buying-in is one aspect of our settlement regime which we keep under constant review and we will of course fully consult market participants before making any changes to the current buying-in timetable.

Registration of persons authorised to request order deletions

To protect member firms from having orders removed without appropriate authorisation from within the firm, only employees who are registered with the Exchange are able to instruct Market Supervision to delete orders from an Exchange order book. Requests to delete orders will ordinarily apply to all of a firm's orders in a particular market segment. However, in exceptional circumstances, Market Supervision will accommodate a firm's request for a limited number of individual orders to be deleted. All requests for the deletion of orders should be directed to Market Supervision on 020 7797 3666 (STX 33666) option 1.

Firms wishing to amend the Exchange's records of persons authorised to request order deletions should send a completed form, signed by its compliance department, to Market Supervision on fax number 020 7920 4526. The form can be found on our website at <http://www.londonstockexchange.com/cmsattach/1946.pdf>. To assist the firm's trading staff, compliance teams are advised to maintain a list of employees authorised to request order deletions.

Japanese public holidays

Following consultation with market makers in Japanese securities, we have aligned the treatment of Japanese public holidays with that used for European and other international public holidays. As such, all Japanese public holidays, irrespective of whether the holiday is for half a day, one day or more will now be reflected in the trading system as a non-trading day. Accordingly, market makers in Japanese securities will not be obliged to open and maintain quotes, although they may still elect to do so. Any market maker, who elects to open, must maintain firm quotes in those securities for the duration of the normal mandatory quote period (08:30 hours to 15:30 hours).

Automated Input Facilities

An automated input facility ("AIF") is any electronic trading system which fully automates, without the need for manual intervention, the decision to submit at least 20 simultaneous orders to an Exchange order book. Because of the potential impact of AIFs upon trading system capacity during busy trading periods, such as index expiries, member firms are required to register AIFs with the Exchange in accordance with Exchange Rules 4155-4157. Guidance on the use of AIFs can be found in the Supplementary Guidance section of the Rulebook. Application forms for the registration of an AIF are available at <http://www.londonstockexchange.com/cmsattach/365.pdf>

At the monthly FTSE 100 Index expiries the Exchange issues market status information messages ("AIF messages"). Below is a summary of the AIF messages that may be issued to the market:

- at 09:45 hours ahead of the expiry the Exchange will issue AIF1 message reminding users that high message volumes are anticipated during the period between 10:10 hours and 10:30 hours;

- where high message volumes are causing either London Market Information Link (“LMIL”) or other system feeds to run significantly slower than usual an AIF2 message will be issued;
- where LMIL or other system feeds continue to run slower than usual, the Exchange may issue an AIF3 message. This message instructs all users of AIFs to cease usage immediately and confirm receipt of the AIF3 message by submitting a trade report (trade type indicator “AI”); and
- as soon as system capacity returns to an acceptable level, an AIF4 message will be issued revoking previous messages and indicating that AIFs may be reactivated.

Reporting of Exchange Traded Funds (“ETFs”)

In the August 2002 edition of Regulation Briefing, the Exchange clarified the trade and transaction reporting requirements for transactions in ETFs listed by the UK Listing Authority (“UKLA”) and admitted to trading as domestic market securities as follows:

Event	On / off exchange	Trade report required	Transaction report required	Sundry Transaction Information
Transfer of underlying securities for the creation of ETF shares	On exchange	No	Yes	ES
Creation of ETF shares from underlying securities	Off exchange	-	-	-
Transfer of ETF shares for redemption	On exchange	No	Yes	ER
Transfer of underlying securities after redemption	On exchange	No	Yes	ER

Member firms will recall that once in issue, UKLA listed ETFs trade on SETS and the standard reporting rules apply. We do not require trade reports for the creation or redemption of ETF shares, either for transactions in the underlying securities or ETFs themselves.

Following a number of subsequent queries, we would also like to clarify that non-UKLA listed ETFs (i.e. overseas listed ETFs) are, unless indicated otherwise, not considered to be international equity market securities and any transactions in such ETFs are therefore off-Exchange. As such, there will be no trade or transaction reporting requirements for transfers of such overseas listed ETF shares.

Notwithstanding the above, firms will note that the transfer of underlying securities for the creation and redemption of such overseas listed ETFs may constitute an on-Exchange transaction. For example, a trade in a constituent underlying security may still fall within the scope of the Exchange’s international equity market and, as such, the usual reporting rules will apply.

Market marker registrations

In order to manage market maker registrations efficiently the Exchange has outlined below the procedures for firms who wish to register and deregister as market makers:

- Market Supervision should receive Registration Information Forms ("RIFs") by 13:00 hours the day before the registration is to be effective. Completed RIFs should be faxed to 020 7334 8927 or 020 7334 8947. These forms can be found at <http://www.londonstockexchange.com/cmsattach/1945.pdf>.
- where a security will only have a single market maker remaining, after the deregistration of a market maker, the Exchange will contact the remaining market maker and invite it to find an additional market maker. If, after ten business days, no further market maker has registered in that security, the Exchange will move the security to SEATS PLUS; and
- market makers are required to re-register when securities move between the Official List and AIM. Information about such movements is provided via the Reference Data service.

Details of all market maker registrations and de-registrations are available to all market participants via the Reference Data service. For information on subscribing to the Reference Data service, please contact the Information Services Product Support team on 020 7797 3343.

For queries on the information contained within the Reference Data services, please contact Market Supervision on 020 7797 3666 (STX 33666) option 1.

Buying-In

Member firms are reminded that all Buying-in queries should be directed to Market Supervision on 020 7797 3666 (STX 33666) option 1.

Exchange Rule 2010 (Information, monitoring and investigation)

Following a customer query, the Exchange has been asked to clarify the application of Exchange Rule 2010 (Information, monitoring and investigation) which provides the Exchange with the ability to require member firms to provide it with information relating to off-Exchange transactions. The Exchange would like to clarify that it would only intend to apply this rule to obtain information from member firms in limited circumstances, for example, when obtaining information in relation to off-Exchange transactions which were undertaken to support an on-Exchange trading strategy.

Summary of disciplinary action

If the Exchange has reason to believe that a firm is in breach of any of its rules it may refer the matter to the Disciplinary Committee or the Executive Panel. The Executive Panel may issue the firm with a written warning or impose a fine of up to £25,000 for each breach. The Disciplinary Committee may, inter alia, issue the firm with a written warning, impose an unlimited fine for each breach or order the firm to make restitution to any person (where the firm has profited from the breach at that person's expense).

From 21 August 2002 to date, the Executive Panel heard three cases, which resulted in disciplinary action. Details of the cases heard by the Executive Panel are published in this Regulation Briefing for the benefit of other firms:

Paragraph 4106 of the Rules

A firm submitted a large limit order onto the order book during the closing auction, representing approximately one third of the shares traded in the security that day. The order triggered two 5 minute price monitoring extensions during which time the firm was unable to locate the source of the order. The order subsequently executed and uncrossed during the auction, causing the stock to close 3.5% below the reference price for the closing auction. The firm confirmed that the order was incorrectly entered and should have been for a much smaller quantity and, in addition, the firm's system warning alerts failed to highlight the incorrect size of the order.

The Panel fined the firm £15,000 for a breach of rule 4106, in that it failed to have sufficient order management systems, procedures and controls designed to prevent the submission of erroneous orders to the order book.

Paragraph 2300 of the Rules

Rule 2300 requires member firms to notify the Exchange if a market maker's interest in a security moves above 3 percent or through a percentage point once the interest is above 3 percent ('the substantial shareholding notifications'). Due to a failure in its procedures, a member firm failed to make 12 substantial shareholding notifications to the Exchange in relation to a single security over a period of almost a year.

The Panel fined the firm £10,000 for breaches of Rule 2300.

Paragraph 4106 of the Rules

The Panel found a firm to be in breach of paragraph 4106 of the Rules due to the persistent submission of erroneous orders to the Exchange trading system between June 2002 and March 2003. The Panel concluded that the firm failed to have sufficient order management systems, procedures and controls in place to prevent the entry of erroneous orders to the Exchange trading system.

The Panel noted that the erroneous orders in this period had a varying degree of market impact and some were more significant than others. Whilst the Panel welcomed the remedial action taken by the firm, it also noted that the firm took a considerable time to implement the changes. The firm was fined £15,000.

Stock Exchange Notices

The following Stock Exchange Notices have been issued from 7 August 2002 to date. All these Notices are available on the Exchange's website at www.londonstockexchange.com/regulation/notices/

N30/02	23/08/02	Consultation on proposed guidance Order Book Conduct
N31/02	30/08/02	Confirmation of rule amendments International Equity Market
N32/02	30/08/02	Consultation on proposed guidance 'Give-up' agreements
N33/02	03/09/02	Consultation on proposed rule amendments International Equity Market - Transaction reports
N34/02	01/10/02	Christmas and New Year - Trading days and Market hours 2002/2003
N35/02	01/10/02	Stock Exchange Business Days 2003/2004
N36/02	01/10/02	Traditional Options Market - Options Calendar 2003/2004
N37/02	03/10/02	Confirmation on rule amendments Covered Warrants
N38/02	23/10/02	Confirmation on rule amendments Covered Warrants (further amendments)
N39/02	29/10/02	Confirmation of guidance Order Book Conduct
N40/02	25/11/02	Notification of rule amendments Transaction reports - Gateway trades
N41/02	09/12/02	Confirmation of proposed guidance 'Give Up' Agreements
N42/02	10/12/02	Confirmation of rule amendments International Equity Market - Transaction reports

N01/03	31/01/03	Consultation on proposed rule amendments Official Publications
N02/03	12/02/03	Notification of rule amendments New Dealing Capacity Indicators for Riskless Principal Orders in Central Counterparty Securities.
N03/03	18/02/03	Consultation on proposed rule amendments Rule Amendment Package
N04/03	12/03/03	Confirmation of rule amendments Official Publications
N05/03	17/03/03	Notification of rule amendments March 2003 Configuration Release
N06/03	25/03/03	When Issued dealing Intercontinental Hotels Group plc and Mitchells & Butlers plc
N07/03	26/03/03	Confirmation of rule amendments Rule amendment package
N08/03	27/05/03	Consultation on proposed rule amendments Covered Warrants
N09/03	06/06/03	Consultation on FTSE100 index contracts expiry mechanism
N10/03	11/06/03	When Issued Dealing Benfield Group Limited
N11/03	12/06/03	When Issued Dealing Benfield Group Limited - Revised trading platform
N12/03	16/06/03	Consultation on proposed rule amendments SETSm trading service and Iceberg orders