



London
STOCK EXCHANGE

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**For the attention of the
chairman/senior partner/compliance officer,
all member firms**

N08/07

STOCK EXCHANGE NOTICE

CONSULTATION ON PROPOSED CHANGES TO THE STRUCTURE AND CONTENT OF THE RULES OF THE LONDON STOCK EXCHANGE, IN PREPARATION FOR MiFID IMPLEMENTATION

Introduction

1. This Notice and its attachments are intended to provide member firms with a high level overview of proposed changes to the Rules of the London Stock Exchange (“the Rules”) to accommodate the implementation of the Markets in Financial Instruments Directive (“the Directive” or “MiFID”) and the associated services that the Exchange proposes to offer. These revised Rules are expected to come into effect at the same time as the Directive is implemented, currently planned for 1 November 2007.
2. MiFID provides a unique opportunity for the Exchange to revise the Rules, not only to ensure they are fully aligned with the Directive but also to simplify and streamline them more generally. The introduction of the Exchange’s enhanced trading system, TradElect, in Q2 2007 also provides an opportunity to remove a number of rules pertaining to order driven trading.
3. The Exchange is therefore seeking feedback on the proposed outline structure and content of the Rules prior to finalising and circulating the detailed Rules for further consultation in Q2 2007.
4. This Notice explains the structural changes proposed for the Rulebook and also highlights the key changes to the content. A more comprehensive overview of the proposed changes to the content of the Rules is provided in tabular form in Attachment 1.

Supporting Information

5. The Exchange has established a dedicated area on its website to provide details of progress of the Rulebook Review together with questions and answers and timelines. The Exchange recommends that member firms refer to this page before directing questions to the Exchange and it should provide a useful source of information over the next eight months. The page can be viewed at <http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/rulebookreview2007.htm>
6. The Exchange issued its MiFID Product Outline on 12 February 2007, which can be found on the Exchange's website at <http://www.londonstockexchange.com/en-gb/products/membershiptrading/MiFID/>.

Rulebook and Supporting Documentation

7. In addition to restructuring the existing Rulebook a key objective of the Rulebook Review is to present information about the Exchange's markets, trading platforms and the parameters that govern member firms' behaviour in a more digestible and accessible form. The Exchange therefore proposes to simplify the Guide to Trading Services and also introduce a new 'Trading Parameters' document that will list the parameters that are applicable to each market, service and platform, set out in tabular form.
8. Whilst this consultation is primarily focused on the structure and content of the Rulebook, firms should also be aware of the proposed overall framework within which it will sit. Details of the proposed content of each of the three key documents; the Rules, the Guide to Trading Services and the Trading Parameters are included in Attachment 2 to this Notice, together with an example of how these documents will work together

Notable Proposed Rule Changes

9. As already stated, Attachment 1 contains a comprehensive overview of the proposed changes to the content of the Rules. Member firms are asked to review this document and provide comments on the proposals to the Exchange. To assist firms the key elements of the new Rules are highlighted below.
10. Membership

The Exchange does not propose any significant changes to the existing Membership rules other than to remove the categories of Dutch Participant and SETS Participant, recognising that the Directive makes such restricted memberships largely redundant. In addition the Exchange is proposing to streamline membership profiles more generally by removing certain defined terms.

11. On Exchange

The Exchange proposes to amend the on Exchange rule to give member firms optionality of venue when conducting a transaction in a MiFID eligible security. For transactions in non MiFID eligible securities the Exchange will retain elements of the existing requirements of its on Exchange rule. In particular, the Exchange will shortly be consulting separately regarding trading in AIM securities.

12. Transaction Reporting

The Exchange proposes to remove the obligation on member firms to transaction report on Exchange business to the Exchange. This step, taken with the full agreement of the FSA, aligns the Rules with the Directive's requirement for transaction reporting to statutory regulators.

13. Trade Reporting

With the removal of transaction reporting to the Exchange, all on Exchange transactions will have to be trade reported. The Exchange proposes to amend the trade reporting responsibility rules to bring them broadly in line with the Directive, which may place new obligations on some member firms. However, the proposed new rule will allow member firms to delegate the reporting responsibility to a member firm counterparty.

14. The Exchange also proposes to reduce the number of trade type indicators available and to align reporting deadlines and the reporting of gross trades with the Directive.

15. Post Trade Transparency

The Directive introduces a deferred publication regime based on average daily turnover ("ADT") allowing delays of between 60 minutes and until the end of the third day after trade date, depending on the size of the trade. The Exchange proposes to adopt this regime not only for MiFID eligible securities but for other security classes as well (including AIM). This new regime will replace the Exchange's current transparency regime and will mean the discontinuance of, for example, protected trades, worked principal agreements and portfolio trades.

16. Settlement

The Directive does not specifically cover the settlement of transactions except in relation to selecting a venue for best execution. The Exchange does, however, propose to simplify and amend the settlement chapter of the Rules to make it more generic and applicable to all settlement venues.

Fragmentation

17. The Exchange has identified a number of rules that would require either amendment or deletion in light of the multi-venue environment that may exist post MiFID. These various matters have been the subject of detailed discussion with FSA to determine whether such rules and practices, if still required, should remain at trading venue level or better undertaken by the competent authority.
18. Whilst some of the fragmentation issues should be resolved relatively quickly, others will be the subject of ongoing analysis by FSA and are therefore likely to take much longer to be confirmed. The Exchange will endeavour to achieve as much certainty about these matters before publishing its detailed Rules consultation in Q2 2007.

Transition Management

19. The Exchange expects that the final confirmed Rules will become effective on 1 November 2007 to coincide with the implementation of the Directive. However, the Exchange will consult with FSA and member firms as to how best to bring in changes to systems and Rules smoothly as part of the switch to MiFID.
20. The Exchange recognises it will be necessary to make some changes to the Rules in the period up to MiFID implementation but will seek to minimise these. The Exchange has already confirmed the Rules for TradElect and SETSqx that are due to become effective in Q2 2007 and expects to issue separate Rules consultations on matters such as Competitive Clearing and AIM reporting, which will be implemented under the existing Rulebook structure.

Out of Scope

21. The Exchange's proposed product offering for MiFID includes the introduction of a European Trade Reporting ("ETR") service for OTC business. Such business will be conducted "off Exchange", will not be subject to the Rules and is therefore not covered by this consultation.

Consultation

22. The Exchange recognises that member firms will require adequate time to incorporate changes to the Rules into their systems. This outline consultation has therefore been issued to give firms an early oversight of the key changes that are expected to be made. Following this consultation, a more detailed Rules consultation will take place later in the year, supported by member firm workshops where applicable.

23. The current timelines for consultation are as follows:
- Q1 2007 – Rules consultation 1 (this document)
 - Q2 2007 – Rules consultation 2 (detailed rules)
 - Q3 2007 – Rules confirmation
 - November 2007 – Rules effective
24. As a Recognised Investment Exchange the Exchange will, naturally, have to satisfy FSA that any changes to its Rules are entirely consistent with its regulatory obligations.
25. The Exchange encourages member firm to provide feedback on the proposals outlined in this Notice and the attachments. These should be received by 2 April 2007. Please direct your comments or any queries to John Newbury, telephone (0044) 20 7797 1615, STX 31615, email jnewbury@londonstockexchange.com.

Nick Bayley
Head of Trading Services

This Stock Exchange Notice will be available on the website at:

<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnoticesnew/>

Calls to London Stock Exchange plc may be recorded to enable the Exchange to carry out its regulatory responsibilities.