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STOCK EXCHANGE

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

N67/07

STOCK EXCHANGE NOTICE

CONFIRMATION ON THE DETAILED CHANGES TO THE RULES OF THE LONDON STOCK EXCHANGE IN PREPARATION FOR THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE AND GENERAL RULEBOOK REVIEW

Introduction

1. The Exchange issued consultation Notice N57/07 on 1 August 2007 detailing the proposed changes to the Rules of the London Stock Exchange (“the rules”) to accommodate the Markets in Financial Instruments Directive (“the Directive” or “MiFID”) and general Rulebook review.
2. The Exchange also issued Notice N63/07 on 13 September 2007 confirming the effective date for the rules as Monday 22 October 2007. A further Notice, N66/07, was issued on 28 September 2007 clarifying transitional measures for the implementation of the rules.
3. The Exchange received feedback from a number of sources, including member firms, regulatory bodies, trade associations, and software houses. We would like to thank all respondents for their input to this consultation.
4. Whilst much of the feedback received by the Exchange sought clarity on particular rules and associated guidance, there were certain key topics that attracted particular comment. This Notice addresses these key concerns and highlights any resultant changes to the rules and guidance.
5. There are 3 attachments to this Notice:
 - a) Attachment 1 – the confirmed Rules (showing any additional changes)
 - b) Attachment 2 – an updated cross referencing tracker document
 - c) Attachment 3 – when issued dealing procedures referenced in rule 1531

Guidance notes to assist in the review of these attachments are provided below.

Rulebook structure and MiFID

6. The Exchange has added a new section to the front of the rules providing information about the Rulebook structure and how MiFID has been incorporated into the Exchange's rules.

Key areas for consultation feedback

7. Riskless principal

The Exchange has received feedback on its requirement for the reporting of the client-side legs of riskless principal transactions, something addressed in Notice N66/07. The Exchange recognises that there is no requirement under MiFID to publish the second leg of a riskless principal trade entered at the same time and price. Therefore, the Exchange has changed the rules to not require such trades to be executed and reported under the Exchange's rules unless firms wish to do so, as detailed in the guidance to rules 3000.2 & 3000.3.

8. Negotiated trades and large trades

The negotiated trade waiver and large trade waiver have stimulated much debate and the Exchange has therefore attempted to provide greater clarity on these matters within the rules. In particular, the Exchange has made specific reference to these waivers at the front of the Rulebook and has made 'large trade' a defined term within the rules. This is in addition to the guidance provided to rule 3040.

9. Deferred publication

The Exchange received a number of questions on the deferred publication regime and the rules, including protection when re-negotiating, offsetting, and transparency in bid situations.

The Exchange can confirm that a member firm, when re-negotiating a trade pursuant to rule 3033, can continue to benefit from deferred publication, based on the original date and time of the trade and, if appropriate, the revised size. The rule has been updated accordingly.

The Exchange has also amended the guidance to rule 3030 on offsetting, to clarify that no extra delay is available to firms undertaking off-setting trades. This is because offsetting is not strictly undertaken on behalf of a customer and cannot therefore qualify for delay under the MiFID regime.

The Exchange received polarised views as to whether it should continue to require the immediate publication of trades in issuers that are subject to a bid situation. The Exchange does not generally insist upon a higher level of transparency than is afforded to member firms under MiFID. However, the Exchange considers that, on balance, it is to the benefit of the wider market that transactions in securities in bid situations publish immediately as is currently the practice. The Exchange will however review this arrangement post MiFID implementation.

Existing rule 3562, prohibiting the submission of a correction for the sole purpose of re-reporting a trade in order to gain or extend a delay in publication, was omitted in error from the rules consultation and has been included in the confirmed rules as rule 3031.3.

Finally, member firms are reminded that the deferred publication regime is only available where the trade is on behalf of a customer, as specified in rule 3030, for trades in all securities.

10. Panel Levy

The Exchange supports the important role undertaken by the Panel on Takeovers and Mergers (the Panel') within the UK equity market. The Exchange has been liaising with the Panel on the development of an appropriate mechanism for the ongoing collection of the Panel levy in a post-MiFID environment. Further information will be provided by way of a separate notice before 1 November 2007.

11. European Trade Reporting ("ETR")

A number of respondents enquired about the time stamping for reporting of trades to the ETR service. It should be noted that the entire service is operated in Central European Time ("CET") and hence all trade reports should be submitted in CET to TradElect™. For example, a trade in an Irish security should be submitted with +1 hour added and in an Eastern European security (London time +2) with -1 hour removed.

12. Central counterparty contracts

New rules 5232 and 5233, which replace existing rules 2126 and 2125 respectively, explain the options available to the Exchange in the unlikely event that a central counterparty withdraws its clearing services. The withdrawal of CCP services by a central counterparty is expected to be an extremely rare occurrence. In particular, it is considered unlikely that a central counterparty would withdraw its services following a technical problem - such as temporary system unavailability - which was expected to be recoverable without damage to its financial integrity

Whilst the rules have not been amended in any substantive way, market participants have asked for additional guidance in respect of the practical application of these rules. As a result, the Exchange has added supplementary guidance which covers, inter alia, the technical operation of bi-lateral trading and settlement, the key matters of which member firms need to be aware in the event that the Exchange moves to bilateral trading and the treatment of trades entered into prior to the withdrawal of the central counterparty services.

13. Traditional Options Market

The consultation proposed the removal of the rules relating to the Traditional Options Market. This was proposed on the basis that there had been no trades utilising this market for 6 years, the market was uneconomic to maintain and the removal of the Exchange's transaction reporting requirement would have necessitated significant change to allow the Exchange to continue to receive data regarding the taking on of such options. The Exchange is aware of some member firm interest in maintaining an on Exchange service for traditional options and is in discussion with these parties over the viability of such a market. The Traditional Options Market rules have been removed from the Rulebook pending the outcome of those discussions.

14. Customer and Counterparty

The Exchange proposed the removal of the defined term for "client" from the rules and the amendment of the definitions for both "counterparty" and "customer". In order to ensure clarity within the rules, the Exchange has amended, where necessary, references in the rules to customer and counterparty. Such changes are shown in red text.

15. Default

Default rules D170 – D186, relating to the traditional options market, have been deleted from the confirmed rules. This was an oversight in the rules consultation.

16. Minor changes

A number of rules and associated guidance have been slightly modified following feedback but have no material impact other than to provide further clarity for member firms.

Supporting documentation

17. The confirmed rules are contained in Attachment 1 to this Notice. Any new or amended rules or guidance resulting from the consultation have been highlighted in red text for ease of identification. Likewise, all the revised rules in the consultation have been left in green text. All rules, except for those on Compliance and Default, have now been re-numbered.

The tracker document contained in Attachment 2 provides a cross reference between the rule numbers used in the consultation and the new ones included here. Any rules deleted as a result of the consultation are notated

18. The Rulebook is supported by both the Guide to TradElect™ and the Parameters. The Exchange has attempted to move as much supporting information as possible into the Parameters spreadsheet and consequently very few rules now reference the Guide to TradElect™. Both these documents are available as downloads on the Exchange's website at <http://www.londonstockexchange.com/en-gb/products/membershiptrading/MiFID/>

Effective date and transitional provisions

19. As already mentioned, Notice N66/07 clarified transitional measures for the implementation of the rules on 22 October 2007. The Exchange will seek to assist any member firms that experience compliance difficulties during the transitional period and will take a pragmatic approach to the enforcement of its rules during this time. Firms requiring assistance should contact the Exchange's Market Supervision team on 020 7797 3666 Option 2.
20. Any comments or queries on this Notice should be addressed 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.