



London
STOCK EXCHANGE

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31 October 2007

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

N71/07

STOCK EXCHANGE NOTICE

NOTIFICATION – Rulebook clarifications related to MiFID implementation

Introduction and background

1. Stock Exchange Notice N67/07, issued on 4 October 2007, confirmed the changes to the Rules of the London Stock Exchange (“the rules”) in order to accommodate the Markets in Financial Instruments Directive (“MiFID”). The Exchange has subsequently received a number of enquiries from member firms seeking further clarity on specific subjects. The purpose of this Notice therefore is to provide clarification and, where necessary, further guidance in relation to these queries.

On Exchange trades and the requirement to trade report

2. Member firms are reminded, as stated in rule 3000, that they must agree with their counterparty or customer at or prior to the time of effecting a trade whether the trade is to be conducted under the rules of the Exchange. This is important as subsequent trade reporting rules 3010, 3011 and 3012 are all reliant on a clear decision whether or not a trade is on Exchange.
3. Failure to agree the trading venue at or prior to the time of the trade may lead to a number of consequences such as:
 - duplicate publishing trade reports across two different venues;
 - no publishing trade reports at all;
 - incorrect venue id on trade confirmations and contract notes;
 - incorrect venue id on transaction reports to the competent authority; or
 - trading away from a regulated market or MTF where no prior client consent has been given.

Principal and agency trading

4. As stated in the introduction section of the revised Rulebook, the Exchange's rules continue to make a clear distinction between a member firm acting as principal and as agent. Two trades with a member firm interposed as agent is deemed to be a single transaction. Two trades with a member firm interposed as principal is deemed to be two transactions.
5. Hence, where a member firm is interposed between two principal trades (typically when there is a market side and a client side) it is possible for both legs, one leg or neither leg to be conducted on Exchange in accordance with the on Exchange rule 3000. Details on this are provided in the guidance to rule 3011. Additionally, and as detailed in the guidance to rule 3010, an agency cross trade should be reported with a single trade report.

Further useful information on trade reporting can be found in the Financial Services Authority's Market Watch 23, published in September:

http://www.fsa.gov.uk/pubs/newsletters/mw_newsletter23.pdf

Deferred publication

6. A number of member firms have asked for further clarity as to when the deferred publication regime can be used, to ensure their automated reporting systems are correctly configured. The Exchange has therefore modified rule 3030 and the associated guidance to align it better with Article 28a of the MiFID Level 2 Regulation. In summary; a member firm should only request for delay using either the "OK" or "NK" trade types when:
 - it is dealing on own account (ie: in a principal capacity); and
 - the transaction is between the member firm and its customer.

As stated in the guidance to rule 3030, where a member firm is utilising the deferred publication regime for a principal trade with its customer, it should not request additional deferred publication for the offsetting of the original trade.

Negotiated trades

7. The introduction section of the revised Rulebook gave an overview of the negotiated trade waiver and additional guidance to rule 3040 provided information on when a 'negotiated trade' report may be used. However, a number of member firms have requested greater clarity and the Exchange is therefore making a slight amendment to its definition of a negotiated trade. This change makes it clear that member firms should also take into account the price at which the security in question is trading on other relevant markets, in deciding whether they can benefit from the negotiated trades waiver.

Attachment to this Notice

8. Attachment 1 to this Notice highlights the changes that are being made to the definitions, rules and guidance. Such changes are effective from 1 November 2007.

9. Any comments or queries on this Notice should be addressed to Tim Rowe, Trading Services, telephone +44 (0)20 7797 3468 (STX 33468) or email: trowe@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.