



**London**  
**STOCK EXCHANGE**

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1 May 2008

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

**N05/08**

## **STOCK EXCHANGE NOTICE**

### **CONSULTATION ON RULE CHANGES TO ACCOMMODATE MEMBER FIRMS PROVIDING CUSTOMERS WITH DIRECT TECHNICAL CONNECTIONS TO TRADELECT™**

#### **Introduction**

1. The Exchange has been discussing with member firms the possibility of allowing them to provide customers with direct technical connections to TradElect™, known as a “member authorised connection”.
2. Member authorised connection differs from conventional DMA in that there is no requirement for orders submitted by the customer to be routed through the systems of the member firm.
3. The Exchange will assist member firms that wish to establish a direct connection for particular customers and proposes to amend the Rules of the London Stock Exchange (“the rules”) to make clear the responsibilities of member firms providing these connections.
4. The proposed changes to the rules are set out in Attachment 1.

#### **Significant changes to the rules**

5. Member authorised connection is being added to the Definitions section of the rules. Within the rules, a clear differentiation is drawn between member authorised connection and the traditional model of order routing and a definition of order routing that covers conventional DMA is therefore also being added.
6. Guidance to the rules provides an indication of the systems and controls the Exchange would expect member firms to have in place when providing a customer with a member authorised connection to TradElect™. The identity of all customers having a member authorised connection is also required to be disclosed to the Exchange.

7. A requirement is being introduced for a member firm to submit to the Exchange a statement regarding the due diligence it has undertaken confirming the customer's suitability to have a member authorised connection. This will be a standardised statement that the Exchange will make available on its website, and which is included with this Notice as Attachment 2.
8. A number of additional safeguards relating to the use of member authorised connections are being introduced, including:
  - Mandatory segmentation of the order flow through each member authorised connection into a distinct trader group, using the functionality provided within TradElect<sup>TM</sup>;
  - Use of the 'copy to' functionality in TradElect<sup>TM</sup>, which sends duplicate confirmations of customer activity to the member firm concerned; and
  - Codifying the right of the Exchange to refuse a member firm's request to provide a customer with a member authorised connection, or to suspend or terminate an existing member authorised connection.

#### **Rules consultation**

9. The Exchange is consulting on the rules changes set out in Attachment 1 and the standard due diligence letter in Attachment 2 for a period of four weeks. Reviewers are therefore asked to provide any comments or feedback on this consultation by 29 May 2008.
10. Any comments or queries on this Notice should be addressed to Tim Rowe, Trading Services, telephone +44 20 7797 3468 (STX 33468) email: [trowe@londonstockexchange.com](mailto: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/stockexnotices/stockexchangenotices2008.htm>

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