

## Attachment 1: Revised rules – tracked version

### DEFINITIONS

**Exchange enforced cancellation** the cancellation by the **Exchange** of an automated trade executed on **TradElect**<sup>®</sup>, either in response to a request from a party to the trade or undertaken unilaterally by the **Exchange**. Discretion as to whether or not to cancel a trade lies solely with the **Exchange**

**contra** a trade undertaken on **TradElect**<sup>®</sup> that is equal and opposite to a previous trade in the same security, undertaken by the same participants in order to negate the original trade. By its nature, a contra must be agreed upon by both parties to the original trade

#### **Contra request** [2110]

G	2110	If a <b>member firm</b> submits an order incorrectly which is subsequently executed, it may submit a request to <b>contra</b> the resultant trade(s).
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#### *Guidance to Rule:*

All orders submitted to **TradElect**<sup>®</sup> are firm. Accordingly, where an order is entered in error, any trade executed as a result of it will be valid. If an order is entered in error and subsequently executed and executed in error, it may be subject to a **contra** with the agreement of reversed (**contra'd**) with the agreement between the buyer and seller.

For electronically executed trades on an **order book**, agreement to **contra** can only be secured by the Market Supervision department intermediating, due to **counterparty** anonymity.

**Member firms** are reminded that they are under no obligation to **contra** a trade at the request of a **counterparty**.

Further information on the **contra** request process can be found in the **Guide to TradElect**<sup>®</sup>.

#### **Exchange enforced cancellation Reversal of erroneous trades for covered warrants** [2120-2121]

D	2120	The <b>Exchange</b> views all trades undertaken under its rules as firm. However, the <b>Exchange</b> may, in exceptional circumstances at the request of a <b>member firm</b> , reverse undertake an <b>Exchange enforced cancellation</b> of an automated trade executed on the <b>covered warrant order book</b> in circumstances where the prevailing market conditions indicate that the trade is erroneous. <b>TradElect</b> <sup>®</sup> , either at the request of a <b>member firm</b> or of its own volition. The <b>Exchange</b> will only consider reversal of such a trade where: In considering a <b>member firm's</b> request for an <b>Exchange enforced cancellation</b> , the <b>Exchange</b> will have regard to a number of factors that are set out in the guidance below, and whether:
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	2120.1	both parties to the trade(s) are unable to agree to use the <b>contra</b> facility;
	2120.2	the reversal request for an <b>Exchange enforced cancellation</b> is submitted to the Market Supervision department within a time period specified by the <b>Exchange</b> in the guidance to this rule;
	2120.3	the theoretical price of the <b>covered warrant</b> together with evidence showing indicating that the trade was may be erroneous is submitted to the Market Supervision department within a time period specified by the <b>Exchange</b> in the guidance to this rule; and
	2120.4	a <b>member firm</b> has incurred an amount of loss as specified in the guidance to this rule.

Guidance to Rule:

The **Exchange** may, in its absolute discretion, cancel trades across all its markets, either in response to a request from a **member firm** or of its own volition. Examples of situations in which the **Exchange** will consider cancelling trades of its own volition include, but will not be limited to, where there has been a clear miscommunication of a corporate event or where a stock's closing price has been significantly distorted by the entry of erroneous orders during the closing auction.

Generally, the **Exchange** will only consider a **member firm's** request for an **Exchange enforced cancellation** when it considers, in its sole discretion, that to cancel the trade is in the best interests of the overall market.

The **Exchange** is prepared to receive a request for an **Exchange enforced cancellation** at the same time as a **contra** request. However, the Market Supervision department will use reasonable endeavours to obtain a **contra** for the **member firm** prior to considering the request for an **Exchange enforced cancellation**. As a result, the **Exchange** expects **member firms** to: ~~Prior to submitting a formal request for reversal to the Market Supervision department, within 30 minutes of the trade being executed a **member firm** must:~~

- submit an electronic **contra** request against the relevant trade on **TradElect**<sup>®</sup> ~~the covered warrant order book~~; and
- request the **counterparty's** consent to the **contra**.

Should the **contra request** be turned down the **Exchange** may then consider cancelling the trade.

~~**Member firms** are reminded that the **Exchange** will only consider reversing trades where the **counterparty** has refused consent to the **contra**. A **member firm** will have 60 minutes from the time of the trade to contact the Market Supervision department and formally request a reversal where it has been unable to obtain their **counterparty's** consent to the **contra**.~~

All such formal reversal requests for an **Exchange enforced cancellation** must be submitted by persons registered on the list of **employees** authorised to request order deletions. **Member firms'** compliance teams are encouraged to maintain copies of this list to assist their trading staff.

~~Following formal submission of a request to the Market Supervision department, the requesting **member firm** will have an additional 30 minutes in which to provide the Market Supervision department with the intended theoretical price of the **covered warrant** trade together with evidence that an erroneous trade has occurred.~~

~~Within 10 minutes of receipt of this formal submission, the Market Supervision department will inform the market via a market status message that when a formal request for an **Exchange enforced cancellation**, or a series of related requests, a reversal has been received, or when the **Exchange** is considering cancelling a trade of its own volition. The market will be informed of the **Exchange's** decision via a further market status message as soon as reasonably practical, which in any event will be no later than market open on the next business day.~~

When the **Exchange** decides to cancel a trade it will aim to effect this, where practicable, before market open on the next business day.

#### Criteria for the consideration of an **Exchange enforced cancellation**

When considering a **member firm's** request for an **Exchange enforced cancellation**, the **Exchange** will generally have regard to the following non-exhaustive list of considerations:

- automated execution – the **Exchange** will only consider requests relating to automated executions on **TradElect**<sup>®</sup>;
- time elapsed since the trade(s) – any requests from **member firms** to cancel trades should be made to the Market Supervision department as soon as possible and in any event within one hour of the trade time.
- erroneous nature of the trade - any trades to be cancelled must be manifestly erroneous in the judgement of the **Exchange**. The onus is on the **member firm** to justify and evidence why the trade was erroneous and to provide evidence regarding its loss. The requesting **member firm** will have an additional 30 minutes from the time of the

cancellation request in which to provide the Market Supervision department with this information.

- market impact - the **Exchange** may take into account other factors including, but not limited to, the potential market disorder that would be caused if the trade(s) were upheld or the potential adverse market impact if the trade(s) were cancelled.

Further, specific additional criteria apply respectively to executions in **covered warrants** and to trades in all other securities on **TradElect**<sup>®</sup>. These are set out below.

#### Additional criteria for automated executions in **covered warrants** Criteria

In determining whether an automated trade in a **covered warrant** qualifies for potential **Exchange enforced cancellation** reversal, the Market Supervision department will also consider the following:

- the amount of loss incurred by a **member firm** – the Market Supervision department will only consider an **Exchange enforced cancellation** reversal where the amount of loss is £10,000 or more for a single trade and £20,000 or more for a series of trades;
- the theoretical price of the **covered warrant** – the **member firm** submitting the request must provide the Market Supervision department, within the time period specified above, with a calculation of the theoretical price of the **covered warrant** together with its evidence indicating that the trade may be erroneous;
- the percentage at which the trade has executed away from the requesting **member firm's** theoretical value – the Market Supervision department will only consider an **Exchange enforced cancellation** reversal where the trade has executed at 20% or more away from the intended theoretical value; and
- the prevailing market conditions, price movement of the underlying instrument, market activity and volatility. **Member firms** are reminded that requests for **Exchange enforced cancellations** cannot be accepted by the **Exchange** rule 2120 is not applicable in circumstances where an erroneous trade has occurred in the underlying security.

Within 1 hour and 30 minutes from the trade being executed the **counterparty** to the trade may provide to the Market Supervision department evidence that the price of the execution was correct. In circumstances where the Market Supervision department determines that the trade should be ~~cancelled~~ reversed, it will ~~cancel~~ **contra** the trade on the **covered warrant order book**. The market will be informed of the outcome of the reversal request via a further market status message as soon as reasonably practical, which in any event will be no later than market open on the following day.

**Member firms** are reminded that they may only request an **Exchange enforced cancellation** for rule 2120 is only applicable to a **covered warrant** trade that is executed on the **covered warrant order book** and which meets the criteria as set out above below. Any subsequent trade as a result of the original trade will only be considered for **Exchange enforced cancellation** reversal if it was executed on the **covered warrant order book**.

#### Additional criterion for trades in securities other than **covered warrants**

In considering a **member firm's** request for an **Exchange enforced cancellation** in a security other than a **covered warrant**, the Market Supervision department will also consider the potential loss to the **member firm** involved. The potential loss to the **member firm** requesting the **Exchange enforced cancellation** should be significant. Requests relating to losses of less than £200,000 in relation to a single trade or a series of related trades will not normally be considered by the **Exchange**.

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A **covered warrant market maker** may be required from time to time to assist the **Exchange** by providing a theoretical price of a **covered warrant** in circumstances where the **Exchange** is asked to consider ~~cancelling~~ reversing a trade on the **covered warrant order book**.