



**London**  
Stock Exchange

10 Paternoster Square  
London EC4M 7LS  
Telephone +44 (0)20 7797 1000  
www.londonstockexchange.com

22 January 2009

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

**N05/09**

## **STOCK EXCHANGE NOTICE**

### **CONFIRMATION OF RULE AMENDMENTS RELATING TO EXCHANGE ENFORCED CANCELLATIONS**

#### **Introduction**

1. The London Stock Exchange (“the Exchange”) issued Stock Exchange Notice N23/08 in October of last year to invite comments on the proposed amendments to the Rules of the London Stock Exchange (“the rules”) under which it will consider, in exceptional circumstances, cancelling automated trades executed on TradElect®.
2. The responses to the consultation were extremely informative and the Exchange would like to thank those parties who responded for their input. The Exchange has amended the rules based on general consensus. Whilst it has not been possible to incorporate all the suggestions received, all comments have been taken into consideration.
3. Attachments 1 and 2 set out the new rules in tracked and untracked form.

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

##### Timelines

4. In order to increase certainty for market participants, requests from member firms to cancel trades should be made to the Market Supervision department no later than 30 minutes after the trade time (a reduction of 30 minutes from the original consultation). Requests from member firms to cancel trades taking place in the uncrossing of closing auctions that conclude after 16.30 must be made to the Market Supervision department no later than 17.00 hours.

5. The Exchange will inform the market when it is considering cancelling a trade in continuous trading and will also inform the market of its decision as soon as reasonably practicable. Where the Exchange is considering restating the closing price for a security it will endeavour to inform the market of this by 17.15 hours so that the market is aware that the closing price may change. The Exchange will aim to inform the market of its decision by 17.30 hours.

#### Covered Warrants

6. The “Covered Warrants” section of the rules has been amended to make clear it incorporates investment certificates and leverage certificates as they also trade in small volumes, have calculable theoretical values and are retail-focussed.
7. Member firms requesting an Exchange enforced cancellation in one of the above mentioned instruments will have 30 minutes to do so. This is a reduction from the existing 60 minutes. The purpose of this change is to bring the requirement in line with that being introduced for all other on Exchange instruments. The counterparties to the trades in question will each have 60 minutes from the trade being executed to provide the Exchange with the theoretical price of the instrument together with supporting evidence.

#### Evidence

8. Member firms requesting Exchange enforced cancellations in products other than covered warrants, investment certificates and leverage certificates will not be required to provide the Exchange with supporting evidence unless requested by the Exchange to do so.

#### Potential Loss

9. In response to member firms’ requests, the potential loss threshold for member firms requesting Exchange enforced cancellations for all instruments other than covered warrants, investment certificates and leverage certificates has been lowered to £100,000 in relation to automated trades conducted in a single stock on TradElect®. The threshold for errors impacting more than one stock is £200,000.
10. The £10,000 and £20,000 thresholds for covered warrants remain unchanged and apply to cover investment certificates and leverage certificates.

#### Appeals

11. The Exchange’s decision in relation to Exchange enforced cancellations will be final. However counterparties to trades which are being considered for cancellation will first be requested to contra and may take the opportunity to explain to the Market Supervision department why they think the trades should stand. This does not affect member firms’ right to complain to the Exchange in the normal way regarding a regulatory matter.

### Off order book trades

12. In response to member firms' feedback, the Exchange enforced cancellation rules will be limited to automatically executed trades on TradElect® and will not be extended to cover off book trades.

### **Effective date of rule changes**

13. The rule changes detailed in the attachments will become effective from 26 January 2009. An updated version of the rules will be available from this date on the Exchange's website at: <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm>.
14. 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), or

Amanda Baillie, Trading Services, telephone +44 20 7797 1977 (STX 31977) email: [abaille@londonstockexchange.com](mailto:abaille@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.