DEFINITIONS

~~**basic unit**~~	~~in relation to a **market option**, the smallest unit of the underlying assets applicable to that **market option** for which a price is normally given~~
~~**controller**~~	~~in relation to a body corporate, a **person**, who alone or with any **associate** or **associates**, is entitled to exercise, or control the exercise of, 15% or more of the voting power at any general meeting of the body corporate or another body corporate of which it is a **subsidiary**~~
LCH rules	<u>LCH.Clearnet Limited rules</u>
liable party	a **member firm** against whom a **buying-in notice** is issued by the **Exchange**, or the **member firm** to whom a **buying-in notice** is passed. For **buying-in notice** in respect of settlement instructions resulting from **central counterparty trades**, the **liable party** will be determined by finding either the linked settlement in **CREST**, or, if the transaction is unlinked, the oldest unlinked failed delivery(ies) to ~~**LCH**~~ <u>the **central counterparty**</u> that (when combined) at least match the size of the **buying-in** request and do not have current **buying-in notices** allocated against them
settlement procedures	the ~~'S'~~ <u>'5000'</u> series of these rules which sets out detailed rules and procedures for settlement of **on Exchange** trades
specified time	(a) for inter office delivery: (i) 11.45 hours in the case of delivery to any **member firm** by a **member firm** acting as **agent**; (ii) 12.15 hours in the case of delivery by a **member firm** acting as **principal** to a **member firm** acting as **principal**; (iii) 13.00 hours in the case of delivery by a **member firm** acting as **principal** to a **member firm** acting as **agent**; or ~~(iv) in the case of a delivery to any **member firm** by means of delivery via **CREST**, by the final time for that type of delivery as specified in **CREST's** daily processing timetable~~ (b) in the case of a delivery to any **member firm** in **CREST**, by the final time for that type of delivery specified in **CREST's** daily processing timetable

CORE RULES

Member firms

…

Panel on Takeovers and Mergers Levy

G	1092	A **member firm** should ensure the collection of the appropriate **PTM levy** from their **customers**, regardless of whether the trades in question are executed under the Rules of the London Stock Exchange, on another exchange, multi-lateral trading facility or over-the-counter.

Guidance to Rule:

*The **PTM levy** is payable on equity trades in securities of companies which are ~~either~~ incorporated in~~, or held on a register inside~~ the **United Kingdom**, the Channel Islands, or the Isle of Man, and is charged at the rate notified from time to time. The **PTM levy** is payable where the total consideration of the relevant trade is greater than £10,000 (or the equivalent in any other currency). Where more than one security is included on the same confirmation, the **PTM levy** shall be charged as if a separate confirmation had been issued for each security. The securities for which the **PTM levy** is not payable include **covered warrants**, **exchange traded funds**, and **exchange traded commodities**. Information on the current **PTM levy** is available on the Panel on Takeovers and Mergers' website at http://www.thetakeoverpanel.org.uk/new/*

(Amended N69/07 – effective 29 October 2007)

ORDER BOOK TRADING RULES

…

Order entry

Access to TradElect® and the responsibility of member firms [2100-2109]

...

G	2101	Any obligations and liabilities arising from the submission of electronic messages and orders to **TradElect®** under a **member firm's** trading codes are the responsibility of that **member firm**. The **member firm** shall, at all times, have sufficient order management systems, procedures and controls designed to prevent the entry of erroneous orders to **TradElect®**.

Guidance to Rule:

…

***Member firms** should ensure that their systems are designed to identify and prevent the entry of erroneous orders to* **TradElect®**. *In determining whether a **member firm's** systems are adequate in this regard, **member firms** should consider the use of controls and system alerts, which may be based on some or all of the following:*

- *the last order book traded price (from the previous day if appropriate);*
- *the current spread in the market;*
- *trader, security-specific or firm-wide size and price limits;*
- *the likely movement in the price of the security if the order is submitted;*
- *a minimum order size of a certain financial consideration per order; and*
- *controls on ~~the price of~~ limit orders and market orders submitted during an auction. ~~to avoid aggressively priced limit orders being used instead of market orders.~~ When entering limit and market orders in auctions **member firms** must have sufficient*

*systems and controls in place so that the type of order they submit does not have an inappropriate affect on the uncrossing price of the security in question. For instance, a **member firm** may wish to submit a market order to an auction to maximise its probability of execution but should have regard to the possible impact of a large market order on the auction uncrossing price.*

…

G	2103	A **member firm** may allow a **customer** to submit orders to **TradElect** ® under the **member firm's** trading codes, either by way of **order routing** or by providing a **member authorised connection**, subject to the **member firm** having in place adequate systems and controls.

Guidance to Rule:
…

***Member firms** should ensure that their controls over **customers'** order flow submitted via **member authorised connections** are designed to identify and prevent the entry of erroneous orders or orders that may distort or otherwise adversely affect the quality of the **Exchange's** markets. In determining whether a **member firm's** systems are adequate in this regard, **member firms** should consider the use of controls and system alerts, which may be based on some or all of the following:*

- *the last order book traded price (from the previous day if appropriate);*
- *the current spread in the market;*
- *trader, security-specific or firm-wide size and price limits;*
- *the likely movement in the price of the security if the order is submitted;*
- *a minimum order size of a certain financial consideration per order; and*
- *controls on ~~the price of~~ limit orders and market orders submitted during an auction. ~~to avoid aggressively priced limit orders being used instead of market orders~~. When entering limit and market orders in auctions **member firms** must have sufficient systems and controls in place so that the type of order they submit does not have an inappropriate affect on the uncrossing price of the security in question. For instance, a **member firm** may wish to submit a market order to an auction to maximise its probability of execution but should have regard to the possible impact of a large market order on the auction uncrossing price.*

MARKET MAKER RULES

…

Exceptions to obligations to market makers in order driven securities [4110]
…

4110.5	in an **exchange traded fund** or an **exchange traded commodity**, where no firm price is available for at least 10% of the underlying securities or instruments which make up the **exchange traded fund** or **exchange traded commodity**.

Guidance to Rule:
…

Rule 4110.5

*A **market maker** shall be responsible for informing the **Exchange** and seeking permission for suspension of market making obligations by contacting the Market Supervision department on (0044) 20 7797 3666, STX 33666, where it believes that there is no firm price available for 10% or more of the underlying securities or instruments in an **exchange traded fund** or **exchange traded commodity**. If approved, the suspension applies to all **market makers** in the particular **exchange traded fund** or **exchange traded commodity**. This suspension only applies to the day in question and a **market maker** must make separate requests on a daily basis, if necessary.*

SETTLEMENT, CLEARING AND BENEFIT RULES

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Clearing through a Central Counterparty

…

Net settlements – effect of settlement [5250-5254]

…

5252	It is for the **General Clearing Member** to agree with its **Non Clearing Members** on what basis it will determine settlement priority of the onward principal **central counterparty contracts** between the **General Clearing Member** and its **Non Clearing Members**, where the **central counterparty** is not settling directly with **the Non Clearing Member** or its **settlement agent**. In the event of a default of the **General Clearing Member or Non Clearing Member** where partial performance of net settlements has not been allocated to the **Non Clearing Members** and the **default procedures** are invoked, the onward principal **central counterparty contracts** will be deemed as unsettled **relevant principal contracts**.

General benefits

…

Special trades [5360-5361]

5360	Except in a **gilt-edged security**, where a security bought cum dividend **on Exchange** is to be made ex dividend on or before the settlement date of the trade, a **buyer** who requires delivery of the coupon or the sterling value of the coupon without deduction of income tax shall effect a special trade. Where the value of the coupon is disputed, its value shall be fixed by the **Exchange**.

Entitlement issues

Application [5700-5701]

…

~~5701~~		~~Unless otherwise agreed, a **member firm** shall deal a security ex entitlement:~~
	~~5701.1~~	~~as from the day of the announcement of an offer (including that day), if its full terms are published before 08:00;~~
	~~5701.2~~	~~as from the day after the announcement (including that day), if its full terms are published after 08:00.~~

DEFAULT PROCEDURES

…

~~**Mutual balances - additional provisions taking effect outside the scope of Part VII Companies Act 1989** [D122]~~

~~D122~~	~~Subject to the provisions of any applicable law, where at the time of declaration of default there have been credits, debits or other mutual dealings not arising from an unsettled **Stock Exchange market contract** between a **defaulter** and a **person** acting as **principal**, whether a **member firm** or otherwise (whether contracting directly with the **defaulter** or through a~~

			~~**member firm** or other agent) the amounts due on either side shall be aggregated and set-off and only the balance shall be paid to or claimed from the **defaulter**.~~

Unsettled relevant agency contracts in respect of central counterparty transactions
[D155]

G	D155		Where the **defaulter** is party to a **relevant agency contract** in respect of any **central counterparty transaction** the **default official** shall provide details of the **defaulter's customer** or **counterparty** in respect of any such contract to the **General Clearing Member** and the **General Clearing Member** shall write to the **customer** or **counterparty** forthwith either:
		D155.1	requiring the **customer** or **counterparty** to settle the contract, in which case rule D153 shall apply; or
		D155.2	notifying the **customer** or **counterparty** that it intends to close the unsettled **relevant agency contract**, in which case the **General Clearing Member** shall be permitted to close the **relevant agency contract** by purchasing or selling securities in the market and either accounting for any profit arising to that **customer** or **counterparty** or claiming any loss arising against that **customer** or **counterparty**.

Guidance to Rule:

*As set out in rule 5253, partial performance of net settlements between the **General Clearing Member** and the **Non Clearing Member** or its **settlement agent** (or directly from ~~LCH~~ the **central counterparty** to the **Non Clearing~~)~~ Member** or its **settlement agent**) in respect of agency **central counterparty transactions** shall be deemed to have performed the **General Clearing Member's** obligations to the **Non Clearing Member's** clients in respect of these **central counterparty contracts** on a pro rata basis, whether or not allocation has been made on this basis.*