

Attachment 1 to Stock Exchange Notice N47/09

ORDER BOOK TRADING RULES

Contra request [2110]

G GT	2110	If a member firm submits an order incorrectly which is subsequently executed, it may submit a request to contra the resultant trade(s). <i>(Amended N05/09 – effective 26 January 2009)</i>
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Guidance to Rule:

All orders submitted to **TradElect**[®] 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, it may be subject to a **contra** with the agreement of the buyer and seller.

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

Member firms 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**[®].

(Amended N05/09 – effective 26 January 2009)

Exchange enforced cancellation of erroneous trades [2120-2121]

D G	2120	The Exchange views all trades undertaken under its rules as firm. However, the Exchange may, in exceptional circumstances, undertake an Exchange enforced cancellation of an automated trade executed on TradElect [®] , either at the request of a member firm or of its own volition. In considering a member firm's request for an Exchange enforced cancellation , the Exchange will have regard to a number of factors that are set out in the guidance below, and whether: 2120.1 both parties to the trade(s) are unable to agree to use the contra facility; 2120.2 the request for an Exchange enforced cancellation is submitted to the Market Supervision department within a time period specified by the Exchange in the guidance to this rule; 2120.3 the member firm requesting the Exchange enforced cancellation provides appropriate information to the Market Supervision department as set out in the guidance below; and 2120.4 a member firm has incurred an amount of loss through an automated trade conducted on TradElect [®] as specified in the guidance to this rule. <i>(Amended N05/09 – effective 26 January 2009)</i>
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Guidance to Rule:

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®**;
- 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 30 minutes of the trade time. Requests from **member firms** to cancel the uncrossing of closing auctions which conclude after 16.30 hours must be made to the Market Supervision department no later than 17.00 hours.
- erroneous nature of the trade - any trades to be cancelled must be manifestly erroneous in the judgement of the **Exchange**.
- 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**, investment certificates, ~~and~~ leverage certificates, **gilt-edged securities**, **fixed interest securities** and to trades in all other securities on **TradElect®**. These are set out below.

Additional criteria for automated executions in **covered warrants**, investment certificates and leverage certificates

In determining whether an automated trade in one of the above instruments qualifies for potential **Exchange enforced cancellation**, 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** where the amount of loss is £10,000 or more for a single automated trade conducted on **TradElect®** and £20,000 or more for a series of automated trades conducted on **TradElect®**;
- the theoretical price of the instrument – the onus is on the **member firm** submitting the request to provide the Market Supervision department, within 60 minutes of the trade, with a calculation of the theoretical price of the instrument 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** 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** in circumstances where an erroneous trade has occurred in the underlying security.

If the counterparty to the trade does not agree to **contra**, the Market Supervision department will inform the counterparty if it is considering cancelling the trade(s). Within 60 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. The Market Supervision department will then determine whether the trade(s) should be cancelled.

Member firms are reminded that they may only request an **Exchange enforced cancellation** for a trade in one of these instruments where the trade meets the criteria as set out above. Any subsequent trade as a result of the original trade will only be considered for **Exchange enforced cancellation** if it was executed on the order book.

Additional criteria for automated trades in **gilt-edged securities** and **fixed interest securities**

In determining whether an automated trade in one of the above instruments qualifies for potential **Exchange enforced cancellation**, the Market Supervision department will also consider:

- the potential loss to the **member firm** requesting the **Exchange enforced cancellation**, based on an **Exchange** reference price. The Market Supervision department will only consider an **Exchange enforced cancellation** where the amount of loss is £10,000 or more in relation to automated trades conducted in a single stock on **TradElect®** and £20,000 or more in relation to automated trades conducted in more than one stock on **TradElect®**; and
- whether any information requested by the Market Supervision department is complete, accurate and provided promptly. The Market Supervision department will determine what information it requires from **member firms** on a case by case basis.

Additional criteria for trades in securities other than **covered warrants**, investment certificates and leverage certificates, **gilt-edged securities** and **fixed interest securities**

In considering a **member firm's** request for an **Exchange enforced cancellation** in a security other than a **covered warrant**, investment certificate, or leverage certificate, **gilt-edged security** or **fixed interest security** the Market Supervision department will also consider:

- the potential loss to the **member firm** involved. The potential loss, based on an **Exchange** reference price, to the **member firm** requesting the **Exchange enforced cancellation** should be significant. The Market Supervision department will only consider an **Exchange enforced cancellation** where the amount of loss is £100,000 or more in relation to automated trades conducted in a single stock on **TradElect®** and £200,000 or more in relation to automated trades conducted in more than one stock on **TradElect®**; and
- whether any information requested by the Market Supervision department is complete, accurate and provided promptly. The Market Supervision department will determine what information it requires from **member firms** on a case by case basis.

The **Exchange's** handling of **Exchange enforced cancellations** for trades executed before 16.30 hours

The below guidance applies to trades executed before 16.30 hours including those executed during automatic execution suspension periods and International Order Book closing auctions. The Market Supervision department will inform the market via **RNS** when the **Exchange** is considering cancelling a trade of its own volition or as a result of a request from a **member firm**. Should the **Exchange** decide to cancel the trade, the market will be informed as soon as reasonably practicable via **RNS** and a Stock Exchange Notice. Should the **Exchange** decide not to cancel the trade, it will inform the market via **RNS** as soon as practicable. The **Exchange** will endeavour to disseminate its decision 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, within one hour of the trade time. At the latest the **Exchange** will endeavour to do this before market open on the next business day.

The **Exchange's** handling of **Exchange enforced cancellations** for the uncrossing of closing auctions concluding after 16.30 hours

When the **Exchange** is considering cancelling the uncrossing of a closing auction that concludes after 16.30 hours, it will endeavour to inform the market via **RNS** by 17.15 hours. Should the **Exchange** decide to cancel the uncrossing and restate the closing price, it will aim to inform the market of this decision and the new closing price via **RNS** and a Stock Exchange Notice by 17.30 hours. Should the **Exchange** decide not to restate the closing

price it will aim to inform the market via **RNS** by 17.30 hours.

(Amended N05/09 – effective 26 January 2009)

MARKET MAKER RULES

Registration

Registration and de-registration for all market makers [4000-4003]

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Guidance to Rule:

Registration as a **market maker** shall be effective in a single security unless the **Exchange** considers it appropriate to do otherwise. Provided an application to become a **market maker** is received by the Exchange by 15.30 hours on the day prior to the effective date of the registration and all relevant requirements relating to the application are met, registration shall normally become effective at the start of the next day. Any requests outside of this requirement should be made to the Market Supervision department on 020 7797 3666. These will be dealt with on an individual basis and may not be actioned the following day.

Where a security is moved from one trading platform to another or is subject to a change in the security line (for instance in the event of a corporate action or re-structuring), the **Exchange** will automatically carry over the **market maker** registrations if appropriate, or unless otherwise requested by the market maker.

Registration as a **gilt-edged market maker** shall be effective either:

- in all **gilt-edged securities** that are not **index-linked gilt-edged securities**;
- in all **index-linked gilt-edged securities** only; or
- all **gilt-edged securities**.

Market makers in order driven securities

Obligations of market makers in order driven securities [4100-4105]

4101	A market maker must maintain an executable quote in each security in which it is registered. The executable quote must be entered within 90 seconds of the uncrossing of the opening auction and be maintained for the duration of the mandatory period including the uncrossing of the closing auction until market close .
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