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

**N04/10**

## **STOCK EXCHANGE NOTICE**

### **Consultation on Proposed Amendments to the Default Rules**

#### **Introduction**

1. The London Stock Exchange (“LSE”) proposes to amend the default section of the Rules of the London Stock Exchange (“the default rules”) to allow the LSE to handle any future instances of default more effectively.
2. The LSE has given the Financial Services Authority (“FSA”) notice under Section 157 of the Companies Act 1989 of the proposed amendments to the default rules, and the FSA has consented to the LSE undertaking with this consultation.
3. The key amendments to the default rules and guidance are outlined below. The full changes are set out in Attachment 1 to this Notice.

#### **Change of references to the default procedures**

4. The LSE’s rules currently refer to the default section as “the default procedures”. It is proposed that references to the default procedures be changed to “the default rules” to avoid confusion between the rules themselves and internal procedures employed by the LSE to manage defaults.

## **Scope of default rules – unsettled claims**

5. The default rules do not currently discuss the treatment of unsettled claims at the time of a declaration of default. As claim information is not held within the LSE's systems, the LSE can only deal effectively in a default with those claims that are brought to its attention. As such, a new rule (D021) is proposed to allow the LSE to include unsettled claims in the default process only when counterparties notify it of such claims within a specified time period. As part of this, the term "unsettled claim" has been added to the definitions section.

## **Hammer price definition and application**

6. The definition of a hammer price has been simplified in the definitions section and a new rule D131 has been drafted to set out the procedure for setting a hammer price.

## **The application of exchange rates**

7. Under existing rule D144.2, the LSE currently applies the rates of exchange set daily by the Bank of England to convert foreign currency sums owed to/from the defaulter into sterling. These rates are calculated by the Bank of England at 16:00 on each business day and published at 09:30 the following business day. Rule D144.2 has therefore been amended to allow the LSE to use a more appropriate wholesale spot rate of exchange prevailing at the time of a default, or another suitable rate of exchange, to calculate the value of non-sterling sums.

## **Objection Process**

8. Rule D145 (existing rule D133) has been amended to include any objection to the spot rate(s) of exchange set by the default official.

## **Unsettled agency contracts and dealing capacity**

9. Rule D155 has been removed as rules D150 and D151 cover situations where the defaulter is a Non Clearing Member. Its guidance has been retained under rule D151. Additional guidance to rule D151 to provide clarification.
10. A new rule (D152) has been drafted for circumstances in which an agency desk of a defaulting firm has executed with its own principal trading desk (where that desk operates under a second member firm ID). In such a situation, to treat the contract as an unsettled relevant agency contract and provide the agency client with details of its principal counterparty would be nonsensical as there would be no scope for the trade to be settled by the defaulter.
11. The new rule places the agency client in the same position as if the trade had been executed in a normal principal capacity. As a result, such a trade shall be discharged and replaced by a net sum for payment between the client and the defaulter.

## **Rules consultation**

12. The proposed amendments to the rules and associated guidance are set out in full in Attachment 1. Member firms and other interested parties are invited to comment on the proposed rule amendments by 29 March 2010.
13. Any comments or queries on this Notice should be addressed to Karen Wu, UK Regulation, telephone +44 (0)20 7797 3523 (STX 33523) or email: [kwu@londonstockexchange.com](mailto:kwu@londonstockexchange.com)

Nick Bayley  
Head of UK Regulation

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