

## Introduction to the Rulebook and the Markets in Financial Instruments Directive (“MiFID” or “the Directive”)

### Structure and content

The new Rulebook has been shortened and simplified with content substantially sourced from the current Rules. The Rulebook is now a higher level, more general document that should remain stable in content for the foreseeable future.

Section	Rules beginning	Content
Definitions	~	Definitions applicable to these rules
Core Rules	1000	Ongoing requirements for member firms and rules that apply at all times
Order Book Trading Rules	2000	Rules applying when trading on an order book
Off Order Book Trading Rules	3000	Rules applying when trading away from an order book
Market Making Rules	4000	Rules applying to market makers
Settlement, Clearing and Benefit Rules	5000	Rules applying to settlement, clearing and benefits
Compliance	C series	Compliance procedures
Default	D series	Default rules

Supplementary guidance is now located immediately after the relevant rule rather than as a section at the back of the Rules. Rules with supplementary guidance are flagged with the notation “G”.

Rules that are Exchange direction type rules are flagged with a “D” for ease of reference.

A breach of the Rules would still be subject to the disciplinary processes currently in place.

## **DEFINITIONS**

<b>counterparty</b>	<p>(a) for the purposes of the <b>default rules</b>, the <b>person(s)</b> contracting as <b>principal</b> with the <b>defaulter</b> in respect of an unsettled <b>Stock Exchange market contract</b> whether directly or through the agency of a <b>member firm</b> and/or a third party; or</p> <p>(b) for other purposes, a <b>person</b> who is not a <b>customer</b> with whom a <b>member firm</b> undertakes a trade <b>on Exchange</b> and including a <b>central counterparty</b></p> <p>(Amended N08/10 – effective 15 April 2010)</p>
<b>default rules</b>	<p>the 'D' series of these rules which sets out rules and procedures in the event of default by a <b>member firm</b></p> <p>(Amended N08/10 – effective 15 April 2010)</p>
<b>default official</b>	<p>the individual appointed by the <b>Exchange</b> to administer the default in accordance with the <b>default rules</b></p> <p>(Amended N08/10 – effective 15 April 2010)</p>
<b>defaulter</b>	<p>a <b>member firm</b> declared to be in default by the <b>Exchange</b> in accordance with the <b>default rules</b></p> <p>(Amended N08/10 – effective 15 April 2010)</p>
<b>hammer price</b>	<p>the appropriate price determined by the <b>Exchange</b> in accordance with rule D131 in the case of a declaration of default with respect to a <b>member firm</b>.</p> <p>(Amended N08/10 – effective 15 April 2010)</p>
<b>unsettled claim</b>	<p>any outstanding obligation to pay or right to receive a sum of money or shares resulting from a dividend payment or a corporate action event that arises from an <b>on Exchange</b> trade and that remains unsettled at the time of a declaration of default with respect to a <b>member firm</b> that has such an obligation to pay or a right to receive and that is notified to the Exchange within such time as specified in accordance with rule D021.</p> <p>(Amended N08/10 – effective 15 April 2010)</p>

## CORE RULES

### Categories of Membership [1000]

G	1000	The <b>Exchange</b> may permit membership under one of the following categories:
	1000.1	a full <b>member firm</b> ;
	1000.2	a <b>General Clearing Member</b> ;
	1000.3	a <b>gilt-edged market maker</b> ; or
	1000.4	a <b>fixed interest market maker</b> .

#### *Guidance to Rule:*

*For the purposes of these rules, references to **member firm** includes all categories of membership as defined above, save that:*

- *A **member firm** whose scope of **on Exchange** business is solely to act as a **General Clearing Member** on behalf of other **member firms** shall be bound by the applicable Core Rules, Settlement and Clearing Rules, **compliance procedures** and **default rules**.*
- *A **member firm** whose scope of **on Exchange** business is solely to act as a **gilt-edged market maker** shall be bound by the applicable Core Rules, Off Order Book Trading Rules, Market Maker Rules, Settlement and Clearing Rules, **compliance procedures** and **default rules**.*
- *A **member firm** whose scope of **on Exchange** business is solely to act as a **fixed interest market maker** shall be bound by the applicable Core Rules, Off Order Book Trading Rules, Market Maker Rules, Settlement and Clearing Rules, **compliance procedures** and **default rules**.*

*(Amended N08/10 – effective 15 April 2010)*

## **OFF ORDER BOOK TRADING RULES**

3004

Where the **Exchange** has not authorised a standard form of agreement which covers the circumstances in which a **member firm** proposes to enter into any **lending arrangement**, that **member firm** shall ensure that the lending agreement includes provisions of equivalent effect to those referred to in rule D161 in the **default rules**.

(Amended N08/10 – effective 15 April 2010)

## **SETTLEMENT, CLEARING AND BENEFIT RULES**

5121

A **member firm** is not obliged to pay a **customer** or **counterparty** of another **member firm** for securities bought **on Exchange** from that **customer** or **counterparty** unless required to do so by proceedings in accordance with **default rules**.

(Amended N08/10 – effective 15 April 2010)

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 rules** are invoked, the onward principal **central counterparty contracts** will be deemed as unsettled **relevant principal contracts**.

(Amended N08/10 – effective 15 April 2010)

## DEFAULT RULES

### Default rules [D010 ]

D010	In the case of default by a <b>member firm</b> , the provisions of the <b>default rules</b> prevail over the rules and the <b>settlement procedures</b> , insofar as they conflict.  (Amended N08/10 – effective 15 April 2010)
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### Unsettled contracts [D020-D21]

G D020	Any <b>relevant principal contract</b> or <b>relevant agency contract</b> shall be unsettled for the purpose of these default rules if at the time of declaration of default the contract has not been fully performed.
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#### *Guidance to Rule:*

*A relevant agency contract is deemed to be fully performed for the purposes of these rules once the market principal has performed its obligations to the agency broker. Onward performance from the agency broker to the end client is outside the scope of the default procedures.*

*Central counterparty contracts and on Exchange contracts cleared by RepoClear*

*Contracts between LCH.Clearnet Ltd and **General Clearing Members** / clearing members of **RepoClear** (“clearing members”) are subject to LCH.Clearnet Ltd rules on default. In the event of a clearing member default, LCH.Clearnet Ltd may decide to allow clearing member positions relating to trades by **Non Clearing Members** / dealing members of **RepoClear** (“dealing members”) to settle, or to transfer them to other clearing members, in which case such **on Exchange** dealing member contracts will not become **relevant agency contracts** / **relevant principal contracts** under the **Exchange’s** rules. In the event that LCH.Clearnet Ltd closes out such clearing member contracts under its default rules, then related **on Exchange** contracts between the clearing member and the dealing member will become **relevant agency contracts** / **relevant principal contracts** under the **Exchange’s** rules.*

*Partial performance of a **central counterparty contract**, or a contract cleared by **RepoClear**, is deemed as full performance of that part of the contract for the purposes of rule D020 and the rest of the contract shall be treated as a **relevant agency contract** / **relevant principal contract**.*

*(Amended N08/10 – effective 15 April 2010)*

G D021	Rule D020 shall apply to any <b>unsettled claims</b> which are notified to the <b>Exchange</b> by the <b>defaulter</b> or the counterparty within such time as may be specified by the <b>Exchange</b> in relation to the default. The time so specified by the <b>Exchange</b> will be a minimum of 30 calendar days. Any claims which are not so notified will not be regarded as <b>unsettled claims</b> only for the purpose of applying the <b>Exchange’s default rules</b> .  (Amended N08/10 – effective 15 April 2010)
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#### *Guidance to Rule:*

*The **Exchange** will require those parties that believe they have **unsettled claims** with the **defaulter** to provide details of those **unsettled claims** to the **Exchange**. If such details are provided, the **Exchange** will determine whether the relevant **unsettled claim** qualifies for inclusion in its default procedures (i.e. whether they were, indeed, unsettled with the **defaulter** at the time the default was declared and arose from an unsettled **on Exchange** trade).*

*As a general rule, where the trade as executed (including the impact of any claim) has the same cum or ex status as the **hammer price**, the resulting net amount calculation will take the claim into account. However, where this is not the case, the resulting net amount calculation will be amended to reflect the claim.*

*References to trades in the **default rules** include references to **unsettled claims** where appropriate.*

*(Amended N08/10 – effective 15 April 2010)*

**Declaration of defaulters** [D100-D115]

D106	Once a <b>member firm</b> has been declared a <b>defaulter</b> in accordance with rule D100, the rules and procedures set out in the <b>default rules</b> shall apply to any <b>Stock Exchange market contract</b> to which the <b>defaulter</b> is at the time of default a party.  (Amended N08/10 – effective 15 April 2010)
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**Cessation of membership** [D110-D111]

D110	Any <b>member firm</b> declared a <b>defaulter</b> shall thereupon cease to be a <b>member firm</b> , but shall nevertheless be bound to take or refrain from taking all such action, and suffer all such things to be done, as the <b>default rules</b> require in the case of a <b>defaulter</b> and shall continue to be bound by the <b>default rules</b> in relation to all matters, transactions and circumstances arising while it was a <b>member firm</b> .  (Amended N08/10 – effective 15 April 2010)
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**Unsettled relevant principal contracts** [D120-D149]

D120	It shall be a term of every <b>relevant principal contract</b> , or where the <b>defaulter</b> is a <b>gilt inter dealer broker</b> or a <b>wholesale dealer broker</b> , or subject to rule D195, that from and after the making of a declaration of default in respect of a <b>member firm</b> which is party thereto as a <b>principal</b> , the obligations of the <b>defaulter</b> and the <b>counterparty</b> under the contract to deliver and pay against delivery (if the contract is unsettled at the time of the declaration) shall be discharged and be replaced by an obligation on one of them to pay to the other the amount calculated in accordance with rules D140 to D144 and the liability of each other <b>person</b> who is party thereto as <b>agent</b> shall thereupon cease.  (Amended N08/10 – effective 15 April 2010)
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**Fixing hammer prices on declaration of default** [D130-D132]

D130	In every case of declaration of default, the <b>default official</b> shall for any security which is the subject of an unsettled <b>relevant principal contract</b> , except in respect of a <b>relevant principal contract</b> which has been transferred in accordance with rule D195, fix the <b>hammer price</b> and notify the <b>defaulter</b> and its <b>counterparty</b> of the <b>hammer price</b> .
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G	D131	In relation to rule D130, the <b>hammer price</b> shall be determined by the <b>Exchange</b> :
	D131.1	for any security <b>admitted to trading</b> at the time of default (and not suspended), in accordance with: <ol style="list-style-type: none"> <li>1. the middle price current in the market immediately before a declaration of default if the time of default is during <b>market hours</b>; or</li> <li>2. the closing price before a declaration of default if the time of default is after <b>market close</b>;</li> </ol>
	D131.2	for any security suspended or not admitted to trading at the time of default, such price as is reasonably determined by the <b>Exchange</b> to be the most relevant for that security. In

making its determination, the **Exchange** shall have regard to the following factors in order of priority:

1. the price or prices at which any business was last done in the relevant security on the **Exchange**;
2. the appropriate middle price current on another market immediately before a declaration of default, or the price or prices at which any business was last done on such a market, where that market is reasonably determined by the **Exchange** to be the most relevant for that security;
3. the price or prices current in the market (whether an **Exchange** market or another market) at a relevant time prior to a declaration of default including, where appropriate, a relevant time preceding a suspension or other event that resulted in a cease to trading in a given security (temporarily or permanently) on the **Exchange**;
4. information from any member firm or any relevant governmental or regulatory body (e.g. the UK's Debt Management office) that is relevant to the pricing of a given security; or
5. information from the registrar or company secretary of the relevant company as to the consideration for any recent transfers of that security.

D131.3 If the price or prices derived under D131.1 or D131.2 are not available or not appropriate, such price as is reasonably determined by the **Exchange** to be the most relevant for that security, in which it may have regard to all, any or none of the factors set out in rule D131.2.

(Amended N08/10 – effective 15 April 2010)

D132 The determination of **hammer prices** by the **default official** shall, in the absence of manifest error or successful objection, be final and binding on all concerned.

(Amended N08/10 – effective 15 April 2010)

#### Establishing the net amount due [D140-D149]

D140 If the **hammer price** exceeds the **contract price**, the **defaulter** shall:

- D140.1 if the **relevant principal contract** was for purchase by the **defaulter**, be entitled to receive from the **counterparty** the amount of such excess;
- D140.2 if the **relevant principal contract** was for sale by the **defaulter**, be obliged to pay to the **counterparty** the amount of such excess.

(Amended N08/10 – effective 15 April 2010)

D141 If the **hammer price** falls short of the **contract price**, the **defaulter** shall,

- D141.1 if the **relevant principal contract** was for purchase by the **defaulter**, be obliged to pay to the **counterparty** the amount of such shortfall;
- D141.2 if the **relevant principal contract** was for sale by the **defaulter**, be entitled to receive from the **counterparty** the amount of such shortfall.

(Amended N08/10 – effective 15 April 2010)

D142 If the **hammer price** is the same as the **contract price**, neither the **defaulter** nor the **counterparty** shall be obliged to make any payment to the other.

(Amended N08/10 – effective 15 April 2010)

D143	The <b>Exchange</b> shall establish the net amount to be paid to the <b>defaulter</b> by each <b>counterparty</b> or claimed from the <b>defaulter</b> by each <b>counterparty</b> as the result of the application of these default rules to any unsettled <b>relevant principal contract</b> after:
D143.1	aggregating all sums due by each <b>principal</b> to the other in relation to such contracts; and/or
D143.2	offsetting the aggregate sums due by each <b>principal</b> to the other in relation to such contracts.
(Amended N08/10 – effective 15 April 2010)	

D144	For the purpose of discharging the amounts calculated in respect of all unsettled <b>relevant principal contracts</b> as between the <b>defaulter</b> and the <b>counterparty</b> :
D144.1	there shall be aggregated all the relevant amounts which are in the same currency, treating amounts due by the <b>defaulter</b> as positive and amounts due by the <b>counterparty</b> as negative ("currency aggregate");
D144.2	if a currency aggregate is not denominated in sterling, it shall be converted into sterling at the wholesale spot rate of exchange as reasonably determined by the <b>Exchange</b> to be the prevailing market rate, according to a suitable provider of wholesale currency exchange rate data, for the purchase of sterling with the relevant currency at the time of default or, in the absence of such a rate of exchange, such other rate of exchange deemed appropriate by the <b>default official</b> ("currency aggregate sterling equivalent").
D144.3	all the currency aggregate sterling equivalents and in the case of any currency aggregate denominated in sterling, the amount of that currency aggregate shall then be aggregated ("final sterling amount");
D144.4	if the final sterling amount is a negative figure, the <b>counterparty</b> shall be obliged to pay to the <b>defaulter</b> in sterling an amount equal to the final sterling amount; and
D144.5	if the final sterling amount is a positive figure, the <b>defaulter</b> shall be obliged to pay to the <b>counterparty</b> in sterling an amount equal to the final sterling amount.
(Amended N08/10 – effective 15 April 2010)	

**Objections [D145]**

<u>D145</u>	Any objection as to the <b>hammer price</b> or, where applicable, the spot rate(s) of exchange used to calculate currency aggregate sterling equivalents shall be lodged with the <b>default official</b> in writing within five days of the date of notification. Any objection to the <b>hammer price</b> or the spot rates of exchange shall be determined by two senior <b>Exchange</b> personnel (who are not involved in the operation of the default and who have been appointed for this purpose by a director of the <b>Exchange</b> ), whose determination shall be final and binding on all concerned.
(Amended N08/10 – effective 15 April 2010)	

**Certification [D146]**

D146	The <b>Exchange</b> shall certify the net amount to be paid to or claimed from the <b>defaulter</b> as the result of the application of these default rules to any unsettled <b>relevant principal contract</b> , or, if such be the case, that none is to be paid, and shall notify the parties to such contracts.
(Amended N08/10 – effective 15 April 2010)	

D147	In respect of a <b>relevant principal contract</b> the amount of any consideration which is unpaid or overpaid shall, with reference to the terms of the contract, be calculated by the <b>default official</b> who shall ensure that the calculated amount is included in establishing the net amount for certification.  (Amended N08/10 – effective 15 April 2010)
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D148	A <b>member firm</b> acting as <b>agent</b> for a <b>counterparty</b> in relation to a <b>relevant principal contract</b> in respect of which rules D140 to D144 take effect shall not be liable for any amount due to or from that <b>counterparty</b> by virtue thereof.  (Amended N08/10 – effective 15 April 2010)
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**Securities already delivered [D146]**

D149	Rules D120 to D148 shall not apply in respect of securities the subject of a <b>relevant principal contract</b> which have been delivered and paid for prior to declaration of default, and those securities shall not be returned.  (Amended N08/10 – effective 15 April 2010)
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**Unsettled relevant agency contracts [D150-D155]**

D150	Notwithstanding the declaration of default, those persons who are parties as <b>principal</b> to an unsettled <b>relevant agency contract</b> (other than a <b>relevant agency contract</b> in respect of a <b>central counterparty transaction</b> ) shall remain obliged to complete that contract on the terms on which it was originally dealt.
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G D151	For a transaction falling under rule D150 the <b>default official</b> shall provide details of the <b>defaulter's customer</b> or <b>counterparty</b> in respect of any such contract to the non-defaulting <b>member firm</b> and the non-defaulting <b>member firm</b> shall write to that <b>customer</b> or <b>counterparty</b> forthwith in a form prescribed by the <b>Exchange</b> requiring him to settle the contract.
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*Guidance to Rule:*

*If the **defaulter** is acting as a **Non Clearing Member** in relation to an unsettled **relevant agency contract**, rules D150 and D151 shall continue to apply and the relevant **General Clearing Member** of the **defaulter** shall be the non-defaulting **member firm** for the purposes of rule D151.*

*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 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.*

*(Amended N08/10 – effective 15 April 2010)*

G D152	Rules D150 and D151 will not be applicable where a <b>defaulter</b> has acted in both <b>principal</b> and agency capacity in relation to a single trade, as detailed in the guidance below. The <b>Exchange</b> will instead treat the agency trade as a <b>relevant principal contract</b> . Accordingly, the relevant <b>hammer price</b> will be applied to these trades and a net sum calculated in accordance with rules D140-144, payable to or from the <b>defaulter</b> by each of the defaulter's <b>customers</b> , as appropriate.  (Amended N08/10 – effective 15 April 2010)
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*Guidance to Rule:*

*For the purposes of this rule, a **defaulter** will be deemed to have acted in both principal and agency capacity in relation to a single trade if its agency operation (using a **member ID** identified as being associated with its agency operation) has traded with its market making or principal trading operation (using a different **member ID** identified as being associated with its principal operation) when executing some or all of its agency business. In such cases, the application of the **Exchange's default rules** for unsettled **relevant agency contracts** would not be effective as the broker on both sides of the trade is the defaulter. Instead, the **Exchange** will treat the trade as an unsettled **relevant principal contract** (i.e. as though the **defaulter** dealt as **principal** with its **customer**), so that there can be a resolution of the unsettled transaction.*

*(Amended N08/10 – effective 15 April 2010)*

D153	Where the <b>defaulter</b> is a <b>gilt inter dealer broker</b> or a <b>wholesale dealer broker</b> , the <b>defaulter's counterparties</b> , having been contacted by the <b>default official</b> , shall complete the transaction at the price at which the original order was submitted by the non-aggressor.
<i>(Amended N08/10 – effective 15 April 2010)</i>	

D154	If the <b>member firm</b> which originally dealt the unsettled <b>relevant agency contract</b> with the <b>defaulter</b> is unable to settle the contract with the <b>defaulter's customer</b> or <b>counterparty</b> within one month of writing to that <b>customer</b> or <b>counterparty</b> pursuant to rule D151, having made all reasonable efforts to do so, then such <b>member firm</b> shall be permitted to close the unsettled <b>relevant agency contract</b> by purchasing or selling securities in the market and either accounting for any profit arising to that <b>customer</b> or <b>counterparty</b> or claiming any loss arising against that <b>customer</b> or <b>counterparty</b> .
<i>(Amended N08/10 – effective 15 April 2010)</i>	

D155	If the <b>default official</b> , in relation to an unsettled <b>relevant agency contract</b> in the form of an <b>agency cross</b> to which the <b>defaulter</b> is a party, is unable to settle the contract with the <b>defaulter's customer</b> or <b>counterparty</b> , within one month of writing to that <b>customer</b> or <b>counterparty</b> pursuant to rule D151, having made all reasonable efforts to do so, then the <b>default official</b> shall be permitted to close the unsettled <b>relevant agency contract</b> by purchasing or selling securities in the market and either accounting for any profit arising to that <b>customer</b> or <b>counterparty</b> or claiming any loss arising against that <b>customer</b> or <b>counterparty</b> .
<i>(Amended N08/10 – effective 15 April 2010)</i>	

**Exceptions from these rules** [D200]

D200	Any unsettled <b>relevant principal contract</b> or <b>relevant agency contract</b> that is dealt for settlement by means of any settlement process will be subject to the <b>default rules</b> unless:
D200.1	the settlement process will proceed despite the declaration of default because: <ol style="list-style-type: none"> <li>1. the contract entered into by the <b>defaulter</b> is to be settled through that settlement process through the service of an <b>agent</b>; or</li> <li>2. the process replaces or alters the rights and obligations of the contracting parties such that the declaration cannot disrupt or interrupt the process; or</li> </ol>
D200.2	in respect of unsettled <b>relevant contracts</b> , the settlement process has default rules that, in the opinion of the <b>Exchange</b> , adequately provide for their binding resolution.
<i>(Amended N08/10 – effective 15 April 2010)</i>	