



London
Stock Exchange

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

N12/10

STOCK EXCHANGE NOTICE

Consultation on Proposed Rule Amendments for Inappropriate Orders and Erroneous Quotes

Introduction

1. The London Stock Exchange (“the Exchange”) proposes to amend the Rules of the London Stock Exchange (“the rules”) to include rules and guidance on inappropriate orders. The Exchange invites interested parties to comment on the proposed changes, which are set out in the attachments.

Background

2. At present, the rules state that member firms are obliged to have, at all times, sufficient order management systems, procedures and controls designed to prevent the entry of erroneous orders to TradElect[®]. An erroneous order is an order entered mistakenly where there was no intention to trade in the security, or an order where the terms entered, mistakenly, did not represent the intended transaction.
3. However, orders which are not actually erroneous in nature can also have a detrimental impact on the Exchange’s markets if they are inappropriate. For example, a very large order that is submitted at the end of an auction period or a very large, aggressively priced limit order that is submitted during continuous trading may distort the price of a stock. A further example is that of repeatedly entering aggressive, very small orders in quick succession that execute against the same passive order. This sort of behaviour can reduce participants’ confidence in the efficiency and orderliness of the Exchange’s markets.

4. Currently, the Exchange contacts member firms to query orders which have had or could have had a detrimental effect on the market, irrespective of whether the orders were submitted deliberately or in error. However, the rules do not currently make clear the Exchange's views on inappropriate orders that are entered intentionally.

Proposed changes to the rules

5. We propose to amend the rules to address inappropriate orders. These can be described as orders, the terms of which were not submitted in error, but which, in the view of the Exchange, have had or could have had a detrimental effect on the efficiency and orderliness of the Exchange's markets.
6. We recognise that determining whether an order is inappropriate is subjective. We have therefore included, in the guidance to rule 2101, a non-exhaustive list of behaviours which the Exchange is likely to find inappropriate. In reality we expect that the controls that member firms already have in place to prevent the submission of erroneous orders should be similarly effective in preventing inappropriate orders. We suggest that member firms review their controls to confirm that this is the case.
7. We will continue to engage with member firms in a collaborative manner when we identify potentially inappropriate or erroneous orders. When incidents arise, we will work with member firms to determine if it is necessary for them to make any changes to their systems and controls going forward.
8. In much the same way as we treat erroneous orders, we would generally only initiate disciplinary proceedings against member firms that submit inappropriate orders that have or could have had a particularly adverse effect on the market, or where member firms submit inappropriate orders repeatedly.
9. We also intend to amend sections of the rules which relate to erroneous orders, in order to clarify that the rules and guidance on this subject also apply to quotes.

Rules consultation

10. The Exchange is consulting on the rules changes set out in the Attachments for a period of four weeks. Interested parties are therefore asked to provide any comments or feedback on this consultation by 14 June 2010.
11. Any comments or queries on this Notice should be addressed to Nisha Patel, UK Regulation, telephone +44 20 7797 3130 (STX 33130) or email: npatel@londonstockexchange.com.

Nick Bayley
Head of UK Regulation

This Stock Exchange Notice will be available on the website at
<http://www.londonstockexchange.com/engb/products/membershiptrading/rulesreg/stockexnoticesnew/>

Calls to London Stock Exchange plc may be recorded to enable the Exchange to carry out its regulatory responsibilities.