

Attachment 2 to Stock Exchange Notice N17/10

DEFINITIONS

Where the context is appropriate the plural form of a defined term is also deemed as being the defined term and as such appears in bold text within the rules.

basket	a contract or other instrument for the purchase or sale of a pre-defined group of international equity market securities , where the component securities are individually delivered upon settlement in proportion to their weighting in that group and to which the Exchange has allocated an ISIN
exchange traded commodity product	a security that derives its price from one or more commodities or commodity derivatives <u>tradable unitised debt security that derives its price from one or more underlying assets</u>
exchange traded fund	a security that is an open-ended investment company <u>derives its price from a diversified group of assets and is issued by a collective investment scheme</u>
LCH rules	LCH.Clearnet <u>Ltd</u> Limited rules
market open	(a) in relation to an order book security , the earlier of: (i) the start of continuous trading; or (ii) the start of the call period for an opening auction. (b) in relation to a quote-driven security , the start of the mandatory period
RepoClear	the netting and clearing service operated by LCH <u>LCH.Clearnet Ltd.</u>
settlement <u>rules</u> procedures	the '5000' series of these rules which sets out detailed rules and procedures for settlement of on Exchange trades

CORE RULES

Member firm services

Gilt inter dealer brokers and wholesale dealer brokers [1120-1128]

Restrictions

1121	Any service registered under rule 1120 must be segregated from any other service registered under rule 1120 and from other parts of the member firm , <u>and in addition, the services must operate under separate member IDs and settlement must be segregated within the settlement system participant codes.</u> The services may not transact business with each other.
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Compliance and enforcement

Information, monitoring and investigation [1210-1214]

D	1214	The Exchange may disclose information and documents:
	1214.1	to co-operate, by the sharing of information and documents and otherwise, with any recognised exchange or clearing house which clears and/or settles on Exchange trades and any authority, body or person in the United Kingdom or elsewhere having responsibility for the supervision or regulation of any regulated activity or other financial service or for law enforcement purposes;
	1214.2	for the purpose of enabling it to institute, carry on or defend any proceedings including any court proceedings;
	1214.3	for any purpose referred to in FSMA or any regulations or order under it;
	1214.4	under compulsion of law;
	1214.5	for the purpose of enabling the Exchange to discharge its functions having regard in particular to the protection of investors and the maintenance of high standards of integrity and fair dealing; and <u>or</u>
	1214.6	for any other purpose with the consent of the person from whom the information was obtained and, if different, the person to whom it relates

OFF ORDER BOOK TRADING RULES

Trades

On Exchange trades [3000]

G	3000	A trade is on Exchange if one or both of the parties to the trade is a member firm
P		(whether as agent or as principal) and the trade is effected:
	3000.1	in a MiFID transparent security (as detailed in parameters) and the member firm and its customer or counterparty agree at or prior to the time of effecting the trade that it shall be subject to the rules of the Exchange ;
	3000.2	in an AIM security (as detailed in parameters) unless the member firm and its customer or counterparty agree at or prior to the time of effecting the trade that it shall be subject to the rules of an AIM primary market registered organisation or an AIM secondary market registered organisation and reports the trade to it in accordance with that organisation's rules; or
		<i>(Amended N38/09 – effective 19 August 2009)</i>
	3000.3	in any security admitted to trading on the Exchange's markets not covered by 3000.1 & 3000.2 above (as detailed in parameters) unless the member firm and its customer or counterparty agree at or prior to the time of effecting the trade that it shall be reported to a venue that has equivalent or greater post-trade transparency than the Exchange's regime for that security.

Guidance to Rule:

3000.2

AIM primary market registered organisation

Member firms may only treat a transaction dealt on an **AIM primary market registered organisation** as being off **Exchange** if (i) the issuer whose security is being traded is regulated by that **AIM primary market registered organisation** in accordance with the considerations outlined in the paragraph below and (ii) they are a member of that **AIM primary market registered organisation** and are reporting the trade to it.

In determining whether a trading venue qualifies as an **AIM primary market registered organisation**, the **Exchange** will consider whether the trading venue has rules that place a continuing obligation on the **AIM** issuer for the timely disclosure of corporate information; whether those rules also oblige the issuer to provide all necessary information to the trading venue to maintain a proper market in the **AIM securities**; and whether the trading venue has the discretion to refuse to admit to trading, to suspend from trading and to cancel from admission to trading the securities of **AIM** issuers.

It is expected that most **AIM primary market registered organisations** will be overseas venues on which **AIM** issuers have chosen to list their securities in addition to being admitted to trading on **AIM**.

AIM secondary market registered organisation

Member firms may only treat a transaction dealt on an **AIM secondary market registered organisation** as being off **Exchange** if they are a member of that **AIM secondary market registered organisation** and are reporting the trade to it.

The regime for **AIM secondary market registered organisations** is designed to provide **member firms** with the ability to trade **AIM securities** on other venues in a manner that will allow the **Exchange** to retain adequate oversight of the **AIM** market and to ensure the maintenance of high regulatory standards. In particular, the regime will allow the **Exchange** to maintain a proper market in **AIM securities**. The requirement to operate a proper market is set out in the Recognition Requirements Regulations and associated FSA Handbook ("REC").

Where no primary market relationship exists between the applicant venue and the issuer, the **Exchange** will apply the following criteria to establish the suitability of an applicant to be an **AIM secondary market registered organisation**. The criteria that follow represent the minimum standards which the **Exchange** will apply for the purpose of deciding whether an applicant venue may qualify for recognition as an **AIM secondary market registered organisation** in accordance with Rule 3000.2.

1. The **AIM secondary market registered organisation** must have the ability and have appropriate gateways to communicate freely with the **Exchange** on regulatory matters generally, without regard to matters such as client confidentiality or commercial secrecy;
2. The **AIM secondary market registered organisation** must provide at least equivalent pre- and post-trade transparency as that provided by the **Exchange** on **AIM**;
3. The **AIM secondary market registered organisation** must implement practical operational mechanisms (to be approved by the **Exchange**) to provide real time trading information to the **Exchange** on a continuous basis, in respect of transactions in **AIM securities** admitted to the **AIM secondary market registered**

organisation. These arrangements may vary from case to case, but must include information that will enable the **Exchange**, in relation to trading in **AIM securities**, to:

- see all executed trades immediately, including any unpublished trades;
- identify both counterparties to the trades; and
- identify through its surveillance system whether any anomalous trades or unusual trading is taking place on the **AIM secondary market registered organisation.**

The above information is required in order that the **Exchange** can ensure a proper market in **AIM securities**. Any material failure to meet these criteria by a venue will result in the Exchange withdrawing **AIM secondary market registered organisation** status with immediate effect.

The **Exchange** will maintain a list of the approved **AIM secondary market registered organisations** on its website.

(Amended N38/09 – effective 19 August 2009)

3000.2 & 3000.3

In relation to rules 3000.2 and 3000.3, where a **member firm** is interposed between two principal trades entered at the same time and price and one trade has been reported for publication, there is no obligation to report the second leg to the **Exchange**. **Member firms** should note that if they wish the second leg to be regarded as an **on Exchange** trade then they will have to submit a separate, non publishing **trade report** using the "NM" trade type. This will ensure the **Exchange** has a satisfactory audit trail of the second principal trade.

3000.3

~~In relation to an international retail service security, rule 3000.3 would include trades in **CDI** form but exclude trades in the underlying security itself.~~

~~In relation to reporting of trades in **fixed interest securities**, ICMA is considered to be a suitable reporting venue.~~

General Exclusions

The following trades would not be considered to be **on Exchange**:

- The equity legs of stock and option contingent strategies.
- The creation and redemption of ETFs (unless bringing **on Exchange** for stamp relief reasons in which case such trades can be reported as non publishing trade reports.)

In addition a contract to place, offer or underwrite securities that are the subject of an application to be **admitted to trading**, or admitted to trading on a venue where the contract is made before the application is accepted.

Primary allocations subject to listing are off **Exchange**

An exception to this is the exercise of an over-allotment option ("green shoe") which is commonly agreed by a sponsoring **member firm** as part of the stabilisation and underwriting arrangements for an introduction to **admission to trading**, as well as for further new issues of shares. Whether the option is ever exercised, and the

extent to which it is utilised, will depend on the take up of the issue, the underlying share price in the market and the stabilisation transactions undertaken. Such trades can be brought **on Exchange** under the following circumstances:

- the terms of the green shoe option must be agreed and included in the circular, prospectus or an **AIM** admission document, where such documentation is required by law or is voluntarily published, prior to sign-off, including confirmation that the option writer holds sufficient shares to meet any obligation under the option;
- that at the point of exercise the shares to be delivered are admitted to trading; and
- a regulatory news announcement has disclosed that exercise has taken place.

Once the shares have been **admitted to trading**, and if all the above points have been met, the exercise of the green shoe option may be trade reported to the Exchange immediately after the agreement to exercise. This will typically be at the same time as the disclosure announcement is made that the exercise has taken place. **Member firms** who wish to report such arrangements to the **Exchange** should contact the Market Supervision department on +44 (0) 20 7797 3666 (STX 33666). The **Exchange's** guidance on reporting the exercise of a green shoe does not override a **member firm's** obligations under UKLA rules.

Responsibility for submission of a trade report

G P	3012	The following trade reporting responsibility rules apply, unless otherwise agreed in accordance with rule 3013:
	3012.1	a trade between a member firm and a non-member, the member firm reports;
	3012.2	a trade between a market maker and a broker dealer , the market maker reports;
	3012.3	a trade between two market makers , the selling market maker reports; and
	3012.4	a trade between two broker dealers , the selling broker dealer reports.

Guidance to Rule:

Rule 3012.1

This would include:

- an **agency cross** where the orders are matched by the **member firm**
- a trade between a **gilt inter dealer broker** and the UK Debt Management Office.

(Amended N44/09 – effective 19 October 2009)

Rule 3012.2 & 3012.3

For the purposes of determining the obligation to submit a **trade report**, a **market maker** in one or more subset of securities as defined in the parameters (e.g. Equity Main Market, AIM etc) operating on an **Exchange** trading service, as defined within the parameters, shall be regarded as a **market maker** in all securities within that subset operating on that trading service.

In relation to a trade between a **gilt-edged market maker** and either a **broker dealer**, **gilt inter dealer broker** or **wholesale dealer broker**, the **gilt-edged market maker** reports.

Rule 3012-3

In relation to a trade between two **gilt-edged market makers** the selling **gilt-edged market maker** reports.

Required content of trade reports [3040]

G P GT	3040	A member firm must ensure that the content of a trade report is accurate and entered in accordance with the guidance to this rule and the parameters .
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Guidance to Rule:

Counterparty identification

Where the **customer** or **counterparty** is an **introducing firm**, the **member ID** for the **introducing firm** must be used and not the **member ID** of the **model B firm** that represents it.

Where the **customer** or **counterparty** is a **dealing agent**, the **member ID** for the **dealing agent** must be used and not the **member ID** for the **member firm** it represents.

Where the **customer** or **counterparty** is a **member firm** that employs a **settlement agent**, the **member ID** for the **member firm** must be used and not the **member ID** of the **settlement agent**.

Date and time of trades

The time of execution of a 'give up', which should be shown as the trade time on the **trade report** for the 'give up', is the time at which the 'give up' is agreed between the two **member firms** involved.

Member firms shall submit the exact date and time of when a trade is agreed to the nearest second. Therefore, the trade time submitted on a **trade report** should not automatically default to 00 seconds or any other automatic default of time traded.

Purchase or sale

The reporting party must state whether they are the buyer or the seller.

Trade type indicators

Each **trade report** can only have one trade type indicator. A **member firm** ~~must~~ therefore decide the most appropriate should ensure the correct trade type indicator is used when reporting the trade. ~~in relation to the trade.~~

- The **negotiated trade** type indicator is only available for trades conducted in securities that have been admitted to trading on an **EU regulated market** and it should also only be used where the trade qualifies as a **negotiated trade**. Hence, ~~Where~~ where the reporting member firm is a market maker in the security and has provided pre-trade transparency, the trade should be reported as an ordinary trade, including an **agency cross**. Alternatively, where the reporting member firm is not a market maker in the security and has not provided pre-trade transparency for the trade, the trade should be reported as a **negotiated trade**, including an **agency cross**. Where a **negotiated trade** is subject to conditions other than the current market price of the share, a **member firm** should include the "SP" trade reporting condition on the **trade report**.
- Where a **trade report** is not to be published, in accordance with rule 3011,

it should be reported as a non-publishing trade report.

- Where a **member firm** conducts a **large trade** it can be entered as an ordinary trade.
- In the event that the reporting of a trade is delegated subject to rule 3013, the same trade type indicator should be used (ie: ordinary trade or negotiated trade).

Trade price

All **trade reports** must be the gross price (excluding any commission).

Dealing capacity

The dealing capacity must be either “A” for **agent** or “P” for **principal**. **Member firms** must ensure that their dealing capacity is entered correctly on every **trade report** they submit to the **Exchange**. Doing so may prove important, for instance, in the event of a **member firm** (either the firm reporting the trade or another firm) being declared a **defaulter** on the **Exchange**.

(Amended 37/09 – effective 19 August 2009)

Converted currency

The converted currency indicator should be used if the execution is done in another currency and converted into the currency as stipulated by **TradElect**[®].

Reporting condition

Where the terms of a trade conflict with the market conditions prevailing at the time of the trade, the reporting condition should be included. Examples where the reporting condition should be used include, but are not limited to:

- where the trade is done on a special cum or ex dividend / coupon / rights / bonus / capital repayment basis;
- where the trade is for guaranteed delivery;
- where the trade is part of a **portfolio**;
- where the trade is a VWAP;
- where the trade is a “give up”;
- special price;
- where the trade is for non standard settlement; or
- where a **negotiated trade** is subject to conditions other than the current market price of the share.

Unique trade identifier

Where a firm wishes to include a **unique trade identifier** this should be entered in the buy client reference field where the trade is a purchase or in the sell client reference field where the trade is a sale.

MARKET MAKER RULES

Registration

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

G	4000	A member firm that intends to act as a market maker shall register as such with the Exchange .
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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~~ service to another or is subject to a change in the security line (for instance in the event of a corporate action or restructuring), the **Exchange** will automatically carry over the **market maker** registrations ~~if where appropriate, or unless otherwise requested by the market maker specifically requests otherwise.~~

Registration as a **gilt-edged market maker** shall be effective ~~either~~ in one of the following:

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

Market makers in order driven securities

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

G	4110	A market maker has no obligation to maintain its executable quotes :
	4110.1	in a security where any intra-day auction has been triggered due to a price monitoring breach and for five minutes following the end of the intra-day auction; or
	4110.2	in a covered warrant and it is the expiry day of that covered warrant ;
	4110.3	in a security where there is a public holiday on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing ;
	4110.4	in a security where there is a trading halt on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing and may delete its executable quotes . A market maker must re-enter its executable quote on resumption of trading; or
	4110.5	in an exchange traded fund or an exchange traded commodity product , 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 product .

Guidance to Rule:

Rule 4110.1

*Following any intra-day auction, a **market maker** must ensure that its **executable quotes** are available for automatic execution within the five minute period following the resumption of continuous trading. A **market maker** can however choose to maintain its **executable quotes** during the intra-day auction.*

(Amended N07/09 – effective 04 February 2009)

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 product**. If approved, the suspension applies to all **market makers** in the particular **exchange traded fund** or **exchange traded commodity product**. This suspension only applies to the day in question and a **market maker** must make separate requests on a daily basis, if necessary.*

(Amended N09/09 – effective 23 February 2009)

SETTLEMENT, CLEARING AND BENEFIT PROCEDURES RULES

Clearing through a Central Counterparty

Clearing arrangements [5200-5202]

G	5201	A member firm shall not enter an order in a central counterparty security into TradElect® unless:
	5201.1	it is a Non Clearing Member or clearing member and is party to a current, valid clearing agreement with a separate General Clearing Member that will clear any resulting trades; or
	5201.2	it is a clearing member itself and the order is in a principal or riskless principal capacity (and the Exchange may require the clearing member to act as principal on any resulting trades regardless of how the order was entered).

Guidance to rule:

Where a model B arrangement is in use, rules 5201.1 and 5201.2 apply to the **model B firm** although the **introducing firm** will have the technical connection to **TradElect®**.

*All agency trades must be cleared by a **General Clearing Member** that is separate from the **member firm** that is party to the trade. A **member firm** that is itself a **clearing member** can only clear its own **principal** and riskless principal business and will need a separate clearing arrangement for its agency business.*

***Individual Clearing Members** can only clear their own trades.*

***Member firms** wishing to use different **clearing members** for otherwise similar trades on a trade by trade basis must use different **Member IDs** to control which **clearing member** is used.*

General benefits

Dividends

Cancellation of dividends [5440]

	5440	On receipt of information cancelling or deferring the recommendation or declaration of a dividend, the Exchange may issue a notice cancelling the ex action and, as a result:
	5440.1	any notice published making the security ex dividend is automatically cancelled and devoid of effect;
	5440.2	any document issued by the Exchange in respect of a cancelled dividend is automatically withdrawn and devoid of effect;
	5440.3	<u>a transaction effected ex dividend, other than a transaction effected special ex dividend, shall not be adjusted; any document issued by the Exchange in respect of a cancelled dividend is automatically withdrawn and devoid of effect;</u>
	5440.4	a trade effected special cum or special ex dividend shall be adjusted by either, refunding the cash equivalent in respect of the cancelled dividend or, the seller re-attaching the coupon in respect of the dividend, in the case of a bearer certificate.