Attachment 2 to Stock Exchange Notice N20/10

Introduction

Reference to any statute and statutory provision shall be construed as those in force from time to time. References to time shall mean the time in London unless stated otherwise. References to days are business days unless otherwise stated.

Chapter headings, section headings and the titles and numbers of rules are for guidance and ease of reference only.

For the purpose of these rules, an act or course of conduct includes both acts and omissions. Terms in bold are defined terms and shall have the meanings set out in the Definitions unless the context otherwise requires, and cognate expressions shall be construed consistently with them.

Rules with supplementary guidance are flagged with the notation “G” with the relevant guidance located immediately after the rule.

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

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

These rules shall be construed in accordance with, and governed by, the laws of England and Wales.

The Exchange shall not be liable in damages for anything done or omitted in the discharge of these rules unless it is shown that the act or omission was done in bad faith.

Structure

This Rulebook is structured as follows:

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

Supporting documentation

The Guide to the trading system provides an overview of the functionality of the trading system and supports the Rulebook.

Rules that are supported by information in the Guide to the trading system are flagged with a “GT” for ease of reference.

A Parameters spreadsheet also supports the Rulebook. This provides the specific system thresholds that govern member firm interaction with the trading system. The Parameters are kept up-to-date to ensure that they fully describe the operation of tradeable instruments in the various segments of the Exchange’s markets. Rules that are supported by specific Parameters are flagged with a “P”. The parameters spreadsheet provides the specific system thresholds that govern member firm interaction with the trading system.

The Markets in Financial Instruments Directive ("MiFID" or "the Directive")

Transparency regime

The Exchange's order books offer fully transparent trading environments. It is also possible for member firms, including those that might otherwise fall within the Directive's definition of a systematic internaliser, to provide quotes via a number of the Exchange's facilities and thereby meet the regulatory requirements placed upon them.

Trade reports

The Exchange relies upon trade reports as the audit trail of on Exchange business conducted away from an order book. In the trade reporting responsibility hierarchy the market maker reports in most instances, but otherwise the seller reports. Member firms are able to delegate reporting between them. Full details can be found in rules 3012 – 3013.

Delayed publication

The Directive allows for delayed publication of some trades undertaken on behalf of clients, with the length of the delay depending on the size of the trade. Rules 3030 - 3033 describe where this is permitted, with the relevant trade sizes and associated delays for all securities set out in the Parameters.

Negotiated trades and large trades

The Directive provides for competent authorities to be able to waive the obligation for regulated markets to have pre-trade transparency for individual trades under both the negotiated trade waiver and the large order waiver.

The negotiated trade waiver allows a member firm to bring on Exchange a trade in a share that is admitted to trading on an EU regulated market that is not subject to pre-trade transparency on the trading system. This is subject to the trade being on terms that are no worse than those that could be achieved on the relevant Exchange order or quote book, after taking into account any relevant trading, settlement and clearing costs.

Similarly the large order waiver allows a member firm to bring on Exchange a trade in a share that is admitted to trading on an EU regulated market for which the corresponding order was large in size when compared against the normal market size for that security based on the average daily turnover.

The waivers allow member firms undertaking such trades to continue to benefit from the certainty provided by the Exchange's rules, rather than having to undertake them on an OTC basis. Further details on both waivers are included in the guidance to rule 3040.

On Exchange

As the Directive provides a consistent level of transparency across Europe, the on Exchange rule recognises that the trading of shares admitted to trading on EU regulated markets can take place across multiple venues. Member firms are required to report business to the Exchange in securities that are not subject to MiFID transparency, such as AIM, gilts and fixed interest securities unless otherwise permitted by the Rules. This ensures a base level of transparency and regulation is maintained for shares that are not admitted to trading on an EU regulated market and all other tradeable instruments. Full details can be found in rules 3000 – 3001.

The Exchange's rules make a clear distinction between member firm acting as principal and as agent. Two trades with a member firm interposed as agent is deemed to be a single transaction. Two trades with a member firm interposed as principal is deemed to be two transactions.

DEFINITIONS

~~**at best order**~~	~~an unpriced order submitted to **TradElect®** with a specified size which may execute, either in part or in full, against eligible orders with any unexecuted portion being rejected~~
best bid	the highest **bid price** displayed on ~~**TradElect®**~~ the **trading system**
best offer	the lowest **offer price** displayed on ~~**TradElect®**~~ the **trading system**
central counterparty trade	an electronically matched order on ~~**TradElect®**~~ the **trading system** in a **central counterparty security**
contra	a trade undertaken on ~~**TradElect®**~~ the **trading system** that is equal and opposite to a previous trade in the same security, undertaken by the same participants in order to negate the original trade. By its nature, a contra must be agreed upon by both parties to the original trade
Exchange enforced cancellation	the cancellation by the **Exchange** of an automated trade executed on ~~**TradElect®**~~ the **trading system**, either in response to a request from a party to the trade or undertaken unilaterally by the **Exchange**. Discretion as to whether or not to cancel a trade lies solely with the **Exchange**
Exchange market size	the minimum quantity, as specified by the **Exchange**, of securities for which a **market maker** is obliged to quote a firm two way price on ~~**TradElect®**~~ the **trading system**
Exchange price list	the documents published by the **Exchange**, from time to time, setting out charges and fees for: (a) membership of the **Exchange**; (b) use of ~~**TradElect®**~~ the **trading system**; (c) trades reported to the **Exchange**; or (d) other services and products provided by the **Exchange**
~~**Guide to TradElect®**~~	
Guide to the trading system	the **Exchange** publication that describes how the **Exchange's trading system** functions and referenced in these rules by the notation "GT"
large trade	a trade conducted in an **EU regulated market** security that is not subject to pre-trade transparency on ~~**TradElect®**~~ the **trading system** as the size of the corresponding order was equal to or larger than the minimum size of order as specified in Table 2 in Annex II of **MiFID** Level 2 legislation
matched buyer	a **member firm** on the buy side of an electronically matched order on the ~~**TradElect®**~~ **trading system**
matched seller	a **member firm** on the sell side of an electronically matched order on the ~~**TradElect®**~~ **trading system**

~~**member authorised connection**~~	
sponsored access	a direct technical connection that enables a non **member firm** to access ~~**TradElect®**~~ the **trading system** directly under a **member firm's** trading codes. Orders submitted in this manner do not pass through the usual order management systems of the **member firm** but will pass through the **Exchange's** controls
negotiated trade	a trade conducted in an **EU regulated market** security that is not subject to pre-trade transparency on ~~**TradElect®**~~ the **trading system** and which is on terms that are no worse than those that could be achieved on the relevant **Exchange** order or quote book (or where the share is not traded continuously, is on terms that are no worse than those that could be achieved on a relevant venue with continuous trading), after taking into account any relevant trading, settlement and clearing costs
~~**order routing**~~	
direct market access	a ~~facility~~ service provided by a **member firm** through which a **customer** is able to submit orders to ~~**TradElect®**~~ the **trading system** under the **member firm**'s trading codes and via the **member firm's** usual order management systems, but without manual intervention by the **member firm**
Reg S traded security	securities of US issuers (as defined under US securities law) issued pursuant to the offshore safe harbour from registration requirements available under Category 3 of Regulation S under the US Securities Act of 1933, as amended, and identified as such on ~~**TradElect®**~~ the **trading system** with the letters "REG S"
~~**TradElect®**~~	
trading system	the trading system operated by the **Exchange**
trade report	a report of the details of a trade effected **on Exchange** which is made to ~~**TradElect®**~~ the **trading system** and which the **Exchange** may publish subject to certain criteria
trade reporting period	(a) the period each day between 07.15 hours and 17.15 hours; or (b) the period each day between 08:15 hours and 18:15 hours Central European Time when ~~**TradElect®**~~ the **trading system** will accept **trade reports**
~~**unique trade identifier**~~	~~a unique reference assigned to a transaction by either a **member firm** or, for a transaction where a **trade report** is generated automatically by the **Exchange's** systems, the trade code assigned by **TradElect®** to such **trade report**~~

CORE RULES

Member firms

(Rules 1000 – 1040 unchanged)

Notifications [1050-1051]

Immediate notifications

G	1050		A **member firm** shall, immediately upon becoming aware of any circumstances which have, will or may lead to a contravention of any of the rules, including system problems, notify the **Exchange** of such circumstances in as much detail as is available to it. Failure of a **member firm** to notify the **Exchange** in such circumstances may result in a contravention of the rules by the **member firm**.

Guidance to Rule:

*A **member firm** system problem is any in-house technical difficulty which prevents a **member firm** from accessing, viewing data from or submitting data to ~~**TradElect**~~®! the **trading system**. Where a **member firm** provides ~~order routing services~~ **direct market access** to **customers**, a **customer** system problem may also constitute a notifiable event.*

Such notifications should be made to the Market Supervision department on (0044) 20 7797 3666, STX 33666.

Advanced notifications

G	1051		A **member firm** shall notify the **Exchange** in writing, at least 21 calendar days in advance of the proposed effective date, of any proposed changes to its **membership profile**.

Guidance to Rule:

*The **Exchange** would expect notification of, at a minimum, the following profile changes:*

- *name and address of the **member firm**;*
- *senior executive officer or compliance officer of the **member firm**;*
- *scope of trading activity in relation to **on Exchange** business, including trading codes;*
- *access to the ~~**TradElect**~~® the **trading system**; and*
- *scope of settlement and clearing arrangements in relation to **on Exchange** business including settlement and clearing codes.*

Such notifications should be made to the Client Implementation department at clientimplementation@londonstockexchange.com.

(Rules 1060 – 1303 unchanged)

General conduct

Misleading acts, conduct and prohibited practices [1400]

G	1400		A **member firm** shall not, in respect of its **on Exchange** business:
		1400.1	do any act or engage in any course of conduct which creates or is likely to create a false or misleading impression as to the market in, or the price or value of, any security;
		1400.2	cause a fictitious trade or a false price to be input into ~~**TradElect**~~® the **trading system**;
		1400.3	effect a trade at any price which differs to an unreasonable extent from any firm price displayed on ~~**TradElect**~~® the **trading system** in that security;

1400.4 do any act or engage in any course of conduct which is likely to damage the fairness or integrity of the **Exchange's** markets; or

1400.5 do any act or engage in any course of conduct which causes, or contributes to, a breach of the **Exchange's** rules by another **member firm**.

Guidance to Rule:

***Order book** conduct*

*A **member firm** is at all times bound by suitability rule 1020.*

*A **member firm** submitting an order to ~~**TradElect**~~® the **trading system** is responsible for that order under the above Rule. This applies whether the order is submitted by the **member firm** itself or has been automatically routed from a third party (whether another **member firm** or not).*

*Certain trading practices that exploit the commitment given by firms that act as RSPs are considered to be detrimental to the fairness and integrity of the **Exchange's** markets and should be discouraged. For example, an order is entered onto the **order book** with the intention of creating a new best price, away from generally accepted trading levels, for the principal purpose of executing a larger order against an RSP by virtue of the RSP's previous commitment to deal on the basis of the current best **order book** price.*

*In any instance where a firm trades either as **principal** or as **agent** on behalf of an employee of the firm in a manner and with an intention similar to that described above, the **Exchange** will conduct a full investigation into the circumstances of the activity and, if considered appropriate, will initiate disciplinary action.*

*Where a firm deals in a manner similar to that described above (regarding the commitment given by firms that act as RSPs) on behalf of a **customer**, the firm will not be in breach of the **Exchange's** rules per se. However, although the **Exchange's** rules do not specifically require a firm to establish the motives behind a **customer's** trade, if the Exchange becomes aware that a firm is knowingly engaging in such a trading strategy on behalf of a **customer**, the **Exchange** will conduct an investigation and consider whether disciplinary action or a referral to another regulatory body is appropriate.*

Entry and deletion of orders

*All orders entered on to the **order book** are firm. While the **Exchange** understands that trading decisions of **member firms** may change, **member firms** should not enter orders into the auction or during continuous trading with the intention of deleting or otherwise amending them before execution. This can give a potentially misleading impression of the level of liquidity in the market or the likely auction uncrossing price and volume to other participants. Such activity may constitute a breach of rule 1400*

Short selling

***Member firms** are required to have at all times adequate systems and controls to ensure that their business is being conducted and settled in accordance with the **Exchange's** rules. These systems should enable **member firms** to monitor trading positions (long and short), identify stock shortages, settlement delays or backlogs, particularly where these may be attributable to running a substantial short position in a particular security. **Member firms** are also obliged under rule 1400 not to do any act or engage in any course of conduct which is likely to damage the fairness or integrity of the **Exchange's** markets, or which might create a false or misleading impression as to the markets or price of a security. **Member firms** must ensure that when they undertake short selling on a substantial scale, either on their own account or on behalf of **customers**, they have a clear strategy for ensuring the settlement of their short positions. If **member firms** believe at any point that they will be unable to fulfil their settlement obligations they should not continue to pursue their short selling strategy.*

*Short selling on a substantial scale can lead to significant settlement problems, which in turn can result in the **Exchange** having to issue a market status message warning the market of settlement problems. Where the **Exchange** issues such a message firms should consider very carefully whether further short selling will exacerbate the situation, in which case **member firms** should not continue to short sell (unless stock is available to cover any new positions). **Member firms** should cooperate with the **Exchange** to ensure timely settlement,* *including making every effort to settle outstanding unsettled short positions.*

Where a market status message has been issued, ***member firms*** *are reminded of the requirement for firms to comply with the FSA Principles for Business, in particular Principle 1 (Integrity) and Principle 6 (Customers' Interests).*

Member firms *may be able to mitigate the settlement problems which can arise from short selling through the use of the guaranteed delivery facility and the* ***Exchange's buying-in*** *arrangements.*

Roll over trading

When conducting a roll over trade or a sale and buyback, ***member firms*** *should consider the volume of business that these trades account for, relative to the daily market turnover in the security.* ***Member firms*** *should ensure that they have adequate procedures in place to monitor this activity and controls to prevent* ***customers*** *circumventing these by using different methods to deal, such as opening a position by telephone whilst at the same time closing another using one of the* ***member firm's*** *web based systems.*

Where these trades are conducted in less liquid securities, the market may see inflated turnover in the security which is actually only a ***customer*** *buying and selling the same position. Undertaking such sale and buyback trades, in addition to the regular rolling of trades, could give a false or misleading impression to the market and the* ***Exchange*** *may consider this to falling under general conduct rules 1400.*

(Amended N78/07 – effective 3 December 2007)

Share price manipulation [1410]

G	1410	A **member firm** trading in a security shall not do any act or engage in any course of conduct the sole or main intention of which is to move the price of that security or the level of any **index** of which that security is a component.

Guidance to Rule:

Rule 1410 does not preclude a ***member firm*** *from pursuing a bona fide trading strategy, as* ***principal*** *or on behalf of* ***customers****, or from effecting trades in the normal course of its business. However, in all cases, a* ***member firm*** *should ensure that it is in a position to be able to justify to the* ***Exchange*** *that, in effecting a trade or pursuing a particular trading strategy, it acted in pursuit of a bona fide commercial purpose.*

The ***Exchange*** *is likely to seek further information and detailed explanations from a* ***member firm*** *in respect of any activity that appears to amount to a breach of rule 1410. Examples of activity that may lead the* ***Exchange*** *to seek further information from a* ***member firm*** *include, but are not limited to, instances where:*

- *in executing a* ***customer*** *order based on a reference price of a security, a* ***member firm*** *submits a number of comparatively small orders, shortly before the reference point, which are not proportionate to previous, related business by the* ***member firm*** *and appear to be intended to profit the* ***member firm*** *at the* ***customer's*** *expense;*

- *towards the striking or expiry of a hedged derivative position, a* ***member firm*** *trades in the cash market beyond the level required to set up or unwind the hedge and this appears to be done principally in order to benefit the firm's derivative position;*

- *a* ***member firm*** *with a partially hedged, or un-hedged, OTC futures or options position, trades in the cash market, apparently uneconomically in respect of that cash business, but to the benefit of the OTC position; or*

- *a* ***member firm*** *accepts an order from a* ***customer****, where the* ***customer's*** *stated intention is to move the price of a security or value of an* ***index*** *(this would include a situation where, for example, a* ***customer*** *instructs a* ***member firm*** *to ensure that an* ***index*** *closes above a certain level).*

Additional guidance for closing auctions

In executing a trade to achieve the closing price for a ***customer****,* ***member firms*** *may wish to* *use a market order in the closing auction. In order to guarantee execution of that market order and to participate in the price formation process, a **member firm** may enter a limit order, committed principal order or iceberg order on the other side of the **order book**. This would not of itself constitute a breach of rule 1410.*

*The **Exchange** monitors all situations where a **member firm** executes against itself, particularly around sensitive times such as the end of the trading day or during index expiry pricing periods, due to the potential for a **member firm** to influence prices in this manner. In carrying out this strategy, **member firms** should have regard to the impact on the market and should consider the following:*

- *the timing of orders entered, to allow other **member firms** to react to these orders; the price of the limit order, committed principal order or iceberg order entered as compared to the prevailing market price; and*

- *other regulatory requirements, including whether this strategy should be disclosed to the **customer**.*

*Should a **member firm** have concerns about whether a particular trading strategy might be called into question by the **Exchange**, they should contact the Market Supervision department on ~~020 7797 2087 (STX 32087)~~ 020 7797 3666 (STX 33666) - option 2, as far in advance as possible, to discuss the proposed strategy. All such enquiries will be treated in the strictest confidence by the **Exchange**.*

System testing [1420]

G	1420	A **member firm** shall not submit orders, **quotes** or **trade reports** to ~~**TradElect**®~~ the **trading system** for the purpose of testing any systems or controls.

Guidance to Rule:

*The **Exchange** expects **member firms** to test their systems or controls prior to submitting orders, **quotes** or **trade reports** to ~~**TradElect**®~~ the **trading system**. To enable this testing, the **Exchange** offers **member firms** a separate connection to a testing environment packaged within a number of services such as the Customer Development Service, ~~Conformance Testing~~ Application Certification, High Volume Testing and Participant Test Weekends, in addition to the use of specific test segments on ~~**TradElect**®~~ the **trading system**. **Member firms** are encouraged to contact their Technical Account managers to discuss their testing requirements. **Exchange** approved testing undertaken by **member firms** (including the **Exchange** test segment on ~~**TradElect**®~~ the **trading system**) is not prohibited by this rule.*

*Testing on the ~~**TradElect**®~~ **trading system** is prohibited as it has the potential to impact the market, particularly as testing may result in unusually priced and/or sized orders, **quotes** or trade reports being entered. The **Exchange** relies on **member firms** to submit only bona fide business to ~~**TradElect**®~~ the **trading system**. Submitting orders, **quotes** or **trade reports** to ~~**TradElect**®~~ the **trading system** for the purpose of testing a **member firm's** or its **direct market access customer's** systems or controls is not an acceptable market practice.*

*This rule is not intended to preclude a **member firm** from:*

*(a) pursuing a bona fide trading strategy, as **principal** or on behalf of a **customer**, or from effecting trades in the normal course of its business. To ensure that the quality of ~~**TradElect**®~~ the **trading system** and the trading service is maintained, a **member firm** should, on request, be able to demonstrate to the **Exchange** that, in submitting an order, **quote** or **trade report** or pursuing a particular trading strategy, it acted pursuant to a bona fide trading strategy and not in order to test its systems or controls; or*

*(b) using algorithms ("black boxes") to submit orders, **quotes** or **trade reports** to ~~**TradElect**®~~ the **trading system**. The **Exchange** recognises that to mitigate risk, **member firms** using algorithms may wish to check those trading strategies by submitting trial orders or **quotes** to the appropriate trading service. In these circumstances the **Exchange** will not generally consider the orders or **quotes** submitted to ~~**TradElect**®~~ the **trading system** as prohibited testing under this rule. **Member firms** using algorithms are however reminded of their obligations under rules 1020 (adequate systems and controls), 1400 (misleading acts, conduct and prohibited*

*practices) and 2101 (erroneous orders and **quotes**) to maintain the integrity of the market.*

***Member firms** that require further information on how to conduct testing with the **Exchange** should contact Client Technology Group on 020 7797 3939 (email: ctgroup@londonstockexchange.com).*

(Amended N16/10 – effective 2 August 2010)

Systems and trading

Member firm system problems [1500]

G	1500	Where a **member firm** identifies a system problem it shall inform the **Exchange** in accordance with notification rule 1050 and follow any subsequent instructions from the **Exchange**. An authorised employee of a **member firm** may request the deletion of orders or **quotes**.

Guidance to Rule:

For the purposes of this rule, a system problem would include, but not be restricted to, one preventing:

- *a **member firm** accessing its orders on ~~**TradElect**®~~ the **trading system**;*
- *a **member firm** submitting a **trade report**;*
- *a **market maker** maintaining, amending or deleting its **quotes**; or*
- *a **market maker** from answering its telephone lines.*

Dealing during a systems failure:

*While a **member firm** is experiencing a system failure it is not precluded from dealing in the relevant securities. However, the **member firm** must ensure that any **on Exchange** trades are reported to the **Exchange** in compliance with the rules.*

Orders and quotes:

***Member firms** are reminded that, while orders remain on ~~**TradElect**®~~ the **trading system** they are firm and available for execution. Accordingly, it is essential that a **member firm** contact the **Exchange** as soon as possible when it experiences a system failure, especially if it wishes to have its orders deleted from the book.*

*Once the systems problem is rectified, the **member firm** should contact the Market Supervision department to notify them of this fact. The **member firm** can recommence order input to ~~**TradElect**®~~ the **trading system** as soon as the systems problem is rectified.*

*If a **member firm** wishes to reverse an automatically executed trade in accordance with rule 2110 while it is experiencing a systems problem, it should seek guidance from the Market Supervision department on (0044) 20 7797 3666 (STX 33666) – Option 2, to determine whether a **contra** submission should be made immediately or after the system problem is resolved.*

Order and quote deletion:

***Member firms** have primary responsibility for deleting their own orders. Where this is not possible, the **Exchange** will aim to provide a back-up service to delete orders ~~at **member ID** or at **Trader Group** level~~.*

*The **Exchange** will maintain a list of **employees** authorised by each **member firm** to request the deletion of orders and **quotes**. A person authorised by a **member firm** must be "a director, partner or principal or person employed in or about the firm's business as a **member firm**, whether under a contract of service or for services (including a training contract) and any person seconded to work in or about that business".*

*If a **member firm** requests the **Exchange** to delete its orders or **quotes**, the **Exchange** will only action this request if it comes from a person named on the **member firm's** authorised person list. The **Exchange** will refuse to provide details of the names on a **member firm's*** *authorised list to anyone not themselves on the list and a request received from someone not on the authorised list will be declined. In this event the* ***Exchange*** *will contact the* ***member firm's*** *compliance department for clarification in respect of the request.*

Member firms *that choose to segregate their business by multiple* ***trader groups*** *will need to provide a list of individuals authorised to delete orders on behalf of each* ***trader group****.* ***Member firms*** *are advised to ensure that the list is broad enough to provide sufficient coverage in cases of staff absence. For example, it may be more practical to have a number of nominated people in compliance who are authorised to request deletions for all* ***trader groups****.*

Member firms *should register authorised* ***employees*** *or changes in their status with the* ***Exchange*** *using the form supplied for the purpose.*

Recognition of new authorised ***employees*** *will be effective on the business day after the notification is received by the* ***Exchange****.*

When contacting the ***Exchange*** *to request the deletion of an order or* ***quote****, the authorised person must provide the following information:*

- *the name of the* ***member firm****;*
- *the* ***member firm's*** *mnemonic;*
- *the* ***member firm's trader group****;*
- *the identity of the caller and a contact number; and*
- *the reason for the request (e.g. system problems, building evacuation).*

For single order deletions (up to a maximum of five), the ***member firm*** *must also provide the order code. If this is not available, the* ***member firm*** *should provide:*

- *the name of the security;*
- *whether it is a buy or a sell;*
- *the price and size; and*
- *the time the order was entered.*

If a ***member firm*** *requests the deletion of more than one order in a single security, each of the orders will count towards the maximum allowed number of five order deletions. The Market Supervision department will normally delete all orders within a particular segment. However, upon application, the Market Supervision department will consider the deletion of individual orders providing the total of individual orders does not exceed five.*

For mass order deletions, the ***member firm*** *must provide the following information:*

- *whether it wants all orders and / or* ***quotes*** *deleted; and*
- *the specific segments to which the deletions should apply.*

Member firms *should be aware that all parked orders will be deleted during a mass order deletion performed by the* ***Exchange****.*

The Market Supervision department will attempt to delete orders as soon as possible after receipt of a valid request to do so. However, if an order is executed during the period between a ***member firm*** *requesting deletion of its orders and the Market Supervision department effecting the deletions the* ***member firm*** *will be obliged to honour the trade.*

<u>Trade reporting:</u>

Where a ***member firm*** *has a system problem that prevents it from submitting a* ***trade report*** *(where it has the responsibility to do so), the* ***member firm*** *must immediately upon execution of the trade inform the* ***Exchange****.*

The ***Exchange*** *will determine what trade details it requires until such time as the problem is resolved. This will normally be any trade in a size that is in excess of six times the* ***Exchange market size*** *for the security (or the equivalent average daily turnover) or a consideration in excess of £1,000,000. The same procedure will apply to the correction of a trade report during a system problem. Such trades must not then be re-reported by the* ***member firm*** *once the system problem has been resolved.*

*If any trades are re-reported, they should be cancelled as soon as the **member firm** becomes aware of the error. If a **member firm** is unable to effect a cancellation it should contact the **Exchange** immediately.*

*If the **Exchange** is not informed of a **member firm's** trade reporting difficulties, it will treat resultant late trade reports as breaches of rule 3020.*

Market maker systems:

*In the event of a **market maker** system problem, including a problem arising from an act or omission beyond the **market maker's** control, the **Exchange** will issue a market status message explaining that the **market maker** is unable to update its **quotes** on ~~**TradElect**®~~ the **trading system**. If system problems persist on subsequent business days, the **market maker** is required to notify the Market Supervision department on (0044) 20 7797 3666, STX 33666 prior to the start of the **mandatory period** of each subsequent day so that market status messages can be issued.*

*If a **market maker** cannot update or delete its own **quotes**, it may ask the **Exchange** to close its prices in a sector or segment until the fault has been repaired. Where a reported fault affects a dealer terminal only, that **market maker** in a **quote-driven security** is expected to continue to quote firm prices over the telephone.*

*If a **market maker** in a **quote-driven security** reports problems with any telephone lines associated with its dealing desk, a market status messages can be issued to advise users of an alternative number, where available.*

*A **market maker** should contact their market access provider at the same time as it notifies the **Exchange**.*

*The **market maker** should re-enter its **quotes** as soon as it is able to do so, notifying the **Exchange** beforehand. In all cases a **market maker** shall ensure that the Market Supervision department is kept appropriately informed.*

Regulatory suspensions [1510-1513]

D G	1510	The **Exchange** may prohibit any trade or class of trades from being dealt **on Exchange**.

Guidance to Rule:

Examples of a regulatory suspension are:

- *a suspension imposed by the competent authority or market operator for the venue of **principal listing**; or*

- *a suspension for orderly market reasons imposed by the **Exchange**.*

*When a security is suspended by the **Exchange**, the **Exchange** will delete any orders and close any quotations present in ~~**TradElect**®~~ the **trading system** in the suspended security.*

*The **Exchange** will not exercise its power to suspend or remove from trading a **MiFID transparent security** which no longer complies with the rules where such a step would be likely to cause significant damage to the interests of investors or the orderly functioning of the financial markets.*

(Rule 1511 unchanged)

G	1512	Where a **member firm** learns of a regulatory suspension declared by a venue of principal listing on which a security on ~~**TradElect**®~~ the **trading system**, or a security underlying a security on ~~**TradElect**®~~ the **trading system** has its **principal listing**, it should promptly notify the **Exchange** and any other **member firms** which approach it to deal in the affected security on ~~**TradElect**®~~ the **trading system**.

Guidance to Rule:

*Where overseas securities traded on the **Exchange** are not listed by the UKLA, the treatment of suspensions must be co-ordinated with the actions of other exchanges and the* *needs of the market.*

(Rule 1513 unchanged)

Market situations [1520]

D G GT	1520	The **Exchange** may suspend automatic execution on ~~**TradElect®**~~ the **trading system** or impose a temporary trading suspension or trading halt for a particular market, market segment~~, market sector~~ or tradeable instrument as **market situations** dictate and as described in the **Guide to ~~TradElect®~~ the trading system**.

Guidance to Rule:

*A **market situation** is most commonly used where an issue impacts a segment or market rather than a single tradable instrument.*

*The **Exchange** may waive or amend the following **market maker** obligations:*

- *the obligation to maintain **quotes**;*
- *the obligation to maintain a maximum spread;*
- *the obligation to refresh **quotes** within a minimum time period and / or*
- *the obligation to deal at displayed prices.*

(Rules 1530 – 1540 unchanged)

Reg S traded securities [1550]

G	1550	A **member firm** shall not effect a trade in a **Reg S traded security** unless it has reasonable basis to believe after inquiry and confirmation that the trade complies with the requirements of U.S. securities laws.

Guidance to Rule:

*Rule 1550 imposes upon a **member firm** an obligation not to engage in any trade in a **Reg S traded security** unless it has a reasonable basis to believe, after inquiry and confirmation, that the trade complies with the requirements of the securities laws of the United States of America ("United States" or "US"). The following guidance is provided by way of assistance only and a **member firm** should seek independent legal advice as to the applicability of these laws.*

*For the purposes of the rules, the term **Reg S traded security** refers to any security identified to the **Exchange** as such by or on behalf of the issuer of the security. When a security has been so identified, the **Exchange** will require that the letters 'REG S' be added to the end of its name as shown in ~~**TradElect®**~~ the **trading system**. The **Exchange** will place the security in a separate sector of ~~**TradElect®**~~ the **trading system** containing other **Reg S traded securities** only for the duration of the period of restriction. Upon notification by the issuer to the **Exchange** that restrictions no longer apply, the 'REG S' marker will be removed from the security's name and it will be placed in an appropriate sector. This information will be disseminated via Reference Data Service. A list of **Reg S traded securities** is available on the **Exchange's** website, which will specify the standard place of settlement for the security.*

*Generally, **Reg S traded securities** have been issued by companies incorporated in the United States and initially offered and sold without being registered with the U.S. Securities and Exchange Commission ("SEC") under the US Securities Act of 1933 ("the 1933 Act"). (Note, there are also companies incorporated outside the United States of America that may fall within the definition of "domestic issuer" for Regulation S purposes.) As such, **Reg S traded securities** are considered "restricted" securities, and they must be traded only in accordance with Regulation S, pursuant to registration under the 1933 Act or pursuant to an available exemption from the registration requirements of the 1933 Act.*

*Among other requirements, Regulation S provides that securities issued pursuant thereto may not be purchased by, or on behalf of, "US persons" (as defined in Rule 902(k) of Regulation S) during a one-year period commencing upon the closing of the initial public offering. Generally, therefore, a security will be identified as a **Reg S traded security** until the first anniversary of its admission to trading. However, it is the responsibility of the issuer* *to determine when the restrictions applicable to trading of its **Reg S traded security** may be removed, and, accordingly, at the issuer's discretion and by agreement with the **Exchange**, a security may be treated as a **Reg S traded security** for a period longer than one year.*

*Prior to purchasing a **Reg S traded security**, a **member firm** must take reasonable steps to ascertain whether its **customer** is resident in the United States or may otherwise be considered to be a US person or is acting for the account or benefit of a US person. A **member firm** must design, implement and maintain measures to assure compliance with the rule, such as, by way of example, obtaining or reconfirming within the last 12 months a certification from its **customer** that he, she or it is not a US person within the meaning of the above-mentioned Rule 902(k) and that such **customer** understands and accepts the restrictions and limitations imposed by Regulation S on purchasers of such securities. **Reg S traded securities** may not be purchased on behalf of a US person, unless the trade is pursuant to registration under the 1933 Act or pursuant to an available exemption from the registration requirements of the 1933 Act.*

*Regulation S also requires that offers to sell **Reg S traded securities** not be made to persons in the United States; that, at the time a buy order is originated, the seller and any person acting on its behalf reasonably believe that the buyer is outside the United States; and that neither the seller nor any person acting on its behalf knows that the trade has been pre-arranged with a buyer in the United States. In addition, Regulation S requires that no "directed selling efforts" (as defined in Rule 902(c) of Regulation S) are made in the United States by the seller, an affiliate or any person acting on their behalf, and that if the seller is a dealer or a person receiving a selling concession, fee or other remuneration in respect of the securities offered or sold, neither the seller nor any person acting on its behalf knows that the offeree or buyer is a US person.*

*Guidance associated with Rule 5000 provides that where an agency broker deals with a market **principal** on behalf of a **customer**, the market **principal** and the **Exchange** rely on the agency broker to ensure the performance of its **customer**. If the **customer** fails to deliver securities or cash, then the agency broker is responsible for any shortfall. This includes trades in **Reg S traded securities** which are rejected for settlement because the purchaser of the securities is identified as a US person.*

ORDER BOOK TRADING RULES

Trades

On Exchange trades [2000]

(Rule 2000 unchanged)

Order entry

Access to ~~TradElect®~~ the trading system and the responsibility of member firms [2100-2109]

	2100		Each order or **quote** submitted to ~~**TradElect**®~~ the **trading system** shall be:
		2100.1	firm; and
		2100.2	subject only to the terms relating to benefit entitlements prevailing at the time of execution.

(Amended N16/10 – effective 2 August 2010)

G	2101		Any obligations and liabilities arising from the submission of electronic messages and orders to ~~**TradElect**®~~ the **trading system** under a **member firm's** trading codes are the responsibility of that **member firm**. The **member firm** shall, at all times, have sufficient order management systems, procedures and controls designed to prevent the entry of erroneous orders and **quotes** to ~~**TradElect**®~~ the **trading system**.

Guidance to Rule:

*A **member firm** is at all times bound by suitability rule 1020.*

*In determining whether a **member firm** has met the requirements of rules 1020 and 2101, the **Exchange** will consider the level of training and qualifications of individual traders, including the taking of any relevant examinations.*

*A **member firm** submitting an order or a **quote** to ~~**TradElect**~~® the **trading system** is responsible for that order or **quote**. If an order has been submitted by or automatically routed from a third party (whether another **member firm** or not), then the **member firm** should consider how it is going to control the order flow.*

Erroneous orders and quotes

*An erroneous order or **quote** is an order or **quote** entered mistakenly where there was no intention to trade in the security or an order or **quote** where the terms entered, mistakenly, did not represent the intended transaction. For the avoidance of doubt the terms of an order or **quote** include but are not limited to price, size, buy and sell (direction of trade).*

*In determining whether an order or **quote** is erroneous, the **Exchange** will ask the **member firm** for details of the background to the order or **quote**. Below is a non-exhaustive list of scenarios where the **Exchange** may query an order or a **quote** with a **member firm**:*

- *orders or **quotes** that exceed the **Exchange's** price monitoring thresholds;*
- *an aggressively priced limit order that executes against a significant number of orders on one side of the **order book**, which could take place, for example, if price and size have been entered in the wrong fields;*
- *an order that is divided into sizes either not intended by the **member firm** or which are so small or so large as to be inappropriate; or*
- *a very high priced buy order or a very low priced sell order entered into the auction period when it might be more appropriate to use a **market order** to guarantee execution.*

***Member firms** should aim to prevent the entry of erroneous orders and **quotes** to ~~**TradElect**~~® the **trading system** and should ensure that their systems are designed to identify and prevent the entry of such orders and **quotes.** In determining whether a **member firm's** systems are adequate in this regard, **member firms** should consider the use of controls and system alerts, which may be based on some or all of the following:*

- *the last **order book** traded price (from the previous day if appropriate);*
- *the current spread in the market;*
- *trader, security-specific or firm-wide size and price limits;*
- *the likely movement in the price of the security if the order or **quote** is submitted;*
- *a minimum and maximum financial consideration per order or **quote**; and*
- *controls on limit orders and market orders submitted during an auction. When entering limit and market orders in auctions **member firms** must have sufficient systems and controls in place so that the type of order they submit does not have an inappropriate affect on the uncrossing price of the security in question. For instance, a **member firm** may wish to submit a market order to an auction to maximise its probability of execution but should have regard to the possible impact of a large market order on the auction uncrossing price.*

*The above list is not exhaustive and **member firms** are likely to wish to develop their own bespoke controls and system alerts to prevent the entry of orders and **quotes** which, because of their price, size and/or nature, could impact on the smooth running of the market.*

*The parameters for any such alerts should be determined by each **member firm**, with reference to the nature of its business. Parameters should be set at levels such that, if no alert is generated in relation to any particular order, then the **member firm** should be satisfied with the execution price(s) achieved.*

***Member firms'** procedures and controls should be designed to ensure that orders and **quotes** are entered correctly and that any alerts generated are responded to appropriately.*

***Member firms** should be aware that in deciding what action to take against a **member firm** for the submission of any apparently erroneous order or **quotes**, the **Exchange** will consider both the potential and the actual market impact. It will also have regard to the relative frequency with which the **member firm** submits such orders or **quotes**.*

(Amended N16/10 – effective 2 August 2010)

GT	2102	A **member firm** should use the correct dealing capacity indicator, as described in the **Guide to ~~TradElect®~~ the trading system**, when submitting orders to ~~**TradElect®**~~ the **trading system**.

(Amended N43/08 – effective 5 January 2009)

G	2103	A **member firm** may allow a **customer** to submit orders to ~~**TradElect®**~~ the **trading system** under the **member firm's** trading codes, either by way of ~~**order routing**~~ **direct market access** or by providing ~~a **member authorised connection**~~ **sponsored access**, subject to the **member firm** having in place adequate systems and controls.

Guidance to Rule:

~~Order routing and member authorised connection~~ Direct market access and sponsored access

*Submission of **customer** orders may be facilitated by either ~~an **order routing**~~ **direct market access** ~~facility provided by the **member firm**~~ or via ~~a **member authorised connection**~~ sponsored access to ~~**TradElect®**~~ the **trading system**.*

*~~**Order routing**~~ **Direct market access** is a ~~facility~~ service through which a **member firm** allows a **customer** to submit orders to ~~**TradElect®**~~ the **trading system** under the **member firm's** trading codes and via the **member firm's** usual order management systems, but without manual intervention by the **member firm**. These order management systems may be housed within the **member firm's** facilities or hosted within the **Exchange's** Primary Data Centre but, importantly, are the same systems through which the **member firm** submits at least some of its own order flow to ~~**TradElect®**~~ the **trading system**.*

*~~A **member authorised connection**~~ **Sponsored access** is a direct technical connection provided so that a **customer** is able to access ~~**TradElect®**~~ the **trading system** under a **member firm's** trading codes. As the connection is direct, orders submitted by the **customer** to ~~**TradElect®**~~ the **trading system** do not pass through the usual order management systems of the **member firm**. ~~To ensure that appropriate controls are in place, the **member firm** and its **customer** may decide to implement a version of the **member firm's** controls within the **customer's** systems. Alternatively, the **member firm** may use the 'hosting' service at the **Exchange's** Primary Data Centre to implement specific controls for order flow submitted through **member authorised connections**, or employ another control structure (such as using controls provided by an independent software vendor).~~ **Exchange** level controls are provided within the **trading system** to assist **member firms** with **sponsored access** order flow validation. All orders submitted via **sponsored access** will pass through the **Exchange** level controls before reaching the **order book**.*

*Responsibility for **customers'** order flow (whether submitted to the **Exchange** via ~~an **order routing** facility or a **member authorised connection**~~ **direct market access** or **sponsored access***

***Member firms** providing **customers** with **direct market access** or **sponsored access** to the **trading system** are responsible for all obligations and liabilities arising from the entry, deletion and execution of all orders submitted by that **customer**.*

The **Exchange** is aware that **member firms** may have contractual arrangements with their **customers** that mean the **customer** bears the financial risks of entering erroneous orders. However, under the **Exchange's** Rules the responsibility for such orders rests wholly with the **member firm** under whose trading codes the order is entered.

The **Exchange** requires a **member firm** to be able to delete a **customer's** orders from ~~**TradElect**~~® the **trading system** or, if necessary, restrict the **customer's** ability to enter orders, without having the express consent of the **customer**. Such action by the **member firm** may be instigated unilaterally by the **member firm** because of its own concerns regarding the **customer's** behaviour or at the specific instruction of the **Exchange**.

The **member firm** is expected to adopt a regime where ~~similar checks are made to those that would be made by reasonable human intervention. Consideration should be given to~~ sufficient consideration is given to assess matters such as:

- the training that has been given to the individuals entering orders;
- the access controls over order entry that the ~~originating third party~~ **customer** applies;
- security controls over any network link between the ~~originating third party~~ **customer** and the **member firm**. These should be sufficient such that the **member firm** can be sure that an order purporting to come from a ~~particular third party~~ **customer** actually has done so (e.g. by use of authentication codes in a similar manner to the secure interactive interface linking the **member firm** to the **Exchange**); and
- ~~the need for order acknowledgements from the originating third party;~~
- ~~controls over maximum order sizes that can be submitted by different originating third parties;~~
- ~~controls over prices of orders and having system parameters that would generate an alert if the order would execute at a price with which the **member firm** would not be satisfied;~~
- ~~monitoring and controls over the total exposure of the **member firm** to orders routed for a particular third party; and~~
- clear allocation of responsibility for dealing with actions and errors (e.g. it should be clear how, when and by whom orders on the book would be deleted).

All of these matters should be dealt with in formal agreements between the **member firm** providing ~~the **order routing** service or **member authorised connection**~~ **direct market access** or **sponsored access** and ~~any relevant third party (whether **member firm** or non-member)~~ its **customer**. (**Member firms** may provide **sponsored access** to non **member firms** only.)

~~Order routing~~ Direct market access

Whilst ongoing education, training and guidance for a **member firm's customers** that ~~route~~ submit orders through the **member firm** to ~~**TradElect**~~® the **trading system** are to be encouraged, these cannot entirely replace the safeguards that internal system controls and alerting functionality can provide.

In order to prevent the submission of erroneous orders by a **customer**, a **member firm** may wish to consider the following controls and system alerts:

- prevention of submission of an order if the **customer** has overridden alerts and/or notification to the **member firm** that the **customer** has attempted to over-ride the alert;
- the segregation of this order flow by the use of the Trader Group facility within ~~**TradElect**~~® the **trading system**; ~~and~~
- appropriate training, education and guidance provided to those **customers** entering orders;

- the need for order acknowledgements from the **customer**;

- controls over maximum order sizes that can be submitted by different **customers**;

- controls over prices of orders and having system parameters that would generate an alert if the order would execute at a price with which the **member firm** would not be satisfied; and

- monitoring and controls over the total exposure of the **member firm** to orders submitted for a particular **customer**.

~~**Member authorised connection**~~ Sponsored access

~~**Member firms** providing **customers** with a **member authorised connection** to **TradElect®** are entirely responsible for all obligations and liabilities arising from the entry, deletion and execution of all orders submitted by that **customer.**~~

The **Exchange** mandates that all orders submitted via **sponsored access** will pass through **Exchange** level controls, however, **member firms** should also assess whether any additional controls are necessary to appropriately manage **customer** order flow, taking into consideration the nature and complexity of its **customer's** business.

Member firms are responsible for determining the limits of the configurable **Exchange** level controls within the parameters provided by the **Exchange** and ensuring that they are appropriate for each individual **sponsored access customer**, based on the scope and scale of its business.

A **member firm** that provides this facility for a **customer** must:

- complete a **sponsored access** application form for each of its **sponsored access customers** and inform the **Exchange** if it becomes aware that the information provided on the form has changed;

- ensure that relevant staff at the **customer** are conversant with the Rules and, in particular, those relating to **order book** trading. Relevant staff include the Head of Trading, the Head of Compliance and person(s) who signs off trading algorithms at the **customer**;

- segregate each **customer's** order flow from the **member firm's** order flow using the Trader Group facility within ~~**TradElect®**~~ the **trading system**. This is necessary to assist the **Exchange** in maintaining fair and orderly markets;

- ~~restrict **customer** access to **central counterparty order books** only;~~

- ~~use the Copy To functionality within **TradElect®**;~~

- provide the **Exchange** with the name, head office address and country of incorporation of the **member firm's customer** for regulatory purposes. This information will be treated as confidential and will not be subject to commercial use;

- ~~ensure it maintains appropriate management of **customers'** order flow, including having in place order entry controls. The **Exchange** is aware of a number of independent software vendors that may be able to provide software solutions to satisfy this requirement. **Member firms** may wish to consult the list of these independent software vendors on the **Exchange's** website or, alternatively, discuss this with their current software provider; and~~

- have systems in place which will allow the **member firm** to accept and review drop copy feeds from its **customer** and monitor all **sponsored access** order flow,

- proactively utilise the **Exchange's** kill switch facility to disconnect a **customer** which it has reason to believe is behaving inappropriately; and

- inform the **Exchange** and take appropriate action if it loses either its connectivity *with the **Exchange** or its connection to its **customer(s)** where that connection allows the **member firm** to ~~maintain order management controls over~~ monitor the **customer(s)** order flow.. <u>The **Exchange** mandates the use of its cancel on disconnect facility. Where a connection is dropped by either the **member firm** or its **sponsored access customer,** the **sponsored access customer's** orders will be deleted from the **order book**.</u>*

~~*__Member firms__ should ensure that their controls over __customers'__ order flow submitted via __member authorised connections__ are designed to identify and prevent the entry of erroneous orders or orders that may distort or otherwise adversely affect the quality of the __Exchange's__ markets. In determining whether a __member firm's__ systems are adequate in this regard, __member firms__ should consider the use of controls and system alerts, which may be based on some or all of the following:*~~

- ~~*the last __order book__ traded price (from the previous day if appropriate);*~~
- ~~*the current spread in the market;*~~
- ~~*trader, security-specific or firm-wide size and price limits;*~~
- ~~*the likely movement in the price of the security if the order is submitted;*~~
- ~~*a minimum order size of a certain financial consideration per order; and*~~
- ~~*controls on limit orders and market orders submitted during an auction. When entering limit and market orders in auctions __member firms__ must have sufficient systems and controls in place so that the type of order they submit does not have an inappropriate affect on the uncrossing price of the security in question. For instance, a __member firm__ may wish to submit a market order to an auction to maximise its probability of execution but should have regard to the possible impact of a large market order on the auction uncrossing price.*~~

(Amended N43/08 – effective 5 January 2009)

G	2104	A **member firm** must undertake due diligence on any **customer** to which it provides or intends to provide ~~a **member authorised connection**~~ <u>**sponsored access**</u>, in order to assess the suitability of any such **customer** to have a ~~**member authorised connection**~~ <u>**sponsored access** connection</u>. The **member firm** must confirm to the **Exchange** that such due diligence has been undertaken. ~~and provide a systems diagram indicating how the customer will connect to **TradElect**® and the controls the **member firm** will have in place with respect to the **customer's** order flow.~~

*A **member firm** must have undertaken due diligence to confirm that any **customer** to which it provides ~~a **member authorised connection**~~ <u>**sponsored access**</u>:*

- *is considered fit and proper to have a direct technical connection to ~~**TradElect**®~~ <u>the **trading system**</u>*
- *<u>has appropriate financial resources;</u>*
- *has sufficient staff with adequate knowledge, experience, training and competence for the activities the **customer** undertakes on the **Exchange's order books**. **Member firms** may wish to consider whether training should be provided to the Head of Trading, the Head of Compliance and person(s) who signs off trading algorithms at the **customer**; and*
- *has adequate internal procedures and controls for these activities <u>notwithstanding the **Exchange** level controls provided for all sponsored order flow.</u> ~~which may include a version of the **member firm's** own order management controls being implemented within the **customer's** systems that the member firm is able to control remotely, or the **customer's** order flow being subject to order management controls via an independent software vendor.~~*

*This assessment may fit within the **member firm's** existing due diligence framework or, if considered necessary, involve new due diligence processes that are specific to the provision of ~~a **member authorised connection**~~ <u>**sponsored access**</u>. It is for **member firms** to judge* *what due diligence is necessary given the business, trading strategies and order flow of the* ***customer*** *or prospective* ***customer*** *to which the* ***member firm*** *wishes to provide ~~a **member authorised connection**~~ **sponsored access**.*

Member firms *are required to ~~submit a declaration to the **Exchange** confirming~~ confirm when submitting an application form that they have undertaken appropriate due diligence to be satisfied on each of the above points. The **Exchange** will exercise its right under rule 2105 to refuse **sponsored access** if it believes that the **member firm's** due diligence is inadequate. ~~A template letter is provided on the **Exchange's** website. **Member firms** should attach to the declaration letter a clear and concise systems diagram indicating the technical connectivity arrangements through which the **customer** will connect to the **Exchange** and where within this connection the **member firm's** controls will be placed. In addition, a clear and concise explanation must be provided of how the controls will operate and how they will be maintained by the **member firm**.~~*

*~~Prior to agreeing to a **member authorised connection** being provided to a **customer**, the **Exchange** will meet the **member firm** to discuss the controls the **member firm** intends to put in place and the due diligence it has undertaken. This process is aimed at giving the **Exchange** sufficient comfort regarding the overall adequacy of the **member firm's** controls. However, **member firms** will retain responsibility for ensuring that their due diligence and controls are appropriate and sufficiently robust for their **customer's** business. The **Exchange** will not provide a specific endorsement of a **member firm's** due diligence or the controls it proposes to put in place but will confirm, based on the information it has received from the **member firm** and subsequent discussions, that it is satisfied that a **member authorised connection** can be put in place. Equally, the **Exchange** will exercise its right under rule 2105 to refuse a **member authorised connection** if it believes that the **member firm's** controls or its due diligence are inadequate.~~*

Furthermore, ***member firms*** *are required to satisfy themselves and, when requested, the* ***Exchange*** *that the* ***customers*** *to which they have provided ~~**member authorised connections**~~ **sponsored access** continue to meet these requirements. For instance, if a customer to which a **member firm** has provided ~~a **member authorised connection**~~ **sponsored access** has a significant change in trading volumes or its trading model, the **member firm** may consider it appropriate to refresh its due diligence ~~on that **customer**~~ and/or the limits at which the **Exchange** level controls have been set for that **customer** to ensure that its systems, controls, training and staffing are adequate for its changed business. Otherwise, due diligence should be periodically reviewed according to the **member firm's** normal timetable, and the **Exchange** may require the **member firm** to share this reviewed due diligence with it. A **member firm** that becomes aware that a **customer** no longer meets the requirements must notify the **Exchange** immediately and cooperate with the **Exchange** to halt the **customer's** ~~**member authorised connection**~~ **sponsored access**.*

(Amended N43/08 – effective 5 January 2009)

D G	2105	The **Exchange** reserves the right to refuse a **member firm's** request that a **customer** be provided with ~~a **member authorised connection**~~ **sponsored access** to ~~**TradElect®**~~ the **trading system**.

Guidance to Rule:

The ***Exchange*** *may refuse a request to provide a* ***member firm's customer*** *with ~~a **member authorised connection**~~ **sponsored access** where the **Exchange** is not satisfied in any respect with the due diligence undertaken by the **member firm** or where, in the **Exchange's** view, provision of the connection would present a risk to the orderly functioning of the **Exchange's** markets. Whilst the **Exchange** does not conduct due diligence on **member firms'** prospective **customers**, it may refuse a request to provide a **member firm's customer** with ~~a **member authorised connection**~~ **sponsored access** where it is aware of adverse information about the prospective **customer** which may not have been detected by a **member firm's** due diligence;*

The ***Exchange*** *may also, at its own discretion, take other factors into account in applying this rule. The **Exchange's** view of the risks that may be posed by the provision of ~~a **member authorised connection**~~ **sponsored access** to a **member firm's customer** overrides any contrary view taken by the **member firm.***

(Amended N43/08 – effective 5 January 2009)

D	2106	The **Exchange** reserves the right to terminate or suspend a **customer's ~~member authorised connection~~** **sponsored access** without notice or consultation with the **member firm** or its **customer** where the **Exchange** believes this is necessary to preserve the orderly functioning of the **Exchange**'s markets.

(Amended N43/08 – effective 5 January 2009)

D G	2107	The **Exchange** reserves the right to restrict or segregate a **member firm's** access to and use of **~~TradElect~~**® the **trading system** as it sees fit.

Guidance to Rule:

*The **Exchange** may decide to segregate a **member firm's** access to and use of ~~TradElect~~® the **trading system** in order to protect market orderliness or for other regulatory reasons.*

*Whilst the **Exchange** does not mandate how a **member firm** should segregate its **order book** business at **trader group** level, the **Exchange** reserves the right to do this as it sees fit. Typically, this would be where it suspects a **member firm's** controls to be inadequate or inappropriate, or, more generally, where it considers this to be in the interest of maintaining a fair and orderly market.*

*For instance, where a **member firm** chooses to use only one or a limited number of **trader groups** for its order flow, and the **member firm** has repeated problems in relation to erroneous orders being entered by a~~n~~ **~~order routing~~** **direct market access** **customer**, the **Exchange** may require that all orders from that **customer** are assigned to a specific **trader group**.*

(Amended N43/08 – effective 5 January 2009)

D	2108	The **Exchange** reserves the right to delete any order submitted to **~~TradElect~~**® the **trading system** where the **Exchange** believes it necessary in order to preserve market orderliness.

(Amended N43/08 – effective 5 January 2009)

	2109	When using **~~TradElect~~**® the **trading system** a **member firm** shall comply with the procedural, operational and technical requirements of the **Exchange's** systems and networks as specified by the **Exchange** from time to time.

(Amended N43/08 – effective 5 January 2009)

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).

Guidance to Rule:

*All orders submitted to **~~TradElect~~**® the **trading system** 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 on 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~~® the trading system**.*

(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®**~~ the **trading system**, 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®**~~ the **trading system** as specified in the guidance to this rule.

(Amended N05/09 – effective 26 January 2009)

Guidance to Rule:

*The **Exchange** may, in its absolute discretion, cancel trades across all its markets, either in response to a request from a **member firm** or of its own volition. The **Exchange's** decision regarding an **Exchange enforced cancellation** is final. Examples of situations in which the **Exchange** will consider cancelling trades of its own volition include, but will not be limited to, where there has been a clear miscommunication of a corporate event or where a stock's closing price has been significantly distorted by the entry of erroneous orders during the closing auction.*
*Generally, the Exchange will only consider a **member firm's** request for an **Exchange enforced cancellation** when it considers, in its sole discretion, that to cancel the trade is in the best interests of the overall market.*

*The **Exchange** is prepared to receive a request for an **Exchange enforced cancellation** at the same time as a **contra** request. The Exchange will only accept a cancellation request if it is accompanied by a **contra** request. The Market Supervision department will use reasonable endeavours to obtain a **contra** for the **member firm** prior to considering the request for an **Exchange enforced cancellation**. As a result, the **Exchange** expects **member firms** to:*

- *submit a **contra** request against the relevant trade on ~~**TradElect®**~~ the **trading system**; and*

- *request the **counterparty's** consent to the **contra**.*

*Should the **contra request** be turned down the **Exchange** may then consider cancelling the trade.*

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®**~~ the **trading system**;*

- *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, leverage certificates, **gilt-edged securities**, **fixed interest securities** and to trades in all other securities on ~~**TradElect**®~~ the **trading system**. 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**®~~ the **trading system** and £20,000 or more for a series of automated trades conducted on ~~**TradElect**®~~ the **trading system**;*

- *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**®~~ the **trading system** and £20,000 or more in relation to automated trades conducted in more than one stock on ~~**TradElect**®~~ the **trading system**; 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.*

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

*In considering a **member firm's** request for an **Exchange enforced cancellation** in a security other than a **covered warrant**, investment certificate, 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**~~® <u>the **trading system**</u> and £200,000 or more in relation to automated trades conducted in more than one stock on ~~**TradElect**~~® <u>the **trading system**</u>; 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.*

<u>The Exchange's handling of Exchange enforced cancellations for trades executed before 16.30 hours</u>

*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.*

<u>The Exchange's handling of Exchange enforced cancellations for the uncrossing of closing auctions concluding after 16.30 hours</u>

*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 N01/10 – effective 1 February 2010)

(Rule 2121 unchanged)

<u>OFF ORDER BOOK TRADING RULES</u>

Trades

(Rules 3000 – 3013 unchanged)

<u>Standard trade report deadlines</u> [3020-3021]

G	3020	Where a trade is executed during the **trade reporting period**, a **trade report** shall be submitted to ~~TradElect~~® <u>the **trading system**</u> as close to real time as possible to, and in any case within 3 minutes of, execution.

Guidance to Rule:

***Member firms** should ensure that **trade reports** are submitted to the **Exchange** as close to instantaneously as technically possible and that the authorised limit of three minutes should only be used in exceptional circumstances.*

*~~**TradElect**~~® The **trading system** will instantaneously publish a **trade report** unless **deferred publication** is requested via the trade type indicator (and the trade is large enough to qualify for delay).*

*In relation to a **portfolio trade**, due to the need to allocate prices to particular securities, the **Exchange** recognises that the process to allocate prices to each share of the **portfolio trade** may not be instantaneous.*

(Rule 3021 unchanged)

Trade Publication [3030-3035]

Deferred publication

(Rules 3030 – 3032 unchanged)

G	3033	A **member firm** may improve on the terms of a trade that has been negotiated and reported under the **deferred publication** facility. Once the improvement has been agreed, the **member firm** must cancel the original **trade report** and submit a new **trade report** with the original date and time.

Guidance to Rule:

*A **member firm** can pass on any improvement to its **customer** if it improves on the price of the original **trade report** under the **deferred publication** facility.*

*When passing on improvement to the **customer** a **member firm** should retrieve and cancel the original **deferred publication trade report** and re-book as a new **deferred publication trade report** using the appropriate trade type indicator. The new **trade report** should show the revised terms but reflect the date and time of the original trade. ~~**TradElect**~~® The **trading system** will determine whether any further delay is applicable to the re-booked trade otherwise it will publish immediately.*

(Rules 3034 – 3035 unchanged)

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**.

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.*

<u>*Purchase or sale*</u>

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

<u>*Trade type indicators*</u>

*Each **trade report** can only have one trade type indicator. A **member firm** should ensure the correct trade type indicator is used when reporting 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 should also only be used where the trade qualifies as a **negotiated trade**. Hence, 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).*

<u>*Trade price*</u>

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

<u>*Dealing capacity*</u>

*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**.*

<u>*Converted currency trades*</u>

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

<u>*All trade reports must be reported in the trading currency as defined by the **trading system** for that security. Where this is not the currency in which the trade was originally agreed, a **member firm** must indicate that it is a converted currency trade. This can be done by*</u>

- <u>*populating the settlement currency and original price fields on the trade report, thereby also publishing to the market price details of the trade in the original execution currency; or*</u>

- <u>*using the special price reporting condition.*</u>

<u>*Reporting condition*</u>

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.*~~

(Amended N17/10 – effective 2 August 2010)

Trade report corrections [3050-3052]

3050 If a **member firm** becomes aware of a **trade report** it has submitted in error, or of an error in a **trade report** submitted by it under these rules, it shall immediately submit a correction to ~~**TradElect®**~~ the **trading system**, unless the error in the **trade report** is:

3050.1 less than £10 (or equivalent in the currency of the **trade report**) of the consideration;

3050.2 less than 1% percent of the quantity; or

3050.3 in respect of the settlement due date.

3051 Where a correction to a **trade report** is to be made ~~within three days~~ on the same day as the ~~original submission~~ trade is published, the correction shall be effected by cancelling the **trade report**, and if correcting an error to the **trade report,** submitting a new **trade report**.

3052 Where a correction to a **trade report** is to be made after ~~three days of the original submission~~ the day the trade has published, the correction shall be effected by submitting a new **trade report** (which must include the original **trade report** details and the late correction trade type); and if correcting an error in the original **trade report**, submitting a second new **trade report** (which must contain the corrected details and the same trade type indicator as the original **trade report)**.

(Rules 3060 – 3150 unchanged)

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**.

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~~ 17:30 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. A~~ny~~ request~~s~~ made 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 registration may not be actioned on the ~~following day~~ requested date.*

*Where a security is moved from one trading service 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 where appropriate, unless the **market maker** specifically requests otherwise.*

*Registration as a **gilt-edged market maker** shall be 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**.*

(Amended N17/10 – effective 2 August 2010)

(Rules 4001 – 4010 unchanged)

Market makers in order driven securities

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

(Rules 4100 – 4103 unchanged)

4104	If a **market maker** and its **customer** or **counterparty** conduct an **on Exchange** trade away from ~~**TradElect**®~~ the **trading system**, the **market maker** is obliged to deal at least at its displayed price and size.

(Rules 4105 – 4110.5 unchanged)

Market makers in quote driven securities

Obligations of market makers in quote driven securities during the mandatory period [4200-4206]

(Rule 4200 unchanged)

4201	A **market maker** must, during the **mandatory period**, maintain a **firm quote** in each security in which it is registered.

Guidance to Rule:

*Where a **market maker** displays prices on ~~**TradElect**®~~ the **trading system** prior to the commencement of the relevant **mandatory period** such prices are indicative.*

(Rule 4202 unchanged)

4203		Where a **market maker**, who has not caused a **back** or a **choice** under rule 4310, is approached by another **market maker** in the same security, the **market maker** shall effect a trade with the enquiring **market maker** at the approached **market maker's** displayed price in up to the **Exchange market size** where the enquiring **market maker**;
	4203.1	wishes to sell the security, and it is displaying on ~~**TradElect**®~~ the **trading system** a lower **bid price** and a lower **offer price** than the **market maker** approached; or
	4203.2	wishes to buy the security, and it is displaying on ~~**TradElect**®~~ the **trading system** a higher **bid price** and a higher **offer price** than the **market maker** approached.

(Rule 4204 unchanged)

	4205	Where on enquiry a **market maker** quotes a price in a size larger than it is displaying on ~~**TradElect**®~~ the **trading system**, the **market maker** is obliged to deal at that quoted price and size.

~~G~~ D	4206	The **Exchange** may, on the request of a **market maker**, suspend or vary **market maker** obligations.

~~*Guidance to Rule:*~~

~~*The **Exchange** occasionally allows **market makers**, where applicable, to relax spreads when an individual security is subject to wide price movements. This is very rare and normally will not last more than a day.*~~

~~*In order to relax **market maker** spread obligation when there are wide price movements, the **Exchange** may temporarily increase the maximum spread regime to an existing spread level, for example move a security with a 5% spread to a 10%,15% or 25% tolerance rather than provide a blanket waiver.*~~

(Rules 4210 – 4221 unchanged)

Interaction with a market maker in quote driven securities

(Rules 4300 – 4301 unchanged)

Backs and choices in quote driven securities [4310-4312]

(Rule 4310 unchanged)

G	4311		If a **choice** or a **back** persists for more than five minutes during the **mandatory period**, the **market maker** that created it shall:
		4311.1	contact the first competing **market maker** with the then best opposing **bid price** or **offer price** (as the case may be) and offer to effect a trade in up to its own quoted size and at its own quoted price;
		4311.2	if its business remains incomplete, contact subsequent **market makers** with the then best opposing **bid price** or **offer price** (as the case may be) on a similar basis; and
		4311.3	change its price once its business is completed.

Guidance to Rule:

This rule will not apply:

- *if either of the relevant **market makers** has notified the **Exchange** of relevant system problems; or*
- *if the enquiring **market maker's firm quote** on ~~**TradElect**®~~ the **trading system** is closed.*

(Rule 4312 unchanged)

Backs and choices (gilt-edged and fixed interest market) [4320-4322]

(Rules 4320 – 4321 unchanged)

	4322		The obligations of a **fixed interest market maker** in the event of a **back** in a **fixed interest security** quoted on ~~**TradElect**®~~ the **trading system** are:
		4322.1	where the **market maker** has input a quotation which causes the **back**, it shall be obliged to deal at its displayed quotation;
		4322.2	where the **market maker**, by omission, inadvertently causes the **back**, it may alter its quotation but if it does not do so within a reasonable period of time, rule 4322.1.1 will apply; and

		4322.3	a **market maker** which did not cause the **back** may alter its quotation to a price at which it must then be prepared to effect a trade.

(Rules 4330 – 4411 unchanged)

Fixed interest market makers

<u>Obligations of fixed interest market makers</u> [4500-4501]

(Rule 4500 unchanged)

	4501		Where a **fixed interest market maker** displays a **quote** on ~~**TradElect**®~~ <u>the</u> **<u>trading system</u>** it shall deal in that price and up to that size with an enquiring **member firm**.

<u>Exception to obligations of fixed interest market makers</u> [4510]

(Rules 4510 – 4510.2 unchanged)

<u>SETTLEMENT, CLEARING AND BENEFIT RULES</u>

Settlement

(Rules 5000 – 5153 unchanged)

Clearing through a Central Counterparty

<u>Clearing arrangements</u> [5200-5202]

(Rule 5200 unchanged)

G	5201		A **member firm** shall not enter an order in a **central counterparty security** into ~~**TradElect**®~~ <u>the</u> **<u>trading system</u>** 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**®~~ <u>the</u> **<u>trading system</u>**.*

*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.*

(Amended N17/10 – effective 2 August 2010)

(Rules 5202 – 5210 unchanged)

G	5220	A **General Clearing Member** must notify the **Exchange** prior to suspending its services as a **clearing member** to any **member firm**.

Guidance to Rule:

*A pre-agreed person at a **General Clearing Member** must notify the **Exchange** by telephone and follow this up with written confirmation. In this event, **the Exchange** shall, at an agreed time, or as soon as is reasonably practicable, suspend the **member firm** from submitting orders in relation to all **central counterparty securities**, and delete any existing orders of that **member firm** residing in ~~**TradElect**~~® the **trading system**. The **General Clearing Member** remains liable for all trades involving the **member firm** executed prior to completion of these processes by the **Exchange**.*

(Rules 5230 – 5260 unchanged)

General benefits

(Rules 5300 – 5941 unchanged)

COMPLIANCE PROCEDURES

(Rules C010 – C506 unchanged)

DEFAULT RULES

(Rules D010 – D200.2 unchanged)