



London
Stock Exchange

10 Paternoster Square
London EC4M 7LS
Telephone +44 (0)20 7797 1000
www.londonstockexchange.com

30 January 2012

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

N03/12

STOCK EXCHANGE NOTICE

CONSULTATION ON PROPOSED RULE AMENDMENTS – EXCHANGE ENFORCED CANCELLATION

Introduction

1. The London Stock Exchange (“the Exchange”) issued Stock Exchange Notice N05/09 on 22 January 2009 confirming the introduction of the Exchange enforced cancellation rules for automatically executed trades on the Exchange’s trading system.
2. After review of the Exchange enforced cancellation policy, the Exchange is proposing to make some minor procedural changes in relation to the Exchange’s handling of Exchange enforced cancellations as well as amending the threshold limits for Exchange enforced cancellations in Exchange Traded Funds and Exchange Traded Products (“ETFs and ETPs”).

Exchange enforced cancellations policy

3. Exchange enforced cancellations can either result from a request from a member firm that is a party to the trade in question or be initiated unilaterally by the Exchange. Ultimately, the decision to undertake an Exchange enforced cancellation rests solely with the Exchange.
4. The Exchange’s procedures for handling Exchange enforced cancellations are set out in the guidance to rule 2120. The guidance covers the procedures for all automated trades executed on the Exchange’s trading system. In order to improve the process, the Exchange proposes to stop informing the market via RNS when it is simply considering cancelling a trade or decides not to cancel a trade which has executed before 16:30. Where the Exchange has taken the decision to cancel a trade the market will continue to be informed via RNS and a Stock Exchange Notice. The Exchange’s handling of Exchange enforced

cancellations for the uncrossing of closing auctions concluded after 16:30 remains unchanged.

5. When deciding whether to cancel a trade the Exchange will consider a number of factors such as the time elapsed since the trade, the evidence to prove the erroneous nature of the trade, market impact of the proposed cancellation and potential loss to the firm involved. These criteria apply across all of the Exchange's markets.

Exchange enforced cancellations in ETFs and ETPs

6. At present the potential loss threshold for ETFs and ETPs is set at £100,000 in relation to automated trades conducted in a single security and £200,000 for trades in more than one security.
7. In reviewing the thresholds for ETFs and ETPs, the Exchange is proposing to lower the potential loss limits for Exchange enforced cancellations. The proposed thresholds, for ETFs and ETPs only, will be lowered to £50,000 for trades conducted in a single security and £100,000 for trades conducted in more than one security. The new thresholds are reflective of trading practices in these securities and compliment the introduction of new price monitoring thresholds, the details of which are set out in Service Announcement 001/12122011 issued on 12 December 2011. This announcement can be found at:
<http://www.londonstockexchange.com/products-and-services/technical-library/service-announcements/2011/home-2011.htm>
The Exchange introduced the new price monitoring thresholds, which came into effect on 23 January 2012, in order to monitor substantial price variations more closely and reduce potentially erroneous activity in these markets.

Consultation

8. The Exchange is consulting on the guidance changes set out in Attachment 1 for a period of four weeks. Interested parties are therefore asked to provide any comments or feedback on this consultation by 24 February 2012.
9. Any comments or queries on the specific rules changes set out in this Notice should be addressed to Nisha Patel, UK Regulation, telephone +44 (0)20 7797 3130 (STX 33130) or email: npatel@londonstockexchange.com
10. Any comments or queries on ETFs and ETPs products should be directed to the Exchange's Listed Products team on +44 (0) 20 7797 3921 or email: etfs@londonstockexchange.com

Denzil Jenkins
Head of Compliance & Regulation

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

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