



London
Stock Exchange

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Rules of the London Stock Exchange



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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 has also been created to support 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 tradable 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 still 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

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

admitted to trading	admission to trading on the Exchange's markets
agency cross	a trade by which a member firm acting as an agent matches the buy and sell orders of two or more non-members at the same price and on the same terms
agent	a member firm acting on behalf of a customer in an agency capacity <i>(Amended N37/09 – effective 19 August 2009)</i>
AIM	the market provided by the Exchange for transactions in AIM securities
AIM security	a security which the Exchange has admitted to trading on AIM
AIM primary market registered organisation	a trading venue that is included in the AIM primary market registered organisation list that the Exchange maintains and publishes on its corporate website. Trading venues will be considered for inclusion on this list upon request of a member firm
AIM secondary market registered organisation	a trading venue that does not have a primary market relationship with AIM companies that meets the criteria as set out by the Exchange from time to time <i>(Amended N38/09 – effective 19 August 2009)</i>
American form	a form of transfer endorsed on a stock certificate, execution of which enables the holder to pass title to another
associate	in relation to any person , means that person's wife, husband, parent, minor child or minor stepchild, child in full time education or step-child in full-time education, any body corporate of which that person is a director, a trustee of a trust of which the beneficiaries include that person , any person who is an employee or partner of that person and, if that person is a body corporate, any subsidiary of that body corporate and any employee of any such subsidiary
authorised person	a person who is authorised under section 31 of FSMA
back	a situation where an offer price is lower than all bid prices , or a bid price is higher than all offer prices , in the same security
best bid	the highest bid price displayed on the trading system <i>(Amended N26/10 – effective 14 February 2011)</i>
best offer	the lowest offer price displayed on the trading system <i>(Amended N26/10 – effective 14 February 2011)</i>
bid price	the price at which a member firm is prepared to buy shares

broker dealer	in relation to transactions in securities of any description, a member firm which is not a market maker , a gilt inter dealer broker , or a wholesale dealer broker in those securities
business day	any day on which the Exchange is open for dealing
buyer	<p>(a) a member firm purchasing securities from another member firm;</p> <p>(b) in the case of a central counterparty trade a matched buyer; or</p> <p>(c) in respect of a lending arrangement, on the outward leg the borrower and on the return leg the lender</p>
buying-in	an Exchange mechanism which facilitates the delivery of securities in unsettled, sold, on Exchange trades
buying-in notice	a notice issued by the Exchange at the instigation of the buyer to a seller who has failed to deliver a security in settlement of an on Exchange trade
call payment day	the last day fixed by the issuer for payment of call monies
Capital Adequacy Directive	Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions
CDI	CREST depository interest
central counterparty	a body that assumes the risk for central counterparty trades by acting as the selling party to a matched buyer and the buying party to a matched seller or their clearing member , as appropriate
central counterparty contract	any contract arising between Non Clearing Members , clearing members and a central counterparty , resulting from a central counterparty trade
central counterparty netting service	a service which allows a member firm to transfer a net amount of central counterparty securities and a net amount of cash to satisfy their settlement obligations with respect to a number of central counterparty contracts involving the same central counterparty securities and cash
central counterparty rules	the rules, general regulations, default rules and procedures of a central counterparty
central counterparty security	a security designated by the Exchange and a central counterparty as eligible for central counterparty processing
central counterparty trade	an electronically matched order on the trading system in a central counterparty security
	<i>(Amended N26/10 – effective 14 February 2011)</i>
choice	a situation where the best bid and best offer for a security are the same
clearing member	a General Clearing Member or an Individual Clearing Member

clearing membership agreement	the agreement entered into between a central counterparty and a clearing member under which, amongst other things, a central counterparty agrees to make available clearing services in respect of central counterparty contracts
compliance procedures	the 'C' series of these rules which sets out the rules and procedures for disciplinary proceedings and disciplinary and non-disciplinary appeals
connected person	as defined in section 346 of the Companies Act 1985
continuous trading	the period during market hours when an order book security is not in an auction <i>(Amended N21/10 – effective 1 June 2011)</i>
contra	a trade undertaken on 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 <i>(Amended N26/10 – effective 14 February 2011)</i>
counterparty	(a) for the purposes of the default rules , the person(s) contracting as principal with the defaulter in respect of an unsettled Stock Exchange market contract whether directly or through the agency of a member firm and/or a third party; or (b) for other purposes, a person who is not a customer with whom a member firm undertakes a trade on Exchange and including a central counterparty <i>(Amended N08/10 – effective 15 April 2010)</i>
covered warrant	a security that is a warrant issued by a party other than the issuer or originator of the underlying asset
covered warrant market maker	a market maker in a covered warrant
covered warrant order book	an order-driven trading service for trading covered warrants
CREST	the settlement system operated by Euroclear UK & Ireland Ltd
CREST instruction deadline	the latest date and time specified under the relevant central counterparty rules for submitting an electronic instruction notice to CREST in respect of a corporate action in a central counterparty security . The instruction notice must be in respect of transactions executed at least the day before the CREST instruction deadline
customer	a person for whom a member firm undertakes a trade or otherwise performs services on Exchange
dealing agent	a member firm , other than an introducing firm , which has been appointed by another member firm to effect trades on its behalf, whether as principal or agent
default official	the individual appointed by the Exchange to administer the default in accordance with the default rules <i>(Amended N08/10 – effective 15 April 2010)</i>

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default rules	<p>the 'D' series of these rules which sets out rules and procedures in the event of default by a member firm</p> <p><i>(Amended N08/10 – effective 15 April 2010)</i></p>
defaulter	<p>a member firm declared to be in default by the Exchange in accordance with the default rules</p> <p><i>(Amended N08/10 – effective 15 April 2010)</i></p>
deferred publication	<p>a facility for member firms to delay the publication of a trade for a period of time dependent on its size and in accordance with the thresholds detailed in the parameters</p>
direct input	<p>the CREST service which creates transactions centrally on behalf of a settlement participant</p>
direct market access	<p>a service provided by a member firm through which a customer is able to submit orders to the trading system under the member firm's trading codes and via the member firm's order management systems, but without manual intervention by the member firm.</p> <p><i>(Amended N16/11 – effective 26 September 2011)</i></p>
employee	<p>in relation to a member firm 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</p>
EU regulated market	<p>a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of the Markets in Financial Instruments Directive [Directive 2004/39/EC]</p>
Exchange	<p>London Stock Exchange plc which trades as the "London Stock Exchange" including, where the context so permits, any committee, sub-committee, employee or officer to whom any function of the London Stock Exchange plc may for the time being be delegated</p>
Exchange enforced cancellation	<p>the cancellation by the Exchange of an automated trade executed on 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</p> <p><i>(Amended N26/10 – effective 14 February 2011)</i></p>
Exchange market size	<p>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 the trading system</p> <p><i>(Amended N26/10 – effective 14 February 2011)</i></p>

Exchange price list	<p>the documents published by the Exchange, from time to time, setting out charges and fees for:</p> <ul style="list-style-type: none">(a) membership of the Exchange;(b) use of the trading system;(c) trades reported to the Exchange; or(d) other services and products provided by the Exchange <p><i>(Amended N26/10 – effective 14 February 2011)</i></p>
exchange traded product	<p>a tradable unitised debt security that derives its price from one or more underlying assets</p> <p><i>(Amended N17/10 – effective 2 August 2010)</i></p>
exchange traded fund	<p>a security that derives its price from a diversified group of assets and is issued by a collective investment scheme</p> <p><i>(Amended N17/10 – effective 2 August 2010)</i></p>
executable quote	<p>an electronic quote that can be automatically executed against and used by market makers in order driven securities. The relevant spread and minimum size of the quotes is provided in parameters</p>
fine	<p>a monetary penalty levied by the Exchange other than a fixed penalty</p>
firm quote	<p>a non executable firm quote used by market makers in quote-driven securities. The relevant spread and minimum size of the quotes is provided in parameters</p>
fixed interest market maker	<p>a member firm which is registered as such with the Exchange and which is obliged to quote on an enquiry to trade fixed interest securities in a marketable quantity</p>
fixed interest security	<p>a security, other than a gilt-edged security, which carries a right to a stated rate of interest or dividend on an annual or other periodic basis and which is admitted to trading</p>
fixed penalty	<p>a penalty, set out in a notice, of a stated amount of money for each instance of a breach of a specific rule</p>
FSMA	<p>the Financial Services and Markets Act 2000</p>
General Clearing Member	<p>a member firm that is party to a valid and subsisting clearing membership agreement with a central counterparty and which may clear with the central counterparty, central counterparty contracts resulting from central counterparty trades dealt by the member firm itself or another member firm</p>

gilt-edged market maker	<p>a member firm which has been accepted as a gilt-edged market maker by the UK Debt Management Office and registered as such with the Exchange. A gilt-edged market maker can be registered either:</p> <ul style="list-style-type: none"> (a) in all gilt-edged securities that are not index-linked gilt-edged securities; (b) in all index-linked gilt-edged securities only; or (c) in all gilt-edged securities.
gilt-edged security	<p>a security admitted to trading, including a gilt strip, issued by the United Kingdom government and appearing on a list of gilt-edged securities maintained by the UK Debt Management Office</p>
gilt inter dealer broker	<p>a member firm, or part of a member firm, which has registered its service with the Exchange which service consists of the member firm intermediating as a riskless principal between gilt-edged market makers only, who subscribe to its service. The member firm may also intermediate as riskless principal between gilt-edged market makers and the UK Debt Management Office in transactions for near maturity gilts only.</p> <p><i>(Amended N44/09 – effective 19 October 2009)</i></p>
Guide to the trading system	<p>the Exchange publication that describes how the Exchange's trading system functions and referenced in these rules by the notation "GT"</p> <p><i>(Amended N26/10 – effective 14 February 2011)</i></p>
hammer price	<p>the appropriate price determined by the Exchange in accordance with rule D131 in the case of a declaration of default with respect to a member firm.</p> <p><i>(Amended N08/10 – effective 15 April 2010)</i></p>
holding company	<p>as defined in section 736 of the Companies Act 1985</p>
index	<p>an index whose components are securities traded on an Exchange market</p>
index-linked gilt-edged security	<p>an admitted to trading sterling denominated security issued by the United Kingdom government whose interest and redemption values are linked to the United Kingdom General Index of Retail Prices</p>
Individual Clearing Member	<p>a member firm that is party to a valid and subsisting central counterparty agreement with a central counterparty and which may clear with the central counterparty, central counterparty contracts resulting from its own central counterparty trades only</p>
instruction notice	<p>an instruction from a buyer in respect of a corporate event either submitted in writing to a seller or, where appropriate, electronically to CREST. The instruction must be given via CREST in respect of central counterparty trades and must be given on settlement instructions. It cannot be given on gross transactions which have been, or are to be, netted</p>
introducing firm	<p>a member firm that uses the services of a model B firm</p>

ISIN	the international security identification number
lapsing instruction	an instruction notice by the buyer to the seller that the buyer does not wish to take up the offer in respect of the undelivered rights
large trade	a trade conducted in an EU regulated market security that is not subject to pre-trade transparency on 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 <i>(Amended N26/10 – effective 14 February 2011)</i>
last time for claims	subject to these rules, shall be 16.00 hours two days before the call payment day or registration day
latest time for delivery	the specified time on the day before the call payment day or registration day
LCH rules	LCH.Clearnet Ltd rules <i>(Amended N17/10 – effective 2 August 2010)</i>
lending arrangement	an arrangement entered into between a member firm , whether acting as agent or principal , and another party under which one party is to transfer securities to the other party and securities of the same kind and amount are to be transferred by that other party to the first party
liable party	a member firm against whom a buying-in notice is issued by the Exchange , or the member firm to whom a buying-in notice is passed. For buying-in notices in respect of settlement instructions resulting from central counterparty trades , the liable party will be determined by the Exchange <i>(Amended N19/09 – effective 30 March 2009)</i>
Listing Rules	the listing rules of the UK Listing Authority
mandatory period	the daily period during which market makers have obligations under these rules (and as described in the parameters)
market close	(a) in relation to an order book security , the later of: (i) the end of continuous trading; or (ii) the end of the closing auction (b) in relation to a quote-driven security , the end of the mandatory period
market hours	the period between market open and market close
market maker	in relation to securities designated by the Exchange , a member firm which is registered as a market maker and is obliged to quote prices in at least the Exchange market size

market open	<p>(a) in relation to an order book security, the start of continuous trading; or</p> <p>(b) in relation to a quote-driven security, the start of the mandatory period</p> <p><i>(Amended N17/10 – effective 2 August 2010)</i></p>
market situation	a general term used to describe one or more issues that may impact the orderliness of trading multiple securities
marketable quantity	the quantity of any fixed interest security for which a fixed interest market maker is obliged to quote a price in response to an enquiry
matched buyer	a member firm on the buy side of an electronically matched order on the trading system
	<i>(Amended N26/10 – effective 14 February 2011)</i>
matched seller	a member firm on the sell side of an electronically matched order on the trading system
	<i>(Amended N26/10 – effective 14 February 2011)</i>
member firm	a partnership, corporation, legal entity or sole practitioner admitted to Exchange membership and whose membership has not been terminated. For the purposes of the compliance procedures , member firm shall include a former member firm where appropriate
member ID	the highest level of identification of a member firm in the trading system
membership profile	the trading and non trading profile of a member firm as held by the Exchange and communicated to the market via Member Firm Information Sheets
MiFID	Markets in Financial Instruments Directive [Directive 2004/39/EC]
MiFID transparent security	a share admitted to trading on an EU regulated market
model B firm	a member firm that takes on all immediate liabilities for trades dealt by an introducing firm
near maturity gilt	a gilt-edged security that has passed its penultimate coupon date
	<i>(Amended N44/09 – effective 19 October 2009)</i>
negotiated trade	a trade conducted in an EU regulated market security that is not subject to pre-trade transparency on 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
	<i>(Amended N26/10 – effective 14 February 2011)</i>
Non Clearing Member	a member firm that is not a clearing member in respect of a particular trade

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notice	any notice issued by the Exchange from time to time to member firms generally or to any class of member firms
offer price	the price at which a member firm is prepared to sell shares
on Exchange	a trade executed under the Rules of the Exchange as defined by rules 2000 & 3000
ORB liquidity provider	in relation to securities designated by the Exchange and trading on the Order Book for Retail Bonds, a member firm which is registered as an ORB liquidity provider and is obliged to quote bid prices in at least the Exchange market size <i>(Amended N01/12 – effective 01 February 2012)</i>
order book	a facility operated by the Exchange for the electronic submission and automatic execution of orders in order book securities
order book security	a security which the Exchange has admitted to trading on an order book
overseas	outside the United Kingdom
parameters	the Exchange's system and control parameters referenced in these rules by the notation "P"
person	an individual, corporation, partnership, association, trust or other entity as the context admits or requires
portfolio trade	a transaction in more than one security where those securities are grouped and traded as a single lot against a specific reference price.
principal	a member firm or other person acting as principal
principal listing	the listing where the main regulator of the issuer in respect of its listed securities is located
PTM levy	the levy set by and payable to the Panel on Takeovers and Mergers
quote	either an executable quote or a firm quote
quote-driven trading service	a trading service subject to the quote-driven trading service rules
quote-driven security	a security traded on a quote-driven trading service
registrar	the keeper of a register of securities
registration day	the last day fixed for the receipt of an application for registration of securities issued under the offer
regulated activity	carrying on business related to specified investments in the United Kingdom as in section 22 of FSMA
Regulated Activities Order	the Financial Services and Markets Act (Regulated Activities) Order 2001

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 the trading system with the letters "REG S" <i>(Amended N26/10 – effective 14 February 2011)</i>
relevant agency contract	a Stock Exchange market contract to which a defaulter is party as an agent
relevant principal contract	a Stock Exchange market contract to which a defaulter is party as a principal
relevant contracts	any contracts arising between the Exchange and a member firm , including but not limited to the Membership Application Form
RepoClear	the netting and clearing service operated by LCH.Clearnet Ltd <i>(Amended N17/10 – effective 2 August 2010)</i>
requesting party	a member firm that requests the Exchange to buy-in undelivered securities
rights	renounceable documents or, if the context permits, the equivalent uncertificated securities
RNS	the regulatory and financial communications channel operated by the Exchange that is used by companies and the Exchange to communicate with investors and market participants <i>(Amended N05/09 – effective 26 January 2009)</i>
seller	(a) a member firm selling securities to another member firm ; (b) in the case of a central counterparty trade a matched seller ; or (c) in respect of a lending arrangement , on the outward leg the lender and on the return leg the borrower
settlement agent	a person providing settlement services
settlement rules	the '5000' series of these rules which sets out detailed rules and procedures for settlement of on Exchange trades <i>(Amended N17/10 – effective 2 August 2010)</i>

specified time	<p>(a) for inter office delivery:</p> <p>(i) 11.45 hours in the case of delivery to any member firm by a member firm acting as agent;</p> <p>(ii) 12.15 hours in the case of delivery by a member firm acting as principal to a member firm acting as principal;</p> <p>(iii) 13.00 hours in the case of delivery by a member firm acting as principal to a member firm acting as agent; or</p> <p>(b) in the case of a delivery to any member firm in CREST, by the final time for that type of delivery specified in CREST's daily processing timetable</p> <p><i>(Amended N09/09 – effective 23 February 2009)</i></p>
sponsored access	<p>a direct technical connection that enables a non member firm to access the trading system directly under a member firm's trading codes. Orders submitted in this manner do not pass through the order management systems of the member firm but will pass through the Exchange's controls.</p> <p><i>(Amended N16/11 – effective 26 September 2011)</i></p>
standard settlement	<p>the normal settlement arrangement applicable to a security</p>
Stock Exchange market contract	<p>any on Exchange trade including lending arrangements and central counterparty contracts. All Stock Exchange market contracts are market contracts pursuant to section 155 of the Companies Act 1989</p>
stock situation	<p>an event whereby a holder of securities may be entitled to other securities pursuant to a takeover offer, scheme of arrangement, conversion, redemption or other event affecting those securities</p>
subsidiary	<p>as defined in section 1159 of the Companies Act 2006</p>
tradeable instrument code	<p>the official code, issued by the Exchange, identifying each security</p>
trade report	<p>a report of the details of a trade effected on Exchange which is made to the trading system and which the Exchange may publish subject to certain criteria</p> <p><i>(Amended N26/10 – effective 14 February 2011)</i></p>
trade reporting period	<p>(a) the period each day between 07.15 hours and 17.15 hours; or</p> <p>(b) the period each day between 08:15 hours and 18:15 hours Central European Time</p> <p>when the trading system will accept trade reports</p> <p><i>(Amended N26/10 – effective 14 February 2011)</i></p>
trader group	<p>the level at which authorisation and / or role enablement for trading actions in a particular Market is performed in the trading system</p>

trading system	the trading system operated by the Exchange <i>(Amended N26/10 – effective 14 February 2011)</i>
uncertificated securities	a security admitted to CREST pursuant to the UK Regulations (or pursuant to the Irish Regulations, the Isle of Man Regulations, or the Jersey Regulations) as defined in the CREST Manual
United Kingdom	England, Scotland, Wales and Northern Ireland
unsettled claim	any outstanding obligation to pay or right to receive a sum of money or shares resulting from a dividend payment or a corporate action event that arises from an on Exchange trade and that remains unsettled at the time of a declaration of default with respect to a member firm that has such an obligation to pay or a right to receive and that is notified to the Exchange within such time as specified in accordance with rule D021. <i>(Amended N08/10 – effective 15 April 2010)</i>
warning notice	a letter issued by the Exchange to a member firm outlining any relevant rule breach
warrant	an instrument which gives the holder the right to acquire or dispose of securities at a stipulated price
when issued dealing	trades effected in accordance with these rules in securities which are the subject of an application to be admitted to trading , entered into before, and conditional upon, trading becoming effective
wholesale dealer broker	a member firm , or part of a member firm , which has registered its service as such with the Exchange and where such service consists of the member firm intermediating between gilt-edged market makers and/or any other persons acting as principal traders in gilt-edged securities , who subscribe to its service

CORE RULES

Member firms

Categories of Membership [1000]

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

Guidance to Rule:

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

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

(Amended N08/10 – effective 15 April 2010)

Authorisation [1010-1015]

G	1010	A member firm must at all times be authorised under relevant United Kingdom , or appropriate overseas legislation, or in the view of the Exchange be otherwise sufficiently regulated, in respect of capital adequacy, and fitness and probity.
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Guidance to Rule:

*The **Exchange** will consider a **person** to be appropriately authorised or sufficiently regulated if that **person** is:*

1. *authorised under **FSMA**;*
2. *an exempted **person** under **FSMA**;*
3. *a **person** whose activities constitute appropriate "exclusions" under the **Regulated Activities Order**, whether such activities are carried out within the **United Kingdom** or elsewhere in the EU, in which case the scope of **on Exchange** activities will be restricted to **central counterparty trades**;*

*The **Exchange** considers appropriate exclusions to include Articles 15, 16, 19, 20 and 23 of the **Regulated Activities Order**.*

4. *an "overseas **person**" as defined in Part 1 of the **Regulated Activities Order**, undertaking a **regulated activity** which does not require authorisation under **FSMA** by virtue of the exceptions contained in Article 72 of the **Regulated Activities Order**; or*
5. *a "European institution" or an authorised European "investment firm" as defined respectively by the Banking Co-ordination (Second Council Directive) Regulations 1992,*

and the Markets in Financial Instruments Directive [Directive 2004/39/EC], which is authorised or permitted within the meaning of those Regulations to carry on the equivalent of a **regulated activity** in its home state.

An applicant which is seeking authorisation under **FSMA** may be considered but any decision to grant membership based on this will be subject to authorisation being granted and will not become effective until that condition is satisfied.

The **Exchange's** assessment of a **member firm's** authorisation may include, but is not limited to, consideration of:

- the scope of its authorisation or permission; and
- evidence of satisfactory regulation of the applicant's financial integrity and fitness and probity.

Where the **Exchange** deems it necessary to protect the integrity of the **Exchange's** markets, action may be taken under rule 1015 without prior notice to the **member firm** concerned.

D	1015	If, at any time, a member firm does not comply with rule 1010 or is the subject of an intervention order or an order having equivalent effect served by an authority responsible for the supervision or regulation of a regulated activity , the Exchange may:
	1015.1	restrict the scope of on Exchange business conducted by the member firm ; or
	1015.2	terminate the membership of the member firm .

Suitability [1020-1025]

	1020	A member firm must, to ensure compliance with these rules, at all times have:
	1020.1	adequate trade execution, recording, reporting and settlement procedures and systems and, if relevant, order and quote management procedures and systems;
	1020.2	sufficient staff with adequate knowledge, experience, training and competence;
	1020.3	adequate internal procedures and controls; and
	1020.4	one or more compliance officers who shall be identified to the Exchange and be competent to advise the member firm and its employees on the application of these rules.

D	1021	Where the Exchange has reason to believe that a member firm is not conducting, or may not conduct, its operations in a business-like manner, and that requirements or restrictions are reasonably necessary to ensure that it does so, the Exchange may at any time:
	1021.1	suspend, either in part or in full, a member firm's membership of the Exchange or its access to any of the Exchange's services;
	1021.2	impose on the member firm requirements relating to the member firm's level of staffing, training, internal procedures and controls or any other matter relevant to the continuing suitability of the member firm ; or
	1021.3	restrict the scope of on Exchange business conducted by the member firm .

G	1022	In accordance with notification rule 1050, a member firm shall notify the Exchange immediately of any matter that is material to the member firm's suitability as a member firm .
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Guidance to Rule:

Such matters shall include, but are not limited to:

- (i) the presentation of a petition for the winding up of the member firm or of a company which is a subsidiary or holding company of the member firm;
- (ii) the appointment of a receiver, administrator or trustee of the member firm;
- (iii) the making of a composition or arrangement with creditors of the member firm;
- (iv) where the member firm is a partnership, an application or the giving of notice to dissolve the partnership;

- (v) where the member firm is a sole trader, the presentation of a petition for a bankruptcy order or an award of sequestration;
- (vi) the imposition of disciplinary measures or sanctions on the member firm or any employee by any statutory, professional or other body exercising a regulatory or disciplinary jurisdiction, whether within the United Kingdom or elsewhere;
- (vii) an event equivalent to those identified in (i) to (vi) above under overseas legislation; and
- (viii) any material change to any matter previously notified to the Exchange that is pertinent to the Exchange's consideration of a member firm's authorisation.

1023	A member firm shall be bound by and observe:
1023.1	these rules (as amended from time to time);
1023.2	any rules and procedures set out in any supplementary documentation issued by the Exchange under these rules;
1023.3	the provisions of any notice ; and
1023.4	any requirement, decision or direction of the Exchange .

Guidance to Rule:

*A **member firm** may appeal against a decision of the **Exchange** pursuant to these rules and in accordance with rule 1040*

1024	A member firm shall take all reasonable steps to ensure that its employees comply with all applicable obligations arising under these rules.
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1025	A former member firm shall be bound by these rules in respect of all activities which took place prior to termination of membership (and which were subject to these rules) until the latest of:
1025.1	one year after it ceases to be a member firm ;
1025.2	the date on which all of its on Exchange trades are settled and completed; or
1025.3	the date on which all outstanding subscriptions, charges or other sums due to the Exchange have been paid in full.

Resignation of membership [1030-1033]

1030	A member firm may resign by giving the Exchange at least three months written notice.
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D 1031	The Exchange may postpone the effective date of resignation and may impose other measures that it considers necessary for the protection of investors who may be customers or counterparties of the member firm when the resignation would have otherwise become effective. The member firm shall supply, when required by the Exchange , such information concerning the circumstances of the resignation as shall, in the opinion of the Exchange , be necessary for it to determine whether to exercise its powers under this rule.
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D 1032	The Exchange may, in its absolute discretion, refuse to accept a notice of resignation given by a member firm if the Exchange considers that any matter affecting the member firm should be investigated.
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D 1033	A member firm that has ceased to carry on business activities for which it was deemed suitable for membership may have its membership terminated with immediate effect or otherwise by the Exchange .
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Appeals and complaints [1040]

G 1040	An applicant or member firm may appeal against a decision of the Exchange pursuant to these rules and in accordance with the rules in the compliance procedures .
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Guidance to Rule:

*Any appeal under this rule shall be conducted in accordance with the procedures set out in the **compliance procedures**.*

There may be situations where the **Exchange's** decisions may not be appealed e.g. where the reversal of a decision would lead to market instability or disorder. However in these cases, a complaint can be made against the **Exchange's** decision. Details of how to make a complaint can be found on the **Exchange's** website:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/making-complaint/making-complaint.htm>

(Amended N37/09 – effective 19 August 2009)

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 .
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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 the **trading system**. Where a **member firm** provides **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.

(Amended N26/10 – effective 14 February 2011)

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 .
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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 **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.

(Amended N26/10 – effective 14 February 2011)

Trade confirmations [1060]

G	1060	A member firm shall not inform a customer that a trade is subject to the Rules of the London Stock Exchange unless the trade is on Exchange .
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Guidance to Rule:

The rule ensures that a **customer** is not misinformed that a trade is subject to the rules of the **Exchange** when it is not. A **member firm** may however state on its business letters, notices and other publications that it is a member of the **Exchange** and may where it issues a confirmation inform a **customer** that a trade is subject to the rules of the **Exchange**.

Trade records [1070]

1070	A member firm shall retain a record of each on Exchange trade entered into by it which is subject to these rules, including a lending arrangement , for at least three years. Any such record shall be produced for inspection to the Exchange on demand and, where it is not retained in legible form, must be capable of being reproduced in that form.
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English language requirement [1080]

1080	Every document that is required to be provided to the Exchange under these rules shall be in English.
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Voice recording [1090-1091]

1090	Voice recording equipment shall be installed, maintained and used by every market maker with respect to its market making activities.
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(Amended N16/11 - effective 26 September 2011)

1091	Recordings made under rule 1090 shall be retained for at least one month after the end of the normal settlement period for the relevant Exchange market.
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Panel on Takeovers and Mergers Levy

G 1092	A member firm should ensure the collection of the appropriate PTM levy from their customers , regardless of whether the trades in question are executed under the Rules of the London Stock Exchange, on another exchange, multi-lateral trading facility or over-the-counter.
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Guidance to Rule:

*The **PTM levy** is payable on equity trades in securities of companies which are incorporated in the **United Kingdom**, the Channel Islands, or the Isle of Man, and is charged at the rate notified from time to time. The **PTM levy** is payable where the total consideration of the relevant trade is greater than £10,000 (or the equivalent in any other currency). Where more than one security is included on the same confirmation, the **PTM levy** shall be charged as if a separate confirmation had been issued for each security. The securities for which the **PTM levy** is not payable include **covered warrants**, **exchange traded funds** and **exchange traded commodities**. Information on the current **PTM levy** is available on the Panel on Takeovers and Mergers' website at <http://www.thetakeoverpanel.org.uk/new/>*

(Amended N09/09 – effective 23 February 2009)

Member firm services

Settlement agent [1100]

G 1100	A member firm may act as, or use the services of, a settlement agent to settle on Exchange business.
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Guidance to Rule:

***Member firms** must make their own arrangements for settling their **on Exchange** trades. A **member firm** may, but is not obliged to, employ one or more **settlement agents**, which could include its **General Clearing Member**. **Individual Clearing Members** may also use a separate **settlement agent**.*

Model B firms [1110]

G 1110	A member firm may act as a model B firm for an introducing firm with the prior written consent of the Exchange with regard to each introducing firm to which it wishes to offer its services.
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Guidance to Rule:

*Whilst the **Exchange** places an obligation on the **model B firm** to seek prior written consent, there remains an obligation on both the **model B firm** and the relevant **introducing firm** to*

notify the **Exchange** of the change to their settlement and clearing arrangements in accordance with notification rule 1051.

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

Registration

1120	A member firm that wishes to operate a service as a gilt inter dealer broker and/or a wholesale dealer broker shall comply with rules 1120 to 1128 and register with the Exchange .
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Restrictions

1121	Any service registered under rule 1120 must be segregated from any other service registered under rule 1120 and from other parts of the member firm . In addition, the services must operate under separate member IDs and settlement must be segregated within the settlement system. The services may not transact business with each other.
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(Amended N17/10 – effective 2 August 2010)

1122	The part of a member firm operating a service may not take principal positions in a security.
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1123	The identity of a user of a service shall remain anonymous at all times.
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List of users

1124	A member firm which operates a service that is available to users other than gilt-edged market makers must maintain an up to date list of all users of that service and supply such a list to any gilt-edged market maker using that service on request. Any subsequent changes to a list already supplied shall be sent immediately to each such gilt-edged market maker .
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(Amended N13/11 – effective 11 July 2011)

Access

G 1125	Any member firm using a service must ensure that access to that service is restricted to the principal traders authorised by the member firm .
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Guidance to Rule:

*Authorised principal traders within **gilt-edged market makers** are deemed to be those traders authorised to bid in the gilt auctions. The UK Debt Management Office maintains a record of each **gilt-edged market maker's** authorised principal traders; **gilt-edged market makers** should notify the UK Debt Management Office of any changes to this information.*

(Amended N44/09 – effective 19 October 2009)

Service descriptions

G 1126	A gilt inter dealer broker must provide a service description to all gilt-edged market makers and provide a copy to the Exchange and to the UK Debt Management Office. A wholesale dealer broker must provide a service description to all users of its service and provide a copy to the Exchange and to the UK Debt Management Office.
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Guidance to Rule:

The service description must provide at least the following information:

- *whether the service will be screen based, voice broked, or both;*
- *for voice broking only services, whether or not details of trades entered into through the service will be published by the **member firm** operating the service and, if so, how;*
- *the types of orders that may be accepted by the service (including discretionary, indicative or contingent);*
- *the minimum size of order that will be accepted;*
- *the procedures for displaying, queuing and handling new orders;*
- *a statement that users of the service must be prepared to accept partial deliveries in*

*relation to a trade in order to avoid the provider of the service taking a **principal** position;*

- *in the case of a **wholesale dealer broker** which offers its services to principal traders that are not **member firms**, a statement as to which parts of the principal trading entity may have access to the services provided; and*
- *the types of transaction being offered (such transactions being limited to cash trades in gilt-edged securities and **United Kingdom** government guaranteed bonds, admitted to trading on the **Exchange**).*

*The service description should be reviewed at least on an annual basis, and prior to any change in practice being implemented by a **gilt inter dealer broker** or a **wholesale dealer broker**.*

(Amended N44/09 – effective 19 October 2009)

1127	In the case of services that are screen based, the identity of the security, trade time, price and size details for resultant trades, whether resulting from screen or voice orders, must be published on the screen.
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1128	Only a gilt-edged market maker registered in index-linked gilt-edged securities may access gilt inter dealer broker services in relation to index-linked gilt-edged securities .
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Compliance and enforcement

Compliance and enforcement [1200]

D	1200	The Exchange may, at its discretion, waive the enforcement of these rules.
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Information, monitoring and investigation [1210-1214]

D	1210	The Exchange may request information from a member firm , or interview any employee of a member firm , about any matter which it considers may relate to these rules or to the integrity of the Exchange's markets.
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Guidance to Rule:

*Examples of the form of information which the **Exchange** may request include, but are not limited to, trade data, voice recordings where applicable, or contract notes.*

*In relation to any request for information or interview, the **Exchange** would expect the following standards to be met:*

- *the provision of accurate information in a timely manner about the **member firm's** business and trades in a format, electronic or otherwise, specified by the **Exchange**; or*
- *the interview of any **employee**, or agent, of a **member firm**, which will be recorded in writing.*

(Amended N16/11 – effective 26 September 2011)

1211	A member firm shall comply or procure compliance with any requirement of the Exchange made pursuant to these rules.
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1212	A member firm is responsible to the Exchange for the conduct of its employees and agents. Such conduct shall be treated for the purposes of these rules as conduct of the member firm .
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1213	A member firm shall not knowingly provide the Exchange with any information (including information for the purpose of becoming a member firm) which is false, misleading or inaccurate and shall comply or procure compliance with a request by the Exchange for explanation or verification of information provided to the Exchange .
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D	1214	The Exchange may disclose information and documents:
	1214.1	to co-operate, by the sharing of information and documents and otherwise, with any recognised exchange or clearing house which clears and/or settles on Exchange trades and any authority, body or person in the United Kingdom or elsewhere having responsibility for the supervision or regulation of any regulated activity or other financial service or for law enforcement purposes;
	1214.2	for the purpose of enabling it to institute, carry on or defend any proceedings including any court proceedings;
	1214.3	for any purpose referred to in FSMA or any regulations or order under it;
	1214.4	under compulsion of law;
	1214.5	for the purpose of enabling the Exchange to discharge its functions having regard in particular to the protection of investors and the maintenance of high standards of integrity and fair dealing; or
	1214.6	for any other purpose with the consent of the person from whom the information was obtained and, if different, the person to whom it relates

(Amended N17/10 – effective 2 August 2010)

Imposition of sanctions [1215-1217]

D	1215	If the Exchange considers that a member firm has contravened any of these rules and considers that any sanction(s) as set out in the compliance procedures should be imposed, it may refer the matter to the Disciplinary Committee or the Executive Panel as appropriate.
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D	1216	The Exchange may bring disciplinary proceedings against a former member firm whilst the former member firm is bound by these rules.
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D	1217	Where cases against more than one member firm , but which concern related matters, are to be brought before the Disciplinary Committee or the Appeals Committee, the Exchange may decide, with the agreement of the Disciplinary Committee or the Appeals Committee, as appropriate, to bring such cases at the same time, if it would be fair and practicable to do so and with the agreement of the relevant member firms .
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Charges and fees

Exchange charges [1300-1303]

	1300	A member firm shall pay to the Exchange :
	1300.1	all applicable subscriptions, charges or other sums set out in the relevant Exchange price list ;
	1300.2	all other sums due in accordance with relevant contracts between the Exchange and the member firms ; and
	1300.3	all other sums notified by the Exchange .

	1301	Unless otherwise specified by the Exchange , any subscriptions, charges or other sums due to the Exchange shall be paid in full within 30 calendar days of receipt of the invoice.
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	1302	In order to pay charges and sums due to the Exchange , the Exchange may require a member firm to execute and maintain in force a direct debit mandate in the Exchange's favour on a bank account in the United Kingdom .
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(Amended N01/08 – effective 18 February 2008)

D	1303	Where a member firm fails to pay in accordance with these rules other than in the case of legitimate dispute, the Exchange may terminate its membership without prejudice to any other action which the Exchange may take.
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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 the trading system ;
	1400.3	effect a trade at any price which differs to an unreasonable extent from any firm price displayed on 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 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**

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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 N26/10 – effective 14 February 2011)

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.
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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 priced 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 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**.

(Amended N26/10 – effective 14 February 2011)

System testing [1420]

G	1420	A member firm shall not submit orders, quotes or trade reports to the trading system for the purpose of testing any systems or controls.
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Guidance to Rule:

The **Exchange** expects **member firms** to test their systems or controls prior to submitting orders, **quotes** or **trade reports** to 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, Application Certification, High Volume Testing and Participant Test Weekends, in addition to the use of specific test segments on 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 the **trading system**) is not prohibited by this rule.

Testing on the **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 the **trading system**. Submitting orders, **quotes** or **trade reports** to 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:

- 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 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
- using algorithms ("black boxes") to submit orders, **quotes** or **trade reports** to 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 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 N26/10 – effective 14 February 2011)

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 .
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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 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 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 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.

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 member ID**;
- the **member firm's trader group**; or
- the **member firm's** Comp ID;
- 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 ID. 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.

Trade reporting:

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 **market maker** should notify the **Exchange** that it is unable to update its **quotes** on 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.

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** has problems with any telephone lines associated with its dealing desk, the **market maker** should notify the **Exchange** as soon as possible.

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.

(Amended N13/11 – effective 11 July 2011)

ORB liquidity providers:

In the event of an **ORB liquidity provider** system problem, including a problem arising from an act or omission beyond the **ORB liquidity provider's** control, the **ORB liquidity provider** should notify the **Exchange** that it is unable to update its prices on the **trading system**. If system problems persist on subsequent business days, the **ORB liquidity provider** 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.

If an **ORB liquidity provider** cannot update or delete its own orders, it may ask the **Exchange** to close its prices until the fault has been repaired.

The **ORB liquidity provider** should re-enter its orders as soon as it is able to do so, notifying the **Exchange** beforehand. In all cases an **ORB liquidity provider** shall ensure that the Market Supervision department is kept appropriately informed.

(Amended N01/12 – effective 01 February 2012)

Regulatory suspensions [1510-1513]

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

(Amended N26/10 – effective 14 February 2011)

1511	A member firm shall not effect a trade in securities in respect of which trades are prohibited under these rules or which are the subject of a notice or order suspending trading on Exchange other than in accordance with rule 1513.
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G 1512	Where a member firm learns of a regulatory suspension declared by a venue of principal listing on which a security on the trading system , or a security underlying a security on 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 the trading system .
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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.*

(Amended N26/10 – effective 14 February 2011)

G 1513	A member firm may apply to the Exchange for permission to effect trades in a security in which trading is suspended by the Exchange . Permission must be obtained in respect of each proposed on Exchange trade.
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Guidance to Rule:

*Normally permission to effect trades in suspended securities is only granted to enable the **member firm** to:*

- (i) fill a short position which was acquired before the suspension or prohibition was imposed;*
- (ii) complete a derivative contract;*
- (iii) wind-up a deceased **person's** estate; or*
- (iv) create or redeem shares in an **exchange traded fund**.*

Applications for permission to deal under this rule should be addressed to the Market Supervision department using the dealing request form available on the corporate website as far in advance of the planned trade date as possible.

*In permitting trading to 'complete a derivative contract' a **member firm** would be enabled to carry out a cash hedging trade which was envisaged as part of a derivative contract but which was not able to be executed before the suspension took place.*

*In the case of CFDs, this would cover a situation in which the CFD had been written prior to the suspension of the underlying equity and, as part of that contract, the **member firm** intended to either buy or sell in the cash market to hedge the CFD but had not been able to do so before the stock was suspended. In this scenario, **member firms** can seek permission from the **Exchange** to trade during a suspended period in order to complete the cash leg of the contract.*

*Where a **member firm**, or its client, has an open CFD position, this does not mean that permission to trade will be given under the exemption for filling a short position. In such cases, the **Exchange** will enquire about the status of any hedging trade executed before the suspension. If the hedging trade entered into by the **member firm** involved the creation of a short equity position (which may or may not be covered by stock borrowing, then the **Exchange** may give permission to trade during the suspended period in order to close the short equity position. In order to confirm that a short equity position is held, the **Exchange** will ask for details of the equity hedging trade. Permission to trade the equity hedge will not be given where the **member firm** wishes to enter into a new CFD position or close out a CFD position by transferring it to a third party. This is to ensure equal treatment with other **member firms** that have an equity exposure to the security.*

Market situations [1520]

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

(Amended N26/10 – effective 14 February 2011)

When issued dealing [1530-1532]

	1530	The Exchange will permit when issued dealing in a security provided that the Exchange is satisfied that there can be a fair and orderly market for the trading of that security.
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	1531	In accordance with guidance provided on the Exchange corporate website, a member firm may undertake when issued dealing subject to:
	1531.1	a when issued dealing application having been made;
	1531.2	the listing particulars or other appropriate documentation, as applicable, being expected to be approved and published during the first day of when issued dealing ; and
	1531.3	the offer price and full allocation details having been publicly announced prior to commencement of when issued dealing together with details of when the listing particulars or other documentation will be available from.

(Amended N16/11 – effective 26 September 2011)

G	1532	All when issued dealing trades will be for deferred settlement and if the resulting securities are not admitted to unconditional trading, every when issued dealing trade effected is void.
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Guidance to Rule:

***Member firms** that enter into an **on Exchange** off book trade during the **when issued dealing** period should ensure that settlement does not take place until listing or admission to trading has taken place. Where a **when issued dealing** period extends beyond T+3, **member firms** must ensure that settlement instructions include the correct settlement due date when entered into the settlement system.*

*Further guidance can be found on the **Exchange's** website at:
<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/when-issued.htm>*

(Amended N16/11 – effective 26 September 2011)

Conditional trades [1540]

G	1540	Other than in the case of when issued dealing , a member firm shall not effect a trade on Exchange subject to a condition precedent or condition subsequent without the prior consent of the Exchange .
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Guidance to Rule:

Applications for permission to deal should be addressed to the Market Supervision department as far in advance of the planned trade date as possible.

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.
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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 the **trading system**. The **Exchange** will place the security in a separate sector of 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*

RULES OF THE LONDON STOCK EXCHANGE

*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.*

(Amended N26/10 – effective 14 February 2011)

ORDER BOOK TRADING RULES

Trades

On Exchange trades [2000]

2000	A trade is on Exchange if it is effected automatically on an Exchange order book .
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Guidance to Rule:

A trade can also be considered to be **on Exchange** if conducted away from an **order book** as detailed in rule 3000.

For the purpose of this rule, a trade includes a **central counterparty contract**.

Order entry

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

2100	Each order or quote submitted to 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 N26/10 – effective 14 February 2011)

G 2101	Any obligations and liabilities arising from the submission of electronic messages and orders to 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 the trading system .
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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 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 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 N26/10 – effective 14 February 2011)

GT	2102	A member firm should use the correct dealing capacity indicator, as described in the Guide to the trading system , when submitting orders to the trading system .
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(Amended N26/10 – effective 14 February 2011)

G	2103	A member firm may allow a customer to submit orders to the trading system under the member firm's trading codes, either by way of direct market access or by providing sponsored access , subject to the member firm having in place adequate systems and controls.
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Guidance to Rule:

Direct market access and sponsored access

Submission of **customer** orders may be facilitated by either **direct market access** or via a **sponsored access** to the **trading system**.

Direct market access is a service through which a **member firm** allows a **customer** to submit orders to the **trading system** under the **member firm's** trading codes and via the **member firm's** 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.

Sponsored access is a direct technical connection provided so that a **customer** is able to access the **trading system** under a **member firm's** trading codes. As the connection is direct, orders submitted by the **customer** to the **trading system** do not pass through the order management systems of the **member firm**.

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 **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** providing **direct market access** to be able to delete a **customer's** orders from the **trading system**.

Member firms providing **sponsored access** may contact the Market Supervision department to delete a **customer's** orders from the **trading system** following the guidance set out under rule 1500. Where the number of individual order deletions exceeds five, a mass order deletion is required. As the Market Supervision department actions such requests using reasonable endeavours, **member firms** should consider utilising the proactive kill switch to delete orders immediately where a mass order deletion is necessary.

Member firms must be able to restrict a **customer's** ability to submit orders to the **trading system**.

Member firms must have the ability to delete a customer's orders or restrict their ability to submit orders to the trading system without having the express consent of the **customer**. These actions 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 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 **customer** applies;
- security controls over any network link between the **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 **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
- 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 **direct market access** or **sponsored access** and its **customer**. (**Member firms** may provide **sponsored access** to non **member firms** only.)

Direct market access

Whilst ongoing education, training and guidance for a **member firm's** **customers** that submit orders through the **member firm** to 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 the **trading system**;
- 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**.

Sponsored access

The **Exchange** does not require **sponsored access** order flow to pass through the **member firm's** own system controls but mandates that all orders submitted via **sponsored access** will pass through **Exchange** level controls before reaching the **order book**. **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 the **trading system**. This is necessary to assist the **Exchange** in maintaining fair and orderly markets;
- provide the **Exchange** with the name, registered 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;
- have systems in place which will allow the **member firm** to accept and review drop copy feeds, on a real-time basis from the **Exchange** and monitor all **sponsored access** order and post-trade flow;
- proactively utilise the **Exchange's** proactive 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 the drop copy feed from the **Exchange** where that connection allows the **member firm** to monitor the **customer(s)** order and post-trade flow. 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**, all of the **sponsored access customer's** orders will be deleted from the **order book**.

(Amended N16/11 – effective 26 September 2011)

G	2104	A member firm must undertake due diligence on any customer to which it provides or intends to provide sponsored access , in order to assess the suitability of any such customer to have a sponsored access connection. The member firm must confirm to the Exchange that such due diligence has been undertaken.
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Guidance to Rule:

A **member firm** must have undertaken due diligence to confirm that any **customer** to which it provides **sponsored access**:

- is considered fit and proper to have a direct technical connection to the **trading system**;
- has appropriate financial resources;
- 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 notwithstanding the **Exchange** level controls provided for all sponsored order flow.

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 **sponsored access**. 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 **sponsored access**.

Member firms are required to 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.

Furthermore, **member firms** are required to satisfy themselves and, when requested, the **Exchange** that the **customers** to which they have provided **sponsored access** continue to meet these requirements. For instance, if a **customer** to which a **member firm** has provided **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 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 sponsored access**.

(Amended N26/10 – effective 14 February 2010)

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

Guidance to Rule:

The **Exchange** may refuse a request to provide a **member firm's customer** with **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 **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 **sponsored access** to a **member firm's customer** overrides any contrary view taken by the **member firm**.

(Amended N26/10 – effective 14 February 2010)

D	2106	The Exchange reserves the right to terminate or suspend a customer's 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.
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(Amended N26/10 – effective 14 February 2010)

D	2107	The Exchange reserves the right to restrict or segregate a member firm's access to and use of the trading system as it sees fit.
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Guidance to Rule:

The **Exchange** may decide to segregate a **member firm's** access to and use of 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 **direct market access customer**, the **Exchange** may require that all orders from that **customer** are assigned to a specific **trader group**.

(Amended N26/10 – effective 14 February 2010)

D	2108	The Exchange reserves the right to delete any order submitted to the trading system where the Exchange believes it necessary in order to preserve market orderliness.
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(Amended N26/10 – effective 14 February 2010)

	2109	When using 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.
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(Amended N26/10 – effective 14 February 2010)

Contra request [2110]

G	2110	If a member firm submits an order incorrectly which is subsequently executed, it may submit a request to contra the resultant trade(s).
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Guidance to Rule:

All orders submitted to 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 the trading system**.

(Amended N26/10 – effective 14 February 2010)

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 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 the trading system as specified in the guidance to this rule.

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 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 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 automated executions in each of the tradable instruments available on the trading system. These are set out below.

Additional criteria for automated executions in equity securities

In considering a **member firm's** request for an **Exchange enforced cancellation** in equity securities 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 the **trading system** and £200,000 or more in relation to automated trades conducted in more than one stock on 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.

Additional criteria for automated executions in exchange traded funds and exchange traded products

In considering a **member firm's** request for an **Exchange enforced cancellation** in exchange traded funds and exchange traded products 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 £50,000 or more in relation to automated trades conducted in a single stock on the **trading system** and £100,000 or more in relation to automated trades conducted in more than one stock on 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.

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 the **trading system** and £20,000 or more for a series of automated trades conducted on 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 executions 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 the **trading system** and £20,000 or more in relation to automated trades conducted in more than one stock on 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.

The Exchange's handling of Exchange enforced cancellations for trades executed before 16.30 hours

This guidance applies to trades executed before 16:30 hours including uncrossing trades from automatic execution suspension periods and International Order Book closing auctions.

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. The Exchange will inform the market of its decision to cancel a trade via **RNS** and a Stock Exchange Notice.

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

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

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 N08/12 – effective 19 March 2012)

D	2121	An appropriate market maker may be required from time to time to assist the Exchange by providing a theoretical price of a covered warrant , investment certificate or a leverage certificate in circumstances where the Exchange is asked to consider cancelling a trade in one of these instruments.
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ORB liquidity providers in order driven securities

Registration and de-registration [2130 – 2132]

G	2130	A member firm that intends to act as an ORB liquidity provider shall register as such with the Exchange .
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Guidance to Rule:

Registration as an **ORB liquidity provider** shall be effective in a single security unless the **Exchange** considers it appropriate to do otherwise. Provided an application to become an **ORB liquidity provider** is received by the Exchange by 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 request 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 requested date.

(Amended N01/02 – effective 01 February 2012)

D	2131	Where the Exchange considers it appropriate it may de-register an ORB liquidity provider from a security.
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Guidance to Rule:

The **Exchange** may deem it necessary to de-register an **ORB liquidity provider** from one or more securities where that firm is consistently in breach of the obligation rules for **ORB liquidity providers**.

(Amended N01/02 – effective 01 February 2012)

G	2132	In exceptional circumstances a member firm may request from the Exchange a temporary withdrawal from its ORB liquidity provider obligations.
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Guidance to Rule:

Any request for a withdrawal must be made to the Market Supervision department on 020 7797 3666.

(Amended N01/02 – effective 01 February 2012)

G	2140	An ORB liquidity provider must maintain a bid price in each security in which it is registered. The bid price must be maintained for at least 90% of continuous trading during the mandatory period .
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Guidance to Rule:

The 90% threshold is measured daily for each security in which an **ORB liquidity provider** is registered. Where an intra-day auction has been triggered in a security due to a price monitoring breach, the time in which the security will have been in **continuous trading** will be reduced. Therefore, **ORB liquidity providers** will be required to maintain a bid price for 90% of the reduced period.

(Amended N01/02 – effective 01 February 2012)

	2141	The Exchange may, on the request of an ORB liquidity provider , suspend or vary ORB liquidity provider obligations.
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(Amended N01/02 – effective 01 February 2012)

	2142	If an ORB liquidity provider and its customer or counterparty conduct an on Exchange trade away from the trading system , the ORB liquidity provider is obliged to deal at least at its displayed price and size.
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(Amended N01/02 – effective 01 February 2012)

Exceptions to obligations of ORB liquidity providers [2150]

	2150	An ORB liquidity provider has no obligation to maintain its bid prices:
	2150.1	in a security during the opening auction or where an unscheduled intra-day auction has been triggered due to a price monitoring breach; or
	2150.2	in a security during the closing auction.

(Amended N01/02 – effective 01 February 2012)

OFF ORDER BOOK TRADING RULES

Trades

On Exchange trades [3000]

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

Guidance to Rule:

3000.2

AIM primary market registered organisation

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

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

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

AIM secondary market registered organisation

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

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

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

organisation in accordance with Rule 3000.2.

1. The **AIM secondary market registered organisation** must have the ability and have appropriate gateways to communicate freely with the **Exchange** on regulatory matters generally, without regard to matters such as client confidentiality or commercial secrecy;

2. The **AIM secondary market registered organisation** must provide at least equivalent pre- and post-trade transparency as that provided by the **Exchange** on **AIM**;

3. The **AIM secondary market registered organisation** must implement practical operational mechanisms (to be approved by the Exchange) to provide real time trading information to the **Exchange** on a continuous basis, in respect of transactions in **AIM securities** admitted to the **AIM secondary market registered organisation**. These arrangements may vary from case to case, but must include information that will enable the **Exchange**, in relation to trading in **AIM securities**, to:

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

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

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

3000.2 & 3000.3

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

General Exclusions

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

- Trades executed and published under the rules of a Multilateral Trading Facility not operated by the **Exchange**.
- The creation and redemption of **Exchange Traded Funds** (unless bringing **on Exchange** for stamp relief reasons in which case such trades can be reported as non publishing trade reports).

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

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

An exception to this is the exercise of an over-allotment option ("green shoe") which is commonly agreed by a sponsoring **member firm** as part of the stabilisation and underwriting arrangements for an introduction to **admission to trading**, as well as for further new issues of shares. Whether the option is ever exercised, and the extent to which it is utilised, will depend on the take up of the issue, the underlying share price in the market and the stabilisation transactions undertaken. Such trades can be brought **on Exchange** under the following circumstances:

- the terms of the green shoe option must be agreed and included in the circular, prospectus or an **AIM** admission document, where such documentation is required by law or is voluntarily published, prior to sign-off, including confirmation that the

option writer holds sufficient shares to meet any obligation under the option;

- *that at the point of exercise the shares to be delivered are admitted to trading; and*
- *a regulatory news announcement has disclosed that exercise has taken place.*

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

(Amended N13/11 – effective 11 July 2011)

Lending Arrangements [3001-3004]

G	3001	Where a member firm chooses to bring a lending arrangement on Exchange this can be effected through a settlement instruction to CREST marked up with the appropriate flag indicating the transaction was effected on the Exchange .
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Guidance to Rule:

*A **member firm** should submit a separate settlement instruction in respect of both the transfer and the return of the security concerned at the time the transaction is effected.*

	3002	A member firm shall, before entering into any lending arrangement , enter into an agreement in writing (“lending agreement”), with the other party.
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	3003	Where the Exchange has authorised a standard form of agreement which covers the circumstances in which a member firm proposes to enter into any lending arrangement , that member firm shall ensure that the lending agreement substantially corresponds to the standard form of agreement.
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	3004	Where the Exchange has not authorised a standard form of agreement which covers the circumstances in which a member firm proposes to enter into any lending arrangement , that member firm shall ensure that the lending agreement includes provisions of equivalent effect to those referred to in rule D161 in the default rules .
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(Amended N08/10 – effective 15 April 2010)

Requirement to trade report [3010-3013]

Obligation to trade report

G	3010	A trade report shall be submitted to the Exchange in respect of every on Exchange trade to which a member firm is a party in accordance with the trade reporting responsibility rule 3012.
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Guidance to Rule:

*Every **on Exchange** trade must have a **trade report**, whether it is to be published or not, with each trade representing a distinct market contract that will have the protection of the **Exchange's** rules, including default, buying-in and settlement. The absence of a **trade report** therefore means either:*

1. *the trade is an "off Exchange" trade; or*
2. *where there is other supporting evidence that a trade was intended to be **on Exchange**, a breach of the **Exchange's** trade reporting responsibility rules.*

***On Exchange** principal crosses and riskless principal trades, where there are two distinct contracts, require two distinct **trade reports** if both legs are to be brought **on Exchange**. **On Exchange** agency crosses, where there is only one contract, require a single **trade report**.*

For the purposes of this rule, a trade is considered concluded or executed as soon as:

- (a) the terms of the trade with regard to the price and volume are agreed between the buyer and the seller; or
- (b) where a trade includes multiple legs and where an agreement on the terms of each of the legs is a pre-condition to the completion of the trade, the trade is completed when all the legs have been put in place and agreed.

G	3011	An on Exchange trade report must not duplicate another trade report in respect of the same execution unless it is being brought on Exchange as part of a riskless principal trade or average price trade and uses a non publishing trade type indicator.
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Guidance to Rule:

A **member firm** should not submit a publishing **trade report** where one has already been submitted to the **Exchange**. Examples of this would include, but not be limited to:

1. where a **trade report** was automatically generated by the **Exchange's** trading system;
2. where one leg of a riskless principal trade has been published and subsequent leg(s) are for the same price; or
3. where the trade represents an average price for a **customer** and the market facing trades have all been published.

In relation to points 2 and 3 above, a **member firm** should enter a non-publishing **trade report** (with trade type indicator of "NM") where the trade is **on Exchange**.

In relation to multi-legged trades, the **Exchange** would expect the publication arrangements to be clear and agreed by all parties involved who have a potential publication obligation. Typically the **member firm** in the middle has visibility of both trades and is therefore principally responsible for ensuring that there is no duplicate publication (either within a single venue or across multiple venues).

This may require the middle **member firm** (and all others) to engage in dialogue with its **counterparties** about publication intentions – **member firms** should already be fully engaged on reporting intentions.

As a general principle the **Exchange** suggests that the 'market' facing leg(s) should be published and the 'client' facing leg(s) should not be published irrespective of which legs are **on Exchange** or off **Exchange**. In the absence of an overt 'market' facing leg(s) and 'client' facing leg(s), the **member firm** in the middle is best placed to determine which leg should be published, though this conclusion should be agreed with all parties involved who have a potential publication obligation under the **Exchange's** rules or otherwise.

To illustrate this, the following riskless principal trade or principal cross scenarios could arise:

- if both legs are **on Exchange**, then publishing 'market' **trade report** and non-publishing 'client' **trade report**
- if one leg is **on Exchange**, then either publishing 'market' **trade report** where the off **Exchange** leg is not published; or non-publishing 'client' **trade report** where the off **Exchange** leg is published
- if neither leg is **on Exchange**, then no **trade reports**.

Responsibility for submission of a trade report

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

Guidance to Rule:

Rule 3012.1

This would include:

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

(Amended N44/09 – effective 19 October 2009)

Rule 3012.2 & 3012.3

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

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

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

(Amended N17/10 – effective 2 August 2010)

G	3013	In relation to rule 3012, where two member firms agree at or prior to the time of the trade, the responsibility for trade reporting may be delegated to the other member firm .
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Guidance to Rule:

The rule recognises that **member firms** may wish to delegate the trade reporting responsibility to the other **member firm**. This may arise where a **member firm** trades infrequently and hence wishes to always delegate the reporting process or where the non reporting **member firm** wishes to gain protection under the **deferred publication** facility but the reporting **member firm** does not.

See guidance for trade type indicators under rule 3040.

Standard trade report deadlines [3020-3021]

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

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.

(Amended N26/10 – effective 14 February 2011)

	3021	Where a trade is effected outside the trade reporting period , a trade report shall be submitted immediately at the start of the next trade reporting period .
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Trade Publication [3030-3035]

Deferred publication

G P	3030	A member firm may elect to use the deferred publication facility where the trade is between the member firm dealing on own account and its customer .
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Guidance to Rule:

A **member firm** may elect to delay the publication of a trade by submitting a **trade report** with the relevant trade type indicator. This facility does not apply to a trade:

- where the **member firm** is acting in an agency or a riskless principal capacity;
- offsetting an existing **deferred publication**; or
- in a security that is suspended.

(Amended 37/09 – effective 19 August 2009)

	3031	A member firm shall not:
	3031.1	aggregate trades in order to qualify for treatment under the deferred publication facility;
	3031.2	add subsequent trades to a deferred publication in order to increase its size; or
	3031.3	submit or agree to submit a correction for the sole purpose of re-reporting a trade in order to gain or extend a delay in publication.

	3032	A member firm may release a deferred publication trade for publication at any time prior to automatic publication.
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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.
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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. The **trading system** will determine whether any further delay is applicable to the re-booked trade otherwise it will publish immediately.

(Amended N26/10 – effective 14 February 2011)

Publication

P	3034	The Exchange shall publish details of trades derived from trade reports as specified in parameters .
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	3035	A member firm may provide information in relation to an on Exchange trade elsewhere so long as such member firms ensure that on Exchange trades are identified as such.
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Required content of trade reports [3040]

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

Counterparty identification

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

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

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

Date and time of trades

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

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

Purchase or sale

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

Trade type indicators

Each **trade report** can only have one trade type indicator. A **member firm** 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).

Trade price

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

Dealing capacity

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

Converted currency trades

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

- 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
- using the special price reporting condition.

Reporting condition

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

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

(Amended N26/10 – effective 14 February 2011)

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 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 on the day the trade has 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 .
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(Amended N26/10 – effective 14 February 2011)

3052	Where a correction to a trade report is to be made after 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).
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Dealing agents [3060-3064]

3060	A member firm may not appoint any person to transact business on Exchange on its behalf, other than a dealing agent .
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3061	Where a dealing agent seeks to effect a trade for another member firm in a quote driven security , the dealing agent shall, prior to asking for a price and prior to dealing, disclose that it is acting for another member firm and, if appropriate, that it is acting for a competing market maker registered in the security or a member firm which includes such a market maker .
3062	Except as prohibited by rule 3063, a dealing agent shall, in response to a request from the member firm it has approached, disclose the identity of the member firm for which it is acting.
3063	A dealing agent shall disclose that it is acting for a fixed interest market maker or a gilt-edged market maker prior to asking a fixed interest market maker or a gilt-edged market maker for a price, but without disclosing the identity of the market maker for which it is acting.
3064	A member firm intending to effect an equal and opposite trade immediately with a market maker in a gilt-edged security or a fixed interest security is deemed to be a dealing agent for the purpose of these rules.

Stabilisation [3070]

G 3070	A member firm intending to act as or on behalf of a stabilising manager in accordance with the Financial Services Authority rules in a security to be traded on Exchange shall prior to the commencement of the stabilising period:
3070.1	provide to the Exchange's Market Supervision department information about the stabilisation required as specified in the guidance to this rule; and
3070.2	disclose information about the stabilisation required as specified in the guidance to this rule via an announcement through an Financial Services Authority approved Regulatory Information Service.

Guidance to Rule:

The information disclosed must include details of:

- *the security to be stabilised, and any associated securities being stabilised;*
- *the stabilising manager and contact;*
- *the stabilisation period;*
- *the issue price of the security, unless the security is an investment falling within paragraph 12 or 13 of Schedule 2 to **FSMA**; and*
- *any related over-allotment (or Green Shoe) options.*

*The **Exchange** acknowledges that there will be occasions when the issue price will not be known on the day before the commencement of the stabilising period. Therefore, a **member firm** shall notify the **Exchange** of the issue price as soon as it is finally determined.*

*A **member firm** shall also notify the **Exchange** if the stabilising period is to change.*

Obligations of member firms to market makers in quote driven securities [3080]

G 3080	A broker dealer acting as principal in a quote driven security shall disclose it is acting as principal to a market maker , prior to attempting to deal unless the broker dealer is conducting a riskless principal trade.
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Guidance to Rule:

Contracts for difference and hedging business may constitute riskless principal trades for the purpose of this rule.

Obligations of member firms to market makers in gilt-edged securities [3090-3092]

3090	A member firm seeking to deal in less than £1 million nominal, or the euro equivalent, of gilt-edged securities shall identify the size of the order at the outset.
3091	Where a member firm wishes to have a trade split into more than five deliveries, it shall inform the gilt-edged market maker at the time of dealing, which is then entitled to widen its price.

G	3092	Unless otherwise agreed at the time of effecting a trade, a member firm shall accept partial delivery of a gilt-edged security .
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Guidance to Rule:

The terms of any agreement made shall be noted by both parties and shall state any premium involved, the date of delivery and action which will be taken in the event of failure to perform under the terms of the trade.

Trade terms: Pricing formulae (gilt-edged market) [3100-3101]

3100	It is the responsibility of member firms to ensure that they agree all the terms necessary to effect a trade in a gilt-edged security, including the pricing formula to be adopted by the parties and the information required to submit a trade report and for settlement.
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3101	In the event of a dispute between member firms in connection with the pricing formula, the formula applicable to the trade shall be that current at the time of the trade as notified to the market by release from the UK Debt Management Office.
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Obligations to deal (gilt-edged and fixed interest market) [3110-3112]

3110	A member firm may request a price from a market maker without incurring any commitment to effect a trade. However, the member firm shall effect a trade where it requests further information from the market maker as to the way and size and indicates that it has a firm order unless it states before the request that it will not be committed to effecting a trade.
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3111	A market maker which volunteers the size at which it is prepared to effect a trade or volunteers the fact that its size is larger one way does not oblige an enquirer to effect a trade.
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3112	A member firm wishing to effect a trade in a size larger than that for which a market maker is quoting a price shall ask for a price in the normal way. Where the market maker responds with a price in a size smaller than that at which the member firm wishes to effect a trade, the member firm is not obliged to effect a trade. If the market maker responds with a price in the requested size, the market maker shall no longer be obliged to deal at its original size and price.
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Contingent trades (gilt-edged and fixed interest market) [3120]

3120	A member firm may agree to effect the simultaneous sale of any securities and purchase of a gilt-edged security or a fixed interest security or vice versa, where the proceeds from the stock sold are to be used to fund and settle the purchase trade if the following requirements are satisfied:
3120.1	the purchase costs are within 10% of the sale proceeds (where there is a difference of more than 10%, a separate and non-contingent trade must be effected for settlement of the difference);
3120.2	the buyer is not required to accept delivery of the securities during the 10 day period after trading unless otherwise agreed; and
3120.3	where delivery has not been made during the 10 days after effecting the trade, a trade ceases to be a contingent trade and shall be delivered in the usual manner for the security unless the member firm and the other party to the trade agree to waive this right.

Split orders (gilt-edged and fixed interest market) [3130-3131]

3130	A member firm shall endeavour to complete an order with a single market maker rather than split the order between two or more market makers .
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3131	Where a member firm effects a trade so as to split an order, it can go on to effect the balance of that order elsewhere provided that the member firm discloses to any market maker approached that the business to be conducted is part of an uncompleted order during the current mandatory period .
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Accrued interest (gilt-edged and fixed interest market) [3140]

3140	Unless otherwise agreed at the time of effecting a trade in a gilt-edged security or a fixed interest security , the price shall not include accrued interest, which shall be separately accounted for between the buyer and the seller and be paid without deduction of income tax. The cum or ex dividend status, and therefore the direction of the accrued interest payment, shall be determined by reference to the settlement date of the trade, in accordance with the settlement rules such that:
3140.1	a trade in a gilt-edged security for settlement before or on the ex dividend date shall be cum dividend and the buyer shall account to the seller for accrued interest representing the number of days between the previous dividend payment date up to and including the settlement date;
3140.2	a trade in a fixed interest security for settlement before the ex dividend date shall be cum dividend and the buyer shall account to the seller for accrued interest representing the number of days between the previous dividend payment date up to and including the settlement date;
3140.3	a trade, other than a special cum trade, for settlement between the ex dividend date up to and including the dividend payment date, shall be dealt ex dividend and the seller shall account to the buyer for the accrued interest representing the number of days between the settlement date up to and including the dividend payment date;
3140.4	for any trade for settlement after the dividend payment date, the buyer shall account to the seller for the accrued interest representing the number of days between the dividend payment date up to and including the settlement date; and
3140.5	for a special cum trade in a fixed interest security , the buyer shall account to the seller for the accrued interest representing the number of days between the previous dividend payment date up to and including the settlement date.

Special trade (gilt-edged market) [3150]

G 3150	A member firm shall not effect an on Exchange special cum trade or special ex trade in a gilt-edged security .
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Guidance to Rule:

*The capability to affect a special cum trade in a **gilt-edged security** was abolished from 1 August 2005.*

MARKET MAKER RULES

Registration

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

G	4000	A member firm that intends to act as a market maker shall register as such with the Exchange .
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Guidance to Rule:

*Registration as a **market maker** shall be effective in a single security unless the **Exchange** considers it appropriate to do otherwise. Provided an application to become a **market maker** is received by the Exchange by 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 request 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 the 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 N26/10 – effective 14 February 2011)

	4001	Unless otherwise agreed with the Exchange a market maker may not de-register from a security within three months of its initial registration or re-register in a security within three months of de-registration in respect of the same security.
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D G	4002	Where the Exchange considers it appropriate it may de-register a market maker from a security.
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Guidance to Rule:

*The **Exchange** may deem it necessary to de-register a **market maker** from one or more securities where that firm is consistently in breach of market maker obligation rules.*

G	4003	In exceptional circumstances a member firm may request from the Exchange a temporary withdrawal from its market making obligations.
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Guidance to Rule:

*Any request for a withdrawal must be made to the Market Supervision department on 020 7797 3666. An example where permission may be granted includes where a **member firm** is acting both as broker and **market maker** to an issuer that is subject to a bid situation or where the **member firm** has system problems in accordance with rule 1050 & 1500 in core rules .*

Treatment of member firms which include a market maker [4010]

G	4010	For the purpose of market maker obligations, a member firm that operates under only one member ID which also includes a market maker shall be treated as if it was a market maker .
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Guidance to Rule:

*The rule applies only where there is no clear segregation by **member ID** of a **member firm's** **market making** and non **market making** operations.*

Market makers in order driven securities

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

4100	The market maker obligation rules apply unless exception rule 4110 applies or as varied by a market situation in accordance with rule 1520.
G 4101	A market maker must maintain an executable quote in each security in which it is registered. The executable quote must be maintained:
4101.1	for at least 90% of continuous trading during the mandatory period ;
4101.2	for the duration of the closing auction until market close , including any extensions; and
4101.3	where relevant, throughout the duration of the scheduled intra-day auction for the FTSE index expiries.

Guidance to Rule:

Market makers in order book securities will not be able to enter **executable quotes** that are outside the maximum spread, if they attempt to do so a rejection message will be sent to the **market maker**.

Rule 4101.1

The 90% threshold is measured daily for each security in which a **market maker** is registered. Where an intra-day auction has been triggered in a security due to a price monitoring breach, the time in which the security will have been in **continuous trading** will be reduced. Therefore, **market makers** will be required to maintain an **executable quote** for 90% of the reduced period.

Rule 4101.3

Market makers must maintain their **executable quotes** during the FTSE index expiries. The following expiries are covered by this rule:

- FTSE 100 monthly options
- FTSE 100 quarterly futures
- FTSE 250 quarterly futures

(Amended N21/10 – effective 1 June 2011)

G 4102	The Exchange may, on the request of a market maker , suspend or vary market maker obligations.
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Guidance to Rule:

The Exchange occasionally allows **market makers** 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.

(Amended N21/10 – effective 1 June 2011)

4103	If a market maker and its customer or counterparty conduct an on Exchange trade away from the trading system , the market maker is obliged to deal at least at its displayed price and size.
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(Amended N21/10 – effective 1 June 2011)

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

G	4110	A market maker has no obligation to maintain its executable quotes :
	4110.1	in a security during the opening auction or where an unscheduled intra-day auction has been triggered due to a price monitoring breach;
	4110.2	in a security during the closing auction on the Order book for Retail Bonds;
	4110.3	in a covered warrant when it is the expiry day of that covered warrant ;
	4110.4	in a security where there is a public holiday on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing ;
	4110.5	in a security where there is a trading halt on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing and may delete its executable quotes . A market maker must re-enter its executable quote on resumption of trading; or
	4110.6	in an exchange traded fund or an exchange traded product , where no firm price is available for at least 10% of the underlying securities or instruments which make up the exchange traded fund or exchange traded product .

Guidance to Rule:

Rule 4110.5

A **market maker** shall be responsible for informing the **Exchange** and seeking permission for suspension of market making obligations by contacting the Market Supervision department on (0044) 20 7797 3666 option 2, STX 33666, where it believes that there is no firm price available for 10% or more of the underlying securities or instruments in an **exchange traded fund** or **exchange traded commodity**. If approved, the suspension applies to all **market makers** in the particular **exchange traded fund** or **exchange traded commodity**. This suspension only applies to the day in question and a **market maker** must make separate requests on a daily basis, if necessary.

(Amended N16/11 – effective 26 September 2011)

Market makers in quote driven securities

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

G	4200	The market maker obligation rules apply unless exception rules 4220 to 4221 apply.
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Guidance to Rule:

A **market maker** is only obliged to interact with another **member firm** on the basis of its **Exchange firm quote**.

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

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

(Amended N26/10 – effective 14 February 2011)

4202	Where a market maker is approached by a member firm , other than a market maker in that security, it shall actively offer to buy and sell at its displayed price and in any size up to that displayed in its firm quote .
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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 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 the trading system a higher bid price and a higher offer price than the market maker approached.

(Amended N26/10 – effective 14 February 2011)

4204	If a market maker changes its firm quote to create a new best bid or best offer within five minutes of the end of the mandatory period , it shall remain open for the shorter of five minutes or until it trades at a new price.
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4205	Where on enquiry a market maker quotes a price in a size larger than it is displaying on the trading system , the market maker is obliged to deal at that quoted price and size.
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(Amended N26/10 – effective 14 February 2011)

D 4206	The Exchange may, on the request of a market maker , suspend or vary market maker obligations.
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(Amended N26/10 – effective 14 February 2011)

Obligations of market makers in quote driven securities outside the mandatory period [4210-4211]

G 4210	Where a market maker elects to remain open after the end of the mandatory period all mandatory obligations and exceptions will continue to apply.
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Guidance to Rule:

*Subject to the five minute obligation rule 4204, a **market maker** can close its **firm quote** at any time after the end of the **mandatory period**.*

4211	Where a market maker has removed its firm quote after the end of the mandatory period , it may only re-open its firm quote provided it maintains it until the close of the trade reporting period .
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Exceptions to obligations of market makers in quote driven securities [4220-4221]

G 4220	A market maker is under no obligation to:
4220.1	deal where it is approached by a dealing agent acting for a market maker registered in the security in question;
4220.2	deal where it is approached by a broker dealer acting as principal ;
4220.3	deal in a security where there is a public holiday on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing ; or
4220.4	deal in a security where there is a trading halt on a venue on which the relevant security, or a security underlying the relevant security, has its principal listing and may delete its firm quotes . A market maker must re-enter its firm quotes on resumption of trading.

Guidance to Rule:

Rule 4220.1 & 4220.2

*The rationale is to protect **market makers** in their capacity as named liquidity providers when performing business in accordance with their obligations.*

Rule 4220.2

A **market maker** would however continue to be obliged to deal with a **broker dealer** acting as **principal** for a **customer** (e.g. as part of a **riskless principal trade** or a 'give up').

(Amended N37/09 – effective 19 August 2009)

G	4221	Where a market maker has effected a trade in a security and received another enquiry to deal in the same security before having had a reasonable time to alter its price the market maker shall be entitled to declare “dealer in front” to the person making the enquiry and alter the price at which it is prepared to deal.
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Guidance to Rule:

The use of the “dealer in front” rule is only applicable where the trades in question were conducted under the **Rules of the London Stock Exchange**.

Interaction with a market maker in quote driven securities

One stock one call [4300-4301]

	4300	Unless both parties agree, a market maker is only obliged to quote for and/or execute one trade in a single telephone call from another member firm .
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	4301	Where, in relation to a security, a market maker declares “dealer in front” and the enquiring member firm does not therefore effect a trade, the enquiring member firm is entitled to ask for a quote in a different security in the same telephone call.
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Backs and choices in quote driven securities [4310-4312]

G	4310	A market maker which actively causes a back or choice shall be obliged to deal at its displayed price and in its displayed size upon enquiry from any member firm .
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Guidance to Rule:

Where a **market maker** creates a **back** or **choice** by automatically opening at its overnight price, and the opening price does not reflect the fair value for the security, it is deemed to have actively caused a **back** or **choice**.

Except where a **market maker** is 'left behind' a moving market, a **market maker** is not deemed to have actively created a **back** or **choice** by virtue of another **market maker** changing its quote.

Where a **market maker** that creates a **back** or a **choice** has already been approached under rule 4310, its obligations under 4311 shall begin with **market makers** with whom it had not already dealt under rule 4310.

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 the **trading system** is closed.

(Amended N26/10 – effective 14 February 2011)

4312	Where a market maker is approached under rule 4311, the approached market maker must effect a trade in accordance with rule 4203 and, if it deals in less than the challenged size, immediately change its firm quote such that it is no longer contributing to the back or a choice .
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Backs and choices (gilt-edged and fixed interest market) [4320-4322]

4320	A member firm is not obliged to disclose that it has found a choice in a gilt-edged security or a fixed interest security and may act on that price to effect a trade.
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4321	A member firm shall disclose the existence of a back prior to any attempt to effect a trade. The market maker is then entitled to alter its price in the security.
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4322	The obligations of a fixed interest market maker in the event of a back in a fixed interest security quoted on 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.

(Amended N26/10 – effective 14 February 2011)

Front running – part orders [4330-4334]

G 4330	A market maker which does not complete business disclosed to it by an enquiring counterparty shall not act in such a way as to prejudice the completion of that business elsewhere for a period of three minutes unless otherwise agreed between the parties. In particular it:
4330.1	shall not attempt to deal with a market maker in that security; and
4330.2	shall not submit a bid or offer in the security to a gilt inter dealer broker or a wholesale dealer broker service but may effect a trade by responding to a bid or offer displayed on one of those services.

Guidance to Rule:

*The rule sets out a general provision that a **market maker** must not prejudice the completion of business which has been opened to it but which it has not itself completed. It also sets out two circumstances which would automatically be deemed to be prejudicial. Hitting a bid or offer already displayed on a gilt IDB or a wholesale dealer broker is permitted. The submission of a **trade report** in accordance with the rules shall not be deemed prejudicial under this rule.*

*In certain circumstances, a period of less than three minutes might be appropriate and is allowed provided that both parties agree. In particular where the **member firm** has neared completion of its business it might not be necessary for the remaining **market makers** that need to be contacted to hold their quotes for the full three minutes.*

G 4331	If, where rule 4330 applies the market maker is, or becomes sole best bid or best offer during the period referred to in rule 4330, the market maker shall immediately change its firm quote and may not thereafter declare dealer in front.
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Guidance to Rule:

*If the **market maker** maintains the same spread this may, in some circumstances, result in a new best price on the opposite side of the touch. This is acceptable and a **market maker** is not forced to widen its spread to avoid it.*

4332	During the restricted period specified in 4330, unless rule 4331 applies, a market maker may change its firm quote , provided that in doing so it does not alter the best bid or best offer being displayed in the security, either by it or another market maker .
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G	4333	If the market maker is maintaining its firm quote during the restricted period specified in rule 4330 and is challenged by another member firm , it may either deal at its displayed price or declare dealer in front and quote a revised price over the telephone.
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Guidance to Rule:

*A **market maker** which is not sole **best bid** or **best offer** and maintains its **quote** may declare dealer in front to a challenging **member firm** and is therefore not obliged to deal at its displayed price and size. It may then quote a different price to the challenger and must deal at that quoted price if requested to do so. It does not have to alter its displayed price if the challenger does not deal. If the challenger does deal at the orally quoted price the restrictions on the **market maker's** activities are lifted under rule 4334.1.*

4334	The market maker is released from the restrictions set out in rule 4330 if, during the restricted period;
4334.1	it has entered into a trade at a revised price having declared dealer in front, in accordance with rule 4333;
4334.2	a competing market maker creates a new best bid or best offer for that security, including a choice or a back ; or
4334.3	the initiating member firm completes the order and notifies the market maker accordingly.

Gilt-edged market makers

Obligations of gilt-edged market makers [4400-4401]

4400	A gilt-edged market maker shall, during the mandatory period , make on demand two-way prices at which it is prepared to deal in all gilt-edged securities in which it is registered as a market maker .
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4401	A gilt-edged market maker which has quoted a price may change that price:
4401.1	if the member firm responds with a counter bid or offer;
4401.2	where the member firm indicates that it will call back; or
4401.3	at any time before the member firm indicates whether it is a buyer or seller.

Exceptions to obligations of gilt-edged market makers [4410-4411]

4410	Rule 4400 shall not apply in the case of an enquiry from:
4410.1	a gilt-edged market maker or a fixed interest market maker ;
4410.2	a dealing agent acting on behalf of a gilt-edged market maker or a fixed interest market maker ;
4410.3	a gilt inter dealer broker ;
4410.4	a wholesale dealer broker ; or
4410.5	a user of a wholesale dealer broker service of which the gilt-edged market maker is also a user.

4411	Rule 4400 shall not apply in the case of a gilt strip or a security which has been declared a rump stock by the UK Debt Management Office.
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(Amended N16/11 – effective 26 September 2011)

Fixed interest market makers

Obligations of fixed interest market makers [4500-4501]

4500	A fixed interest market maker shall, during the mandatory period , make on demand two-way prices at which it is prepared to deal in at least the marketable quantity , and shall endeavour to make a price in a larger size appropriate to the liquidity of that security upon enquiry from another member firm .
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4501	Where a fixed interest market maker displays a quote on the trading system it shall deal in that price and up to that size with an enquiring member firm .
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(Amended N26/10 – effective 14 February 2011)

Exception to obligations of fixed interest market makers [4510]

4510	Rules 4500 and 4501 shall not apply in the case of an enquiry from:
4510.1	a fixed interest market maker or a gilt-edged market maker ;
4510.2	a dealing agent acting on behalf of a fixed interest market maker or a gilt-edged market maker .

SETTLEMENT, CLEARING AND BENEFIT RULES

Settlement

Obligation to settle [5000]

G	5000	A member firm shall ensure that every on Exchange trade effected by it is duly settled.
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Guidance to Rule:

A **member firm** is responsible for ensuring the delivery of securities on the agreed settlement due date for all its **on Exchange** business, whether the **member firm** sold as **agent** or **principal**

Settlement can be gross or net. In the absence of agreement to the contrary, gross settlement should be assumed.

This rule is included to ensure the orderly functioning of the **Exchange's** markets and because the **Exchange** has an obligation under its recognition by FSA to have in place arrangements for the performance of all transactions conducted using the **Exchange's** facilities. **Member firms** are obliged to ensure the settlement of trades entered into under their name. This obligation exists even if the reason for non-settlement is because of a **customer** or **counterparty** failing to settle and / or when the **member firm** is acting as **agent**.

(Amended N02/12 – effective 1 February 2012)

Time of settlement [5010-5011]

P	5010	Unless otherwise agreed at the time of trade, trades are for standard settlement for the security or market as detailed in the parameters .
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G	5011	Unless otherwise agreed with the Exchange a member firm shall not agree a settlement due date for an on Exchange trade more than 20 days after the date of the trade.
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Guidance to Rule:

This maximum restriction does not apply in the case of a return of stock under a **lending arrangement**.

(Amended N02/12 – effective 1 February 2012)

Guaranteed delivery [5020]

G	5020	A member firm shall only effect a trade for 'guaranteed delivery' where stock is readily available to the member firm at the time of trading.
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Guidance to Rule:

Where trades are effected under rule 5020, the **seller** shall raise the settlement priority (or take other equivalent action) of guaranteed delivery trades above any other trades not dealt for guaranteed delivery which are due for settlement on the same day.

(Amended N02/12 – effective 1 February 2012)

Place of settlement [5030]

G	5030	A member firm should agree the place of settlement at the time of the trade but where this is not the case it should settle trades in the 'standard' place of settlement for the security or market.
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Guidance to Rule:

This rule is only applicable to bilateral trades. **Central counterparty** trades will be subject to the rules and procedures of the relevant **central counterparty**.

A trade shall be settled in accordance with the rules and procedures of the clearing and settlement system used. Any special terms or conditions relating to the settlement of a trade shall be agreed at or prior to the time the trade is effected and shall be clearly stated and described as such on any confirmation of the trade. Partial settlement shall not be permitted without the prior agreement of both parties to the trade subject to the procedures of the relevant settlement system operator.

A member firm shall:

- conform to the good delivery requirements of the clearing and settlement system used;
- ensure that securities delivered in settlement of a trade are free of any charge or encumbrance;
- be responsible for the authenticity of transfer documents and certificates submitted by it whether on its own behalf or on behalf of another **person**, and whether directly or through any agency.

Non-electronic settlement

Bearer securities

- When settling trades in bearer securities or renounceable letters of allotment, a **member firm** shall keep a record of the number of the certificate or letter together with a record of the trade.
- A buying **member firm** may only return a certificate which has been delivered in an imperfect condition, (materially torn or damaged, having a material part of the wording obliterated or with insufficient or irregular coupons), within eight days of its delivery.
- The delivery of bearer securities (other than securities normally dealt for next day settlement) without the coupon before they are made ex coupon is not good delivery.
- Where bearer securities other than securities normally dealt for next day settlement are made ex dividend on or before the due date for settlement of a trade, the seller shall deliver the securities ex the coupon and account to the buyer for the dividend paid net of income tax.
- Where 3.5 per cent War Loan in bearer form is sold cum dividend and delivered after the ex dividend date, the bonds shall be delivered without the coupon, and the dividend settled without deduction of tax.

Trades in assented shares

Where a trade is dealt in assented shares, the delivery of unassented shares accompanied by a form of assent is not good delivery.

Certified Transfers

*The **buyer** of securities may refuse to pay for a transfer unaccompanied by the certificate unless, in the case of securities on a **United Kingdom** register, the transfer is certified by the issuer.*

Payment

- A **buyer** is not obliged to pay before the due date for settlement for securities delivered before that date. Unless otherwise agreed, a **buyer** shall pay for securities against delivery.
- A **member firm** is not obliged to pay a **customer** or **counterparty** of another **member firm** for securities bought **on Exchange** from that **customer** or **counterparty** unless required to do so by proceedings in accordance with the **default rules**.

(Amended N02/12 – effective 1 February 2012)

Closed registers of companies in liquidation [5040-5042]

5040	Where a register has been closed following liquidation of the issuer, a buying member firm shall pay against delivery of the transfer and certificate, or certified transfer, provided that it is accompanied by an authorisation from the registered holder to the liquidator that the liquidator pay to the buyer or its customer or counterparty any return of capital.
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Guidance to Rule:

*By agreement between the **buyer** and **seller**, in place of the documentation set out in rule 5040, the **seller** may pass a 'letter of undertaking' to the **buyer** promising to pass on any*

distribution by the liquidator.

(Amended N02/12 – effective 1 February 2012)

5041	A seller who is unable to deliver the documentation under rule 5040 may not require payment until completion of the winding-up, at which time any distribution by the liquidator shall be delivered to the buyer .
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(Amended N02/12 – effective 1 February 2012)

5042	Where settlement of a central counterparty contract cannot take place because of a court, administrative, or regulatory order, or because of an insolvency event affecting the issuer of such securities, such central counterparty contracts shall be settled in accordance with the rules of the central counterparty .
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(Amended N02/12 – effective 1 February 2012)

Registration of securities delivered in non electronic form [5050-5052]

5050	Except as provided for in rule 5051, a member firm which has purchased securities, other than as part of a riskless principal trade, either on its own behalf or on behalf of a customer or counterparty , must ensure that the securities received are duly registered prior to any subsequent delivery of those securities in settlement of a sold trade.
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(Amended N02/12 – effective 1 February 2012)

5051	Rule 5050 applies to market makers unless, within two days of receipt of the securities by a market maker , that recipient market maker onward delivers the securities or, submits the securities for splitting, to facilitate settlement of a sold trade already dealt.
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(Amended N02/12 – effective 1 February 2012)

5052	Any member firm granted an exemption under rules 5050 or 5051 must state clearly on the stock transfer form or subsequent split transfer forms its name and the date of onward delivery.
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(Amended N02/12 – effective 1 February 2012)

Late settlement [5060-5061]

Failure to deliver

5060	Each member firm agrees that a failure by one party to a trade to deliver or pay for securities on the due date for settlement shall not in itself be a ground for either party to that trade to treat the trade as repudiated.
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(Amended N02/12 – effective 1 February 2012)

5061	A buyer may not claim that there is no obligation to pay for securities merely by reason of the fact that the securities were delivered later than on the due date for settlement.
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(Amended N02/12 – effective 1 February 2012)

Buying-in [5070-5083]

Request to buy-in

G 5070	In accordance with timescales and detailed guidance provided on the Exchange website, a member firm may request that the Exchange buy-in securities which have not been delivered in settlement of an on Exchange trade.
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Guidance to Rule:

Further detailed information relating to **buying-in** can be found on the **Buying-in** section of the **Exchange** website: <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/buying-in/buying-in.htm>

(Amended N02/12 – effective 1 February 2012)

Withdrawal of a buying-in request

5071	The requesting party must accept and pay for any securities delivered by the Exchange that result from a buying-in trade where the requesting party has failed to withdraw the buying-in request before the deadline set by the Exchange .
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(Amended N02/12 – effective 1 February 2012)

5072	The requesting party cannot withdraw a buying-in request in respect of a central counterparty trade , and will be required to accept delivery where settlement of the trade in respect of which it has issued the buying-in request has already occurred.
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(Amended N02/12 – effective 1 February 2012)

Suspension of buying-in

D 5073	The Exchange may, at its discretion, suspend, postpone (either for a defined period or indefinitely) or cancel the buying-in of securities at any time, either generally, or in relation to a particular member firm , or a particular security.
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(Amended N02/12 – effective 1 February 2012)

Settlement of buying-in trades

5074	The Exchange shall notify the liable party of the details of the buying-in trade following which the liable party must immediately match a delivery instruction with the Exchange in CREST or in such other settlement system as notified by the Exchange .
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(Amended N02/12 – effective 1 February 2012)

5075	Securities resulting from a buying-in trade shall be delivered to the liable party as instructed by the Exchange .
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(Amended N02/12 – effective 1 February 2012)

5076	The liable party must ensure that securities received from the Exchange are immediately used to settle, in accordance with instructions received from the Exchange , the trade to which the buying-in request is related.
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(Amended N02/12 – effective 1 February 2012)

Failure to buy-in

5077	Where the Exchange does not succeed in executing a trade pursuant to a buying-in request, the Exchange will notify the requesting party . Unless the requesting party then withdraws the buying-in request, the Exchange may, at its discretion, attempt buying-in on one more occasion only as follows:
5077.1	for trades other than those dealt for guaranteed delivery, any time up to five days after the first attempt; or
5077.2	for trades dealt for guaranteed delivery, on the next day following the first attempt.

(Amended N02/12 – effective 1 February 2012)

Agreements to pass on costs

5078	Unless otherwise agreed in writing at the time of dealing, a buyer shall not pass on to a seller the costs incurred by it as a result of its failure to deliver against another trade, even though those costs may have been incurred because of that seller's failure to deliver.
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(Amended N02/12 – effective 1 February 2012)

Liabilities

5079	Subject to rule 5080, the liable party shall indemnify the Exchange against any and all liability in respect of any costs or losses sustained by the Exchange arising out of the execution of a buying-in request.
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(Amended N02/12 – effective 1 February 2012)

5080	A member firm that requests the Exchange to buy-in securities is responsible for any errors or omissions in its request and the Exchange shall not be liable in respect of any such errors or omissions.
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(Amended N02/12 – effective 1 February 2012)

Price and charges

5081	All charges and fees in respect of a buying-in request, as detailed in the guidance provided on the Exchange's website, shall be payable to the Exchange by the liable party .
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(Amended N02/12 – effective 1 February 2012)

5082	In order to obtain delivery of the relevant securities to fulfil a buying-in request, the Exchange may execute a trade at a price higher than the current market price. The liable party shall pay the Exchange such price, regardless of the price of the original trade that is the subject of the buying-in request.
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(Amended N02/12 – effective 1 February 2012)

5083	Any difference between the price paid to the Exchange and the price of the original trade shall not be recoverable from, or payable to, the requesting party on settlement of the original trade.
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(Amended N02/12 – effective 1 February 2012)

Clearing through a Central Counterparty

Clearing arrangements [5100-5102]

5100	A clearing member may only clear or agree to clear a trade in a given central counterparty security if it is party to a clearing membership agreement with the relevant central counterparty . A clearing member must comply with the rules and regulations and any reasonable conditions imposed by a central counterparty with which it has entered into a clearing membership agreement .
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(Amended N02/12 – effective 1 February 2012)

G	5101	A member firm shall not enter an order in a central counterparty security into the trading system unless the following arrangements have been agreed with the Exchange :
	5101.1	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
	5101.2	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 5101.1 and 5101.2 apply to the **model B firm** although the **introducing firm** will have the technical connection to the **trading system**.*

*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.

(Amended N02/12 – effective 1 February 2012)

5102	A General Clearing Member shall be bound by the terms of a trade entered into in accordance with rule 5101.1, irrespective of anything contained in any agreement or arrangement between the General Clearing Member and the Non Clearing Member .
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(Amended N02/12 – effective 1 February 2012)

Termination of clearing services [5110]

G 5110	A General Clearing Member must notify the Exchange prior to suspending its services as a clearing member to any member firm .
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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 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**.*

(Amended N02/12 – effective 1 February 2012)

Central counterparty contracts [5120-5124]

5120	The point at which a central counterparty contract comes into being will be defined in the rules of the relevant central counterparty .
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(Amended N02/12 – effective 1 February 2012)

5121	Where a central counterparty contract arises between a General Clearing Member and a central counterparty , another central counterparty contract shall arise between the Non Clearing Member (either as agent or principal) and the General Clearing Member (as principal) which shall be on the same terms as the central counterparty contract except that:
5121.1	if the General Clearing Member is seller it will be a buyer in the resulting central counterparty contract ; and
5121.2	if the General Clearing Member is buyer it will be a seller in the resulting central counterparty contract .

(Amended N02/12 – effective 1 February 2012)

G 5122	If a central counterparty , in accordance with its rules, gives notice to the Exchange of its intention to cease registering central counterparty trades , no central counterparty contract shall arise from the point that registration is suspended. From the point that the registering central counterparty trades are suspended the Exchange may either:
5122.1	switch central counterparty securities to automatic execution with bilateral trading and without a central counterparty ; or
5122.2	continue automatic execution with those central counterparties which have not ceased registering central counterparty trades ; or
5122.3	suspend automatic execution.

Guidance to Rule:

In the event that the Exchange is informed by a central counterparty of its intention to cease registering central counterparty trades, it will first suspend automatic execution in accordance with the market situation rule 1520. The Exchange will then either reinstate automatic execution with bilateral settlement, continue automatic execution with any

remaining central counterparty(ies) where the securities trade are supported by more than one central counterparty, or continue to suspend automatic execution until such time that bilateral settlement can take place or until the central counterparty can again register central counterparty trades.

The withdrawal of **central counterparty** service by a **central counterparty** is expected to be an extremely rare occurrence and in particular, it is considered unlikely that a **central counterparty** would withdraw its services following a technical problem - such as temporary system unavailability - that was expected to be recoverable without damage to its financial integrity.

Bilateral trading

In the event that the Exchange has switched to bilateral trading without a central counterparty, member firms that wish to continue to trade on the order book will be expected to trade and settle on a bilateral basis in accordance with the Exchange's rules. As such, member firms that wish to participate in bilateral trading should have procedures and processes in place to ensure that their internal systems can manage the receipt of counterparty data and settle on a bilateral basis. These should cover front, middle and back office systems.

The **Exchange** will provide **member firms** with reasonable notice of its intention to move to bilateral trading. The length of the notice period will depend on the circumstances at the time. However, **member firms** are advised that the **Exchange** may commence bilateral trading within a trading day. As such, **member firms** should consider in advance how they will implement a move to bilateral trading.

In order to facilitate the move to bilateral trading, automatic execution in **central counterparty** eligible securities will be suspended for a period of time. During this time, **member firms** that do not wish to participate in bilateral trading can delete their existing orders. The Exchange will also terminate access to the order book for those member firms whose membership profile is limited to trading in central counterparty securities. Trading will recommence with an auction call period.

The trading message received by **member firms** following the execution of an automatic trade will contain the **member ID** for its **counterparty** rather than the code for the **central counterparty**.

Member ID codes are disseminated each morning as part of the daily Reference Data download. Alternatively, **member IDs** can be located in the Membership section of the Exchange's website.

Following a move to bilateral trading, centralised netting will not be available to those **member firms** which currently net. As such, all **member firms** will need the ability to settle trades on a gross basis. Whilst individual **member firms** can agree between themselves to settle on a net basis, they will need to be able to settle on a gross basis with those **member firms** who do not net settle.

Continuation of automatic execution with remaining **central counterparties**

Where trading in securities is supported by two or more **central counterparties**, the **Exchange** may continue automatic execution with the remaining central counterparties. The **Exchange** will provide **member firms** with reasonable notice of its intention to continue trading in this way. Only those **member firms** with clearing arrangements with one of the available **central counterparties** will be permitted to enter orders in those securities. As such, **member firms** may wish to consider in advance how they would implement a move to an alternative **central counterparty**.

(Amended N02/12 – effective 1 February 2012)

G	5123	If a central counterparty fails, in accordance with its rules, to give notice to the Exchange of its intention to (a) cease registering and/ or (b) suspend the processing of, central counterparty trades , in the absence of any contrary indication from the Exchange [whereby the Exchange may act in accordance with rule 5122 above], the matched buyer and the matched seller shall be deemed to be subject to a bilateral trade on the same terms and at the same time as the orders were matched so that the matched buyer and matched seller settle the trade with each other directly. If the Exchange and the relevant central counterparty agree for the central counterparty to register a central counterparty trade which it has previously declined to register, upon such registration the bilateral trade between the matched buyer and matched seller shall be cancelled and a central counterparty contract(s) shall arise.
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Guidance to Rule:

Treatment of pre-suspension trades

The **Exchange** will always wish to ensure that any trade executed before the suspension of **central counterparty** services will be treated as a centrally cleared trade. However, the treatment of such trades will depend on the cause of the suspension.

The **Exchange** will communicate the status of pre-suspension trades as soon as possible after the conclusion of discussions with the relevant **central counterparty**.

(Amended N02/12 – effective 1 February 2012)

G	5124	Notwithstanding the settlement arrangements, for central counterparty contracts , the clearing member clearing the trade remains responsible for ensuring that every central counterparty contract to which it is a party is settled.
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Guidance to Rule

This particularly relates to the situation where a **Non Clearing Member**, or its **settlement agent**, settles directly with the **central counterparty**. In this case, the **General Clearing Member** remains responsible to the **central counterparty** for settlement.

(Amended N02/12 – effective 1 February 2012)

Settlement netting [5130-5131]

5130	Where pursuant to a central counterparty contract a clearing member has elected to settle a trade on a net basis in accordance with a central counterparty netting service , it must do so in accordance with the terms of that central counterparty netting service .
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(Amended N02/12 – effective 1 February 2012)

5131	Pursuant to rule 5121, where the Non Clearing Member acts as agent and it, or its settlement agent , is performing settlement directly with the central counterparty on a net basis, the Non Clearing Member should ensure that its principal has consented to it settling on this basis. The General Clearing Member's obligations in respect of the trade to the Non Clearing Member's principal shall be performed when the net settlement is settled in accordance with the terms of the central counterparty netting service .
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(Amended N02/12 – effective 1 February 2012)

Net settlements – effect of settlement [5140-5143]

G	5140	The obligations of the central counterparty , the clearing member and the Non Clearing Member in respect of the trade shall be performed when the net settlement is settled in accordance with the terms of the central counterparty netting service .
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Guidance to Rule:

Under the terms of the **central counterparty netting service**, a net settlement which results in a zero cash and zero stock position may still be created, 'settle' on **ISD** and be time-stamped at the time of settlement. In such a case, the relevant **central counterparty contracts** are performed at the time indicated by the relevant time-stamp.

(Amended N02/12 – effective 1 February 2012)

5141	Partial performance of net settlement instructions created through the use of the central counterparty netting service where trade date netting is used (“partial performance of net settlements”) from the central counterparty will be treated as being pro rata performance of the underlying central counterparty contracts between the central counterparty and the relevant clearing member and between the General Clearing Member and the Non Clearing Member where the central counterparty is settling directly with the Non Clearing Member or its settlement agent .
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5142	In the event of a default of the General Clearing Member or Non Clearing Member where partial performance of net settlements has not been allocated to the Non Clearing Members and the default procedures are invoked, the onward principal central counterparty contracts will be deemed as unsettled relevant principal contracts .
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(Amended N02/12 – effective 1 February 2012)

5143	In the event of partial performance of net settlements where trade date netting is used between the General Clearing Member and the Non Clearing Member or its settlement agent (or directly from the central counterparty to the Non Clearing Member or its settlement agent as in rule 5141) resulting from agency trades, the General Clearing Member’s obligations to the Non Clearing Member’s customers in respect of these central counterparty contracts shall be deemed to have been partially performed on a pro rata basis. If the Non Clearing Member , or its settlement agent does not allocate, or allocates on an alternative basis, then it shall be deemed to have been pro rata and it shall be a term of the central counterparty contract that it shall be deemed partially performed on this basis.
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(Amended N02/12 – effective 1 February 2012)

5144	The effect of partial performance of net settlement instructions created through the use of the central counterparty netting service where continuous net settlement is used shall be defined in the rules of the central counterparty netting service .
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(Amended N02/12 – effective 1 February 2012)

General benefits

Entitlement to benefits [5200]

5200	A trade in a security effected on a day (including a trade effected before the mandatory period) that the Exchange makes a security ex an entitlement or at any time thereafter, shall be settled ex that entitlement, unless otherwise agreed at the time of dealing, or as specified in rule 5250.
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(Amended N02/12 – effective 1 February 2012)

Central counterparty rules [5210]

5210	For central counterparty trades , where deadlines and procedures are mandated within the central counterparty rules for the processing of buyers’ instructions in relation to benefit distributions and stock situations , member firms should adhere to the central counterparty rules .
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(Amended N02/12 – effective 1 February 2012)

Benefits for assented trades [5220]

5220	Any trade which is dealt in an assented security shall be dealt cum all benefits not already marked ex due in respect of the underlying security unless otherwise agreed at the time of dealing.
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(Amended N02/12 – effective 1 February 2012)

Overseas securities [5230]

5230	Excluding central counterparty securities a member firm shall treat overseas securities whose principal listing is not on the Exchange as being ex a benefit from the time they are marked ex that benefit on the exchange where they have their principal listing , unless otherwise agreed with the counterparty to the trade. This rule does not apply where the Exchange has marked the security as ex a benefit.
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(Amended N02/12 – effective 1 February 2012)

Special Cum trades [5240]

5240	A member firm shall not on Exchange effect a special cum trade on or after the payment date in the case of a cash benefit or on or after the distribution date in the case of a stock benefit.
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(Amended N02/12 – effective 1 February 2012)

Special Ex trades [5250-5252]

5250	A trade in a fixed interest security due to be settled on or after the date on which the Exchange makes that security ex an entitlement, shall be dealt ex that entitlement unless otherwise agreed at the time of dealing.
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(Amended N02/12 – effective 1 February 2012)

5251	A member firm shall not on Exchange effect a special ex trade in a fixed interest non-convertible security issued by a United Kingdom incorporated company or maintained on a register in the United Kingdom earlier than seven calendar days before the ex date.
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(Amended N02/12 – effective 1 February 2012)

5252	A member firm shall not on Exchange effect a special ex trade in a security registered in the United Kingdom other than a security falling within rule 5251 earlier than the tenth day before the ex date.
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(Amended N02/12 – effective 1 February 2012)

Calls on partly-paid securities [5260]

5260	Unless otherwise agreed, where delivery of partly-paid securities has not been made prior to the last time for registration before the call payment date, the seller shall be obliged to pay the call and the buyer shall reimburse the seller upon delivery of the fully paid (or next instalment paid) securities.
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(Amended N02/12 – effective 1 February 2012)

Dividends

Payment of dividends [5300]

5300	The seller is responsible for any dividend due to the buyer unless there has been a delay of more than six months from the record date or three months from the pay date (whichever is the later) in claiming the dividend. After this time the seller must use reasonable endeavours to obtain the dividend from their customer or counterparty on behalf of the buyer .
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(Amended N02/12 – effective 1 February 2012)

Settlement of dividend claims [5310]

G 5310	A dividend claim made by one member firm to another and not disputed shall be settled not later than 28 calendar days after receipt of the claim or 14 calendar days after the payment date, whichever is the later.
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Guidance to Rule:

Unless otherwise agreed at the time of the trade, dividends shall be payable in the same currency as that paid through the settlement system.

(Amended N02/12 – effective 1 February 2012)

Dividends with alternatives [5320]

5320	Except in the case of overseas securities and central counterparty securities , where a company declares a dividend with one or more alternatives, a buyer wishing to opt for an alternative shall give the seller an instruction notice stating the form in which it requires the dividend:
5320.1	if the seller is acting as agent , not later than three days before the last date given by the company for accepting an alternative; or
5320.2	if the seller is acting as principal not later than four days before the last date given by the company for accepting an alternative.

(Amended N02/12 – effective 1 February 2012)

Deduction of dividends [5330]

5330	Where the seller delivers securities direct to the buyer , the buyer may deduct a dividend to which it is entitled from payment if delivery is made after the last day on which transfers are accepted for registration cum dividend.
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(Amended N02/12 – effective 1 February 2012)

Cancellation of dividends [5340]

5340	On receipt of information cancelling or deferring the recommendation or declaration of a dividend, the Exchange may issue a notice cancelling the ex action and, as a result:
5340.1	any notice published making the security ex dividend is automatically cancelled and devoid of effect;
5340.2	any document issued by the Exchange in respect of a cancelled dividend is automatically withdrawn and devoid of effect;
5340.3	a transaction effected ex dividend, other than a transaction effected special ex dividend, shall not be adjusted;
5340.4	a trade effected special cum or special ex dividend shall be adjusted by either, refunding the cash equivalent in respect of the cancelled dividend or, the seller re-attaching the coupon in respect of the dividend, in the case of a bearer certificate.

(Amended N02/12 – effective 1 February 2012)

Rights Issues

Relevant day [5400]

5400	Where the call payment day or registration day is not a business day the relevant day is the immediately preceding business day .
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(Amended N02/12 – effective 1 February 2012)

Last time for issue of rights claims [5410]

G 5410	A buyer that issues a claim to a seller to deliver rights or registered securities shall do so in writing not later than the last time for claims in order to become entitled to those rights or the new securities as the case may be.
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Guidance to Rule:

*If the underlying securities are to be settled through a system that automatically generates claims such as **CREST** a claim for the associated **rights** is not required, as a notification will be issued to a **seller** requiring that **seller** to deliver as specified.*

(Amended N02/12 – effective 1 February 2012)

Delivery in settlement of trades in rights [5420]

5420	Except as is otherwise provided by these rules, where a rights offer is made by means of renounceable documents, the rights shall be delivered through CREST , unless the parties agree that they shall be delivered in renounceable documents fully renounced.
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(Amended N02/12 – effective 1 February 2012)

Last times for delivery of rights [5430]

G 5430	A seller to whom a rights claim is issued shall deliver the rights at or before the latest time for delivery and a buyer is not obliged to accept delivery of rights after that time.
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Guidance to Rule:

*Where either the **seller** fails to deliver, or the **buyer** does not accept delivery, settlement of the **rights** shall take place in accordance with rule 5440.*

(Amended N02/12 – effective 1 February 2012)

Obligations of seller where rights not delivered [5440-5441]

5440	Where nil paid or partly paid rights are not delivered by the latest time for delivery , the seller shall, unless a lapsing instruction has been given, make any payment due on the call payment day on behalf of the buyer . The buyer shall then refund to the seller the call payment against delivery of the paid up shares, or partly paid rights , as the case may be.
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(Amended N02/12 – effective 1 February 2012)

5441	Where fully paid rights are not delivered by the latest time for delivery :
5441.1	the seller shall deliver the registered securities to the buyer ; and
5441.2	the seller is liable for any additional duties or fees payable in order to comply with legislation.

(Amended N02/12 – effective 1 February 2012)

Late claims in respect of nil paid rights [5450-5451]

5450	Where a buyer issues a rights claim after the last time for claims but before the last time for acceptance of an offer, the seller shall, unless it has been able to prevent the rights lapsing, pay to the buyer an amount representing the lapsed rights premium, if any.
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(Amended N02/12 – effective 1 February 2012)

5451	Where a buyer issues a rights claim more than six months after the last time for acceptance of an offer, its claim shall be treated as invalid, and the selling firm shall not be required to make any payment to the buying firm in respect of the lapsed rights premium.
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(Amended N02/12 – effective 1 February 2012)

Late claims in respect of partly or fully paid rights [5460]

5460	Where a buyer issues a rights claim in respect of partly paid or fully paid rights after the last time for claims , the seller shall deliver the registered securities, and the buyer is liable for any additional duties or fees payable in order to comply with legislation.
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(Amended N02/12 – effective 1 February 2012)

Lapsing instructions [5470-5471]

5470	Where a buyer does not receive full delivery of nil paid rights by the latest time for delivery the buyer may give the seller a lapsing instruction provided the instruction is received by 11.00 on the day before call payment day .
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Guidance to Rule:

Where a **lapsing instruction** is given orally, the **buyer** shall confirm it in writing by close of business on the day on which the instruction was given. The **member firms** concerned shall exchange the reference codes allocated by them to the trade and any subsequent confirmation relating to that **lapsing instruction** shall incorporate both reference codes.

(Amended N02/12 – effective 1 February 2012)

G	5471	Where a lapsing instruction has been given and, if necessary, confirmed, delivery of the rights may be dispensed with by agreement.
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Guidance to Rule:

The delivery of the **rights** is dispensed with where the **lapsing instruction** is given via **CREST** in respect of a **central counterparty security**. Where the delivery of nil-paid **rights** is not required, the **buyer** must make payment in settlement of the trade and the **seller** must pay the **buyer** any lapsed premium which becomes payable.

(Amended N02/12 – effective 1 February 2012)

Capitalisation issues

Capitalisation claims [5500]

5500	Where a buyer of securities cum capitalisation, or CREST on behalf of the buyer , makes a claim for the benefit of the capitalisation issue, the member firm against which the claim is made shall meet that claim by delivering the new securities within six months from the record date or three months from the pay date (whichever is the later).
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(Amended N02/12 – effective 1 February 2012)

Valuations [5510-5513]

5510	Except for central counterparty trades , where new securities have not been delivered in settlement of a free of payment claim in a transferable security resulting from an on Exchange transaction which has settled, the buyer may give the seller notice in writing that the seller shall deliver the new securities, or pay the value thereof, by the close of business on the third business day after receipt of the valuation notice. Such notice may be given from the fourth day after the new securities have been made available by the issuer or its agent. The seller shall deliver the new securities, or pay their value as instructed.
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(Amended N02/12 – effective 1 February 2012)

5511	Except for central counterparty trades , where a seller , having paid the value of the new securities, delivers all or some of them, the buyer shall repay the seller the value of the new securities in proportion to the securities delivered against a claim from the seller .
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(Amended N02/12 – effective 1 February 2012)

5512	The value of the new securities shall be calculated:
5512.1	by reference to the middle of the quotation shown on the Stock Exchange Daily Official List on the day the valuation notice is issued; or
5512.2	where there is no quotation shown on the Stock Exchange Daily Official List, on the opening price of the security obtained from the principal market on which it is dealt on the day the valuation notice is issued.

(Amended N02/12 – effective 1 February 2012)

5513	Except for central counterparty trades , where a security has been sold and a benefit or its cash equivalent is to be paid to holders of the security in a foreign currency, but it is agreed that the seller shall account for it in sterling, then unless otherwise agreed, the conversion rate in respect of the benefit shall be the closing mid-price spot rate on the day the benefit is due.
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(Amended N02/12 – effective 1 February 2012)

Entitlement issues

Application [5600]

5600	Rules 5600 to 5630 apply where securities are offered, by the issuer or a third party, to the holders of existing securities in proportion to their existing holdings by means of an assignable application form or the equivalent uncertificated security .
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(Amended N02/12 – effective 1 February 2012)

Entitlement claims [5610]

5610	Where a buyer of securities cum entitlement, or CREST on behalf of a buyer , makes a claim in writing for the assignment of the application form or the equivalent uncertificated security in favour of the buyer not later than 16.00 two days before the last day for acceptance, the buyer is entitled to receive the assigned application form or the equivalent uncertificated security , as applicable.
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(Amended N02/12 – effective 1 February 2012)

Last times for delivery [5620]

5620	A buyer is not obliged to accept delivery of an assigned application form or the equivalent uncertificated security after the specified time on the day before the closing of the offer.
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(Amended N02/12 – effective 1 February 2012)

Obligations of seller where application form not delivered [5630]

5630	Where the assigned application form or the equivalent uncertificated security is not delivered by the time specified in rule 5620, and unless a lapsing instruction is received from the buyer prior to 11.00 on the day before the call payment date , the seller shall take up the entitlement and deliver the new shares against payment of the application money.
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(Amended N02/12 – effective 1 February 2012)

Stock Situations

Instruction notices [5700-5702]

G	5700	In stock situations including conversions and takeovers a buyer may give an instruction notice specifying the option to which it relates, to the seller requiring delivery of:
	5700.1	the unassented shares at a date which is not later than two days before the election date, the event record date or the final registration date whichever is the earlier; or
	5700.2	the result of a stock situation or a specified election under the terms of the stock situation if it becomes effective.

Guidance to Rule:

Effective means unconditional in all respects in relation to takeovers.

(Amended N02/12 – effective 1 February 2012)

G	5701	In the case of any instruction notice , other than those in a central counterparty security , the seller shall deliver the unassented shares or the result as instructed if the instruction was received no later than three or, in the case of a selling principal , four days before:
	5701.1	the election date in the case of a specified election;
	5701.2	the final registration date in the case of delivery of underlying shares if that is prior to the election date.

Guidance to Rule:

For the purposes of these rules final election date is also taken to mean:

- the next closing date in relation to takeovers or similar events; or

- the last day for election for a specific conversion opportunity or similar event.

(Amended N02/12 – effective 1 February 2012)

5702	For instruction notices in central counterparty securities , the seller shall deliver the unassented shares or the result as instructed if the instruction was received by the seller before the CREST instruction deadline and, for voluntary events in central counterparty securities , where the intended settlement date of the trade was on or before the date of the CREST instruction deadline .
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(Amended N02/12 – effective 1 February 2012)

Delivery of results for non-optional events [5710]

G 5710	Where the seller fails to deliver securities as traded, prior to the last time for registration in a non optional stock situation and the buyer has not given instructions to elect for any alternatives which may be available, the seller shall be obliged to deliver the results of the event against an amount of money equal to the original bargain consideration.
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Guidance to rule:

Rule 5710 applies to non-optional stock situations such as consolidations, subdivisions, redemptions, compulsory acquisitions, schemes and other stock situations where the holder of the securities has no option as to whether or not to participate.

Compulsory Acquisitions

*Where settlement has not taken place prior to expiry of compulsory acquisition notices, and in the absence of any instruction from the **buyer** to elect for an alternative, the **seller's** obligation shall be to deliver the consideration available to dissenting shareholders post expiry of the compulsory acquisition notices.*

(Amended N02/12 – effective 1 February 2012)

Drawn securities [5720]

5720	Unless a trade has been dealt with a settlement due date prior to the drawing in question, a buyer shall, if the securities in question have been drawn since the trade was dealt, accept from the seller the drawing payment in place of the drawn securities in settlement of the trade.
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(Amended N02/12 – effective 1 February 2012)

COMPLIANCE PROCEDURES

Disciplinary process

Where the **Exchange** believes there has been a breach of these rules by a **member firm**, the **Exchange** may commence disciplinary action against such **member firm**. The **Exchange** may impose a fixed penalty, issue a warning notice and/or refer disciplinary matters to either the Executive Panel or the Disciplinary Committee. In appropriate cases (including where a greater sanction than the Executive Panel is authorised to impose is deemed appropriate by the Executive Panel), the Executive Panel may refer the case to the Disciplinary Committee.

There are a number of factors which the **Exchange** takes into account when considering what disciplinary action to take in relation to a rule breach. These are set out below:

- The seriousness, size and nature of the rule breach
- How the rule breach came to light
- The actual or potential market impact of the rule breach, and any other repercussions
- The extent to which the rule breach was deliberate or reckless
- The general compliance history of the **member firm**, and specific history regarding the rule breach in question
- Consistent and fair application of the rules (any precedents of previous similar rule breaches)
- The responsiveness and conduct of the **member firm** in relation to the matter under investigation.

The **Exchange's** approach to regulation is aimed at maintaining the integrity, orderliness, transparency and good reputation of its markets and changing **member firms'** behaviour in those markets where necessary. The **Exchange** will investigate the facts of each case, seeking to understand why the rule breach occurred and will assess whether any remedial action the **member firm** has taken is adequate to prevent similar future occurrence.

The Executive Panel is a panel comprised of appropriately experienced senior members of the **Exchange's** staff. The procedures followed by the Executive Panel are set out in rules C200 to C290. The Executive Panel also considers appeals against **fixed penalties**. Any final decision of the Executive Panel (other than a decision to refer a matter to the Disciplinary Committee) may be appealed to the Appeals Committee. There is no appeal on interim decisions.

The Disciplinary Committee is drawn from a pool of appropriately experienced (non-**Exchange**) persons and its procedures are set out in rules C300 to C390. The Disciplinary Committee may impose a wider range of sanctions than the Executive Panel and has discretion to publicise its findings. Any final decision of the Disciplinary Committee may be appealed to the Appeals Committee. There is no appeal on interim decisions.

The Appeals Committee is also drawn from a pool of appropriately experienced (non-**Exchange**) persons and hears appeals against the findings of both the Executive Panel and the Disciplinary Committee. The procedures followed by the Appeals Committee are set out in rules C400 to C490. The Appeals Committee may uphold, quash or vary any decision it is asked to consider.

The table below summarises the disciplinary process operated by the **Exchange**.

RULES OF THE LONDON STOCK EXCHANGE

Process	Normal use	Constitution	Appellate body
Warning Notices	• Rule breaches	(no hearing)	
Fixed penalties	• Rule breaches where a fixed penalty notice is in issue	(no hearing)	Executive Panel
Executive Panel	•Disciplinary matters •Appeals against fixed penalties	Senior Exchange staff	Appeals Committee
Disciplinary Committee	•Disciplinary matters	Appropriately experienced (non- Exchange) persons	Appeals Committee
Appeals Committee	•Disciplinary appeals against Executive Panel findings •Disciplinary appeals against Disciplinary Committee findings	Appropriately experienced (non- Exchange) persons	

The table below summarises the sanctions available to the **Exchange** for any breach of these rules.

Process	Available sanctions	Appellate body
Warning Notices	• May stipulate corrective action required • Formal record of action for member firm's case history	
Fixed Penalty	• As set out in any applicable fixed penalty notice	Executive Panel
Executive Panel ¹	One of: • Private censure • Fine up to £50,000 per breach • Referral to Disciplinary Committee	Appeals Committee
Disciplinary Committee ²	One or more of: • Private censure • Public censure • Unlimited fine • Suspension of activities • Restitution • Expulsion from membership	Appeals Committee
Appeals Committee ²	Executive Panel referrals: • Any sanction available to the Executive Panel Disciplinary Committee referrals: • Any sanction available to the Disciplinary Committee	

- Findings of the Executive Panel in respect of breaches of these rules by **member firms** are published anonymously by the Exchange from time to time.
- Disclosure of findings is at the discretion of the Committee hearing the case (subject to rule C020) in accordance with these rules. Matters subject to appeal will not be published before the appeal is completed.

Non-disciplinary appeal process

In the first instance, appeals against decisions of the **Exchange** permitted under these rules are heard by the Executive Panel. The Executive Panel may uphold, quash or vary any decision it is asked to consider. There is no appeal on the **Exchange's** decision to refer a matter to the Executive Panel or the Disciplinary Committee.

Appeals against the findings of the Executive Panel, and referrals from the Executive Panel are heard by the Appeals Committee. The Appeals Committee may uphold, quash or vary any decision it is asked to consider.

The table below summarises the non-disciplinary appeals process operated by the **Exchange**.

Process	Normal use	Constitution	Appellate body
Executive Panel	• All non-disciplinary appeals (in the first instance)	Senior Exchange staff	Appeals Committee
Appeals Committee	• Appeals against Executive Panel findings in non-disciplinary matters	Appropriately experienced (non- Exchange) persons	

The table below summarises the sanctions available to the **Exchange** for any breach of these rules.

Process	Sanction	Appellate body
Executive Panel	One of: <ul style="list-style-type: none"> • Uphold decision • Quash decision • Vary decision 	Appeals Committee
Appeals Committee	One of: <ul style="list-style-type: none"> • Uphold decision • Quash decision • Vary decision 	

Process and Procedures

Burden of proof [C010]

C010	The burden of proof shall be on the Exchange . The Exchange, the Executive Panel, the Disciplinary Committee or the Appeals Committee (as appropriate) shall not find an allegation proved unless it is satisfied on the balance of probabilities.
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Market guidance [C020]

C020	The Exchange reserves the right to publish, without disclosing the identity of any party concerned, in part, in summary or in full the findings of the Executive Panel, Disciplinary Committee or Appeals Committee where the Exchange believes that to do so would be of assistance to the market.
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Warning Notices

Function of Warning Notices [C080 – C081]

C080	The Exchange may issue a warning notice to a member firm for a breach of these rules.
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C081	A warning notice forms part of a member firm's formal compliance record.
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Fixed Penalties

Fixed penalty regime [C100-C102]

C100	The Exchange may impose a fixed penalty on a member firm for a breach of these rules if the breach is one for which the Exchange has set out a fixed penalty by a notice in force at the time of the breach.
C101	The Exchange imposes a fixed penalty by notifying a member firm's compliance department in writing of the breach and the amount of the fine , and specifying that the fine be paid within 30 days of receipt of the notification.
C102	If the Exchange considers the circumstances of a case sufficiently serious, the Exchange may issue a warning notice or refer the matter to the Executive Panel or the Disciplinary Committee.

Appeal [C180-C185]

C180	A member firm may appeal against a fixed penalty imposed by the Exchange to the Executive Panel.
C181	Appeals must be made by service of a notice in writing on the Exchange within five days of being notified of the penalty, setting out the name of the member firm and the decision appealed against. Within 10 days of being notified of the penalty the member firm shall notify the Exchange of the grounds of appeal and all material facts and shall provide copies of all documents relevant to the appeal.
C182	Within 10 days of receipt of the member firm's notice of appeal, the Exchange may submit to the member firm a statement of case setting out all material facts and attaching to it copies of all documents relevant to the charge(s).
C183	The member firm may respond to the Exchange's statement of case in writing, within five days of receipt of the Exchange's statement of case. The Exchange and the member firm may vary this period for response by written agreement.
C184	At the expiry of the period referred to in rule C183, the Exchange shall submit to the Executive Panel the statement of case (which shall include the notice of appeal) and the member firm's response (if any), together with copies of all other relevant documents.
C185	The Executive Panel will conduct the appeal in accordance with the procedure set out in rules C200 to C290.

Executive Panel

Role [C200-C201]

C200	The Executive Panel shall, when acting as a tribunal of first instance, hear and determine charges against a member firm in respect of a breach of these rules.
C201	The Executive Panel shall, when acting as an appellate tribunal, hear and determine appeals:
C201.1	by a member firm against a fixed penalty ;
C201.2	by an appellant against a decision of the Exchange .

Disciplinary Powers [C205-C206]

C205	Where the Executive Panel acting as a tribunal of first instance finds an allegation proven on the balance of probabilities the Executive Panel may:
C205.1	issue a written warning (a private censure);
C205.2	impose a fine of up to £50,000 for each breach; or
C205.3	refer the case to the Disciplinary Committee for hearing.

C206	The Executive Panel may grant a consent order in respect of any settlement within its powers that may be negotiated between the Exchange and a member firm in relation to any disciplinary action taken by the Exchange .
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Appeal powers [C207]

C207	The Executive Panel may, when acting as an appellate tribunal, uphold, quash or vary (in accordance with these rules) any decision by the Exchange which can be appealed under these rules or refer the matter to the Appeals Committee for further consideration.
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Membership [C210-C216]

C210	Members of the Executive Panel shall be appropriately experienced senior members of the Exchange's staff.
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C211	The Executive Panel appointed pursuant to a referral or an appeal shall have between three and five members (including the Chairman) and shall have a quorum of three.
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C212	No member of the Exchange's staff who has been involved in the investigation or prosecution of the charge(s) in a disciplinary case shall be appointed to the Executive Panel considering that disciplinary case.
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C213	No member of the Exchange's staff who has been involved in a decision by the Exchange which is the subject of an appeal to the Executive Panel shall be appointed to the Executive Panel considering an appeal against that decision.
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C214	The names of the members of the Executive Panel will be disclosed to the member firm .
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C215	Each Executive Panel hearing a case shall appoint one of its members to be the Chairman.
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C216	A party may object to the membership of the Executive Panel on the grounds of conflict of interest or breach of rules C212 or C213. Such objection must be notified promptly, and prior to the hearing of the case, to the Exchange . If the Executive Panel upholds the objection, it will take appropriate action to address the objection. The decision of the Executive Panel under this rule is an interim decision and cannot be appealed separately from an appeal against the final decision of the Executive Panel under rule C280.
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Confidentiality [C220]

C220	Other than as set out in these rules, and other than as between a party and its advisers, each party shall keep confidential any matters relating to any proceedings save where disclosure is permitted or required by law.
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Mode of referral when acting as a tribunal of first instance [C230-C233]

C230	Proceedings before the Executive Panel shall be commenced by the Exchange submitting a statement of case to the member firm . The statement of case shall set out the charge(s) and all material facts taken into account and shall have attached to it copies of all documents relevant to the charge(s).
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C231	The member firm may, within five days (or such other period agreed between the parties) of receipt of the statement of case, submit to the Exchange a statement in response setting out all material facts and having attached to it copies of all documents relied upon.
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C232	The Chairman of the Executive Panel may vary the period referred to in rule C231 at the request of the member firm .
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C233	Following receipt of the member firm's statement of response, the Exchange shall submit to the Executive Panel the statement of case and the member firm's response (if any), together with copies of all other relevant documents.
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Mode of referral when acting as an appellate tribunal [C240-C243]

C240	Appeals to the Executive Panel must be commenced by service of a notice in writing on the Exchange within 10 business days of the service of the decision by the Exchange . The notice should set out the name of the appellant, the decision appealed against, the grounds of appeal, all material facts and shall have attached to it copies of all documents relevant to the appeal. The notice should be copied to the Exchange's Company Secretary, who will ensure that the notice is transmitted to the Chairman of the Executive Panel.
C241	The Exchange may, within 10 business days (or such other period agreed between the parties) of receipt of the notice under rule C240, submit to the Chairman of the Executive Panel a statement in response setting out all material facts and having attached to it copies of all documents relied upon. Such statement shall be copied to the appellant (subject to any legal duty of confidentiality with respect to any details in such response).
C242	On receipt of a notice under rule C240 and any statement in response under rule C241, the Chairman of the Executive Panel will arrange a hearing as soon as reasonably practicable.
C243	The Chairman of the Executive Panel may vary the time periods referred to in rules C240 – C242 (other than the period during which an appeal may be made under rule C240) at the request of either party.

Procedure [C250-C253]

C250	Save in circumstances where either party notifies the Chairman of the Executive Panel that it believes an oral hearing is essential to establish all the relevant facts and requests the Chairman to hold such an oral hearing, proceedings before the Executive Panel will take place through the consideration of documents with no oral hearing.
C251	Where there is to be a hearing in accordance with rule C250, the Executive Panel will conduct it in private.
C252	The parties may attend the hearing but any hearing may proceed in the absence of one or both of the parties.
C253	The Executive Panel will give not less than five business days notice of the time and place of any hearing to the parties. This notice period may be shortened with the agreement of the parties.

Deliberations and decisions [C270-C273]

C270	The Executive Panel may deliberate at any time and make any decision in the absence of the parties. The Executive Panel is entitled to reach decisions on a majority basis. Where a majority decision is reached, this will not be disclosed.
C271	When considering appeals, the Executive Panel will only quash or vary a decision of the Exchange if it is satisfied, on the balance of probabilities, that the decision is a misinterpretation or an erroneous application of any of these rules or is not justified by the evidence on which it is based.
C272	Following its determination, the Executive Panel will notify the parties in writing of: <ul style="list-style-type: none"> C272.1 its decision; C272.2 the reason(s) for its decision; and C272.3 in disciplinary cases, whether any penalty is to be imposed under rule C205. Any fine must be paid by the member firm within 30 days of receipt of such notification unless appealed in accordance with these rules; and C272.4 a time limit for lodging any appeal against the decision or any part thereof, which will be not less than 10 days from the date of service of the decision on the parties.
C273	If the Executive Panel decides to refer a case to the Disciplinary Committee as set out under rule C205.3, no public announcement will be made until the Disciplinary Committee has reached a decision.

Appeal [C280-C283]

C280	Appeals against final decisions of the Executive Panel (as notified to the parties under rule C272) are heard by the Appeals Committee, in accordance with its procedures. Appeals must be commenced by service of a notice in writing on the Chairman of the Executive Panel within 10 days of the service of the Executive Panel's decision (or such other time period as prescribed under rule C272.4), setting out the name of the appellant, the decision appealed against, the grounds of appeal, all material facts and attaching copies of all documents relevant to the appeal.
C281	On receipt of a notice under rule C280, the Chairman of the Executive Panel will arrange for the appointment of a Secretary of the Appeals Committee who will arrange a hearing as soon as reasonably practicable.
C282	The Chairman of the Executive Panel or the Appeals Committee may extend the time for appeal.
C283	Notwithstanding rule C280, appeals against decisions of the Executive Panel on grounds of new evidence (including those where there are other grounds of appeal), shall be heard by way of rehearing by the Executive Panel before the right of appeal to the Appeals Committee arises. Where the appellant wishes to rely on evidence which was not before the Executive Panel, this shall be stated in the appeal notice and copies or details of such evidence shall be attached to the notice.

Changes to the procedures [C290]

C290	The Executive Panel may vary any of its procedures to adapt to the circumstances of any particular case.
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Disciplinary Committee

Role [C300]

C300	The Disciplinary Committee shall, as a tribunal of first instance, hear and determine charges against a member firm in respect of a breach of these rules.
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Disciplinary powers [C305-C306]

C305	If the Disciplinary Committee finds an allegation proven on the balance of probabilities it may impose one or more of the following sanctions:
C305.1	a written warning (censure) which may be public or private;
C305.2	an unlimited fine for each breach;
C305.3	an order that the member firm make restitution to any person (when the member firm has profited from a breach of the Exchange's rules at that person's expense); and
C305.4	where the Exchange recommends it: <ol style="list-style-type: none"> 1. suspension of the right to use any system of the Exchange; 2. suspension from dealing in securities, or any class of securities, dealt on Exchange; and 3. expulsion from membership.
C306	The Disciplinary Committee may grant a consent order in respect of any settlement that may be negotiated between the Exchange and a member firm in relation to any disciplinary action taken.

Membership [C310-C323]

C310	The Disciplinary Committee appointed pursuant to a referral shall have a quorum of three (including the Chairman). The maximum number of members of the Disciplinary Committee shall be seven. Any person whom the Disciplinary Committee co-opts will count as a member of the Disciplinary Committee.
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C311	Members of the Disciplinary Committee are drawn from a panel (“the panel”) appointed by the Exchange .
C312	The Disciplinary Committee may co-opt any person whom it considers appropriate.
C313	No-one who is a member of the Exchange's staff may be appointed or co-opted.
C314	The Chairman may appoint a legally qualified adviser who shall be independent of any party. Such legal adviser will not be counted as a member of the Disciplinary Committee, but shall advise the Disciplinary Committee on legal matters. The Chairman may replace the legal adviser.
C315	Members of the Disciplinary Committee will notify the Secretary or the Chairman of any possible conflict of interest at the earliest possible opportunity and in any event prior to any hearing to be held under rule C352 or C355 below. The Chairman will take appropriate action and will then notify the parties to the disciplinary proceedings of the names of the members of the Disciplinary Committee and any proposed legal adviser. If any party to the disciplinary proceedings believes that a potential conflict of interest exists, it shall notify the Chairman at the earliest possible opportunity. The Chairman will take appropriate action.
C316	Where the Disciplinary Committee wishes to co-opt a person or to appoint a person to replace a member unable to act whether because of illness, conflict of interest or otherwise and/or the Chairman wishes to replace the legal adviser and the hearing has commenced:
C316.1	the appointment shall only take effect with the consent of the parties and the person co-opted or appointed will be subject to the provisions of rule C360; and
C316.2	if, in the absence of such consent, the Disciplinary Committee does not wish or is not able to continue with the hearing, it will cease to deal with the referral and an entirely new Disciplinary Committee will be appointed from the panel, and a new legal adviser will be appointed by the new Chairman in both cases in accordance with these procedures, and the hearing, but not any pre-hearing procedures, will start afresh in front of the new Disciplinary Committee.
Secretary [C320-C323]	
C320	A Secretary (“the Secretary”) to the Disciplinary Committee shall be appointed by the Exchange . The parties will be notified of the name of the Secretary as soon as reasonably practicable. For the avoidance of doubt, the Secretary may be a member of the Exchange's staff.
C321	The Secretary will carry out any administrative functions. Any notices, notifications and other documents required to be submitted to the Disciplinary Committee must be served upon the Secretary who will ensure that copies are provided to the other parties, the members of the Disciplinary Committee and any legal adviser as appropriate. Where the Disciplinary Committee wishes to notify the parties of any matter it shall do so through the Secretary.
C322	Any notices or other documents required to be served shall be served by delivering by hand or posting by first class post or by sending a fax with a confirmatory copy by first class post to the addresses set out below, save that the Secretary may agree with any of those referred to at C322.1 to C322.2 a different place for service upon them:
C322.1	in the case of a member firm , to its head office;
C322.2	in the case of the Exchange , to the Secretary with a copy to the Company Secretary, at the Exchange's registered office; and
C322.3	in the case of any other party, to a place agreed with the Secretary.
G C323	Service shall be deemed effective on the date of delivery by hand or, where first class post is used, on the second day after posting.

Guidance to Rule:

Member firms can send a courtesy copy in advance by fax, but service is deemed effective on the date of delivery either by hand, or on the second day, after posting first class.

Confidentiality [C325-C327]

C325	All communications relating to the proceedings (save those which would be privileged from production in a court of law) between the parties and with the Disciplinary Committee shall be channelled through the Secretary.
C326	If any Disciplinary Committee member or the legal adviser is approached by any person to discuss any matter connected with the proceedings such member shall, without delay, notify the Chairman who will take appropriate action.
C327	Other than as set out in these rules, and other than as between the parties and their advisers, all parties shall keep confidential any matters relating to any proceedings save where disclosure is permitted or required by law.

Mode of referral [C330-C331]

C330	The Exchange shall refer cases to the Disciplinary Committee by service of a written statement of case on the Secretary, who will as soon as reasonably practicable serve a copy of the statement of case on the member firm . The statement of case shall set out the charges and a summary of the main facts to be relied on
C331	In the case of referral by the Executive Panel (under rule C205.3), the Exchange shall serve a copy of the statement of case together with the statement of response made by the member firm .
C350	Following service of a statement of case pursuant to rule C330 or C331:
C350.1	the member firm may submit to the Disciplinary Committee a statement in response (or in the event of referral under rule C205.3 – a further statement of response) and shall submit to the Disciplinary Committee a statement of all material facts and attach to it copies of all documents relied upon; and
C350.2	each party will then notify the Disciplinary Committee of any directions to be sought at a pre-hearing review or their assessment that there is no need for a pre-hearing review.
C351	The Secretary may by agreement with the parties set a timetable for the completion of the steps under rule C350. If no agreement is reached, the Chairman of the Disciplinary Committee may specify by notice in writing to the parties the time limits within which the steps at rule C350 are to be carried out.

Directions [C352]

C352	Following the completion of the procedures set out in rule C350, the Chairman or any member of the Disciplinary Committee whom he nominates may give any directions and take any other steps he considers appropriate for the clarification of the facts and issues and generally for their just, efficient and expeditious presentation and the determination of the matters in issue. The Chairman or any member of the Disciplinary Committee whom he nominates may hold one or more pre-hearing reviews for those purposes and the determination of the matters in issue. By way of example, these directions may include:
C352.1	fixing a time and place for any pre-hearing review and hearing;
C352.2	by written consent of all parties, directing that the hearing or any part of the hearing shall proceed by written representations;
C352.3	recording any admissions made by any party and any request to any party to make admissions;
C352.4	directing any party to indicate whether it admits any particular fact(s) or document(s);
C352.5	directing any party to disclose and serve copies of any documents;
C352.6	setting time limits for any purpose of the proceedings;
C352.7	extending or abridging time limits;
C352.8	adjourning the pre-hearing review, with such orders as it thinks fit;
C352.9	granting leave to amend (including adding documents to) any statement submitted pursuant to rule C350;
C352.10	varying any previous directions; and
C352.11	making any order for the payment of costs of or in connection with pre-hearing preparation or any pre-hearing review.

The hearing [C355-C364]

C355	The Disciplinary Committee will usually conduct hearings in private, although a member firm which is subject to proceedings has the right to ask for such hearing to be conducted in public. A member firm requiring such hearing to be conducted in public shall notify the Chairman at least five days prior to commencement of the hearing.
C356	A party may be legally represented at any pre-hearing review or hearing.
C357	A party may submit evidence to the Disciplinary Committee at any time until two business days before the hearing.
C358	The parties will be given not less than three business days notice of the time and place of a pre-hearing review and seven business days notice of the time and place of the hearing by the Secretary. Any shorter notice period may apply if the parties agree.
C359	If any party fails to attend or be represented at a pre-hearing review or a hearing, the Disciplinary Committee may proceed in its absence.
C360	At the hearing:
C360.1	the members of the Disciplinary Committee and the legal adviser will be introduced to the parties by the Chairman who will state that each of the members and the legal adviser believes himself to have no conflict of interest in hearing the case;
C360.2	the parties will be asked to confirm that there is no reasonable objection to any of the Disciplinary Committee members hearing the case or the legal adviser on the grounds of conflict of interest; and
C360.3	if the Disciplinary Committee, which for these purposes shall exclude any member objected to and shall have a quorum of two, upholds an objection it may appoint another person from the panel to replace any relevant member and where the objection relates to the legal adviser the Chairman may appoint another person to replace the legal adviser; in all cases the appointment shall be made in accordance with these procedures.

C361	Unless otherwise ordered by the Disciplinary Committee, the order of proceedings at the hearing shall be as follows:
C361.1	the allegation(s) made by the Exchange will be read and the member firm will state whether the allegation(s) is/are admitted;
C361.2	each party (the Exchange followed by the other party(ies)) may present its evidence and/or call witnesses, who may be cross-examined and re-examined by the other parties and questioned by the Disciplinary Committee, and may make submissions to the Disciplinary Committee; and
C361.3	where the Disciplinary Committee is satisfied that any allegation has been proved it shall take into account any representations made by the parties on whether any and if so what sanction(s) should be imposed before deciding whether and if so what sanction(s) should be imposed.

C362	At a hearing the Disciplinary Committee may:
C362.1	admit any evidence whether oral or written, whether direct or hearsay, without any requirement that it be on oath and whether or not the same would be admissible in a court of law;
C362.2	make any directions which may be given at a pre-hearing review, and vary any direction which has been made; and
C362.3	make all such directions with regard to the conduct of and procedure at the hearing as the Disciplinary Committee considers appropriate for securing a proper opportunity for the parties to present their cases and otherwise as may be just.

C363	A record of the pre-hearing review may be made at the request of any party or if the Chairman so decides. A transcription or copy of the record will be made available to a party on payment of the cost of making such transcription or copy or a proportion thereof as the Secretary in his discretion shall determine. For the avoidance of doubt, it shall be sufficient for such record to be in the form of minutes taken by the Secretary.
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C364	A record of the hearing will be made. A transcription or copy of the record will be made available to a party on payment of the cost of making such transcription or copy or a proportion thereof as the Secretary in his discretion shall determine. For the avoidance of doubt, it shall be sufficient for such record to be in the form of minutes taken by the Secretary.
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Deliberations and decisions [C370-C375]

C370	The Disciplinary Committee may deliberate at any time and make any decision in the absence of the parties. The Disciplinary Committee may adjourn any hearing at any time as it thinks fit. The Disciplinary Committee is entitled to reach decisions on a majority basis. Where a majority decision is reached, this fact will not be disclosed. In the case of an equality of votes, the Chairman shall have a second or casting vote which shall be exercised in favour of the member firm .
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C371	Following the conclusion of the proceedings, the Disciplinary Committee will notify the parties in writing of:
C371.1	its decision(s), including any penalty under rule C305 and any statement intended for publication;
C371.2	the reason(s) for its decision(s);
C371.3	any order for costs to be imposed; and
C371.4	a time limit for the lodging of any appeal against the written decision or any part thereof which will be not less than 10 days from the date of service on the parties of the written decision save in exceptional circumstances where the Disciplinary Committee may order a shorter period.

C372	The matters at rules C371.1 to C371.3 will not take effect until the expiry of the period for the lodging of any appeal or any extension thereof. If an appeal is lodged in relation to any or all of rules C371.1 to C371.3 the relevant matters at rules C371.1 to C371.3 will not take effect until the appeal is withdrawn or the Disciplinary Appeals Committee orders that they or any of them shall take effect.
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C373	The Disciplinary Committee may order any party to pay such reasonable costs as it thinks fit, regardless of any finding or the outcome of the case. Such costs may include the remuneration and expenses of members of the Disciplinary Committee, the legal adviser, the Secretary and any costs incurred by the other party in the preparation and presentation of its case. Costs may be awarded against the Exchange only if, in the opinion of the Disciplinary Committee, the Exchange has acted in bad faith in bringing or conducting the proceedings. Such order will be made only after the parties to the proceedings have been given the opportunity to make submissions on costs to the Disciplinary Committee.
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C374	Any fine shall be paid within 30 days of receipt of the written decision of the Disciplinary Committee or the conclusion of any appeal against that determination and any costs ordered to be paid shall be paid within 30 days of receipt of the notification in writing of the amount payable.
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C375	The Disciplinary Committee may publish part or all of its written decision or a summary of it, and the reasons for the decision. Where the sanction imposed is a private censure the Disciplinary Committee may publish its decision in part or a summary of it and the reasons for the decision without revealing the identity of the member firm sanctioned.
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Appeal [C380-C382]

C380	Appeals must be made by service of a notice in writing, within 10 days of the service of the Disciplinary Committee's decision, setting out the name of the appellant, the decision appealed against, the grounds of appeal, the principal matters relied upon and attaching copies of any documents relied upon on the Secretary to the Disciplinary Committee who will as soon as reasonably practicable serve a copy on the other party. Where the appellant wishes to rely on evidence or documentation which was not before the Disciplinary Committee, this shall be stated in the notice together with details of such evidence and copies of such documentation shall be attached to the notice.
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C381	On receipt of a notice under rule C380, the Secretary to the Disciplinary Committee will arrange for the Exchange to appoint the Chairman and Members of the Appeals Committee and the Chairman will arrange a hearing as soon as reasonably practicable.
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C382	The Disciplinary Committee or the Appeals Committee may extend the time for appeal.
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Changes to the procedures [C390]

C390	The Disciplinary Committee may vary any of these procedures to adapt to the circumstances of any particular case.
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Appeals Committee

Role [C400]

C400	The Appeals Committee shall hear and determine appeals against decisions of the Disciplinary Committee made pursuant to referrals made under rule C380 and appeals against decisions of the Executive Panel made pursuant to rule C280.
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Sanctions [C405]

C405	The Appeals Committee may uphold, quash or vary any decision by the Disciplinary Committee or the Executive Panel. In the case of an appeal from the Executive Panel in a disciplinary case, the Appeals Committee may vary any penalty imposed by the Executive Panel subject to awarding a maximum fine of £50,000 for each breach.
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Membership [C410-C423]

C410	The Appeals Committee appointed following service of a notice pursuant to rule C280 or rule C380 (as applicable) shall have a quorum of three (including the Chairman). The maximum number of members of the Appeals Committee shall be seven. Any person whom the Appeals Committee co-opts will count as a member of the Appeals Committee.
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C411	Members of the Appeals Committee are drawn from the panel referred to in rule C311.
C412	The Appeals Committee may co-opt any person whom it considers appropriate.
C413	The Chairman may appoint a legally qualified adviser who shall be independent of any party. Such legal adviser will not be counted as a member of the Appeals Committee but shall advise the Appeals Committee on legal matters. The Chairman may replace the legal adviser.
C414	No-one who served on the Disciplinary Committee, whose decision is the subject of the appeal, nor its legal adviser nor anyone who is at the relevant time a member of the Exchange's staff, may be appointed or co-opted to the Appeals Committee.
C415	Members of the Appeals Committee will notify the Secretary or the Chairman of any possible conflict of interest at the earliest possible opportunity and in any event prior to any hearing to be held under rule C452 or C455 below. The Chairman will take appropriate action and will then notify the parties to the disciplinary proceedings of the names of the members of the Appeals Committee and any proposed legal adviser. If any party to the disciplinary proceedings believes that a potential conflict of interest exists, it shall notify the Chairman at the earliest possible opportunity. The Chairman will take appropriate action.
C416	Where the Appeals Committee wishes to co-opt a person or to appoint a person to replace a member unable to act whether because of illness, conflict of interest or otherwise and the hearing has commenced:
C416.1	the appointment shall only take effect with the consent of the parties and the person co-opted or appointed will be subject to the provisions of rule C458; or
C416.2	if in the absence of such consent the Appeals Committee does not wish or is not able to continue with the hearing it will cease to deal with the appeal and an entirely new Appeals Committee will be appointed in accordance with these procedures and the hearing, but not any pre-hearing procedures, will start afresh in front of the new Appeals Committee.
Secretary [C420-C423]	
C420	The Secretary will carry out any administrative functions and act as secretary to the Appeals Committee. The parties will be notified of the name of such person as soon as reasonably practicable. For the avoidance of doubt, the Secretary may be a member of the Exchange's staff and notwithstanding rule C414 may be the same Secretary who was Secretary of the Disciplinary Committee.
C421	Any notices, notifications and other documents required to be submitted to the Appeals Committee must be served upon the Secretary who will ensure that copies are provided to the other parties, the members of the Appeals Committee and any legal adviser as appropriate. Where the Appeals Committee wishes to notify the parties of any matter it shall do so through the Secretary.
C422	Any notices or other documents required to be served shall be served by delivering by hand or posting by first class post or by sending by fax with a confirmatory copy by first class post to the addresses set out below, save that the Secretary may agree with any of those referred to at C422.1 to C422.2 a different place for service upon them:
C422.1	in the case of an appellant, to its head office;
C422.2	in the case of the Exchange , to the Secretary with a copy to the Company Secretary, at the Exchange's registered office; and
C422.3	in the case of any other party, to a place agreed with the Secretary.
G C423	Service shall be deemed effective on the date of delivery by hand or, where first class post is used, on the second day after posting.

Guidance to Rule:

Member firms can send a courtesy copy in advance by fax, but service is deemed effective on the date of delivery either by hand, or on the second day, after posting first class.

Confidentiality [C425-C427]

C425	All communications relating to the proceedings (save those which would be privileged from production in a court of law) between the parties and with the Appeals Committee shall be channelled through the Secretary.
C426	If any Appeals Committee member or the legal adviser is approached by any person to discuss any matter connected with the hearing the member or legal adviser, as appropriate, shall notify the Chairman without delay, who will take appropriate action.
C427	Other than as set out in these rules, and other than as between the parties and their advisers, all parties shall keep confidential any matters related to the appeal save where disclosure is permitted or required by law.

Procedure [C450-C464]

C450	Following service of a notice pursuant to rule C280 or C380 and the appointment of the Appeals Committee:
C450.1	the appellant may submit to the Appeals Committee a statement amending or expanding upon the notice; and
C450.2	any other party may submit to the Appeals Committee a statement in support of its case and any such party wishing to rely on evidence or documents not already before the Appeals Committee must submit a statement containing details thereof and attach to it copies of any such documents.
C451	If both parties consent in writing to the Secretary, the appeal may be by written submissions only.

Directions [C452]

C452	The Appeals Committee shall make any directions including any that may be made by the Disciplinary Committee and take any other steps it considers appropriate including holding pre-hearing reviews for the clarification of the facts and issues and generally for their just, efficient and expeditious presentation and the proper determination of the appeal.
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The hearing [C455-C464]

C455	The Appeals Committee will usually conduct hearings in private, although an appellant which is subject to proceedings has the right to ask for such hearing to be conducted in public. An appellant requiring such hearing to be conducted in public shall notify the Chairman at least five days prior to commencement of the hearing.
C456	Any party may be legally represented at any hearing.
C457	The parties will be given not less than 10 days notice of the time and place of the hearing by the Secretary. The notice period may be shortened with the consent of the parties.
C458	If a party fails to attend or be represented at any hearing or pre-hearing review, the Appeals Committee may proceed in its absence.
C460	At the hearing:
C460.1	the members of the Appeals Committee and the legal adviser will be introduced to the parties by the Chairman who will state that each of the members and the legal adviser believes himself to have no conflict of interest in hearing the appeal;
C460.2	the parties will be asked to confirm that there is no reasonable objection to any of the Appeals Committee members hearing the appeal or to the legal adviser on the grounds of conflict of interest or otherwise; and
C460.3	if the Appeals Committee, which for these purposes shall exclude any member objected to and shall have a quorum of two, upholds an objection, the Chairman may appoint a replacement in accordance with these procedures.
C461	The order of proceedings shall be at the discretion of the Appeals Committee.

C462	No party may rely on any statement or document not served on the Appeals Committee more than two business days before the hearing save with the leave of the Appeals Committee.
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C463	Save in exceptional circumstances and with the leave of the Appeals Committee, no party may present evidence (including calling new witnesses) that was not available to the Disciplinary Committee or the Executive Panel, although additional submissions may be made. Whether such new evidence should be permitted and, where it is permitted, the procedure for its presentation shall be decided on a case by case basis by the Appeals Committee.
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C464	A record of any hearing will be made. A transcription or copy of the record will be available to any party, on payment of the cost of making such transcription or copy or a proportion thereof as the Secretary in his discretion shall determine. For the avoidance of doubt, it shall be sufficient for such record to be in the form of minutes taken by the Secretary.
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Deliberations and decisions [C470-C475]

C470	The Appeals Committee may deliberate at any time and make any decision in the absence of the parties. The Appeals Committee may adjourn any hearing at any time as it thinks fit. The Appeals Committee is entitled to reach decisions on a majority basis. Where a majority decision is reached this will not be disclosed. In the case of an equality of votes, the Chairman shall have a second or casting vote which shall be exercised in favour of the appellant.
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C471	The Appeals Committee will only quash or vary a decision of the Disciplinary Committee or the Executive Panel if it is satisfied, on the balance of probabilities, that the decision is a misinterpretation of or an erroneous application of any of these rules or is not justified by the evidence on which it is based.
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C472	Following the conclusion of the proceedings, the Appeals Committee will notify the parties in writing of:
C472.1	its decision(s), including any statement intended for publication;
C472.2	the reason(s) for its decision; and
C472.3	any order for costs to be imposed.

C473	The Appeals Committee may order any party to the proceedings to pay such reasonable costs as it thinks fit regardless of any finding or the outcome of the case. Such costs may include the remuneration and expenses of members of the Appeals Committee, the Secretary and the legal adviser and any costs incurred by any other party in the preparation and presentation of its case. Costs may be awarded against the Exchange only if, in the opinion of the Appeals Committee, the Exchange has acted in bad faith in bringing or conducting the proceedings. Such order will be made only after the parties to the proceedings have been given the opportunity to make submissions on costs to the Appeals Committee.
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C474	Any fine shall be paid within 30 days of receipt of the written decision of the Appeals Committee and any costs ordered to be paid shall be paid within 30 days of receipt of the notification in writing of the amount payable.
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C475	The Appeals Committee may publish part or all of its written decision or a summary of it, and the reasons for the decision.
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Changes to the procedures [C490]

C490	The Appeals Committee may vary any of these procedures to adapt to the circumstances of any particular case.
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Consent orders

C500	At any time after the Exchange has decided to refer a case to the Executive Panel or Disciplinary Committee, the Exchange and the member firm may without prejudice negotiate a proposed settlement (“consent order”) and jointly submit it in writing to the Executive Panel or Disciplinary Committee for approval. A disciplinary action may at the discretion of the Exchange be delayed, and if already commenced – halted, by the commencement of the negotiation of a consent order.
C501	At the request of the member firm , the consent order submitted to the Disciplinary Committee for approval may be anonymous, provided the Exchange has reasonable grounds for believing that this will have no impact on the decision taken by the Disciplinary Committee. The Disciplinary Committee retains the right to insist that the name of the member firm is disclosed to it.
C502	If the Executive Panel or Disciplinary Committee approve the proposed consent order, or any variation agreed by the Exchange and the member firm , it shall immediately make the order.
C503	The consequences of a consent order made by the Executive Panel or Disciplinary Committee shall be the same as those of a decision made by the Executive Panel or Disciplinary Committee sitting as a tribunal of first instance, except that there can be no appeal and the consent order and penalties on any charges to which it relates shall have immediate effect.
C504	The Executive Panel or Disciplinary Committee shall, in considering the consent order, take into account and give due weight to the fact that the parties are jointly applying for the consent order to be made.
C505	If the Executive Panel or Disciplinary Committee does not approve the proposed consent order, there shall be no reference in any hearing before the Executive Panel or Disciplinary Committee to the negotiations, the proposed consent order or the submissions made to the Executive Panel or Disciplinary Committee, all of which shall be confidential.
C506	Where rule C505 applies, the Executive Panel or Disciplinary Committee constituted to hear the disciplinary charges shall contain no person who was part of the Executive Panel or Disciplinary Committee that considered the consent order.

DEFAULT RULES

Default rules [D010]

D010	In the case of default by a member firm , the provisions of the default rules prevail over the rules and the settlement rules , insofar as they conflict.
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(Amended N08/10 – effective 15 April 2010)

Unsettled contracts [D020]

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

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

Central counterparty contracts and on Exchange contracts cleared by RepoClear

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

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

(Amended N08/10 – effective 15 April 2010)

G D021	Rule D020 shall apply to any unsettled claims which are notified to the Exchange by the defaulter or the counterparty within such time as may be specified by the Exchange in relation to the default. The time so specified by the Exchange will be a minimum of 30 calendar days. Any claims which are not so notified will not be regarded as unsettled claims only for the purpose of applying the Exchange’s default rules .
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Guidance to Rule:

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

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

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

(Amended N08/10 – effective 15 April 2010)

The default official [D050-D052]

D050	The Exchange shall appoint and may from time to time remove and replace a default official who shall have power to represent the Exchange in relation to, and to assist in the administration of the affairs of, a member firm which has been declared a defaulter in accordance with the rules of the Exchange and to perform such functions in relation thereto as the Exchange may from time to time determine (subject to the provisions of any applicable laws of any territory).
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D051	The powers and functions of the default official shall include the right to:
D051.1	obtain from a defaulter copies of or information as to its original books of account, records and all other necessary documents;
D051.2	attend meetings of creditors;
D051.3	summon that member firm or any officer thereof before such meetings;
D051.4	enter into a strict examination of every account;
D051.5	investigate and report to the Exchange upon any contracts found to have been effected at unfair prices;
D051.6	require that member firm or any officer thereof to assist with any inquiries raised; and
D051.7	issue such certificates as may be required pursuant to these rules.

D052	One or more deputy default officials may also be appointed by the Exchange and reference in these rules to the default official shall include a deputy default official unless the context otherwise requires.
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Declaration of defaulters [D100-D115]

D100	A member firm may, and shall if the Exchange is so directed pursuant to section 166 or 167 Companies Act 1989, be declared a defaulter by direction of an authorised signatory or signatories of the Exchange where the member firm :
D100.1	is unable to fulfil its obligations in respect of one or more Stock Exchange market contract (s); or
D100.2	appears to be or to be likely to become so unable.

D105	Declaration of default shall be made in such manner as the Exchange shall decide.
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D106	Once a member firm has been declared a defaulter in accordance with rule D100, the rules and procedures set out in the default rules shall apply to any Stock Exchange market contract to which the defaulter is at the time of default a party. (Amended N08/10 – effective 15 April 2010)
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Cessation of membership [D110-D111]

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

D111	A member firm has seven days from the date of declaration of default in which to appeal against the termination of its membership. A member firm may appeal against the termination of its membership in accordance with the procedures set out in the compliance procedures but may not appeal against the declaration of default. In the event that the defaulter does not appeal within this time, or the appeal against termination of membership is dismissed, the defaulter will cease to be a member firm .
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Notifications [D115]

D115	Upon a declaration of default the default official shall, as soon as is reasonably practicable:
D115.1	notify the defaulter of the declaration;
D115.2	arrange for the removal of all displayed orders and suspend the submission of any new orders of the defaulter in central counterparty securities on the Exchange trading system and if the defaulter is a General Clearing Member orders of any member firm for which the defaulter clears;
D115.3	in relation to any unsettled or any unexercised relevant principal contracts notify the parties to such contracts of the default and of any decision taken under the default rules in relation to those contracts;
D115.4	in relation to any unsettled or any unexercised relevant agency contracts and any associated central counterparty contracts to which the defaulter is a party notify the parties to such contracts of the default and the identity of the other party to the contract; and
D115.5	in the case of a clearing member default: <ol style="list-style-type: none"> 1. request the settlement system operator to suspend settlement of all on Exchange transactions to which the defaulter is a party; and 2. declare that any unsettled central counterparty contract between the defaulter and the central counterparty be dealt with in accordance with the rules of the relevant central counterparty.

Unsettled relevant principal contracts [D120-D149]

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

Fixing hammer prices on declaration of default [D130-D132]

D130	In every case of declaration of default, the default official shall for any security which is the subject of an unsettled relevant principal contract , except in respect of a relevant principal contract which has been transferred in accordance with rule D195, fix the hammer price and notify the defaulter and its counterparty of the hammer price .
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D131	In relation to rule D130, the hammer price shall be determined by the Exchange :
D131.1	for any security admitted to trading at the time of default (and not suspended), in accordance with: <ol style="list-style-type: none"> 1. the middle price current in the market immediately before a declaration of default if the time of default is during market hours; or 2. the closing price before a declaration of default if the time of default is after market close;
D131.2	for any security suspended or not admitted to trading at the time of default, such price as is reasonably determined by the Exchange to be the most relevant for that security. In making its determination, the Exchange shall have regard to the following factors in order of priority: <ol style="list-style-type: none"> 1. the price or prices at which any business was last done in the relevant security on the Exchange; 2. the appropriate middle price current on another market immediately before a declaration of default, or the price or prices at which any business was last done on such a market, where that market is reasonably determined by the Exchange to be the most relevant for that security; 3. the price or prices current in the market (whether an Exchange market or another market) at a relevant time prior to a declaration of default including, where appropriate, a relevant time preceding a suspension or other event that resulted in a cease to trading in a given security (temporarily or permanently) on the Exchange; 4. information from any member firm or any relevant governmental or regulatory body (e.g. the UK's Debt Management office) that is relevant to the pricing of a given security; or 5. information from the registrar or company secretary of the relevant company as to the consideration for any recent transfers of that security.
D131.3	If the price or prices derived under D131.1 or D131.2 are not available or not appropriate, such price as is reasonably determined by the Exchange to be the most relevant for that security, in which it may have regard to all, any or none of the factors set out in rule D131.2.

(Amended N08/10 – effective 15 April 2010)

D132	The determination of hammer prices by the default official shall, in the absence of manifest error or successful objection, be final and binding on all concerned.
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(Amended N08/10 – effective 15 April 2010)

Establishing the net amount due [D140-D144]

D140	If the hammer price exceeds the contract price , the defaulter shall:
D140.1	if the relevant principal contract was for purchase by the defaulter , be entitled to receive from the counterparty the amount of such excess;
D140.2	if the relevant principal contract was for sale by the defaulter , be obliged to pay to the counterparty the amount of such excess.

(Amended N08/10 – effective 15 April 2010)

D141	If the hammer price falls short of the contract price , the defaulter shall,
D141.1	if the relevant principal contract was for purchase by the defaulter , be obliged to pay to the counterparty the amount of such shortfall;
D141.2	if the relevant principal contract was for sale by the defaulter , be entitled to receive from the counterparty the amount of such shortfall.

(Amended N08/10 – effective 15 April 2010)

D142	If the hammer price is the same as the contract price , neither the defaulter nor the counterparty shall be obliged to make any payment to the other.
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(Amended N08/10 – effective 15 April 2010)

D143	The Exchange shall establish the net amount to be paid to the defaulter by each counterparty or claimed from the defaulter by each counterparty as the result of the application of these default rules to any unsettled relevant principal contract after:
D143.1	aggregating all sums due by each principal to the other in relation to such contracts; and/or
D143.2	offsetting the aggregate sums due by each principal to the other in relation to such contracts.

(Amended N08/10 – effective 15 April 2010)

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

(Amended N08/10 – effective 15 April 2010)

Objections [D145]

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

Certification [D146-148]

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

D147	In respect of a relevant principal contract the amount of any consideration which is unpaid or overpaid shall, with reference to the terms of the contract, be calculated by the default official who shall ensure that the calculated amount is included in establishing the net amount for certification.
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(Amended N08/10 – effective 15 April 2010)

D148	A member firm acting as agent for a counterparty in relation to a relevant principal contract in respect of which rules D140 to D144 take effect shall not be liable for any amount due to or from that counterparty by virtue thereof.
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(Amended N08/10 – effective 15 April 2010)

Securities already delivered [D149]

D149	Rules D120 to D148 shall not apply in respect of securities the subject of a relevant principal contract which have been delivered and paid for prior to declaration of default, and those securities shall not be returned.
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(Amended N08/10 – effective 15 April 2010)

Unsettled relevant agency contracts [D150-D155]

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

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

*As set out in rule 5253, partial performance of net settlements between the **General Clearing Member** and the **Non Clearing Member** or its **settlement agent** (or directly from the **central counterparty** to the **Non Clearing Member** or its **settlement agent**) in respect of agency **central counterparty transactions** shall be deemed to have performed the **General Clearing Member's** obligations to the **Non Clearing Member's** clients in respect of these **central counterparty contracts** on a pro rata basis, whether or not allocation has been made on this basis.*

(Amended N08/10 – effective 15 April 2010)

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

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

(Amended N08/10 – effective 15 April 2010)

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

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

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

Lending arrangements [D160-D164]

G D160	Rule D161 shall apply only to lending arrangements which are notified to the Exchange by the defaulter or the counterparty within such time as may be specified by the Exchange in relation to the default. The time so specified by the Exchange will be a minimum period of 30 calendar days. Any lending arrangements which are not so notified will not be regarded as Stock Exchange market contracts only for the purpose of applying the Exchange's default procedures .
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Guidance to Rule:

Where the **defaulter** and **counterparty** do not notify unsettled **on Exchange lending arrangements** to the **Exchange** within the period specified by the **Exchange** in relation to the default, those **lending arrangements** will be excluded from the **default procedures**. However they will continue to be regarded as **Exchange** transactions for all other purposes (e.g. **SDRT** relief). The time specified by the **Exchange** for notifying lending arrangements may be extended where the **Exchange** considers that circumstances require.

(Amended N43/09 – effective 21 September 2009)

D161	Upon declaration of default in respect of a member firm which is a party as principal to an unsettled Stock Exchange market contract in the form of a lending arrangement , all unperformed obligations of the defaulter and the counterparty shall be discharged and replaced by an obligation on one of them to pay to the other the amount, if any, calculated in accordance with the following provisions:
D161.1	the value of securities to be delivered by each party shall be established in accordance with the agreement regulating lending procedures between them;
D161.2	the value of cash payments to be made by each party shall be established in accordance with the agreement regulating lending procedures between them; and
D161.3	on the basis of those values, an account shall be taken as at the time of the declaration of default, of what is due from each party to the other and the sums due from one party to the other shall be offset against the sums due from that other and only the balance of the account shall be payable by the party having the claim valued at the lower amount pursuant to these provisions.

(Amended N43/09 – effective 21 September 2009)

D162	Rule D161.1 shall apply notwithstanding any requirement in the agreement regulating lending procedures that the counterparty shall provide any notification to the defaulter or elect to withhold any delivery or payment provided for under the agreement.
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(Amended N43/09 – effective 21 September 2009)

D163	In the case of an unsettled Stock Exchange market contract in the form of a lending arrangement , any reference in rule D161 to securities shall include any asset other than cash provided by way of collateral pursuant to the agreement regulating lending procedures between the defaulter and the counterparty .
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(Amended N43/09 – effective 21 September 2009)

D164	The Exchange shall ensure that any net sum resulting from the application of rule D161 is included in establishing the net amount for certification.
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(Amended N43/09 – effective 21 September 2009)

General clearing member contracts [D195]

D195	In the event of the default of a General Clearing Member the rights and obligations of the defaulter under any unsettled central counterparty contracts between the defaulter and a member firm using the services of the defaulter may be transferred to another General Clearing Member or allowed to settle as dealt at the sole discretion of the relevant central counterparty , in which event the Exchange's default rules will not be applied in respect of those contracts.
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Exceptions from these rules [D200]

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

(Amended N08/10 – effective 15 April 2010)