



9 July 2002

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

N24/02

STOCK EXCHANGE NOTICE

CONSULTATION ON PROPOSED RULE AMENDMENTS

COVERED WARRANTS

Introduction

1. The attachment to this Notice sets out the proposed trading rules for the Exchange's covered warrant service and should be read in conjunction with the Covered Warrant Market Service Description which is available on the Exchange's website at <http://www.londonstockexchange.com/techlib>.

Proposed rules

2. The attachment to this Notice outlines the rules and amendments required to facilitate trading in covered warrants. They relate to the following:
 - registration of liquidity providers, either as committed principals or market makers;
 - obligations of liquidity providers during a mandatory period and any exceptions to those obligations (e.g. during a suspension in an underlying security);
 - covered warrant order types; and
 - trade reporting obligations of liquidity providers.

Consultation

3. We would welcome any comments on the proposed rules by 26 July 2002, which should be directed to Geoff Hargreaves, Regulatory Development, 020 7797 4193 (STX 34193) or email: ghargreaves@londonstockexchange.com. Comments or queries regarding the operation of the covered warrants service should be directed to the Exchange's business development team on 020 7797 3456 (STX 33456).

Andrew McStravick
Director of Operations

This Stock Exchange Notice will be available on the website at
www.londonstockexchange.com/regulation/notices/

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

Definitions

covered warrant	a domestic market security that is a warrant issued by a party other than the issuer or originator of the underlying asset
<u>covered warrant market maker</u>	<u>a market maker in a covered warrant</u>
<u>covered warrant order book</u>	<u>an order-driven trading service with committed principals for trading covered warrants</u>
<u>intrinsic value</u>	<u>the difference between the exercise price of a covered warrant and the market value of the underlying asset(s)</u>

Core trading rules

Trade reporting

Requirement to trade report [3500-3515]

Obligation to trade report [3501]

3501 A **trade report** shall be submitted to the **Exchange trading system** for each transaction arising from the result of the exercise of a **traditional option or covered warrant**.

Definition of a market maker for the purposes of submission of trade reports [3530-3531]

3530 For the purpose of determining the obligation to submit a **trade report**, a **market maker** in one or more securities, in each of the following classes of securities, shall be regarded as a **market maker** in all securities within that class:

3530.1 **domestic market securities** other than **SEATS securities**, convertible securities, ~~and~~ depository receipts and **covered warrants**;

3530.2-3530.6 unchanged

3530.7 **fixed interest securities**; or

3530.8 **AIM securities**; or

3530.9 **covered warrants**.

Definition of a committed principal for the purposes of submission of trade reports [3535-3536]

3535 ~~A committed principal in one or more international retail service securities shall be regarded for the purposes of the obligation to submit a trade report as a committed principal in all international retail service securities.~~

3535 For the purpose of determining the obligation to submit a trade report, a committed principal in one or more securities, in each of the following classes of securities, shall be regarded as a committed principal in all securities within that class:

3535.1 international retail service securities; or

3535.2 covered warrants.

Trade type indicators [3555]

3555 Every trade report shall be submitted with a trade type indicator which shall be "O", except in the following circumstances where the trade type indicators shall be as shown below:

"RO" if reporting a transaction which resulted from the exercise of a traditional option or a covered warrant;

All other trade types remain unchanged

Order-Driven Trading Services

Covered warrant order book

4050 The covered warrant order book is an order driven trading service with committed principals for covered warrants.

4051 A member firm that intends to act as a committed principal in securities traded on the covered warrant order book must register as such with the Exchange.

4055 When submitting orders to the Exchange trading system in covered warrants, a member firm shall only use the following types of order:

4055.1 committed principal order, where the member firm is a committed principal;

4055.2 at best order, execute and eliminate order, or fill or kill order, where the member firm is not a committed principal.

Committed Principals

Obligations of committed principals [4310 - 4330]

Obligations during the mandatory committed principal period [4310 - 4314]

4310 During the **mandatory committed principal period**, a **committed principal** must maintain a buy and sell order in each security in which it is registered, by entering **committed principal orders**.

Exceptions to obligations [4335 - 4336]

4335 A **committed principal** has no obligation to maintain its **committed principal orders** in a security where there is a public holiday on the exchange or **registered organisation** on which the relevant security, or a security underlying the relevant security, has its **principal listing**.

4336 A **committed principal** in a **covered warrant** has no obligation to maintain a buy order in a **covered warrant** when it has no **intrinsic value**.

Trading halts [4340 - 4341]

4340 ~~A **committed principal** may delete its **committed principal orders** on the **Exchange trading system** if a trading halt is ordered or declared by an exchange or **registered organisation** on which the relevant security, or a security underlying the relevant security, has its **principal listing**. A **committed principal** must re-enter its **committed principal orders** once the trading halt has terminated.~~

4340 A **committed principal** may delete its **committed principal orders** on the **Exchange trading system** during a trading halt that has been ordered in the relevant security by the exchange or **registered organisation** on which the relevant security has its **principal listing**.

4341 A **committed principal** may delete its **committed principal orders** on the **Exchange trading system** during a trading halt that has been ordered in a security underlying the relevant security by the exchange or **registered organisation** on which such underlying security has its **principal listing**.

Markets

7000 A **domestic market security** can be either:

7001.1-7001.2 unchanged

7001.3 a **SEATS security**; or

7001.4 a security traded on the **covered warrant order book**; or

7001.5 a security that cannot be traded on a **trading service**.

Covered warrants - request for quote

Covered warrant market makers [7070]

7070 A member firm that wishes to act as a covered warrant market maker shall register as such with the Exchange.

Obligations of covered warrant market makers [7075]

7075 Except where rules 7076 and 7077 apply, the covered warrant market maker shall, during the mandatory quote period, make two-way prices to an enquiring member firm in not less than the normal market size and within any applicable maximum spread for each covered warrant in which it is registered.

Exceptions to obligations [7076 - 7077]

7076 A covered warrant market maker has no obligation to make a price in a covered warrant where there is a public holiday on the exchange or registered organisation on which a security underlying the covered warrant has its principal listing.

7077 A covered warrant market maker has no obligation to quote a bid price in a covered warrant when it has no intrinsic value.

Obligations during trading halts [7078]

7078 A covered warrant market maker has no obligation to make two-way prices in a covered warrant during a trading halt that has been ordered in a security underlying the covered warrant by the exchange or registered organisation on which such underlying security has its principal listing.