

Attachment 2 to Stock Exchange Notice N16/11

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.

direct market access	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 usual order management systems, but without manual intervention by the member firm .
sponsored access	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 usual order management systems of the member firm but will pass through the Exchange's controls.

Member firms

Voice recording [1090-1091]

G	1090	Voice recording equipment shall be installed, maintained and used with respect to trading activities: by every market maker with respect to its market making activities.
	1090.1	by every market maker with respect to its market making activities; and
	1090.2	by every member firm meeting the criteria specified in the guidance to this rule.

Guidance to Rule:

~~Voice recording equipment shall be installed, maintained and used by every **member firm** with respect to its trading activities that executes a daily average of either greater than:
i) 500 trades; or
ii) £5,000,000 by consideration.~~

Compliance and enforcement

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.
G		

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.

Systems and trading

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.
1531	In accordance with timescales and detailed guidance provided on the Exchange corporate website, a member firm may undertake when issued dealing subject to: a when issued dealing application having been made and the offer price and full allocation details having been publicly announced and listing particulars or other documentation as applicable is approved.
1531.1	<u>a when issued dealing application having been made;</u>
1531.2	<u>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</u>
1531.3	<u>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.</u>
<u>G</u> 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.

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>

Order entry

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

<u>G</u> 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.
---------------	--

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** ~~usual~~ order management systems, but without manual intervention by the **member firm**. These order management systems may be housed within the **member firm's** facilities or hosted within the **Exchange's** Primary Data Centre, ~~but, importantly, are the same systems through which the **member firm** submits at least some of its own order flow to the **trading system**.~~

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 ~~usual~~ 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**.

Market makers in order driven securities

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

G	4110	A market maker has no obligation to maintain its executable quotes :
	4110.1	in a security during the opening auction or where an unscheduled intra-day auction has been triggered due to a price monitoring breach;
	4110.2	<u>in a security during the closing auction on the Order book for Retail Bonds;</u>
	4110.23	in a covered warrant when it is the expiry day of that covered warrant ;
	4110.34	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 ;
	4110.45	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
	4110.56	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.*

Gilt-edged market makers

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

4411	Rule 4400 shall not apply in the case of a <u>gilt strip or a</u> security which has been declared a rump stock by the UK Debt Management Office.
------	---