

Attachment 1 to Stock Exchange Notice N02/12

SETTLEMENT, CLEARING AND BENEFIT RULES

Settlement

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.*

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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Clearing through a Central Counterparty

Central counterparty contracts [5120-5124]

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**.

General benefits

Rights Issues

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**.

Guidance to Rule:

Where a **lapsing instruction** is given orally, the **buyer** shall confirm it in writing by ~~12.00 close of business~~ on the day ~~after 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.