

DEFINITIONS

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
direct input	the CREST service which creates transactions centrally on behalf of a settlement participant

CORE RULES**Suitability** [1020-1025]

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.*

Notifications [1050 – 1051 1052]**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 Membership Client Implementation department at membership@lseg.com clientimplementation@lseg.com

(Amended N26/10 – effective 14 February 2011)

G	1052	A member firm shall notify the Exchange in writing, at least 21 calendar days in advance of the proposed effective date or, if that is not possible, immediately on becoming aware of a change of control of the member firm within the meaning given under FSMA .
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Guidance to Rule:

A notification under this rule shall be made to the Membership department at membership@lseg.com.

When issued dealing [1530-1532]

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)

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 Datasync, the **Exchange's** 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 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)

OFF BOOK TRADING RULES

Required content of trade reports [3040]

G	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 - unchanged

Date and time of trades - unchanged

Purchase or sale - unchanged

Quantity

The number of shares or amount of stock traded. Any splitting of transactions for settlement purposes shall be done within the settlement system and shall not have an impact on the trade report.

Trade type indicators - unchanged

Trade price - unchanged

Dealing capacity - unchanged

Converted currency trades - unchanged

Reporting condition - unchanged

(Amended N26/10 – effective 14 February 2011)

SETTLEMENT, CLEARING AND BENEFIT RULES

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~~ A **General Clearing Member** must notify the *Market Supervision department on +44 (0)20 7797 3666. (STX 33666) – option 1, 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]

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 traded 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)