



London
Stock Exchange

18 August 2010

10 Paternoster Square
London EC4M 7LS
Telephone +44 (0)20 7797 1000
www.londonstockexchange.com

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

N18/10

STOCK EXCHANGE NOTICE

Consultation on Proposed Rule Amendments - Market Makers in Order Driven Securities

Introduction

1. The London Stock Exchange (“the Exchange”) proposes to amend the Market Makers in Order Driven Securities section of the Rules of the London Stock Exchange (“the rules”). The amendments are intended to facilitate a move from a 90 second maximum “refresh” rate for executable quotes to a “market maker presence” approach.

Background

2. Under current rules 4101 and 4102, market makers in order driven securities are obliged to:
 - enter executable quotes within 90 seconds of the uncrossing of the opening auction (current rule 4101); and
 - refresh executable quotes within 90 seconds in circumstances where either the buy or sell or both elements of the executable quotes are executed against in full, deleted or expired (current rule 4102).
3. The Exchange has decided to change the obligations placed on market makers to require them to maintain a minimum level of presence in the market instead of the current refresh obligations. This is intended to provide a more flexible but also more meaningful regime for market making in order driven securities.

Proposed changes to the rules

4. Under the proposed rule changes, market makers will be required to maintain their executable quotes for **at least 90 per cent of continuous trading during the mandatory period**. The obligation to maintain executable quotes for the duration of the closing auction until market close remains under rule 4101.2. The mandatory period remains unchanged. The term continuous trading is being added to the definitions within the rules to make clear when the obligations apply.
5. The existing exceptions to a market maker's obligations in order driven securities under rule 4110 have also been amended where the old rule is now inappropriate. For example, the exemption from maintaining executable quotes during the five minutes following an intra-day auction triggered by a price monitoring breach (rule 4110.1) has been removed.

Monitoring

6. The Exchange will monitor each registered market maker's presence in the order driven securities in which it is registered. If a market maker repeatedly fails to meet its obligations, the Exchange will contact the firm in question to discuss the issue.
7. The proposed rule amendments are limited to market makers in order driven securities and do not affect the obligations of market makers in quote driven securities. The proposed implementation date of the rules is **1 March 2011**. The Exchange has initiated this rules consultation early to give member firms sufficient time to make any necessary system changes, particularly in light of the forthcoming implementation of the new Millennium Exchange system and avoid congestion with associated rules consultations.

Rules consultation

8. The Exchange is consulting on the rules changes set out in Attachment 1 for a period of four weeks. Interested parties are therefore asked to provide any comments or feedback on this consultation by 14 September 2010.
9. Any comments or queries on this Notice should be addressed to Nisha Patel, UK Regulation, telephone +44 20 7797 3130 (STX 33130) or email: npatel@londonstockexchange.com

Nick Bayley
Head of UK Regulation

This Stock Exchange Notice will be available on the website at <http://www.londonstockexchange.com/engb/products/membershiptrading/rulesreg/stockexnoticesnew/>

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