



London
Stock Exchange

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

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

N19/10

STOCK EXCHANGE NOTICE

Consultation on Proposed Rule Amendments - Sponsored Access

Introduction

1. Member authorised connection (“MAC”), is the current facility whereby under the Rules of the London Stock Exchange (“the rules”), member firms are able to provide their non-member customers with direct technical connections to TradElect. The London Stock Exchange (“the Exchange”) will be withdrawing MAC upon migration from TradElect to Millennium Exchange in November 2010 and will shortly thereafter introduce a new sponsored access service.
2. The new sponsored access service is similar in some respects to the current MAC model. However, unlike MAC, which is rules-based, the new Millennium Exchange trading platform will enable the Exchange to offer a sponsored access service using electronic risk validation controls hosted on the Exchange’s systems.
3. The Exchange will therefore be amending the rules to remove requirements relating to the outgoing MAC model and clarifying the responsibilities of member firms that wish to provide sponsored access going forward.
4. The proposed changes to the rules are set out in Attachment 1.

Background

5. The outgoing MAC model allows a member firm to facilitate direct customer connectivity to TradElect under the member firm’s trading codes but not through the member’s usual order management systems.
6. For the new sponsored access service the Millennium Exchange trading system will utilise a new layer of risk validation and control functionality within the Exchange’s own systems.

Sponsored Access and Exchange Level Controls (“ELCs”)

7. Further functional information on ELCs under the proposed sponsored access service will be available on the Exchange’s website in due course, however the key ELC functionality configurable by members on behalf of customers is as follows:
 - Price Band Validation - To prevent orders with an overly aggressive limit price from entering the order book and trading;
 - Maximum Order Value - To prevent orders with an uncommonly large order value, specified in terms of the instrument’s currency, from entering the order book;
 - Restricted List - Allows for one or more list(s) of securities that sponsored access customers will be prevented from trading to be maintained;
 - Maximum Gross Consideration - To prevent sponsored access customers from trading beyond a threshold specified in British pounds. The gross consideration is the sum of all trades and value of all open orders.
8. All sponsored access order flow will pass through the ELCs before reaching the order book. Notwithstanding the introduction of ELCs, the sponsored access service will continue to require that member firms retain ultimate responsibility for initial and ongoing oversight of customer order management systems and controls. Member firms are responsible for monitoring their customers’ order flow and determining the limits of the configurable ELCs for each individual customer. Members should take into consideration the scale and nature of a customer’s business when setting these limits. Should a significant change in a customer’s trading volumes or scope of business occur, the member firm will need to consider refreshing the limits at which the ELCs have been set for that customer.
9. The sponsored access service will require member firms to undertake wider regulatory due diligence on their customers. Going forward, member firms will need to complete an application form for each sponsored access customer confirming that appropriate due diligence has been conducted in order to assess the suitability of that customer. The requirement to submit a separate statement regarding due diligence will no longer exist. The Exchange will make the application form available on its website at the appropriate time.

Rules Consultation

10. The new sponsored access service will be available from the introduction of ELCs to Millennium Exchange currently scheduled for Release 1.1 in January 2011.
11. The Exchange is consulting on the rules changes set out in the Attachment for a period of four weeks. Interested parties are therefore asked to provide any comments or feedback on this consultation by 15 October 2010.
12. Any comments or queries regarding the new sponsored access service should be addressed to Jamie Crank, telephone +44 (0)207 797 3208 (STX 33208) or email jcrank@londonstockexchange.com. Any comments or queries regarding the content of the proposed rule amendments 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.