



London
STOCK EXCHANGE

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www.londonstockexchange.com

25 September 2008

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

N21/08

STOCK EXCHANGE NOTICE

FINANCIAL SERVICES AUTHORITY – SHORT SELLING REVISED MARKET MAKER EXEMPTION – GUIDANCE TO MEMBER FIRMS

1. Further to Stock Exchange Notice N15/08, the Financial Services Authority (“FSA”) has revised its previous exemption for “market makers” for the purposes of relief from the short selling restrictions recently announced by the FSA. This Notice provides updated guidance to member firms.
2. The FSA’s exemption for a “market maker” differs from the Exchange’s definition of a market maker as outlined in the Rules of the London Stock Exchange “the Rules”. The FSA’s definition has been revised and is now as follows:

“A market maker is an entity that, ordinarily as part of their business, deals as principal in equities, options or derivatives (whether OTC or exchange-traded):

- a) to fulfil orders received from clients, in response to a client's request to trade or to hedge positions arising out of those dealings; and/or*
- b) in a way that ordinarily has the effect of providing liquidity on a regular basis to the market on both bid and offer sides of the market in comparable size. Trading in circumstances other than genuinely for the provision of liquidity is not exempt.*

This exemption covers market makers only when, in the particular circumstances of each transaction, they are acting in that capacity. Market makers are afforded a certain level of flexibility in anticipating sales as long as this activity is genuine market making in line with its existing general levels of business. Consequently, we would not expect market makers to hold significant short positions, other than for brief periods. Proprietary trading strategies where the main intention is to create a short position are not market makers and are not exempt.”

3. The FSA has also stated that registration as a "market maker" with an exchange or trading platform is not relevant for the purposes of its definition, as above. Member firms that provide two-way liquidity on the Exchange's electronic order books (in the financial stocks to which the FSA's short selling restrictions apply) are advised that the registration process as outlined in N15/08 is no longer available as it does not afford any exemption from the FSA's restrictions on short selling.
4. A member firm wishing to change its profile to be a market maker, as defined by the Exchange's Rules, allowing it to register to provide named quotes in individual Exchange securities would need to apply in writing to the Client Implementation Team at the Exchange. Following successful completion of authorisation checks a Member Firm Information Sheet will be issued to advise the market of the member firm's status change under the Rules.
5. Market makers (on Exchange) registered in order book securities will need to ensure that their technical enablements are suitable for the submission of Executable Quotes. Where a member firm has to amend its trading software, it may have to undertake conformance testing.
6. Any changes member firms wish to make to their membership profiles or to their access to the Exchange's markets, as outlined in this Stock Exchange Notice (and the notification requirements which can be found in paragraphs 1050 - 1051 of the Rules), should be notified to the Client Implementation Team on 020 7797 3232 or by email to clientimplementation@londonstockexchange.com.
7. Any queries on this Notice should be addressed to:

Rachael Hanley, Trading Services, telephone +44 20 7797 3483 (STX 33483)
email: rhanley@londonstockexchange.com.

Nick Bayley
Head of Trading Services

This Stock Exchange Notice will be available on the website at
<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnotices/stockexchangenotices2008.htm>

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