

Attachment 1 to Stock Exchange Notice N26/10

General conduct

Share price manipulation [1410]

G	1410	A member firm trading in a security shall not do any act or engage in any course of conduct the sole or main intention of which is to move the price of that security or the level of any index of which that security is a component.
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Guidance to Rule:

Rule 1410 does not preclude a **member firm** from pursuing a bona fide trading strategy, as **principal** or on behalf of **customers**, or from effecting trades in the normal course of its business. However, in all cases, a **member firm** should ensure that it is in a position to be able to justify to the **Exchange** that, in effecting a trade or pursuing a particular trading strategy, it acted in pursuit of a bona fide commercial purpose.

The **Exchange** is likely to seek further information and detailed explanations from a **member firm** in respect of any activity that appears to amount to a breach of rule 1410. Examples of activity that may lead the **Exchange** to seek further information from a **member firm** include, but are not limited to, instances where:

- in executing a **customer** order based on a reference price of a security, a **member firm** submits a number of comparatively small orders, shortly before the reference point, which are not proportionate to previous, related business by the **member firm** and appear to be intended to profit the **member firm** at the **customer's** expense;
- towards the striking or expiry of a hedged derivative position, a **member firm** trades in the cash market beyond the level required to set up or unwind the hedge and this appears to be done principally in order to benefit the firm's derivative position;
- a **member firm** with a partially hedged, or un-hedged, OTC futures or options position, trades in the cash market, apparently uneconomically in respect of that cash business, but to the benefit of the OTC position; or
- a **member firm** accepts an order from a **customer**, where the **customer's** stated intention is to move the price of a security or value of an **index** (this would include a situation where, for example, a **customer** instructs a **member firm** to ensure that an **index** closes above a certain level).

Additional guidance for closing auctions

In executing a trade to achieve the closing price for a **customer**, **member firms** may wish to use a market order in the closing auction. In order to guarantee execution of that market order and to participate in the price formation process, a **member firm** may enter a ~~limit order, committed principal order or iceberg priced order~~ **limit order** on the other side of the **order book**. This would not of itself constitute a breach of rule 1410.

The **Exchange** monitors all situations where a **member firm** executes against itself, particularly around sensitive times such as the end of the trading day or during index expiry pricing periods, due to the potential for a **member firm** to influence prices in this manner. In carrying out this strategy, **member firms** should have regard to the impact on the market and should consider the following:

- the timing of orders entered, to allow other **member firms** to react to these orders; the price of the limit order, committed principal order or iceberg order entered as compared to the prevailing market price; and
- other regulatory requirements, including whether this strategy should be disclosed to the **customer**.

Should a **member firm** have concerns about whether a particular trading strategy might be called into question by the **Exchange**, they should contact the Market Supervision department on 020 7797 2087 (STX 32087), as far in advance as possible, to discuss the

proposed strategy. All such enquiries will be treated in the strictest confidence by the **Exchange**.

Systems and trading

Member firm system problems [1500]

G	1500	Where a member firm identifies a system problem it shall inform the Exchange in accordance with notification rule 1050 and follow any subsequent instructions from the Exchange . An authorised employee of a member firm may request the deletion of orders or quotes .
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Guidance to Rule:

For the purposes of this rule, a system problem would include, but not be restricted to, one preventing:

- a **member firm** accessing its orders on the **trading system**;
- a **member firm** submitting a **trade report**;
- a **market maker** maintaining, amending or deleting its **quotes**; or
- a **market maker** from answering its telephone lines.

Dealing during a systems failure:

While a **member firm** is experiencing a system failure it is not precluded from dealing in the relevant securities. However, the **member firm** must ensure that any **on Exchange** trades are reported to the **Exchange** in compliance with the rules.

Orders and quotes:

Member firms are reminded that, while orders remain on the **trading system** they are firm and available for execution. Accordingly, it is essential that a **member firm** contact the **Exchange** as soon as possible when it experiences a system failure, especially if it wishes to have its orders deleted from the book.

Once the systems problem is rectified, the **member firm** should contact the Market Supervision department to notify them of this fact. The **member firm** can recommence order input to the **trading system** as soon as the systems problem is rectified.

If a **member firm** wishes to reverse an automatically executed trade in accordance with rule 2110 while it is experiencing a systems problem, it should seek guidance from the Market Supervision department on (0044) 20 7797 3666 (STX 33666) – Option 2, to determine whether a **contra** submission should be made immediately or after the system problem is resolved.

Order and quote deletion:

Member firms have primary responsibility for deleting their own orders. Where this is not possible, the **Exchange** will aim to provide a back-up service to delete orders.

The **Exchange** will maintain a list of **employees** authorised by each **member firm** to request the deletion of orders and **quotes**. A person authorised by a **member firm** must be "a director, partner or principal or person employed in or about the firm's business as a **member firm**, whether under a contract of service or for services (including a training contract) and any person seconded to work in or about that business".

If a **member firm** requests the **Exchange** to delete its orders or **quotes**, the **Exchange** will only action this request if it comes from a person named on the **member firm's** authorised person list. The **Exchange** will refuse to provide details of the names on a **member firm's** authorised list to anyone not themselves on the list and a request received from someone not on the authorised list will be declined. In this event the **Exchange** will contact the **member firm's** compliance department for clarification in respect of the request.

Member firms that choose to segregate their business by multiple **trader groups** will need to provide a list of individuals authorised to delete orders on behalf of each **trader group**. **Member firms** are advised to ensure that the list is broad enough to provide sufficient

coverage in cases of staff absence. For example, it may be more practical to have a number of nominated people in compliance who are authorised to request deletions for all **trader groups**.

Member firms should register authorised **employees** or changes in their status with the **Exchange** using the form supplied for the purpose.

Recognition of new authorised **employees** will be effective on the business day after the notification is received by the **Exchange**.

When contacting the **Exchange** to request the deletion of an order or **quote**, the authorised person must provide the following information:

- the name of the **member firm**;
- the **member firm's** ~~mnemonic~~ **member ID**;
- the **member firm's** **trader group**; or
- the **member firm's** Comp ID;
- the identity of the caller and a contact number; and
- the reason for the request (e.g. system problems, building evacuation).

For single order deletions (up to a maximum of five), the **member firm** must also provide the ~~order code~~ **Order ID**. If this is not available, the **member firm** should provide:

- the name of the security;
- whether it is a buy or a sell;
- the price and size; and
- the time the order was entered.

If a **member firm** requests the deletion of more than one order in a single security, each of the orders will count towards the maximum allowed number of five order deletions. The Market Supervision department will normally delete all orders within a particular segment. However, upon application, the Market Supervision department will consider the deletion of individual orders providing the total of individual orders does not exceed five.

For mass order deletions, the **member firm** must provide the following information:

- whether it wants all orders and / or **quotes** deleted; and
- the specific segments to which the deletions should apply.

Member firms should be aware that all parked orders will be deleted during a mass order deletion performed by the **Exchange**. Unelected Stop and Stop Limit orders would also be deleted.

The Market Supervision department will attempt to delete orders as soon as possible after receipt of a valid request to do so. However, if an order is executed during the period between a **member firm** requesting deletion of its orders and the Market Supervision department effecting the deletions the **member firm** will be obliged to honour the trade.

Trade reporting:

Where a **member firm** has a system problem that prevents it from submitting a **trade report** (where it has the responsibility to do so), the **member firm** must immediately upon execution of the trade inform the **Exchange**.

The **Exchange** will determine what trade details it requires until such time as the problem is resolved. This will normally be any trade in a size that is in excess of six times the **Exchange market size** for the security (or the equivalent average daily turnover) or a consideration in excess of £1,000,000. The same procedure will apply to the correction of a trade report during a system problem. Such trades must not then be re-reported by the **member firm** once the system problem has been resolved.

If any trades are re-reported, they should be cancelled as soon as the **member firm** becomes aware of the error. If a **member firm** is unable to effect a cancellation it should contact the **Exchange** immediately.

If the **Exchange** is not informed of a **member firm's** trade reporting difficulties, it will treat

resultant late trade reports as breaches of rule 3020.

Market maker systems:

In the event of a **market maker** system problem, including a problem arising from an act or omission beyond the **market maker's** control, the **Exchange** will issue a market status message explaining that the **market maker** is unable to update its **quotes** on the **trading system**. If system problems persist on subsequent business days, the **market maker** is required to notify the Market Supervision department on (0044) 20 7797 3666, STX 33666 prior to the start of the **mandatory period** of each subsequent day so that market status messages can be issued.

If a **market maker** cannot update or delete its own **quotes**, it may ask the **Exchange** to close its prices in a sector or segment until the fault has been repaired. Where a reported fault affects a dealer terminal only, that **market maker** in a **quote-driven security** is expected to continue to quote firm prices over the telephone.

If a **market maker** in a **quote-driven security** reports problems with any telephone lines associated with its dealing desk, a market status messages can be issued to advise users of an alternative number, where available.

A **market maker** should contact their market access provider at the same time as it notifies the **Exchange**.

The **market maker** should re-enter its **quotes** as soon as it is able to do so, notifying the **Exchange** beforehand. In all cases a **market maker** shall ensure that the Market Supervision department is kept appropriately informed.