



**London**  
Stock Exchange

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

**N27/10**

## **STOCK EXCHANGE NOTICE**

### **Disciplinary Action – Executive Panel – Misleading Impression during the Auction Call Period**

#### **Introduction**

1. The Executive Panel (“the Panel”) of the London Stock Exchange (“the Exchange”) has recently heard a case against a member firm (“the firm”) for creating a misleading impression as to the liquidity and indicative uncrossing price of a security during an opening auction.
2. This Stock Exchange Notice sets out relevant details of the case and provides member firms with guidance, under rule C020 of the Rules of the London Stock Exchange (“the rules”), on the Exchange’s concerns in this area and its expectations of member firms.

#### **Case information**

3. This case relates to the opening auction on 5 July 2010 in Eurasian Natural Resources Corporation plc (“ENRC”). ENRC opened that morning at 1099p, 30.6% higher than its previous closing price of 841.5p as a direct result of the actions of the firm. The Exchange subsequently cancelled the ENRC opening auction uncrossing trades under rule 2120 and re-stated the opening price of ENRC shares as 869p which was the first automated trade after the opening auction.

4. The key events leading up to the ENRC opening uncrossing on 5 July are as follows:

Auction Call Period – 07:50:00 to 08:00:00

During the opening auction call period the firm entered a number of sell market orders which significantly contributed to moving the indicative auction uncrossing price from 1200p to 823p. The firm also then entered a sell limit order.

Six seconds prior to the start of the random uncrossing period the firm deleted its sell market orders, which moved the indicative uncrossing price from 839.5p to 1200p. The firm's sell limit order remained on the book and the firm also entered a further sell limit order before the start of the uncrossing.

Price Monitoring Extension – 08:00:00 to 08:05:00

Due to the wide variation between the indicative uncrossing price and the reference price, TradElect automatically put ENRC into a price monitoring extension (a further 5 minute auction period). The firm then re-entered its sell market orders which significantly contributed to moving the indicative uncrossing price again, from 1060p to 839p. The firm also deleted its existing sell limit orders and entered other sell limit orders priced at up to 1050p.

Four seconds prior to the start of the random uncrossing period, the member firm again deleted its sell market orders, which moved the indicative uncrossing price from 832.5p to 1100p and entered two further sell limit orders, one of which was subsequently deleted. ENRC then uncrossed at 1099p, resulting in the firm's limit orders executing and it selling 21,000 shares.

5. The Exchange's investigation team took action against the member firm under Rule 1400.1. This rule states:

**Misleading acts, conduct and prohibited practices** [1400]

1400 A **member firm** shall not, in respect of its **on Exchange** business:

1400.1 do any act or engage in any course of conduct which creates or is likely to create a false or misleading impression as to the market in, or the price or value of, any security;

**The Executive Panel's findings**

6. The Panel found that the firm had breached rule 1400.1, as follows:
- the repeated pattern of order entry and deletion during the opening auction and price monitoring extension gave a potentially misleading impression as to the liquidity and indicative uncrossing price in ENRC; and
  - the incident had significant market impact, in that it resulted in the Exchange having to cancel a number of trades and restate the opening price of the security.

7. The Panel issued a private censure against the firm and imposed a fine of £30,000.
8. The Panel also noted that the firm's trading pattern could potentially have resulted in a breach of rule 1410 (share price manipulation).

### **Guidance to member firms**

9. The Exchange wishes to remind member firms of the guidance to rule 1400 which states that:

*All orders entered on to the order book are firm. While the Exchange understands that trading decisions of member firms may change, member firms should not enter orders into the auction or during continuous trading with the intention of deleting or otherwise amending them before execution. This can give a potentially misleading impression of the level of liquidity in the market or the likely auction uncrossing price and volume to other participants. Such activity may constitute a breach of rule 1400.*

10. The Exchange published a Compliance Update on 3 December 2009 which contains an article regarding auction manipulation. This can be viewed at <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/compliance-update/comp-update-nov-09.pdf>

### **Further information**

11. Member firms and other clients with questions regarding this Notice should contact Jeannette Cowan, Head of Market Supervision, telephone +44 (0)20 7797 2087 (STX 32087) or email: [jcowan@londonstockexchange.com](mailto:jcowan@londonstockexchange.com)

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

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