



London
Stock Exchange

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14 August 2009

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

N36/09

STOCK EXCHANGE NOTICE

Consultation on proposed rule amendments for unsettled lending arrangements subsequent to a declaration of default

1. The London Stock Exchange (“the Exchange”) proposes to introduce a new rule to the default section of the Rules of the London Stock Exchange (“the rules”) which would allow it to impose a deadline on a defaulter and its counterparties for the notification of unsettled on-Exchange lending arrangements to the Exchange.
2. The Exchange has given the Financial Services Authority (“FSA”) notice under Section 157 Companies Act 1989 of a proposed amendment to the default rules, and the FSA has indicated that the Exchange can proceed with this consultation.

Background

3. In accordance with rules D160 to D163, upon declaration of default in respect of a member firm which is a party as principal to an unsettled lending arrangement, all unperformed obligations of the defaulter and the counterparty are discharged and replaced by an obligation on one of them to pay to the other the amount, if any, calculated in accordance with the rules D160.1 to D160.3.
4. Under rule D163, the Exchange must ensure that any net sum resulting from the application of rule D160 is included in establishing the net amount for certification by the Exchange (i.e. the net amount to be paid by the defaulter to the counterparty or claimed from the defaulter by the counterparty).

5. For rules D160 to D163 to be applied, the defaulter and a counterparty must take an account of what is due from one to the other as at the time of the declaration of default in accordance with the lending arrangement between them, offset these sums against each other, and notify the Exchange of the net sum payable.
6. Stock Exchange Notice N24/08, issued on 6 October 2008, requested member firms (and non-members) to notify the Exchange of net sums calculated in accordance with their lending arrangements with Lehman Brothers International (Europe) ("LBIE"). A subsequent Notice N44/08, issued on 19 December 2008, provided further LBIE default information about lending arrangements and set a deadline for the submission of net sums.
7. The Exchange has received no submissions of net sums in relation to the LBIE default. In part, it appears that this is because member firms cannot readily differentiate between lending arrangements conducted on Exchange and those conducted OTC.

Proposed rule amendment

8. Under the proposed new rule, any lending arrangements which are not notified to the Exchange by the defaulter or the counterparty within a period specified by the Exchange in relation to a default will be excluded from the default procedures. They will therefore not be included in establishing the net amount for certification by the Exchange.
9. The proposed new rule (numbered D160) is set out in Attachment 1 to this Notice, together with related guidance. Existing rules D160 to D163 remain unchanged except for re-numbering.
10. Member firms and other interested parties are invited to comment on the proposed rule amendment by close of business on Friday 11 September 2009. Comments or queries on this Notice should be addressed to John Newbury, UK Regulation, telephone +44 (0)20 7797 1615 (STX 31615) or email jnewbury@londonstockexchange.com

Nick Bayley
Head of UK Regulation

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.