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Stock Exchange

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

N43/08

STOCK EXCHANGE NOTICE

CONFIRMATION OF RULE AMENDMENTS – MEMBER AUTHORISED CONNECTIONS

Introduction

1. The London Stock Exchange (“the Exchange”) issued Stock Exchange Notice N35/08 on 5 November 2008 to consult on proposed amendments to the Rules of the London Stock Exchange (“the rules”) to allow for the provision of Member Authorised Connections.
2. The Exchange received a limited number of responses to the consultation, which was the second on Member Authorised Connection (see N05/08, issued on 1 May 2008, for the first consultation). The Exchange thanks those member firms that responded or with which it held meetings. The finalised rules, with changes tracked against the existing rules and also in untracked form, are set out in Attachments 1 and 2. For completeness, the standard due diligence letter to be submitted by a member firm that wishes to provide a member authorised connection is included as Attachment 3. This letter is unchanged from that sent out with N35/08.

Responses to the consultation and associated rule amendments

3. Summarised below are the main comments received by the Exchange with the Exchange’s response and any consequent changes to the proposed rules and guidance.
4. The Exchange was asked in some responses whether it would provide an endorsement of the systems and controls member firms were putting in place for member authorised connections. As the draft rules made clear, the Exchange views it as the responsibility of the member firm to ensure its controls are adequate. However, the guidance to the new Rule 2104 has been

amended to reflect that the Exchange will provide confirmation, based on the information provided by the member firm and subsequent discussions, that it is satisfied for a member authorised connection to be put in place.

5. On the same basis, the Exchange will not be providing formal endorsement of the controls that independent software vendors (“ISVs”) may be able to provide for member authorised connections. However, the Exchange will still carry out its intention of providing a list of such ISVs on its website.
6. The Exchange was also asked whether it would provide additional guidance on the types of controls member firms should have in place. For the sake of clarity, the Exchange is replicating in the guidance to the new Rule 2103 the existing guidance on erroneous orders that can be found under Rule 2101 (with minor amendment). The Exchange has also noted in this guidance the importance of member firms having effective controls to prevent customers that use member authorised connections from distorting or otherwise adversely affecting the quality of the Exchange’s markets.
7. Finally, the Exchange was asked whether it would be introducing its own controls over order flow. The Exchange does not consider it appropriate to control member firms’ order flow directly itself, particularly given the broad spectrum of activity and trading volumes that different member firms generate. The Exchange views it as the responsibility of member firms to establish their own controls, taking into account the nature of their trading activity and the order flow this produces, rather than relying on the Exchange putting in place ‘one-size-fits-all’ controls.

Effective date of rule changes

8. The changes to the rules relating to Member Authorised Connection will become effective from 5 January 2009. An amended version of the rules will be available from that date on the Exchange’s website at <http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/rules-regulations.htm>
9. Any comments or queries on this Notice should be addressed to Amanda Baillie, Trading Services, telephone +44 (0)20 7797 1977 (STX 31977) or email: abaille@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/stockexnoticesnew/>

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