London
STOCK EXCHANGE

10 Paternoster Square
London EC4M 7LS
Telephone +44 (0)20 7797 1000
www.londonstockexchange.com

3 December 2007

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

**N78/07**

# STOCK EXCHANGE NOTICE

## NOTIFICATION – ORDER BOOK CONDUCT

### Introduction and background

1. The purpose of this Notice is to provide clarification and further guidance with respect to the Rules of the London Stock Exchange ("the rules") regarding misleading acts, conduct and prohibited practices (Rule 1400). In particular, this Notice relates to the creation of a false or a misleading market in a security and the requirement on member firms not to act or engage in any course of conduct which is likely to damage the fairness or integrity of the Exchange's markets.

2. These changes have been prompted in part by recent concerns regarding certain behaviour on the order book, whereby a DMA client of a member firm was engaged in conduct that potentially put the member firm in breach of the Exchange's rules.

   Specifically, the DMA client was involved in:

   - layering of the order book, in which multiple orders were submitted at different prices on one side of the order book; or
   - large orders were entered at a price away from the touch and then rapidly removed from one side of the book; and
   - the client's true intention was to trade in the opposite direction from the orders it had input.

   These actions may have created an impression of liquidity that could have misled the market.

3. The Exchange has decided to publish additional guidance to assist member firms in understanding what behaviour is acceptable on the Exchange's markets. In particular, the Exchange wishes to clarify the responsibility of member firms for misleading or potentially misleading acts on the part of their DMA clients.

**Guidance to Paragraph 1400**

4. The guidance to paragraph 1400 makes clear that all orders entered to the order book are firm. Notwithstanding that legitimate reasons may arise for deletion and/or resubmission of orders, member firms should not submit orders to the order book that they do not intend to execute. This applies whether the order arises from the member firm's own activity or that of a customer. The Exchange reminds member firms that the efficient functioning of the markets and the best interests of participants are undermined if orders placed on the order book do not reflect genuine trading interest. Such behaviour could create a false and misleading impression of the market.

5. To support this, the guidance to paragraph 1400 under 'Order book conduct' has been amended. These amendments reiterate that member firms are responsible for the orders submitted in their name to TradElect™. In part, the amendments mirror the guidance to paragraph 2100 on order entry, ensuring greater consistency throughout the rules. However, member firms should note that the existing guidance to paragraph 1400 of the Rules has been retained recognising that, where a member firm is genuinely unaware of the motives behind a customer order that has been entered to exploit the commitment to deal of a Retail Service Provider, the member firm would not be in breach of the rules per se.

**Attachment to this Notice**

6. Attachment 1 to this Notice highlights the changes that are being made to the guidance to Rule 1400. Such changes are effective immediately.

7. Any comments or queries on this Notice should be addressed to Tim Rowe, Trading Services, telephone +44 (0)20 7797 3468 (STX 33468) or email: trowe@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.