

17 January 2019

N01/19 - Consultation on rule amendments

1. This Notice provides details of proposed amendments to the Rules of the London Stock Exchange (“the Exchange” and “the Rules”). Through these rule amendments the Exchange proposes to:
 - remove the restriction on the self-clearing of agency business for trades executed on the Exchange’s order books; and
 - clarify the requirements for off order book on Exchange trades.

These rule amendments are outlined below and are set out in marked-up form in Attachment 1 to this Notice.

Agency self-clearing

2. Since the introduction of the central counterparty (“CCP”) clearing service for trading on the Exchange’s order books, the Rules have required member firms trading as agent to use a separate legal entity as a clearing member in order for them to clear that business with a CCP. This reflected the fact that the CCP required that, for all central counterparty contracts the CCP entered into with clearing members, the clearing member had to act as principal.
3. The above restriction is no longer a requirement of any of the CCPs clearing on Exchange business as, regardless of whether an order is submitted in an agency capacity, the CCP deems the clearing member to be acting as principal in the central counterparty contract created. Following customer feedback and its own review, the Exchange proposes to amend the Rules in order to remove the restriction on the self-clearing of agency business. Subject to these rule amendments being largely confirmed as set out in this Notice, the Exchange intends to implement these rule amendments by the middle of March 2019.

Off order book on Exchange trades

4. In order to clarify the requirements for off order book on Exchange trades, the Exchange proposes to amend the Rules to provide further detail in relation to market maker quote obligations when executing off order book on Exchange trades. As these rule amendments are likely to involve technical changes for member firms, a three month implementation period will be allowed for when these rule changes are confirmed.

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Rule amendments

5. For clarity, in addition to the above, the Exchange's guidance regarding the treatment of principal and agency trading within the Rules has been reinstated in the "Introduction" to the Rules.

Definitions

6. The Exchange's definition of "central counterparty contract" has been expanded to include for self-clearing agency business, the agent's client.

Off Order Book Trading Rules

7. The guidance to Rules 3000.1 and 3000.2 has been amended to clarify market maker quote obligations when executing off order book on Exchange trades.

Obligations of market makers in order-driven securities

8. Rule 4101 has been amended with new guidance added to reflect the guidance changes to Rules 3000.1 and 3000.2 above.

Settlement, Clearing and Benefit Rules

9. New guidance has been added to Rule 5100 (Clearing arrangements) to specify that a member firm clearing its own agency business should ensure that it has the consent of its client(s) to do so (as the resultant central counterparty contract will be deemed by the CCP to be a principal contract).
10. Rule 5101.2 (Clearing arrangements) and guidance have been amended to remove the restriction regarding self-clearing agency business.

Consultation

11. Reviewers are asked to provide any comments and feedback on this consultation by close of business on 14 February 2019. Consultation responses and/or queries regarding the proposed rule amendments should be sent by email to: stockexchanges@lseg.com.

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