

## Introduction

Reference to any statute and statutory provision shall be construed as those in force from time to time. References to time shall mean the time in London unless stated otherwise. References to days are business days unless otherwise stated.

Chapter headings, section headings and the titles and numbers of rules are for guidance and ease of reference only.

For the purpose of these rules, an act or course of conduct includes both acts and omissions. Terms in bold are defined terms and shall have the meanings set out in the Definitions unless the context otherwise requires, and cognate expressions shall be construed consistently with them.

Rules with supplementary guidance are flagged with the notation "G" with the relevant guidance located immediately after the rule. A breach of the guidance is evidence of a breach of the rule.

A breach of the Rules would be subject to the disciplinary processes currently in place.

These rules shall be construed in accordance with, and governed by, the laws of England and Wales.

The Exchange shall not be liable in damages for anything done or omitted in the discharge of these rules unless it is shown that the act or omission was done in bad faith.

The Exchange's rules make a clear distinction between a member firm acting as principal and as agent. Two trades with a member firm interposed as agent is deemed to be a single transaction. Two trades with a member firm interposed as principal are deemed to be two transactions.

## DEFINITIONS

**central counterparty contract** any contract arising between **Non Clearing Members, clearing members**, clients of agency trades and a **central counterparty**, resulting from a **central counterparty trade**

*(Amended N06/19 – effective 18 March 2019)*

## CORE RULES

### Member firms

#### Authorisation

G	1010	A <b>member firm</b> must at all times be authorised under relevant <b>United Kingdom</b> , or appropriate <b>overseas</b> legislation, or in the view of the <b>Exchange</b> be otherwise sufficiently regulated, in respect of capital adequacy, and fitness and probity.
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*Guidance to Rule:*

The **Exchange** may consider a **person** that is a legal entity to be appropriately authorised or sufficiently regulated if that **person** is:

1. an investment firm, as defined under Directive 2014/65/EU, which is authorised or permitted within the meaning of that Directive to carry on a regulated activity, or the equivalent of a regulated activity, in its home state;
2. a credit institution, as defined under Directive 2013/36/EU, which is authorised or permitted within the meaning of that Directive to carry on a regulated activity, in its home state;
3. any other **person** who:

- (a) is of sufficiently good repute;
- (b) has a sufficient level of trading ability, competence and experience;
- (c) has, where applicable, adequate organisational arrangements; and
- (d) has sufficient resources for the role they are to perform and, where applicable, clearing and settlement arrangements.

The **Exchange's** assessment of a **person's** application for membership may include, but is not limited to, consideration of:

- the scope of its authorisation or applicable exemption, including where relevant, under the **Regulated Activities Order** and any applicable local law or regulation; and
- evidence of the applicant's financial resources, its fitness and probity, and compliance with Rule 1020.

Where the **Exchange** deems it necessary to protect the integrity of the **Exchange's** markets, action may be taken under rule 1014 without prior notice to the **member firm** concerned.

(Amended N06/19 – effective 18 March 2019)

## **ORDER BOOK TRADING RULES**

### **Exchange enforced cancellation of erroneous trades [2120-2121]**

G	2120	The <b>Exchange</b> views all trades undertaken under its rules as firm. However, the <b>Exchange</b> may, in exceptional circumstances, undertake an <b>Exchange enforced cancellation</b> of an automated trade executed on the <b>trading system</b> , either at the request of a <b>member firm</b> or of its own volition. In considering a <b>member firm's</b> request for an <b>Exchange enforced cancellation</b> , the <b>Exchange</b> will have regard to a number of factors that are set out in the guidance below, and whether:
	2120.1	both parties to the trade(s) are unable to agree to use the <b>contra</b> facility;
	2120.2	the request for an <b>Exchange enforced cancellation</b> is submitted to the Market Supervision department within a time period specified by the <b>Exchange</b> in the guidance to this rule;
	2120.3	the <b>member firm</b> requesting the <b>Exchange enforced cancellation</b> provides appropriate information to the Market Supervision department as set out in the guidance below; and
	2120.4	a <b>member firm</b> has incurred an amount of loss through an automated trade conducted on the <b>trading system</b> as specified in the guidance to this rule.

*Guidance to Rule:*

[...]

#### **The Exchange's handling of Exchange enforced cancellations for trades executed before 16.30 hours**

*This guidance applies to trades executed before 16:30 hours including uncrossing trades from automatic execution suspension periods.*

*When the **Exchange** decides to cancel a trade it will aim to effect this, where practicable, within one hour of the trade time. At the latest the **Exchange** will endeavour to do this before the start of the **mandatory period** on the next **business day**. The Exchange will inform the market of its decision to cancel a trade via a Stock Exchange Notice.*

[...]

(Amended N06/19 – effective 18 March 2019)

**OFF ORDER BOOK TRADING RULES****Trades****On Exchange trades** [3000]

G P	3000	A trade is <b>on Exchange</b> if one or both of the parties to the trade is a <b>member firm</b> and the trade is effected:
	3000.1	in a security <b>admitted to trading</b> on the <b>Exchange's</b> markets other than those specified in rule 3000.2 (as detailed in <b>parameters</b> ) and the <b>member firm</b> and its <b>customer</b> or <b>counterparty</b> agree at or prior to the time of effecting the trade that it shall be subject to the rules of the <b>Exchange</b> ; or
	3000.2	in an <b>AIM security</b> not listed on another <b>EU Regulated Market</b> (as detailed in <b>parameters</b> ) unless the <b>member firm</b> and its <b>customer</b> or <b>counterparty</b> agree at or prior to the time of effecting the trade that it shall be off <b>Exchange</b> and: <ul style="list-style-type: none"> <li>(a) subject to the requirements of an <b>AIM primary market registered organisation</b>; or</li> <li>(b) subject to the requirements of an <b>AIM secondary market registered organisation</b> and reported to it in accordance with that organisation's requirements; or</li> <li>(c) where the <b>member firm</b> executes a trade through a mechanism that is not an <b>AIM primary market registered organisation</b> or an <b>AIM secondary market registered organisation</b>, the <b>member firm</b> is required to report the trade to the <b>Exchange</b>, on a real-time basis as a non-publishing, off <b>Exchange trade report</b>.</li> </ul>

*Guidance to Rule:**Rules 3000.1 and 3000.2*

*In relation to rules 3000.1 and 3000.2, where a **member firm** is interposed between two principal trades entered at the same time and price and one trade has been reported for publication, there is no obligation to report the second leg to the **Exchange**. **Member firms** should note that if they wish the second leg to be regarded as an **on Exchange** trade then they will have to submit a separate, non publishing **trade report**. This will ensure the **Exchange** has a satisfactory audit trail of the second principal trade.*

*A trade may be brought **on Exchange** where one or more of the following apply:*

- *the **member firm** or its counterparty is a registered **market maker** in that security and maintains an **on Exchange executable quote, firm quote or named order** at the time that the trade is agreed, or the trade is executed outside the **mandatory period**;*
- *the trade is **large in scale**;*
- *the trade is a **negotiated trade**;*
- *the trade is the second leg of a **matched principal transaction** (non-publishable) where the market leg has been published;*
- *the trade(s) is/are the second leg(s) of a **riskless principal trade** where the market leg(s) has/have been published.*

[...]

(Amended N06/19 – effective 1 July 2019)

## **MARKET MAKER RULES**

### **Market makers in order-driven securities**

#### **Obligations of market makers in order-driven securities** [4100-41056]

G	4101	<p>A <b>market maker</b> must maintain an <b>executable quote</b>, or <b>bid and offer named orders</b> in each security in which it is registered. The <b>executable quote</b> or <b>named orders</b> must be maintained:</p> <p>4101.1 for at least 90% of <b>regular trading</b> during the <b>mandatory period</b>;</p> <p>4101.2 until the conclusion of the closing auction including any extensions; and</p> <p>4101.3 at the execution time of an off <b>order book on Exchange</b> trade except as permitted in the guidance to this rule;</p> <p>4101.4 where relevant, for the duration of the intra-day auction for the FTSE index expiries, including any extensions;</p> <p>4101.5 where relevant, for the duration of the <b>Scheduled Level 1 Only auction</b>, including any extensions; and</p> <p>4101.6 in relation to certain securities designated by the <b>Exchange</b> trading on the Order book for Retail Bonds or the Order book for Fixed Income Securities a <b>market maker</b> provides bid only prices in at least the <b>Exchange market size</b>.</p>
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#### *Guidance to Rule:*

**Market makers** will not be able to enter **executable quotes** that are outside the maximum spread, if they attempt to do so a rejection message will be sent to the **market maker**.

**Market makers** using **named orders** must display bid and offer orders at the same time in at least **Exchange market size** and observe the maximum spread thresholds set out in **parameters**.

#### *Rule 4101.1*

The 90% threshold is measured daily for each security in which a **market maker** is registered. Where an intra-day auction has been triggered in a security due to a price monitoring breach, the time in which the security will have been in **regular trading** will be reduced. Therefore, **market makers** will be required to maintain an **executable quote** or **named orders** for 90% of the reduced period.

#### *Rule 4101.2*

Where a security does not have a closing auction, **market makers** must maintain their **executable quotes** or **named orders** until the end of the **mandatory period**.

#### *Rule 4101.3*

Rule 4101.3 does not apply outside the **mandatory period** or where:

- the trade is **large in scale**;
- the trade is a **negotiated trade**;
- the trade is the second leg of a **matched principal transaction** (non-publishable) where the market leg has been published;
- the trade(s) is/are the second leg(s) of a riskless principal trade where the market leg(s) has/have been published.

#### *Rule 4101.4*

**Market makers** must maintain their **executable quotes** during the FTSE index expiries. The following expiries are covered by this rule:

- FTSE 100 monthly options
- FTSE 100 quarterly futures
- FTSE 250 quarterly futures

(Amended N06/19 – effective 1 July 2019)

## **SETTLEMENT, CLEARING AND BENEFIT RULES**

### **Clearing through a Central Counterparty**

#### **Clearing arrangements [5100-5102]**

G	5101	A <b>member firm</b> shall not enter an order in a <b>central counterparty security</b> into the <b>trading system</b> unless the following arrangements have been agreed with the <b>Exchange</b> :
	5101.1	it is a <b>Non Clearing Member</b> or <b>clearing member</b> and is party to a current, valid clearing agreement with a separate <b>General Clearing Member</b> that will clear any resulting trades; or
	5101.2	it is a <b>clearing member</b> itself and is clearing the resulting trade.

*Guidance to Rule:*

*Where a model B arrangement is in use, rules 5101.1 and 5101.2 apply to the **model B firm** although the **introducing firm** will have the technical connection to the **trading system**.*

**Individual Clearing Members** can only clear trades they executed themselves acting as **principal** or **agent**.

(Amended N06/19 – effective 18 March 2019)