



**London**  
Stock Exchange

# Rules of the London Stock Exchange Derivatives Market

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## Rule Book

EFFECTIVE 16 December 2015

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## Table of Contents

| <b>Contents</b>                      | <b>Page number</b> |
|--------------------------------------|--------------------|
| Introduction                         | 3                  |
| Definitions                          | 4                  |
| Core Rules                           | 13                 |
| Technical Regulations                | 27                 |
| Listing Rules for Standard Contracts | 29                 |
| Trading Rules                        | 31                 |
| Trade Reporting                      | 39                 |
| Corporate Actions Rules              | 42                 |
| Clearing and Settlement Rules        | 43                 |
| Compliance Procedures                | 53                 |

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## **INTRODUCTION**

London Stock Exchange plc (“Exchange”) is classed as a Regulated Market under Title III of the Markets in Financial Instruments Directive and is a Recognised Investment Exchange under Part XVIII of the Financial Services and Markets Act 2000.

The trading services provided by the Exchange are provided by it in its capacity as a Regulated Market subject to the supervision of the FCA and to the requirements of the FCA Handbook for Recognised Investment Exchanges.

References in these rules to the “Exchange” shall be construed as references to London Stock Exchange plc.

The Exchange has made arrangements for Clearing services for Listed Products to be provided by LCH.Clearnet Limited (“LCH”) acting as the Designated Clearing House for the London Stock Exchange Derivatives Markets. LCH is a Recognised Clearing House in the United Kingdom pursuant to the Financial Services and Markets Act 2000.

The Exchange provides a linked Order book for Norwegian products with Oslo Børs ASA (“Oslo Børs”) owned by Oslo Børs VPS Holding ASA. These arrangements are governed by a Co-operation Agreement entered into by the Exchange with Oslo Børs and are designed to ensure that Member Firms of each trading venue may participate equally in the markets of these Contracts. Oslo Børs is recognised as an Exchange incorporated as a public limited liability company under the laws of Norway, which is used by its Member Firms, amongst other things, for trading of securities and Derivatives.

The Co-operation Agreement includes a reference to the Operational Procedures which cover the surveillance and investigation procedures. Oslo Børs Member Firms are subject to Oslo Børs’ disciplinary procedures, and Exchange Member Firms are subject to the Exchange’s compliance procedures.

In the event that there is any conflict between these rules and any other statement whether written or oral made by the Exchange at any time, the terms of these rules shall prevail.

These rules shall be construed and interpreted so as to promote and maintain at all times the integrity of the market managed by the Exchange, as well as to ensure that the business carried out by means of the Exchange’s facilities is conducted in an orderly manner and so as to afford proper protection to investors. Where a specific matter is not explicitly governed by these rules, the Exchange shall take reasonable steps to regulate the conduct of business on its market in accordance with these principles.

Except where these rules express to the contrary, the 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 Contract Specifications for Listed Products traded on the London Stock Exchange Derivatives Market are set out in the London Stock Exchange Derivatives Market Contract Specifications document. This document forms part of this rule book and shall have effect as if set out in full in the body of this rule book.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## **DEFINITIONS**

Unless the contrary intention appears, the following terms used in these rules shall have the meanings given below:

**“Account”** means an Account held by a Clearing Member at the Designated Clearing House in which futures and options Trades may be registered;

**“American Style”** means the Options style which allows an Exercise at any time between the Trade Day and Expiration Day;

**“Assignment”** means the act effective on the seller (the “Writer”) of an Options Contract where the buyer (the “Holder”) has exercised its right to Settlement under the terms of the Options Contract and the seller must deliver on those terms;

**“At-the-Money”** means the state of an Options Contract whose Strike Price is equal to the spot price at a given point in time (e.g. at Expiration);

**“Balance Contract”** means the arrangements established between the Designated Clearing House and Oslo Børs governing the administration and Settlement of Contracts resulting from Trades effected by a Member Firm of the Exchange and a Member Firm of Oslo Børs;

**“Bank Day”** means a day other than a Saturday or a Sunday or other bank holiday on which Settlement for a specific Contract can be effected. Refer to the Exchange’s trading calendar at <http://www.lseg.com/derivatives/document-library>;

**“BCS”** means Borsa Italiana Clearing Station which is used by Member Firms to access the Exchange’s clearing services;

**“Bilaterally Negotiated Trade”** means a trade for which both Counterparties have agreed all details of the trade prior to Trade Reporting to the Exchange;

**“Broker”** means a Member Firm on the London Stock Exchange Derivatives Market which may enter into Trades on behalf of Clients in accordance with these rules;

**“BTS”** means Borsa Italiana Trading Station which is used by Member Firms to access the Exchange’s trading services;

**“Business Day”** means any day in the relevant market on which banks are open and/or which is not a public holiday;

**“Call Option”** means an Options Contract that gives the buyer the right but not the obligation to buy the Underlying at the Strike Price from the seller;

**“Central Counterparty”** means a financial institution that performs novation of Contracts and subsequently becomes the Counterparty to all trades on the Exchange, also referred to as (Designated) Clearing House;

**“Circuit Breaker”** means system level protection algorithm that automatically stops a trade from being entered or executed against if a certain specific parameter such as quantity or price is outside

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

the limits defined by the Exchange in the London Stock Exchange Derivatives Market Trading Service Description;

**“Class No-Action Relief”** means the letter dated 1 July 2013 from the staff of United States Securities and Exchange Commission re: Class-No-Action Relief for Foreign Option Markets and Their Members That Engage in Familiarization Activities;

**“Clearing Application”** means the application used by Member Firms to perform back office functions on London Stock Exchange Derivatives Markets (also known as BCS);

**“Clearing House Regulations”** means the General Regulations, Default Rules and Procedures of the Designated Clearing House as amended from time to time;

**“Clearing Member”** means General Clearing Member or Individual Clearing Member;

**“Client or Clients”** means a person or persons for whom a Broker acts in relation to the effecting trading, clearing and Settlement of Trades on the Exchange pursuant to these rules;

**“Client Account”** means the Account in which Trades are entered into by a Member Firm on behalf of its own Clients, and only such Trades, are to be Registered;

**“Closing Transaction”** means, the closing of a position in a Contract;

**“Collateral”** means one or more of the forms of security accepted by the Designated Clearing House for such purposes;

**“Combination Order”** means an Order the terms of which stipulate that two or more Orders in different Series shall be executed simultaneously with other Orders forming part of the Combination;

**“Committed Trade”** means a type of Bilaterally Negotiated Trade concluded between different Member Firms for the purposes of trade publication and clearing;

**“Contract”** means the individual traded unit of a derivative;

**“Contract Specification”** means the detailed information in respect of a Contract setting out the standard terms of such Contract, as varied from time to time;

**“Co-Operation Agreement”** means the agreement between the Exchange and Oslo Børs with regards to the access to the linked Order book;

**“Corporate Action”** means any event that brings material change to an Underlying; and results in recalculation of Contracts;

**“Counterparty”** means an institution that performs a trade is referred to as a Counterparty to that trade. There are two Counterparties to every trade;

**“Cross Trade”** means a type of Bilaterally Negotiated Trade in which the same Counterparty is on both sides of the trade;

**“Custodian”** means an Institution used for delivery or receipt of a Stock or DR deliverable under the terms of a Contract;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

**“Customer”** means a person for whom a Member Firm provides services;

**“Daily Cash Settlement”** means the process of cash settlement effected for a futures Contract on each Trading Day during its Lifetime in accordance with the rules for that Contract;

**“Daily Settlement Amount”** means the amount payable to or by a Member Firm in relation to each Daily Cash Settlement;

**“Daily Settlement Price”** means the end of day Fair Value used for margining purposes;

**“Delivery”** means the process of delivering Stock or Depositary Receipts in exchange for payment of the Delivery Settlement Amount;

**“Delivery Settlement Amount”** means the amount payable by or to the Counterparties of the Delivery;

**“Depositary Bank”** means the Institution that issues a specific Depositary Receipt on behalf of the underlying company. The Depositary Bank maintains a holding of Stock in the Underlying on which it is able to issue Depositary Receipts;

**“Depositary Receipt” (“DR”)** means a Depositary Receipt which is listed or traded on the IOB and which corresponds to a share, shares or to a percentage of a share of the company in question that is publicly traded;

**“Direct Market Access”** means a service provided by a Member Firm through which a Customer is able to submit orders to the trading system operated by the Exchange under the Member Firm’s trading codes and via the Member Firm’s order management system, but without manual intervention by the Member Firm;

**“Designated Clearing House”** means LCH.Clearnet Limited, a Recognised Clearing House, as the provider of clearing services to the Exchange;

**“Dividend”** means unless otherwise specified, always refers to an Ordinary Dividend;

**“Eligible Broker-Dealer(s)/Eligible Institution(s)”** means, for the purposes of the Class No-Action Relief, any entity that meets the following standards: (a) it must be a "qualified institutional buyer" as defined in Rule 144A(a)(1) under the U.S. Securities Act of 1933, or an international organization excluded from the definition of "U.S. person" in Rule 902(k)(2)(vi) of Regulation S under the U.S. Securities Act of 1933; and (b) it must have had prior actual experience with traded options in the U.S. options market (and, therefore, would have received the disclosure document for U.S. standardized options called for by Rule 9b-1 under the U.S. Securities and Exchange Act of 1934);

**“Eligible Options”** means, as per the Class No-Action Relief, an index Option or Option on an individual security traded on the Exchange that is not fungible or interchangeable with options traded on any market other than the Exchange and, accordingly, each position in an Eligible Option issued by a Clearing Member of the Exchange can be closed out only on the Exchange. An Eligible Option cannot have as an Underlying any security of a U.S. issuer. A list of Eligible Options is provided at <http://www.lseg.com/derivatives/document-library>;

**“End of Day Price”** means the price used to calculate theoretical value of Options Contract positions in order to facilitate the margining process at the clearing level. This price is calculated in accordance with a standard options pricing model;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

**“European Style”** means an options style which only allows Exercise on Expiration;

**“Exercise”** means the act whereby the buyer (the “Holder”) of an Options Contract chooses to Exercise its right to buy or sell the Underlying to the seller (the “Writer”) under the terms of the Options Contract and will receive Settlement on those terms;

**“Exercise Settlement Amount”** means the monetary amount due to or payable by a Member Firm on Exercise of an Options Contract as specified in the relevant Statement;

**“Exercise Window”** means the period of time during which an Exercise order in relation to Options Contracts can be sent in accordance with the particular Options Contract specifications;

**“Expiration”** means the moment that a Contract ceases to exist, and therefore is no longer tradable;

**“Expiration Day”** means the date on which Expiration occurs;

**“Expiration Month”** means the month in which the Expiration Day falls;

**“Expiration Settlement Amount”** means the monetary amount due to or payable by a Member Firm on Exercise of an Options Contract as specified in the relevant Statement. This will be calculated according to the difference between the Strike Price and the Expiration Settlement Price.

**“Expiration Settlement”** means the procedures for final settlement of a Contract on Expiration provided for in these rules and the Designated Clearing House Regulations;

**“Expiration Settlement Day”** in relation to a Series, means the day on which final Settlement of Contracts in such Series which have proceeded to Expiration Settlement is to be performed;

**“Expiration Settlement Price”** means the price against which Contracts are settled upon Expiration;

**“Expiry Index”** means the FTSE Expiry indices that facilitates the calculation of the Expiry Settlement Price for the relevant Contracts;

**“Expiry Value”** means the final index level of the “Expiry Index” on Expiration Day that is used to calculate Final Settlement Price for a Contract;

**“Fair Value”** means the theoretical price calculated using the following elements: the value of the Underlying, applicable interest rate, implied volatility (if applicable), Dividend amount and ex Dividend day (if applicable);

**“FCA”** means the Financial Conduct Authority;

**“FSMA”** means the Financial Services and Markets Act 2000;

**“Futures Contract”** means a Contract that confers an obligation to trade the Underlying at a pre-defined price on a pre-defined date in the future;

**“Futures Price”** in relation to a Futures Contract, means the level (price) at which the counterparties agree to trade;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

**“General Clearing Member (“GCM”)”** means a Member Firm which is a member of the Designated Clearing House and which has entered into a relationship prescribed by the Designated Clearing House for such purposes, thereby agreeing to act in the capacity of General Clearing Member for themselves or a client;

**“Give up”** means a Trade that has been executed and then transferred to another Clearing Member for the purposes of Clearing;

**“Holder” or “Long (party)”** of an Options Contract. The Holder will have the right to Exercise on Expiration;

**“HSVF”** means High Speed Vendor Feed, the Exchange’s Market Data information dissemination system for derivatives;

**“Individual Clearing Member” (“ICM”)** means a Member Firm which is a member of the Designated Clearing House and which has entered into a relationship prescribed by the Designated Clearing House for such purposes, thereby agreeing to act in the capacity of General Clearing Member for themselves only;

**“In-the-Money”** means an Options Contract that would result in a profit to the buyer if exercised at that moment in time;

**“International Order Book” (“IOB”)** means a trading service operated by London Stock Exchange plc which allows amongst others secondary market trading in Depositary Receipts;

**“Issuer”** means the Underlying Company on which a Stock or Depositary Receipt is based;

**“Lifetime”** in relation to a Contract means the period from the Listing Day to the Expiration Day inclusive;

**“Limit Order”** means an order entered on to the Order book at a specified price which will execute at that price or better, any residual is retained on the Order book unless designated as an immediate order; if not an immediate order the residual remains until withdrawn or filled;

**“Listed Product”** means any product which is available for trading on the London Stock Exchange Derivatives Market, the terms of which are detailed in the respective Contract Specification for the product in question;

**“Listing Day”** means the date on which a Standard Contract is first listed by the Exchange;

**“Liquidity Provider”** means a Member Firm which has entered into an agreement for the purpose of rule 4.4.1 and 4.4.2;

**“London Stock Exchange Derivatives Market” or “Exchange Derivatives Market”** means the market operated by London Stock Exchange plc for derivatives;

**“London Stock Exchange Derivatives Market Price List”** means the document outlining applicable fees as published on the Exchange website; as amended from time to time;

**“London Stock Exchange Derivatives Market Trading Services Description”** means the document describing the trading functionalities as published on the Exchange website, as amended from time to time;



## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

**“London time”** means Greenwich Mean Time (GMT) with adherence to British Summer Time (BST). BST begins on the last Sunday of March and ends on the last Sunday of October, during which time clocks are advanced from GMT by one hour (GMT +01:00). Save where these rules state expressly to the contrary, all references to time in the rules are references to London time;

**“Long (Party)”** means the buyer or “Holder” of a Contract. The Long party will have the right to Exercise an Option or Receive Delivery on Expiration of a Futures Contract;

**“Margin”** means cash paid to, and held by, the Designated Clearing House in order to manage Counterparty risk associated with every position;

**“Market Data”** means information relating to Listed Products which is published by the Exchange;

**“Market Maker”** means a Member Firm which has entered into the Market Maker Agreement;

**“Market Maker Account”** means the Account used by the Market Maker for its Market Making activity;

**“Market Maker Agreement”** means the standard form agreement entered into between a Market Maker and the Exchange whereby the Market Maker agrees to act as such in relation to certain specified Listed Products;

**“Market Maker Obligations Document”** means the document, as amended from time to time, which contains further details in respect of Market Makers obligations. This document shall be read in conjunction with the Market Maker Agreement and the Rules of the London Stock Exchange Derivatives Market and is available at <http://www.lseg.com/derivatives/document-library>;

**“Market Operations”** means the operational management relating to derivatives processing;

**“Market Order”** means an Order that executes at best available price until all volume on opposite side has been traded. Residual is converted to a Limit Order at the last price that the original order was executed;

**“Member Firm”** means a partnership, corporation or legal entity admitted to Exchange membership and whose membership has not been terminated. For the purpose of the compliance procedures, a Member Firm shall include a former Member Firm where appropriate;

**“Multiplier”** means the quantity or value of the Underlying represented by either one contract or one index point as specified in the relevant Contract Specification;

**“Notice”** means an announcement published on the Exchange’s Website; and emailed to relevant recipients’ containing important and relevant market updates;

**“Opening Transaction”** means the opening of a position in a Contract;

**“Options Contract”** means a Contract that confers the right but not the obligation to trade the Underlying at a pre-defined price on a pre-defined date in the future;

**“Options Style”** means either European style or American style as the case may be and “Style” shall be construed accordingly;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

“**Options Type**” means either a Call Option or a Put Option as the case may be and “**Type**” shall be construed accordingly;

“**Order**” means an offer to buy or sell a number of Contracts submitted to an Order book;

“**Order book**” means the facilities operated by the Exchange for the submission and execution of Orders;

“**Ordinary Dividend**” means any Dividend defined as ordinary by the Depository Bank or Issuer;

“**Oslo Børs**” means Oslo Børs ASA owned by Oslo Børs VPS Holding ASA;

“**Out-Of-The-Money (OTM)**” means an Options Contract that would result in a loss to the buyer if Exercised at that moment in time;

“**Physical Settlement**” in relation to a Futures Contract or an Options Contract means the process of settlement of such Contract to be performed by the delivery of the Underlying security;

“**Position Limits**” means the limits applied from time to time by the Exchange whether generally or in relation to a particular Member Firm imposing limits on the number of Contracts of any type which may be executed by a Member Firm;

“**Premium**” means the level (price) at which an Options Contract is valued and is payable by the buyer to the seller upon completion of a trade. This payment secures the right to buy or the right to sell at the Strike Price on Exercise;

“**Premium Settlement Day**” means the day on which the Premium is settled;

“**Price Lists**” means the lists of charges payable for services from the Exchange as published and amended by the Exchange from time to time;

“**Proprietary Account**” means an Account where Trades entered into by a Member Firm on its own Account, and only such Trades, are to be registered;

“**PPS**” means Protected Payment System, the system to be used in connection with the settlement of payment obligations of Member Firms to the Exchange, other than those Member Firms who have made arrangements for the settlement of such obligations to be performed by a GCM, must maintain arrangements with a PPS Bank for such purposes;

“**Protest**” means a request submitted by a Member Firm to the Exchange requesting the cancellation or amendment of an incorrect Registration or the Registration of a Trade which had been omitted, or a request for an amendment of an incorrectly executed or non-executed Exercise or Cash Settlement;

“**Put Option**” means an Options Contract that gives the buyer the right but not the obligation to sell the Underlying at the Strike Price to the seller;

“**Recognised Clearing House**” means an organisation recognised as such pursuant to FSMA;

“**Registered Contract**” means a Futures Contract or an Options Contract recorded in an Account following the execution of a Trade entered into by means of the Exchange's facilities;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

**“Registered Person(s)”** means an individual(s) at a Member Firm appointed by the Member Firm who are authorised to carry out instructions to the Exchange as detailed in the Exchange’s Derivatives Registered Persons Form;

**“Registration”** means the process of recording a Registered Contract;

**“Regulated Activities Order”** means the Financial Services and Markets Act (Regulated Activities) Order 2001;

**“Reporting Broker”** means a Member Firm on the London Stock Exchange Derivatives Market which may arrange and initiate Trade Reporting and Registration of Trades on behalf of Member Firms in accordance with these rules;

**“Request for Re-Registration”** means a request submitted by a Clearing Member to the Exchange seeking the Re-Registration of one or more Registered Contracts;

**“Re-Registration”** means the process of transferring a Registered Contract from one Account to another Account pursuant to a Request for Re-Registration submitted in accordance with these rules;

**“Rules of the London Stock Exchange Derivatives Market”** means the rules set out in this document in relation to all activity conducted on the London Stock Exchange Derivatives Markets, as set out at [www.lseg.com](http://www.lseg.com), as amended from time to time;

**“Series”** means a Contract represented by:

- (i) for futures - the Underlying, month and year (and actual Expiration Day and Settlement type for Tailor-made contracts);
- (ii) for options - the Underlying, month, year, Strike Price and (Options Style, Settlement type and actual Expiration Day for Tailor-made contracts only);

**“Settlement”** means the process of moving cash and/or the physical Underlying (where applicable) between Member Firms, normally resulting from trading activities such as Assignment, Exercise, Opening Transactions, Closing Transactions etc;

**“Settlement Day”** means the day on which cash and/ or Stock/DR is moved between Member Firms;

**“Statement”** means the statements made available to Member Firms through the Clearing Application each Trading Day;

**“Short party”** means the seller or “Writer” of a Contract. The Short party maybe assigned an option or deliver on Expiration of a Futures Contract;

**“Standard Contracts”** means a type of Contract the parameters of which adhere to the standard parameters set out in the Contract Specifications;

**“Standard Exercise”** means the procedures governing the automatic Exercise of In-the-Money Options Contracts;

**“Standardised Combination”** means a trading strategy defined by the Exchange on any Standard Series traded on the London Stock Exchange Derivatives Market;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

“**Standard Series**” means a Series which is automatically created in the trading system as opposed to being manually created;

“**Stock**” means a type of security representing ownership in a corporation;

“**Strike Price**” means the price at which an Options Contract will be settled if Exercised or Assigned. The right to buy or sell at the Strike Price is secured by the payment of a Premium. Payment of Premium is defined in the Contract Specifications;

“**Tailor-made Contracts**” means Contracts which are non Order book Contracts in which certain parameters, as set out in the Contract Specification, have been altered with respect to Standard Contracts, also known as non-standardised;

“**Tick Size**” means the smallest increment by which the quoted price can be changed;

“**Trade Day**” means the date on which the Contract is registered;

“**Trade Reporting**” means the act of informing (via electronic communication) the Exchange of a Bilaterally Negotiated Trade so that it can be considered for Registration;

“**Trading Day**” means a day, other than a Saturday or a Sunday or other holiday, on which banks in the Underlying market of a specific Contract are generally open for business as published in the Exchange trading calendar available at <http://www.lseg.com/derivatives/document-library>;

“**Trading Hours**” means the time during which Contracts are available for trading as further detailed in the relevant Contract Specifications;

“**Trade**” means an agreement for the sale or purchase of a Listed Product on the London Stock Exchange Derivatives Market between Member Firms of the Exchange or between a Member Firm of the Exchange and a member of Oslo Børs concluded by means of the facilities provided by the Exchange for the trading of such instruments in accordance with these rules;

“**Underlying**” means the index, commodity, share, bond, interest rate or any other financial instrument on which a Contract may be based. Also refers to a Stock on which a DR is issued by a Depository Bank;

“**VPS**” means Verdipapirsentralen, the Norwegian Registry of Securities;

“**Writer**” in relation to an Options Contract, means the Member Firm whose Contract is liable to be exercised in accordance with its terms; see “Short” party.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## **CORE RULES**

- 1.1.1 Member Firms whose scope of business includes trading or Trade Reporting derivatives on the Exchange will be bound by the Rules of the London Stock Exchange Derivatives Market for all activity in relation to the London Stock Exchange Derivatives Market.

## **MEMBERSHIP**

- 1.1.2 A Member Firm must at all times be authorised under relevant United Kingdom, or appropriate overseas legislation, or in the view of the Exchange be otherwise sufficiently regulated, in respect of capital adequacy, and fitness and probity.
- 1.1.3 The Exchange will consider a person to be appropriately authorised or sufficiently regulated if that person is:
- i) authorised under FSMA;
  - ii) an exempted person under FSMA;
  - iii) a person whose activities constitute appropriate "exclusions" under the Regulated Activities Order.

The Exchange considers appropriate exclusions to include Articles 15, 16, 19, 20 and 23 of the Regulated Activities Order.

- iv) an "overseas person" as defined in Part 1 of the Regulated Activities Order, undertaking a regulated activity which does not require authorisation under FSMA by virtue of the exceptions contained in Article 72 of the Regulated Activities Order; or
- v) a "European institution" or an authorised European "investment firm" as defined respectively by the Banking Co-ordination (Second Council Directive) Regulations 1992, and the Markets in Financial Instruments Directive [Directive 2004/39/EC], which is authorised or permitted within the meaning of those Regulations to carry on the equivalent of a regulated activity in its home state.

An applicant which is seeking authorisation under FSMA may be considered but any decision to grant membership based on this will be subject to authorisation being granted and will not become effective until that condition is satisfied.

- 1.1.4 The Exchange's assessment of a Member Firm's authorisation may include, but is not limited to, consideration of:
- i) the scope of its authorisation or permission; and
  - ii) evidence of satisfactory regulation of the applicant's financial integrity and fitness and probity.
- 1.1.5 Where the Exchange deems it necessary to protect the integrity of its markets, action may be taken under rule 1.1.6 without prior notice to the Member Firm concerned.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 1.1.6 If, at any time, a Member Firm does not comply with rule 1.1.3; or is the subject of an intervention order or an order having equivalent effect served by an authority responsible for the supervision or regulation of a regulated activity, the Exchange may:
- i) restrict the scope of business conducted on the Exchange by the Member Firm; or
  - ii) terminate the membership of the Member Firm.

The Exchange may exclude a Member Firm from trading Listed Products or suspend its right to submit trade reports or place such other restrictions on the activities of the Member Firm as the Exchange considers necessary following any change in the circumstances of the Member Firm of the type described in section 1.1 and 1.2 of these rules.

- 1.1.7 Member Firms may effect Trades in one of four capacities:

- i) Broker;
- ii) Reporting Broker;
- ii) Market Maker; or
- iii) proprietary trader.

Where a Member Firm has the necessary regulatory authorisation, it may act in more than one of the above capacities.

- 1.1.8 Member Firms must provide the Exchange with details of all Registered Persons when completing their membership application.

### SUITABILITY

- 1.1.9 A Member Firm must, to ensure compliance with these rules, at all times have:

- i) adequate trade execution, recording, reporting and clearing and settlement procedures and systems (where applicable) and, if relevant, Order and quote management procedures and systems;
- ii) sufficient staff with adequate knowledge, experience, training and competence;
- iii) adequate internal procedures and controls; and
- iv) one or more compliance officers who shall be identified to the Exchange and be competent to advise the Member Firm and its employees on the application of these rules.

- 1.1.10 Where the Exchange has reason to believe that a Member Firm is not conducting, or may not conduct, its operations in a business-like manner, and that requirements or restrictions are reasonably necessary to ensure that it does so, the Exchange may at any time:

- i) suspend, either in part or in full, a Member Firm's membership of the Exchange's Derivatives Market or its access to any of the Exchange's services;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- ii) impose on the Member Firm requirements relating to the Member Firm's level of staffing, training, internal procedures and controls or any other matter relevant to the continuing suitability of the Member Firm; or
- iii) restrict the scope of business conducted on the Exchange's Derivatives Market by the Member Firm.

1.1.11 In accordance with notification rule 1.1.20, a Member Firm shall notify the Exchange immediately of any matter that is material to the Member Firm's suitability as a Member Firm.

Such matters shall include, but are not limited to:

- (i) the presentation of a petition for the winding up of the Member Firm or of a company which is a subsidiary or holding company of the Member Firm;
- (ii) the appointment of a receiver, administrator or trustee of the Member Firm;
- (iii) the making of a composition or arrangement with creditors of the Member Firm;
- (iv) where the Member Firm is a partnership, an application or the giving of notice to dissolve the partnership;
- (v) the imposition of disciplinary measures or sanctions on the Member Firm or any employee by any statutory, professional or other body exercising a regulatory or disciplinary jurisdiction, whether within the United Kingdom or elsewhere;
- (vi) an event equivalent to those identified in (i) to (v) above under overseas legislation; and
- (vii) any material change to any matter previously notified to the Exchange that is pertinent to the Exchange's consideration of a Member Firm's authorisation.

1.1.12 A Member Firm shall be bound by and observe:

- i) these rules (as amended from time to time);
- ii) any rules and procedures set out in any supplementary documentation issued by the Exchange under these rules;
- iii) the provisions of any Notice; and
- iv) any requirement, decision or direction of the Exchange.

A Member Firm may appeal against a decision of the Exchange pursuant to these rules and in accordance with rule 1.1.19.

1.1.13 A Member Firm shall take all reasonable steps to ensure that its employees comply with all applicable obligations arising under these rules.

1.1.14 A former Member Firm shall be bound by these rules in respect of all activities which took place prior to termination of its membership to the Exchange's Derivatives Market (and which were subject to these rules) until the latest of:

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- i) one year after it ceases to be a Member Firm, unless a disciplinary proceeding has commenced against that Member Firm;
- ii) the date on which all of its trades on the Exchange are settled and completed;
- iii) the date on which all outstanding subscriptions, charges or other sums due to the Exchange have been paid in full; or
- iv) the date on which a disciplinary proceeding brought against a Member Firm has been concluded.

### RESIGNATION OF MEMBERSHIP

1.1.15 A Member Firm may resign by giving the Exchange at least three months written notice.

Such notifications should be made to the Membership Team at [membership@lseg.com](mailto:membership@lseg.com)

1.1.16 The Exchange may postpone the effective date of resignation and may impose other measures that it considers necessary for the protection of investors who may be Clients or the Counterparty of the Member Firm when the resignation would have otherwise become effective. The Member Firm shall supply, when required by the Exchange, such information concerning the circumstances of the resignation as shall, in the opinion of the Exchange, be necessary for it to determine whether to exercise its powers under this rule.

1.1.17 The Exchange may, in its absolute discretion, refuse to accept a notice of resignation given by a Member Firm if the Exchange considers that any matter affecting the Member Firm should be investigated.

1.1.18 A Member Firm that has ceased to carry on business activities for which it was deemed suitable for membership may have its membership terminated with immediate effect or otherwise by the Exchange.

### APPEALS AND COMPLAINTS

1.1.19 An applicant or Member Firm may appeal against a decision of the Exchange pursuant to these rules and in accordance with the rules in the compliance procedures.

Any appeal under this rule shall be conducted in accordance with the compliance procedures set out in the Section 8.

There may be situations where the Exchange's decisions may not be appealed e.g. where the reversal of a decision would lead to market instability or disorder. However in these cases, a complaint can be made against the Exchange's decision. Details of how to make a complaint can be found on the Exchange's website:

<http://www.londonstockexchange.com/traders-and-brokers/rules-regulations/making-complaint/making-complaint.htm>

### NOTIFICATIONS

1.1.20 A Member Firm shall, immediately upon becoming aware of any circumstances which have, will or may lead to a contravention of any of the rules, including system problems, notify the



# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

Exchange of such circumstances in as much detail as is available to it. Failure of a Member Firm to notify the Exchange in such circumstances may result in a contravention of the rules by the Member Firm.

A Member Firm's system problem is any in-house technical difficulty which prevents a Member Firm from accessing, viewing data from or submitting data to the trading or clearing system. Where a Member Firm provides direct market access to customers, a customer system problem may also constitute a notifiable event.

Such notifications should be made to the Market Operations on (0044) (0) 20 7797 3617, STX 33617.

Member Firms shall report any dispute with any third party relating to a Trade to the Exchange at the earliest opportunity.

- 1.1.21 A Member Firm shall notify the Exchange in writing, at least 21 calendar days in advance of the proposed effective date, of any proposed changes to its membership profile.

The Exchange would expect notification of, at a minimum, the following changes:

- i) name and address of the Member Firm;
- ii) senior executive officer or compliance officer of the Member Firm;
- iii) a change of control of the Member firm within the meaning given under FSMA;
- iv) scope of trading activity in relation to business conducted on the Exchange's Derivatives Market;
- v) access to the trading system; and
- vi) scope of clearing arrangements in relation to a Member Firm's business on the Exchange's Derivatives Market, including clearing codes.

Such notifications should be made to the Membership Team at [membership@lseg.com](mailto:membership@lseg.com)

- 1.1.22 Member Firms shall inform the Exchange immediately of any amendments to the schedule of Registered Persons provided with their membership application form.

## ORDER AND QUOTE DELETION

- 1.1.23 Where a Member Firm would like to request the deletion of an Order or quote, a Registered Person must contact the Exchange and provide the following information:

- i) the name of the Member Firm;
- ii) the Member Firm's identifier;
- iii) the identity of the caller and a contact number;
- iv) the reason for the request; and
- v) the details of the orders or quotes to be deleted.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

1.1.24 Market Operations will attempt to delete Orders or quotes as soon as possible after receipt of a valid request to do so. However, if an Order is executed during the period between a Member Firm requesting deletion of its Orders and the Market Operations effecting the deletions, the Member Firm will be obliged to honour the Trade.

1.1.25 Where a Member Firm identifies a system problem it shall inform the Exchange in accordance with notification rule 1.1.20 and follow any subsequent instructions from the Exchange. A Registered Person of a Member Firm may request the deletion of Orders or quotes.

For the purposes of this rule, a system problem would include, but not be restricted to, one preventing:

- i) a Member Firm accessing its Orders on the trading system; or
- ii) a Market Maker or Liquidity Provider maintaining, amending or deleting its quotes.

1.1.26 Member Firms are reminded that, while Orders and quotes remain on the trading system they are firm and available for execution. Accordingly, it is essential that a Member Firm contact the Exchange as soon as possible when it experiences a systems failure, especially if it wishes to have its Orders or quotes deleted from the Order book.

Once the systems problem is rectified, the Member Firm should contact Market Operations to notify them of this fact. The Member Firm can recommence Order input to the trading system as soon as the systems problem is rectified.

1.1.27 If a Member Firm wishes to cancel an automatically executed trade in accordance with section 4.5 – 4.8 while it is experiencing a systems problem, it should seek guidance from the Market Supervision department on (0044) (0) 20 7797 1578, (STX 31578).

Where a Member Firm wishes to cancel a Bilaterally Negotiated Trade conducted through the Trade Reporting facility in accordance with section 4.9 it should seek guidance from the Market Operations department on (0044) (0) 20 7797 3617, (STX 33617)

### GENERAL

1.1.28 A Member Firm shall not inform a Client that a trade is subject to these rules unless the trade is executed via the London Stock Exchange Derivatives Market's facilities.

This rule ensures that a customer is not misinformed that a trade is subject to the Rules of the London Stock Exchange Derivatives Market when it is not. A Member Firm may however state on its business letters, notices and other publications that it is a Member Firm of the Exchange and may where it issues a confirmation inform a Client that a trade is subject to the rules.

1.1.29 Where the Exchange considers it necessary to protect its interests or the quality of the market in any Listed Product or in the circumstances specifically provided for in these rules it may require the Member Firm to provide information relating to the Client in question.

1.1.30 A Member Firm shall retain a record of each trade entered into by it which is subject to these rules for at least three years. Any such record shall be produced for inspection to the Exchange on demand and, where it is not retained in legible form, must be capable of being reproduced in that form.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

1.1.31 All communication required to be provided to the Exchange under these rules shall be in English.

### OFFER AND SALE OF EQUITY AND INDEX OPTIONS TO CERTAIN U.S. PERSONS

1.1.32 A Member Firm may rely on the Class No-Action Relief in relation to Eligible Options and Eligible Broker-Dealer(s)/Eligible Institutions(s) subject to the conditions set out below.

1.1.33 Members Firms that are not broker-dealers registered with the U.S. Securities and Exchange Commission shall deal with Eligible Institutions only in accordance with Rule 15a-6 of the U.S. Securities Exchange Act of 1934.

1.1.34 Before effecting a transaction in Eligible Options with an Eligible Broker Dealer/Eligible Institution, Member Firms must obtain, and maintain a record of, representations from such Eligible Broker-Dealer/Eligible Institution, signed by an appropriate officer, to the following effect:

- i) it is an Eligible Broker-Dealer/Eligible Institution, and as such it (i) owns and invests on a discretionary basis a specified amount of eligible securities sufficient for it to be a qualified institutional buyer under Rule 144A under the U.S. Securities Act of 1933 (and if a bank, savings and loan association, or other thrift institution, has net worth meeting the requirements of Rule 144A under U.S. Securities Act of 1933), and (ii) has had prior actual experience in the U.S. standardized options markets and as a result thereof has received the options disclosure document entitled "Characteristics and Risks of Standardized Options" that is prepared by the Options Clearing Corporation and the U.S. options exchanges;
- ii) its transactions in Eligible Options will be for its own account or for the account of another Eligible Broker-Dealer/Eligible Institution or for the managed account of a non-U.S. person within the meaning of Rule 902(k)(2)(i) of Regulation S under the U.S. Securities Act of 1933;
- iii) it will not transfer any interest or participation in an Eligible Option it has purchased or written to any other U.S. person, or to any person in the United States, that is not an Eligible Broker-Dealer/Eligible Institution;
- iv) it will cause any disposition of an Eligible Option it has purchased or written to be effected only on the Exchange, and it understands that any required payments for premium, settlement, exercise, or closing of any Eligible Option with respect to which it has a contract with the Member Firm must be made in the designated currency;
- v) it understands that if it has a contract as a writer of an Eligible Option with a Member Firm, margin must be provided to that Member Firm in such form and amount as determined by that Member Firm, and such member, if a non-clearing member of the Exchange, must provide margin to its clearing member in such form and amount as determined by that clearing member; and if a clearing member of the Exchange, must maintain, measure, and deposit margin on such Eligible Option with the clearing entity, in such form and amount as determined by the clearing entity;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- vi) if it is an Eligible Broker-Dealer/Eligible Institution acting on behalf of another Eligible Broker-Dealer/Eligible Institution that is not a managed account, it has obtained from the other Eligible Broker-Dealer/Eligible Institution a written representation to the same effect as the foregoing and will provide it to the Member Firm upon demand; and
  - vii) it will notify the Member Firm of any change in the foregoing representations prior to placing any future order, and the foregoing representations will be deemed to be made with respect to each order it gives to the Member Firm.
- 1.1.35 Before effecting a transaction in Eligible Options with an Eligible Broker Dealer/Eligible Institution, Member Firms must complete and return the Exchange's SEC Class No-Action Relief declaration to the Membership Team at [membership@lseg.com](mailto:membership@lseg.com). Member Firms are required to submit confirmation of this declaration annually.
- 1.1.36 Member Firms are advised that any options on securities of U.S. issuers, or on an index that includes any securities of U.S. issuers, that are, or may be, traded on the Exchange are not available for sale to U.S. persons.
- 1.1.37 Without prejudice to the rules from 1.1.38 to 1.1.46, Members Firms are obligated to provide information to, or otherwise assist the Exchange in relation to activities carried out on the Exchange, so as to allow the Exchange to provide this information to the U.S. Securities and Exchange Commission upon request.

### COMPLIANCE AND ENFORCEMENT

- 1.1.38 The Exchange may, at its discretion, waive the enforcement of these rules.
- 1.1.39 The Exchange may request information from a Member Firm, or interview any employee of a Member Firm, about any matter which it considers may relate to these rules or to the integrity of the Exchange's markets.

Examples of the form of information which the Exchange may request include, but are not limited to, trade data, voice recordings where applicable.

In relation to any request for information or interview, the Exchange would expect the following standards to be met:

- i) the provision of accurate information in a timely manner about the Member Firm's business and trades in a format, electronic or otherwise, specified by the Exchange; or
  - ii) the interview of any employee, or agent of a Member Firm, which will be recorded in writing.
- 1.1.40 A Member Firm shall comply or procure compliance with any requirement of the Exchange made pursuant to these rules.
- 1.1.41 A Member Firm is responsible to the Exchange for the conduct of its employees and agents. Such conduct shall be treated for the purposes of these rules as conduct of the Member Firm.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 1.1.42 A Member Firm shall not knowingly provide the Exchange with any information (including information for the purpose of becoming a Member Firm) which is false, misleading or inaccurate and shall comply or procure compliance with a request by the Exchange for explanation or verification of information provided to the Exchange.
- 1.1.43 The Exchange may disclose information and documents:
- i) to co-operate, by the sharing of information and documents and otherwise, with any recognised exchange or Designated Clearing House which clears and/or settles trades concluded on the Exchange's Derivatives Market and any authority, body or person in the United Kingdom or elsewhere having responsibility for the supervision or regulation of any regulated activity or other financial service or for law enforcement purposes;
  - ii) for the purpose of enabling it to institute, carry on or defend any proceedings including any court proceedings;
  - iii) for any purpose referred to in FSMA or any regulations or order under it;
  - iv) under compulsion of law;
  - v) for the purpose of enabling the Exchange to discharge its functions having regard in particular to the protection of investors and the maintenance of high standards of integrity and fair dealing; or
  - vi) for any other purpose with the consent of the person from whom the information was obtained and, if different, the person to whom it relates.
- 1.1.44 If the Exchange considers that a Member Firm has contravened any of these rules and considers that any sanction(s) as set out in the compliance procedures should be imposed; it may refer the matter to the Executive Panel or the Disciplinary Committee as appropriate.
- 1.1.45 The Exchange may bring disciplinary proceedings against a former Member Firm whilst the former Member Firm is bound by these rules.
- 1.1.46 Where cases against more than one Member Firm, but which concern related matters, are to be brought before the Disciplinary Committee or the Appeals Committee, the Exchange may decide, with the agreement of the Disciplinary Committee or the Appeals Committee, as appropriate, to bring such cases at the same time, if it would be fair and practicable to do so and with the agreement of the relevant Member Firm.

### FEES

- 1.1.47 Member Firms should note that all fees payable in relation to the execution, Registration, Clearing, Exercise, Assignment or Expiration of a Contract relating to a Trade and other matters relative thereto shall be payable to the Designated Clearing House in accordance with instructions and invoices relating to such fees issued by the Designated Clearing House in respect of each calendar month.
- 1.1.48 Member Firms shall pay fees in accordance with the Price Lists as amended from time to time. Additional fee incentives for Market Makers and Liquidity Providers apply.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 1.1.49 Unless otherwise specified by the Exchange, any subscriptions, charges or other sums due to the Exchange shall be paid in full within 30 calendar days of receipt of the invoice.
- 1.1.50 In order to pay charges and sums due to the Exchange, the Exchange may require a Member Firm to execute and maintain in force a direct debit mandate in the Exchange's favour on a bank account in the United Kingdom.
- 1.1.51 Where a Member Firm fails to pay in accordance with these rules other than in the case of legitimate dispute, the Exchange may terminate its membership without prejudice to any other action which the Exchange may take.

### MEMBER FIRM CLEARING ARRANGEMENTS RULES

- 1.2.1 This section of the rules (rules 1.2.1 to 1.2.4) does not apply to Member Firms acting in a Reporting Broker capacity only.

Member Firms must either be a Clearing Member of a Designated Clearing House approved by the Exchange or have made satisfactory arrangements with an entity that is in order to guarantee the clearing of any Trades executed on the Exchange.

- 1.2.2 In accordance with Rule 1.2.1 a Member Firm shall only be entitled to participate in trading at the Exchange if it is a Clearing Member or a Member Firm which has entered into an agreement with a General Clearing Member and the Designated Clearing House.

- 1.2.3 A Member Firm (other than a Member Firm which has arranged for Trades in Listed Products entered into by it to be cleared by a General Clearing Member) shall open one or more Accounts at the Designated Clearing House for the registration of Trades effected by the Member Firm. A Member Firm which intends to act as a Market Maker or Liquidity Provider shall open one or more Accounts for the registration of Contracts entered into by it in the capacity of Market Maker or Liquidity Provider specified for such purposes in the Clearing House Regulations.

A Member Firm which intends to enter into Trades on its own account shall open an Account for the Registration of Contracts entered into by it on such basis specified for such purposes in the Clearing House Regulations.

A Member Firm which intends to act as a Broker shall open one or more of Accounts specified for such purposes in the Clearing House Regulations.

- 1.2.4 In accordance with 1.2.1 a Member Firm shall maintain the necessary clearing arrangements, either directly or with a General Clearing Member acting on its behalf, and in particular is required:
- i) to maintain one or more accounts at a bank approved by the Designated Clearing House to ensure the timely clearing and Settlement of all Trades;
  - ii) to complete such documents as may be required by the Designated Clearing House, to facilitate the delivery of Stock on Expiration or Exercise of stock Futures Contracts and Options Contracts in the forms prescribed by the Designated Clearing House;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- iii) to satisfy the Exchange that arrangements are in place for the provision by the Member Firm or its General Clearing Member of Collateral as and when required in accordance with these rules;
- iv) to establish PPS arrangements; and
- v) to be bound by the rules and procedures of the Designated Clearing House.

### MARKET CONDUCT RULES

1.3.1 A Member Firm shall not, in respect of its on Exchange business:

- i) do any act or engage in any course of conduct which creates or is likely to create a false or misleading impression as to the market in, or the price or value of, any Contract;
- ii) cause a fictitious Trade or a false price to be input into the Exchange's systems;
- iii) effect a Trade at any price which differs to an unreasonable extent from any firm price displayed on the trading system in that contract, or the theoretical fair value for Tailor-made contracts;
- iv) do any act or engage in any course of conduct which is likely to damage the fairness or integrity of the Exchange's markets; or
- v) do any act or engage in any course of conduct which causes, or contributes to, a breach of these rules by another Member Firm.

1.3.2 A Member Firm submitting an Order or quote to the trading system is responsible for that Order or quote under Rule 1.3.1. This applies whether the Order is submitted by the Member Firm itself or has been automatically routed from a third party (whether another Member Firm or not).

All Orders and quotes entered on to the Order book are firm. While the Exchange understands that trading decisions of Member Firms may change, Member Firms should not enter Orders onto the Order book with the intention of deleting or otherwise amending them before execution. This can give a potentially misleading impression of the level of liquidity in the market.

1.3.3 For unpublished Contracts, all Trades will be validated and subject to a reasonable price validation.

1.3.4 A Member Firm trading in a Contract shall not do any act or engage in any course of conduct with the sole or main intention of which is to move the price of that Contract or the level of any index.

1.3.5 A Member Firm shall not act whether in isolation or in concert with one or more Member Firms or with members of other trading venues on which an Underlying is traded or with any other party in such a way as would tend to distort the market in any Listed Product.

1.3.6 Rule 1.3.4 and 1.3.5 do not preclude a Member Firm from pursuing a bona fide trading strategy, as principal or on behalf of Clients, or from effecting Trades in the normal course of its business. However, in all cases, a Member Firm should ensure that it is in a position to be

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

able to justify to the Exchange that, in effecting a trade or pursuing a particular trading strategy, it acted in pursuit of a bona fide commercial purpose.

The Exchange is likely to seek further information and detailed explanations from a Member Firm in respect of any activity that appears to amount to a breach of this rule.

Should a Member Firm have concerns about whether a particular trading strategy might be called into question by the Exchange, they should contact the Market Supervision department on (0044) (0) 20 7797 1578 (STX 31578), as far in advance as possible, to discuss the proposed strategy. All such enquiries will be treated in the strictest confidence by the Exchange.

- 1.3.7 A Member Firm shall not submit Orders or quotes to the trading system for the purpose of testing any systems or controls.

The Exchange expects Member Firms to test their systems or controls prior to submitting Orders, quotes or trade reports to the trading system.

- 1.3.8 Testing on the trading system is prohibited as it has the potential to impact the market, particularly as testing may result in unusually priced and/or sized Orders or quotes being entered. The Exchange relies on Member Firms to submit only bona fide business to the trading system. Submitting Orders or quotes to the trading system for the purpose of testing a Member Firm's or its direct market access customer's systems or controls is not an acceptable market practice.

This rule is not intended to preclude a Member Firm from:

- i) pursuing a bona fide trading strategy, as principal or on behalf of a Client, or from effecting trades in the normal course of its business. To ensure that the quality of the trading system and the trading service is maintained, a Member Firm should, on request, be able to demonstrate to the Exchange that, in submitting an Order, quote or trade report or pursuing a particular trading strategy, it acted pursuant to a bona fide trading strategy and not in order to test its systems or controls; or
- ii) using algorithms ("black boxes") to submit Orders, quotes or trade reports to the trading system. The Exchange recognises that to mitigate risk, Member Firms using algorithms may wish to check those trading strategies by submitting trial Orders or quotes. In these circumstances the Exchange will not generally consider the Orders or quotes submitted to the trading system as prohibited testing under this rule. Member Firms using algorithms are however reminded of their obligations under rules 1.1.9 (adequate systems and controls) and 1.3.1 (misleading acts, conduct and prohibited practices) to maintain the integrity of the market.

### EMERGENCY PROVISIONS

- 1.4.1 Where the Exchange considers that circumstances exist which have an adverse effect on the trading services provided by the Exchange, or the related clearing services provided by the Designated Clearing House, or which affect the quality of the market in any Listed Product, the Exchange may take such action as it considers necessary at its sole discretion.

The forms of action which the Exchange may take under this rule include, but shall not be limited to, the following:

- i) closure of the market;



## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- ii) suspending or restricting the trading services of the Exchange or any part thereof;
  - iii) suspending or restricting trading in one or more Listed Products;
  - vi) amending these rules including the terms of any Listed Product;
  - v) suspend or restrict the reporting of Trades in one or more instruments; or
  - vi) requesting the Designated Clearing House to take any action in relation to its clearing services as is required in the circumstances, including, without limitation, amending the terms of Registered Contracts.
- 1.4.2 Where the Designated Clearing House suspends the provision of its clearing services to the Exchange, the Exchange may:
- i) suspend or restrict the trading services of the Exchange or any part thereof;
  - ii) suspend or restrict trading in one or more Listed Products;
  - iii) amend these rules including the terms of any Listed Product; or
  - iv) take such other action as is considered appropriate in the circumstances.
- 1.4.3 Any active Order placed on the Order book after trading in a Standard Series which has been suspended or any Order which breaches any restriction on trading under this rule shall be null and void.
- 1.4.4 In taking action under this rule, the Exchange will have regard to the interests of Member Firms generally in the circumstances and will act in an impartial manner.
- Where the Exchange has taken any action pursuant to this rule, it shall notify Member Firms of such fact at the earliest opportunity. Notice thereof and of the reasons giving rise to the action shall be given to Member Firms as soon as possible by the most appropriate method.
- 1.4.5 On emergency closure or the suspension of trading in particular Standard Series, the placement of Orders and the execution of Trades will cease until further notice either generally or in relation to the Standard Series in which trading has been suspended.
- 1.4.6 Orders relating to a Standard Series which are stored on the Order book at the time at which trading in that Standard Series is suspended will normally remain on the Order book but will not be capable of being executed against until trading in that Standard Series resumes.
- 1.4.7 In these circumstances, Orders will retain their normal priority. If for technical reasons, the procedures described above cannot be followed, the Exchange will inform Member Firms of the circumstances and of the need to re-enter Orders on the Order book.
- 1.4.8 Where trading in a Listed Product is restricted or suspended at the time of Expiration, the Exchange may impose the closure and cash settlement of all open positions in that Listed Product. In such cases, the Exchange shall determine the Expiration Settlement Price by reference to the latest available Underlying price or value. In exceptional cases, the Exchange may also establish the Expiration Settlement Price taking into account any other objective elements that may be available at the time. In such circumstances, Member Firms will be informed via a Notice.

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- 1.4.9 Normal trading shall be resumed following emergency closure or the suspension of trading in a particular Listed Product as soon as the Exchange is satisfied that the circumstances permit. The Exchange shall inform Member Firms of such resumption of trading as soon as reasonably practical.
- 1.4.10 The Exchange will not exercise its power to suspend or remove from trading a Listed Product which no longer complies with these rules where such a step would be likely to cause significant damage to the interests of investors or the orderly functioning of the market.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## **TECHNICAL REGULATIONS**

2.1.1 Member Firms which wish to maintain an electronic trading connection to the Exchange shall enter into the relevant access, connectivity and software license agreements as amended from time to time (collectively referred to in this 2.1 as “Agreements”) enabling access to the Exchange and shall comply with this rule. Breach of any provision of these Agreements shall constitute a breach of these rules. Member Firms shall contact the Exchange for a list of all market access connectivity providers and for all relevant information on these solutions. Fees in respect of market access are payable by Member Firms in the amount and at the time specified in the London Stock Exchange Derivatives Market Connectivity Charges document found on the Exchange’s website.

2.1.2 Equipment and computer programs which are required for the purposes of the electronic connection to the Exchange’s trading and clearing systems are specified in the technical documentation. The Exchange reserves the right to prohibit the connection of equipment or the use of programs which have not been specified by the Exchange and to carry out such tests of the said equipment or programs at the expense of the Member Firm as the Exchange considers necessary.

The costs of equipment supplied by third parties and the installation and maintenance thereof shall be paid by the Member Firm.

The Exchange reserves the right to set requirements as well as demand information regarding such computer program’s construction and functionality from Member Firms or computer program suppliers. The Exchange reserves the right to conduct tests of the computer program based on the requirements stipulated by the Exchange from time to time and information that has been obtained (certification). Additional certification can, when deemed necessary by the Exchange, be requested by the Exchange.

2.1.3 Where a Member Firm installs software supplied by the relevant providers, it shall ensure that such software is the latest version in force together with system program software in the latest version specified by the relevant providers.

2.1.4 The Member Firm shall ensure that technical contact persons and system contact persons are present at its premises throughout the period starting one hour before trading commences at the Exchange and ending one hour after the close of trading on any Trading Day.

2.1.5 The Exchange may take immediate action to impose restrictions on the use of such connection to suspend or to terminate a Member Firm’s electronic connection if it is satisfied that the manner in which such connection has been used by the Member Firm justifies such action in the interests of protecting the proper functioning of the Exchange’s trading and clearing operations.

2.1.6 The Exchange may inspect the electronic equipment used by a Member Firm for the purposes of its trading, clearing and Market Data connection to the Exchange at all times during normal business hours.

2.1.7 The Member Firm shall comply with all security instructions given by the Exchange and the relevant providers in relation to the use of the Member Firm’s electronic trading connection. The Member Firm shall take such other steps as are reasonably required to prevent unauthorised access to the Exchange’s trading, clearing and Market Data systems. The Member Firm shall allow the Exchange access to its premises for such purposes. Save in

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

exceptional circumstances, the Exchange shall give the Member Firm prior notice of its intended inspection.

- 2.1.8 The Member Firm shall be liable for all instructions regarding the placing, variation or cancellation of Orders given by way of the Member Firm's electronic connection and for all Trades executed in consequence thereof. All matters reported to the Exchange by means of such electronic connection shall be bound by the terms of any Registered Contract entered into by the Designated Clearing House with such Member Firm pursuant thereto whether or not such instructions or reports are submitted by a person authorised to use the electronic connection of the Member Firm.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## **LISTING RULES FOR STANDARD CONTRACTS**

### **GENERAL**

- 3.1.1 The Exchange provides automated trading facilities to its Member Firms for trading Standard Contracts.
- 3.1.2 The Contract Specifications for Standard Contracts are set out within the London Stock Exchange Derivatives Market Contract Specifications document which forms part this rulebook.
- 3.1.3 The Exchange may decide at any time to cease to list one or more Series if it is satisfied that the requirements of a proper market in such Standard Contract are no longer satisfied or any other circumstances exist which it considers require such action. In such circumstances, the Exchange may also change the Expiration Day for the Series in question in conjunction with the Designated Clearing House. Member Firms shall be informed in advance via a Notice of any intended adjustment.
- 3.1.4 Information regarding any Standard Series which are currently available for trading is disseminated via HSVF.

### **LISTING OF NEW SERIES**

- 3.2.1 The Exchange reserves the right to adjust the Listing Day for any existing Standard Contract where such adjustment is deemed necessary in the interest of the market. Member Firms shall be informed in advance via a Notice of any intended adjustment.
- 3.2.2 The Exchange will publish the Contract Specification for any new Standard Contract prior to the start of trading or acceptance of trade reports.
- 3.2.3 The Listing Day for each Standard Contract is found in the relevant Contract Specification.
- 3.2.4 For newly listed Options Contracts, the Exchange shall list Call Options and Put Options in accordance with the London Stock Exchange Derivatives Market Trading Services Description published on the Exchange's website.

### **LISTING OF NEW SERIES 'ON REQUEST'**

- 3.3.1 The Expiration Day for all Standard Contracts shall be the day designated as such by the Exchange in the Expiration Month indicated in the series designation.
- 3.3.2 The Exchange reserves the right to adjust the Listing Day in respect of any given Series where such adjustment is deemed necessary in the interest of the market. Member Firms shall be informed in advance via a Notice of any intended adjustment.
- 3.3.3 Member Firms may request by phone or electronic communication to Market Operations for a specific standardised futures or options Series to be listed on the Order book if it is not automatically generated in accordance with the parameters described in the relevant Contract Specifications and the London Stock Exchange Derivatives Market Trading Services Description. This is known as an 'on request' listing.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

Member Firms shall provide the following information:

- i) the Underlying;
- ii) whether it is a Future or an Option (Call or Put) Contract;
- iii) Option Type (where applicable);
- iv) the Expiration Month (Expiration Day will always be standardised as per the relevant Contract Specification);
- v) the Strike Price (for options Series only and must be within the Strike Price generation table for the specific Underlying as specified in the London Stock Exchange Derivatives Market Trading Services Description document available on <http://www.lseg.com/derivatives/document-library>); and
- vi) Settlement style (if applicable).

- 3.3.4 Where the Exchange is satisfied that it is appropriate in the interests of the market to list for trading the specified Series, and accepts the request it shall arrange for such Series to be listed for trading as soon as reasonably practicable. Where the relevant request is received by the Exchange during the Trading Hours for the relevant Contract, the new Series will normally be available for trading on such day.

The Exchange shall inform the Member Firm which submitted the request of its decision forthwith.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## TRADING RULES

### GENERAL

- 4.1.1 A Trade is considered a London Stock Exchange Derivatives Market Trade if it is effected automatically on the Order book or in accordance with section 5.1.1 to 5.1.12 of these rules.
- 4.1.2 Each Order or quote submitted onto the Order book shall be firm.
- 4.1.3 Standardised Series Contracts are traded through the electronic trading system, via the submission of Orders including Cross Orders and Committed Orders (as defined and described in the London Stock Exchange Trading Services Description).
- 4.1.4 Any obligations and liabilities arising from the submission of electronic messages and Orders to the trading system under a Member Firm's trading codes are the responsibility of that Member Firm. The Member Firm shall, at all times, have sufficient order management systems, procedures and controls designed to prevent the entry of erroneous Orders and quotes to the trading system.
- 4.1.5 A Member Firm submitting an Order or a quote to the trading system is responsible for that Order or quote. If an Order has been submitted by or automatically routed from a third party (whether another Member Firm or not), then the Member Firm should consider how it is going to control the order flow.
- 4.1.6 A Member Firm may provide a Customer with Direct Market Access.

Member Firms providing Customers with Direct Market Access should be aware that:

- i) they are responsible for all obligations and liabilities arising from the entry, deletion and execution of all Orders submitted by those Customers;
- ii) remain responsible to the Exchange for all Trades executed using their Member Firm's identifier;
- iii) they shall have adequate systems and effective controls, including pre- and post-trade controls, to ensure that the provision of Direct Market Access does not adversely affect compliance with the Rules of the London Stock Exchange Derivatives Market, lead to disorderly trading, or facilitate conduct that may involve market abuse;
- iv) they should conduct appropriate due diligence on the Customers prior to providing them with Direct Market Access;
- v) they must have the ability to delete Customer's Orders or restrict the Customer's ability to submit Orders to the trading system without having the express consent of the Customer. These actions may be instigated unilaterally by the Member Firm or at the specific instruction of the Exchange; and
- vi) they should require Customers to whom they provide Direct Market Access to comply at all times with applicable law and regulations, and with the Rules of the London Stock Exchange Derivatives Market.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 4.1.7 Where an Order or quote has been entered mistakenly where there was no intention to trade in the contract or where an Order or quote where the terms entered did not represent the intended Trade, the Order or quote will be considered to be erroneous.
- 4.1.8 In determining whether an Order or quote is erroneous, the Exchange will ask the Member Firm for details of the background to the Order or quote. Below is a non-exhaustive list of scenarios where the Exchange may query an Order or a quote with a Member Firm:
- i) an aggressively priced limit order that executes against a significant number of Orders on one side of the Order book, which could take place, for example, if price and size have been entered in the wrong fields; or
  - ii) an Order that is divided into sizes either not intended by the Member Firm or which are so small or so large as to be inappropriate.
- 4.1.9 Member Firms should aim to prevent the entry of erroneous Orders and quotes to the trading system and should ensure that their systems are designed to identify and prevent the entry of such Orders and quotes. In determining whether a Member Firm's systems are adequate in this regard, Member Firms should consider the use of controls and system alerts, which may be based on some or all of the following:
- i) the current spread in the market;
  - ii) trader, contract-specific or firm-wide size and price limits;
  - iii) the likely movement in the price of the Contract if the Order or quote is submitted; and
  - iv) a minimum and maximum notional value per Order or quote.
- The above list is not exhaustive and Member Firms are likely to wish to develop their own bespoke controls and system alerts to prevent the entry of Orders and quotes which, because of their price, size and/or nature, could impact on the smooth running of the market.
- 4.1.10 Member Firms should be aware that in deciding what action to take against a Member Firm for the submission of any apparently erroneous Order or quotes, the Exchange will consider both the potential and the actual market impact. It will also have regard to the relative frequency with which the Member Firm submits such Orders or quotes.
- 4.1.11 The Exchange reserves the right to delete any Order submitted on to the Order book where the Exchange believes it necessary in order to preserve market orderliness.
- 4.1.12 When using the trading system to submit Orders, a Member Firm shall comply with the procedural, operational and technical requirements of the Exchange's systems and networks as specified by the Exchange from time to time.
- 4.1.13 Where a Trade is executed in accordance with these rules or the Exchange accepts a Trade Reporting request for a Trade relating to a Listed Product, the Member Firm or Member Firms involved in the Trade shall enter into a Contract with the Designated Clearing House.
- 4.1.14 An application for Re-Registration of a Contract in a Listed Product shall take effect from the time at which the Exchange confirms to the Designated Clearing House that such application has been accepted and the Designated Clearing House amends the particulars recorded in its



## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

clearing system in accordance with such request for Re-Registration and registers the Contracts in the appropriate Accounts in accordance with its terms.

- 4.1.15 An incorrectly registered Contract may be cancelled or corrected provided that a valid Protest is made to the Exchange in accordance with the appropriate cancellation rules. In the absence of any such Protest, an incorrectly registered Contract will remain in full force and effect and will bind the registered Counterparties to such Contract.
- 4.1.16 Following Registration of a Contract in the clearing system pursuant to the Clearing House Regulations, the buyer and the Seller of the Contract have the rights and obligations to such Contract for the duration of the Contract.
- 4.1.17 Registration of Contracts in a Client Account is effected on a gross basis for Options Contracts only; all Futures Contracts are held on a net basis. A Broker which operates a Client Account shall ensure that the positions registered in such Account accurately reflect the balance of the open interest for the Clients whose positions are registered on the Account at all times. To this end, a Broker which operates a Client Account shall inform the Exchange as soon as practicable following the Registration of a Contract in such Account as to whether the Contract in question represents an Opening Transaction or a Closing Transaction and of the effect that such Registration will have on the open interest on the Account (the "required information"). Such information may be given either in writing to Market Operations at the Exchange or by way of the electronic connection. Where the required information is provided to the Exchange before the relevant deadline prescribed below, any necessary adjustment to the information recorded in the Client Account required in accordance with the Broker's instructions will be made by the Exchange. The relevant deadline for a notice given in writing is 10:00 on the Trading Day following the day on which the Contract was initially registered in the Account and, for a notice given by the electronic connection, 12:00 on that day. If a Member Firm fails to provide the Exchange with the required information before the relevant deadline, the Member Firm shall be responsible for taking the necessary action to correct the balance on the Account in question by executing the relevant number and type of Trades required in the circumstances.

### ORDERS

- 4.2.1 On placing an Order a Member Firm offers to buy or to sell the products in the Series in accordance with the terms specified in the Order. Such Order shall contain the number of Contracts; this number may be any whole number in excess of one. This Order is construed as an offer and remains open for acceptance unless and until the Order is varied or cancelled by the Member Firm.
- 4.2.2 Orders placed by a Member Firm in accordance with 4.2.3 may be accepted by Member Firms or members of Oslo Børs in the case of Standard Series Contracts which are traded on the linked Order book. Where an offer is accepted in this way, the Exchange shall register the resulting Contract in the Account of the Member Firm or Member Firms which are parties to the Trade.
- 4.2.3 On placing, cancelling or varying an Order by way of the electronic trading system, a Member Firm shall provide the following information:

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- i) the Series, Style, and the Listed Product in question;
- ii) the Expiration Month;
- iii) whether its Order is to buy or to sell;
- iv) in the case of an Options Contract, whether it is a call or a put;
- v) the price for the Order;
- vi) the Order's volume;
- vii) whether it is a Limit Order, Market Order or a Combination Order;
- viii) the Account to which the Trade, if executed, is to be allocated;
- ix) if appropriate, the identification code of the Client for whom the Order has been placed.

On placing an Order into the Order book Member Firms should ensure that the value of the Order does not exceed the maximum permitted size for the Contract in question, Member Firms should note that any Order placed on the Order book which exceeds the applicable maximum permitted size shall be rejected. Member Firms will receive a message stating this. Price and quantity restrictions are detailed in the London Stock Exchange Derivatives Market Trading Services Description on the Exchange's website.

4.2.4 The Tick Size applicable for trading on the Order book is described in the relevant Contract Specification.

4.2.5 A Member Firm may contact Market Operations to cancel an Order originated from the electronic trading system. Such requests must be from a Registered Person according to Rule 1.1.8.

### **MARKET MAKING RULES**

4.3.1 All Market Makers are required to maintain an electronic connection to the Exchange and to provide quotes in the Listed Products that are available for market making and in which they have agreed to act as such by such means.

4.3.2 A Market Maker shall enter into a Market Maker Agreement with the Exchange specifying the Listed Products in which it agrees to act as such and the capacity in which it will act in respect of each Listed Product.

4.3.3 All details covering market making activity are outlined in these rules and the market making documents published on the Exchange's website.

4.3.4 A Market Maker may act in such capacity as is specified in in the Market Maker Obligations Document applicable to the Listed Product in question.

4.3.5 A Market Maker which performs its obligations as such to the satisfaction of the Exchange shall pay fees in relation to Trades effected by it in its market marking capacity as specified more particularly in the Market Maker Obligations Document. Where a Market Maker does not

# **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

meet its obligations as specified in the Market Maker Obligations Document it shall pay the standard member fees.

## **OTHER LIQUIDITY PROVISION SCHEMES**

- 4.4.1 The Exchange may from time to time, in the interest of promoting market liquidity, operate one or more additional liquidity schemes.
- 4.4.2 The Exchange shall determine and publish on its own website the terms and conditions of each available liquidity provision schemes.

## **CANCELLATION OR ADJUSTMENT OF INCORRECT TRADES**

### **GENERAL**

- 4.5.1 The Exchange reserves the right to forcibly cancel or adjust any Trades without the permission of either Counterparty. Circumstances under which this can occur may include, but are not limited to:
- i) an error (technical or operational) on the part of the Exchange or its systems;
  - ii) material breach of any law, any of these rules or any rule of an affiliate company of the Exchange (such as the Designated Clearing House);
  - iii) the Exchange judges that cancellation or adjustment of the Trade would be in the interests of the market;
  - iv) for Dividend derivatives, where a Trade occurs on the basis of material or erroneous information.
- 4.5.2 The Exchange will only accept cancellation or adjustment requests from a Registered Person at the Member Firm as documented by the Member Firm in the Schedule of Registered Persons.
- 4.5.3 The Exchange's preferred option is to adjust rather than to cancel any Trade, but the decision to adjust or cancel a Trade is at the absolute discretion of the Exchange.
- 4.5.4 The Exchange shall not ordinarily consider a request for cancellation or adjustment of a Trade when such request relates only to the size of the Trade. Such Trade may only be adjusted or cancelled under exceptional circumstances at the absolute discretion of the Exchange.
- 4.5.5 A Member Firm that is perceived to be cancelling Trades with higher than average regularity will be warned once by the Exchange. If the activity continues the Member Firm may be suspended from the market.

## **CANCELLATION OR ADJUSTMENT OF INCORRECT TRADES FOR NON NORWEGIAN CONTRACTS**

- 4.6.1 Without prejudice to rule 4.5.1, the Exchange shall not ordinarily consider a request for cancellation or adjustment of a Trade unless such Trade has been executed outside the fair market spread as detailed in rule 4.6.4 b) for Options Contracts and in rule 4.6.4 c) for Future Contracts.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 4.6.2 A request to cancel or adjust a Trade must be received by the Market Supervision department within 30 minutes of execution of the Trade. No Trade will usually be considered for cancellation or adjustment if the request is received more than 30 minutes after the Trade has executed.
- 4.6.3 On receiving a request from a Member Firm to cancel or adjust a Trade, the Exchange will contact the other Counterparty and request that the Trade be cancelled or adjusted. Should the Counterparty agree the Trade will be considered for cancellation or adjustment by the Exchange.
- 4.6.4 If the Counterparty does not agree to cancel or adjust the Trade, the Exchange will:
- a) establish whether the trade has been executed outside the fair market spread (as detailed in rule 4.6.4 b) for Options Contracts and in rule 4.6.4 c) for Future Contracts). If the price of the Trade is strictly outside of the fair market spread, the Exchange will consider cancelling or adjusting the Trade;
  - b) for Trades in Option Contracts the fair market spread will be **15%** either side of the obligated spread for Market Makers according to the Market Maker Obligations Document on the Exchange's Website around the theoretical Option premium calculated in accordance with rule 4.6.6. In the absence of an obligated spread, the fair market spread will be **30%** either side of the theoretical Option premium;
  - c) for Trades in Futures Contracts the fair market spread will be the fair value of the Future Contracts plus or minus the contract value range described in Appendix C of the London Stock Exchange Derivatives Market Trading Services Description.
- 4.6.5 In order to calculate a theoretical Options premium for the time of the Trade, the Exchange will use a standard options pricing model with the following inputs:
- i) the price of the Underlying on the primary market at the time of the trade;
  - ii) a volatility estimate taken from polling other non-affected market participants or, in the absence of such information, volatility data used by the Exchange's clearing system to calculate the previous evening's End of Day Price;
  - iii) the market interest rate used by the Exchange's clearing system for the Listed Product in question;
  - iv) the dividend yield expectation (if applicable).
- 4.6.6 In order to calculate the fair value of a Futures Contract for the time of the trade using a standard no-arbitrage pricing model with the following inputs:
- i) the price of the Underlying on the primary market at the time of the trade;
  - ii) the market interest rate used by the Exchange's clearing system for the Listed Product in question;
  - iii) the dividend yield expectation (if applicable).
- 4.6.7 For Trades in Option Contracts, if the decision is made to adjust the Trade, the adjusted price will ordinarily be 15% either side of the obligated spread for Market Makers, according to the

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

Market Making Document on the Exchange's Website, around the theoretical Option premium. In the absence of an obligated spread, the fair market spread will be 30% either side of the theoretical Option premium.

- 4.6.8 For Trades in Future Contracts, if the decision is made to adjust the Trade, the adjusted price will ordinarily be the fair value of the Future contract plus or minus the contract value range described in Appendix C of the London Stock Exchange Derivatives Market Trading Services Description.
- 4.6.9 Under exceptional circumstances, the Exchange may decide to cancel or adjust Trades that occurred inside the fair market spread (as detailed in rule 4.6.4 b) for Options Contracts and in rule 4.6.4 c) for Future Contracts) at its absolute discretion.

### CANCELLATION OF INCORRECT TRADES FOR NORWEGIAN CONTRACTS

- 4.7.1 The Exchange will not direct that a Trade in a Norwegian Contract be considered for cancellation or adjustment in the absence of the agreement of the Counterparty to the Trade unless the loss suffered by the Member Firm, as a consequence of the error in the execution of the Trade, is NOK 5,000 or more and unless the period between the time at which the Trade is effected and the time at which the request is submitted is within:
  - i) 10 minutes for any cancellation to be effected; or
  - ii) 30 minutes for any adjustment to be effected.
- 4.7.2 No Trade will usually be considered for cancellation or adjustment if the request is received more than 30 minutes after the Trade has executed.
- 4.7.3 The Exchange will notify the Member Firm or Member Firms involved in the Trade of its decision in the case of a request relating to Norwegian Contracts as soon as reasonable practicable.
- 4.7.4 Further details of cancellations of incorrect Trades for Norwegian Contracts, including the fair market spread and price adjustment range for Norwegian Contracts are available from rule 3.5 in the [Oslo Børs rule book](#).

### POSITION LIMIT RULES

- 4.8.1 The Exchange may set Position Limits prescribing the maximum number of Registered Contracts in a Standard Series which may be held by a Member Firm or a Client at any time. Such Position Limits will be set by the Exchange in the interests of maintaining a proper market in the Listed Product in question.
- 4.8.2 Position Limits may also be set by the Exchange following discussions with the Designated Clearing House where the Exchange and the Designated Clearing House are satisfied that such action is necessary in order to manage the risk represented by the Member Firm in question.
- 4.8.3 The Exchange will notify Member Firms of the imposition of Position Limits in relation to any Listed Product or of any variation in existing Position Limits.

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- 4.8.4 A Member Firm shall not enter into any Trade in a Listed Product if such Trade would result in Position Limits applicable to the Listed Product in question being breached by the Member Firm or the Client for whom the Member Firm is acting in relation to the Trade.
- 4.8.5 A Member Firm shall take such action as the Exchange may direct in order to rectify any breach of a Position Limit by the Member Firm. Where the Member Firm fails to act in accordance with instructions given by the Exchange in accordance with this Rule, the Exchange may take such action as it considers necessary in the circumstances including, without limitation, excluding the Member Firm from participation in trading at the Exchange and effecting in the name of and at the expense of the Member Firm such Trades as the Exchange at its sole discretion considers are necessary to cure the breach of the relevant Position Limit.
- 4.8.6 Breach of a Position Limit shall be a disciplinary offence under the Rules of the London Stock Exchange Derivatives Market. A Member Firm which has breached a Position Limit imposed by the Exchange will be subject to disciplinary action in accordance with section 8. The Exchange may investigate positions registered in Accounts held by a Member Firm to establish whether the Member Firm has registered positions in more than one Account in an attempt to circumvent Position Limits applicable to such Member Firm.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## TRADE REPORTING RULES

### GENERAL

- 5.1.1 A Bilaterally Negotiated Trade is considered a London Stock Exchange Derivatives Market Trade if the Counterparties have agreed for such trade to be concluded under the rules of the London Stock Exchange Derivatives Market and such trade is also reported to the Exchange in accordance with these rules and accepted for Registration.
- 5.1.2 The provisions of this rule provide for the Trade Reporting and Registration of Bilaterally Negotiated Trades to the Exchange in Standard Series and Tailor-made Futures Contracts or Options Contracts.
- 5.1.3 The acceptance of a trade report of a Bilaterally Negotiated Trade and the subsequent Registration of such trade are at the discretion of the Exchange and the Designated Clearing House, respectively. The acceptance of a trade report by the Exchange will not however occur unless a corresponding trade report (executed in accordance with the service terms described in the London Stock Exchange Trading Services Description) is submitted by each Counterparty to the Exchange in a timely manner and that the reported trade is accepted for Registration.
- 5.1.4 A Bilaterally Negotiated Trade should be reported in a timely manner but, in any event, no later than one hour after the time of its conclusion.
- 5.1.5 Without any prejudice to any of the rules included in this section (rules 5.1.1 to 5.1.14), a Member Firm or a Reporting Broker which has arranged one or more Bilaterally Negotiated Trades and has initiated a Trade Reporting and Registration process on behalf of two or more Member Firms using the Bundled Orders or the Third Party Order Execution functionalities (as defined and described in the London Stock Exchange Trading Services Description) should ensure that:
- a) the details of all relevant Bilaterally Negotiated Trades for which Trade Reporting and Registration are initiated are accurate;
  - b) the relevant Member Firms are informed that one of these functionalities is being used to initiate Trade Reporting and Registration;
  - c) the relevant Member Firms submit corresponding trade reports in a timely manner but, in any event, no later than one hour after the time the Bilaterally Negotiated Trade has been concluded; and
  - d) the relevant Member Firms are aware of all the provisions of this section (rules 5.1.1 to 5.1.14) and their obligations, including that unless and until all Counterparties submit trade reports, such trade reports are accepted and all the relevant Bilaterally Negotiated Trades are registered, none of such Bilaterally Negotiated Trades will be considered a London Stock Exchange Derivatives Market Trade.
- 5.1.6 All Bilaterally Negotiated Trades reported to the Exchange are subject to the Exchange controls as described in the London Stock Exchange Trading Services Description. Following validation by the Exchange, the relevant particulars are communicated to the Designated

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

Clearing House which then determines that the Registered Contracts are acceptable on the terms specified within the trade report with the Member Firm or Member Firms in question.

- 5.1.7 All trade reports can only be accepted on valid Business Days for the specific market as determined by the Exchange. Details are available on the Exchange's website <http://www.lseg.com/derivatives/document-library>.
- 5.1.8 Where the Designated Clearing House is informed by the Exchange that a trade report has been received and accepted before the relevant deadline and agrees to enter into a Registered Contract pursuant to such trade report, the Contract in question shall be registered by the Designated Clearing House on that day. Where a report relating to the acceptance by the Exchange of the trade report is received by the Designated Clearing House after such time, the Contract in question shall be considered for Registration by the Designated Clearing House on the next Business Day for the market in question.
- 5.1.9 All such Registered Contracts will be entered into by the Designated Clearing House as the Central Counterparty in accordance with and subject to its Regulations.
- 5.1.10 There are four variable elements of Tailor-made Options Contract, namely its Expiration Day, its style, Strike Price and settlement type (if applicable). The only variable elements for a Tailor-made Futures Contract are Expiration Day and settlement type (if applicable). The maximum term of a Tailor-made Contract is up to five years for Stock or Depositary Receipts and a lesser term of two years for index products. The Exchange may specify a different term from time to time in relation to a particular Tailor-made Contract.
- 5.1.11 If for any reason the registered Expiration Day for a Tailor-made Contract proves not to be a Trading Day for the relevant Contract, the Exchange shall have the power to modify the Expiration Day by bringing it forward to the Trading Day for the Contract in question immediately preceding the reported date.
- 5.1.12 The Member Firm or the Reporting Broker should provide details of the Bilaterally Negotiated Trade they wish to report and must meet the criteria for acceptance. The required details will include:
- i) the type and class of a Standard or Tailor-made Contract;
  - ii) the term of the non-standardised Contract;
  - iii) the Strike Price;
  - iv) the Option style (if applicable);
  - v) whether it wishes to buy or to sell;
  - vi) the name of the Counterparty;
  - vii) Account type; and
  - viii) Settlement type (if applicable).
- 5.1.13 The acceptance of such request will be at the discretion of the Exchange and the Designated Clearing House. Without prejudice to rule 5.1.3, the request will not, however, be accepted



## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

unless a corresponding trade report is confirmed by each relevant Counterparty to the Exchange and that such request is accepted for Registration.

- 5.1.14 A trade report of a Bilaterally Negotiated Trade in accordance with this rule must be submitted to Market Operations by electronic communication using predefined templates or directly to the Exchange via the appropriate automated technical functionality (as described in the London Stock Exchange Trading Services Description), the Exchange will inform each Member Firm (including any Reporting Broker) submitting such request promptly as to whether it has been accepted for Registration or not.

### **CANCELLATION OF INCORRECT TRADES - TRADE REPORTING**

- 5.2.1 The Exchange reserves the right to forcibly cancel or adjust any reported Trades without the permission of either Counterparty.
- 5.2.2 The Exchange will only accept cancellation or adjustment requests from a Registered Person at the Member Firm as documented by the Member Firm in the Schedule of Registered Persons.
- 5.2.3 No Trade in any Listed Product will be considered for cancellation if the request to cancel is received by the Market Supervision department after the close of business on the business day following the Trade Day.
- 5.2.4 On receiving a request from a Member Firm to cancel a Trade, the Exchange will contact the other Counterparty and request that the Trade be cancelled. Should the Counterparty not agree, the Trade will not be cancelled.
- 5.2.5 Where both Counterparties wish to make adjustments to a Bilaterally Negotiated Trade that has already been registered, the rules for Re-Registration apply.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## **CORPORATE ACTIONS RULES**

- 6.1.1 The treatment and handling of Corporate Action events is set out in the document titled London Stock Exchange Derivatives Market Corporate Actions Policy.
- 6.1.2 The London Stock Exchange Derivatives Market Corporate Actions Policy forms part of this rulebook and shall have effect as if set out in full in the body of this rulebook.
- 6.1.3 For Norwegian products, the Exchange applies Oslo Børs Rules and their adjustments for the treatment of Corporate Actions as described at [http://www.oslobors.no/ob\\_eng/Oslo-Boers/Regulations/Derivatives-rules](http://www.oslobors.no/ob_eng/Oslo-Boers/Regulations/Derivatives-rules) – A2 General Rules for derivatives contracts.
- 6.1.4 Member Firms should familiarise themselves with the Exchange policy document and for Norwegian products with the [Oslo Børs Rulebook](#).

## **CLEARING AND SETTLEMENT RULES**

### **GENERAL RULES FOR CLEARING AND SETTLEMENT OF ALL LISTED PRODUCTS**

7.1.1 The Designated Clearing House acts as the Central Counterparty for Registered Contracts which result from Trades which are executed by means of the Exchange's facilities or reported to the Exchange for Registration in accordance with these rules. The Clearing House Regulations provide for the clearing and settlement of the obligations in respect of Registered Contracts to be performed by the Member Firm directly if it is a Clearing Member at the Designated Clearing House or by the General Clearing Member acting on behalf of the Member Firm.

A Member Firm shall ensure that it makes all arrangements which are required in order to ensure such obligations will be duly discharged in the manner provided for in the Clearing House Regulations, or where applicable, for such matters to be discharged by the General Clearing Member acting on behalf of the Member Firm.

7.1.2 Member Firms should ensure that they or, where applicable, the General Clearing Member acting on their behalf, comply with the Clearing House Regulations which require them to:

- i) make arrangements with a bank approved by the Designated Clearing House for such purposes to enable its Settlement and payment obligations to the Designated Clearing House to be performed by way of a PPS transfer. The list of banks approved for such purposes together with copies of the documents required to be completed by Member Firms in connection with the PPS arrangements are available from the Designated Clearing House on request;
- ii) complete the necessary administrative procedures specified by the Designated Clearing House concerning the performance of delivery obligations appropriate to its activities at the Designated Clearing House.

7.1.3 Registered Contracts shall be settled on Expiration or Exercise as the case may be in accordance with the Clearing House Regulations applicable to the Contract in question.

7.1.4 Settlement of Registered Contracts shall be effected between the Designated Clearing House and the Clearing Member or General Clearing Member of the Designated Clearing House responsible for the Account in which the Contract which has expired or has been Exercised was registered at the relevant time.

7.1.5 Member Firms which act as Clearing Members of the Designated Clearing House shall ensure that they comply with their obligations to provide Collateral to the Designated Clearing House in the manner provided for in the Clearing House Regulations to cover any Margin obligations in relation to Registered Contracts in the Account at the Designated Clearing House.

Member Firms which use the services of a General Clearing Member in relation to the clearing and Settlement of Registered Contracts shall ensure that such General Clearing Member complies with the abovementioned obligations to provide Collateral to the Designated Clearing House.

7.1.6 Member Firms should note that in accordance with the Clearing House Regulations, the Designated Clearing House may decline to enter into a Registered Contract or to cancel a

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

Registered Contract where it is required to take such action in order to comply with applicable laws or regulations or any order or direction given by or a requirement imposed by any relevant regulator or pursuant to the rules of any such regulator.

In such circumstances the Exchange shall take the necessary steps in conjunction with the Designated Clearing House. Where any such action is taken, the Exchange may at its sole discretion effect such Trades in the name of and for the Account of the Member Firm to whom such law, regulation, order, direction or requirement applies as may be necessary in order to ensure that following such action and the Registration of the resulting Registered Contracts at the Designated Clearing House, the balanced position of the Designated Clearing House is maintained.

- 7.1.7 The Member Firm shall inform the Exchange immediately of any change in the Member Firm's status as a Clearing Member or of any arrangements made by it with a General Clearing Member.
- 7.1.8 Member Firms which are not Clearing Members must obtain the approval of the General Clearing Member acting on their behalf of any changes they intend to introduce to their trading profile before such changes are implemented.
- 7.1.9 Member Firms are responsible for settling trades executed on the Exchange and are bound by the rules and procedures of the Designated Clearing House in the event of a settlement default.

Where a Designated Clearing House declares a Member Firm to be a defaulter, the Exchange shall terminate the membership of that Member Firm.

- 7.1.10 In the event that the Designated Clearing House ceases to accept Registered Contracts or suspends its services, the Exchange will suspend trading on the derivatives market.

### **TRADE REGISTRATION**

- 7.2.1 On execution of a Trade in a Standard Series or the acceptance of a trade report in accordance with these rules relating to any Listed Product, the Clearing House Regulations provide that the Designated Clearing House shall enter into a Registered Contract so that:
  - i) where a Clearing Member is the seller in such Trade, the Designated Clearing House shall enter into a Registered Contract as buyer from the Clearing Member; and
  - ii) where a Clearing Member is the buyer in such Trade, the Designated Clearing House shall enter into a Registered Contract as seller to the Clearing Member.

As a party to such Registered Contracts, the Designated Clearing House is responsible for the performance of its obligations to the Clearing Member in question.

- 7.2.2 If the Counterparty to a Trade in a Listed Product entered into by a Member Firm is a member of Oslo Børs, the Clearing House Regulations provide that it shall enter into a Balance Contract with identical economic content with SIX x-clear which will in turn enter into a contract as buyer or seller as the case may be with the other party involved in the Trade.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 7.2.3 In its capacity as Central Counterparty to Registered Contracts the Designated Clearing House accordingly maintains a neutral position at all times by entering into matching Contracts as buyer and seller contemporaneously.
- 7.2.4 Where a Trade is effected by means of the Exchange's electronic trading system the resulting Registered Contract will normally be registered upon receipt in the clearing system of the Designated Clearing House.

Where a Trade is effected by other means provided for in these rules or is reported to the Exchange for Registration in accordance with these rules, the resulting Registered Contract will be registered at the time that the Contract in question is accepted for clearing by the Designated Clearing House and matched in the Clearing system of the Designated Clearing House.

- 7.2.5 The acceptance of a trade report shall be at the sole discretion of the Exchange and the Designated Clearing House. Trade reports may be submitted to the Exchange by the Member Firm or Member Firms which are the counterparties to the Trade referred to in such request.

Trade reports relating to Bilaterally Negotiated Trades in a Standard Series may be submitted during the normal Trading Hours for the Listed Product in question.

For Registration outside trade reporting hours express approval from the Designated Clearing House will be required.

- 7.2.6 In exceptional circumstances, the Exchange will consider a trade report which is submitted during Trading Hours for the Contract in question which relates to a Trade which was entered into prior to the start of the current trading session. Any such trade report shall be submitted electronically to Market Operations using the predefined template available on the Exchange's website.

In considering any such trade report, the Exchange shall have regard to the time and price at which the Bilaterally Negotiated Trade was affected and any other factors which it considers to be material to its determination with regard to accepting the request. In any case express approval from the Designated Clearing House will be required.

### GIVE-UPS

- 7.3.1 A Member Firm may for all or certain specified Registered Contracts in its Account give-up Trades for clearing and Settlement purposes to another Member Firm.
- 7.3.2 The provisions of this rule apply to the exclusion of Re-Registration in relation to the giving up of a Registered Contract between Member Firms.
- 7.3.3 For all Give-ups except those to or from a Norwegian clearing member, the transferring Member Firm must perform the Give-up no later than 18:00 London time.

For a Give-up to or from a Norwegian clearing member, the Give-up must be submitted no later than 17:30 London time on the day on which the Trade was executed.

- 7.3.4 The transferring Member Firm and the accepting Member Firm will be bound by the Give-up confirmation unless an objection is submitted to the Exchange no later than 30 minutes after the close of trading for the Listed Product in question on the day on which the Give-up

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

confirmation is issued. If a valid objection is received or if the accepting Member Firm declines to accept the Give-up, the Registered Contract shall remain in the Account of the Member Firm which effected the Trade.

- 7.3.5 Where the relevant Trade has been executed by a member of Oslo Børs, such party may agree with a Member Firm which is a Clearing Member for the resulting Contract to be given-up for clearing and Settlement to such Clearing Member. These arrangements and the procedures governing the Registration of any Contract given-up to the Clearing Member shall be carried out in accordance with the Clearing House Regulations.
- 7.3.6 The procedures for a Give-up set out in this rule do not apply to the arrangements made between a Member Firm, a General Clearing Member and the Designated Clearing House whereby the responsibility for the clearing and Settlement of all Trades undertaken by such Member Firm is accepted by the General Clearing Member which has agreed to act in that capacity for the said Member Firm. These arrangements will be governed by the terms of the agreement entered into by the General Clearing Member and the Member Firm in question.

### PROTESTS

- 7.4.1 Member Firms have access to Statements specifying the Registered Contracts which have been registered in their Accounts at the Designated Clearing House.
- 7.4.2 The Member Firm shall satisfy itself that the information contained in the Statement is complete and correct in all respects and that the Statement records accurately the terms of the Trades affected by the Member Firm at the Exchange on the day in question.

A Member Firm which uses the services of a General Clearing Member shall confirm with such General Clearing Member that the particulars of Trades shown in the Statements as having been entered in to by the Member Firm are complete and correct in all respects.

In accordance with the Clearing House Regulations, the Member Firm or General Clearing Member as the case may be, shall be bound by the terms of a Registered Contract recorded on a Statement if a valid Protest is to be submitted to the Exchange by the Member Firm no later than 08:00 London time on the following Business Day. Such Protest shall be in writing and shall provide details of the alleged error.

- 7.4.3 Where Registration has or should have taken place on the same day as the Expiration Day of the Contract in question, Protests must be submitted no later than 60 minutes prior to the closing of the clearing system on the Expiration Day.

Exceptions to time limits in this rule can be made if operationally possible, following approval from the Exchange (and Oslo Børs for Norwegian products).

- 7.4.4 In its own authority or following a request by a Member Firm, the Exchange may effect an amendment of an incorrectly executed or non-executed Exercise or Cash Settlement, which the Exchange has processed or failed to process, on behalf of a Member Firm.

A Member Firm, who wishes to submit a Protest in respect of an incorrectly executed or non-executed Exercise or Settlement, that the Exchange has processed or failed to process, on behalf of a Member Firm, must submit a request to the Exchange no later than 120 minutes after normal opening of the next Trading Day after the Exercise or Settlement was carried out, or should have been carried out.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

The Exchange will inform the Member Firms concerned how the amendment will be effected.

- 7.4.5 In its own authority or following a request by a Member Firm, the Exchange may carry out the following measures, as a result of an incorrectly executed or non-executed Exercise or Cash Settlement, which a Member Firm has processed or failed to process.

A Member Firm who wishes to submit a Protest in respect of an incorrectly executed or non-executed Exercise or Settlement, which that Member Firm has processed, or failed to process, must submit a request to the Exchange as soon as the error is discovered, however, no later than after normal opening of the next Trading Day after the Exercise or Settlement was carried out.

If, in the Exchange's opinion, a Member Firm's request for Exercise or Settlement has been incorrectly executed, the Exchange may contact Member Firms concerned on its own initiative, even if no Protest has been made.

The Exchange will cancel or amend the Exercise and any Settlements in question if the Member Firms concerned consent to such a measure.

- 7.4.6 On receipt of a valid Protest, the Exchange shall investigate the matter. The Exchange shall inform the Member Firm submitting the Protest of its decision as soon as possible. Where the Member Firm so requests, the Exchange shall confirm its decision and the reasons therefore in writing as soon as possible after the decision is given. The Exchange shall inform the Designated Clearing House of its decision concerning the Protest and shall arrange for the terms of any Registered Contracts affected by the Protest to be adjusted as required in accordance with its decision. The adjustment of the terms of any Registered Contracts pursuant to a Protest shall be effected by the Designated Clearing House in accordance with the Clearing House Regulations.

### RE-REGISTRATION

- 7.5.1 A Request for Re-Registration requesting the transfer of all or certain specified Contracts Registered in an Account at the Designated Clearing House or the transfer of all or certain specified Contracts registered at SIX x-clear to the Account of a Member Firm at the Designated Clearing House may be submitted to the Exchange in accordance with the following provisions of this rule.
- 7.5.1 A Request for Re-Registration may be submitted to the Exchange on the grounds that:
- i) the Member Firm has decided to use the services of a General Clearing Member and seeks the Re-Registration of Contracts registered in its Account to the Account of the General Clearing Member;
  - ii) the Member Firm has decided to terminate its existing arrangements with a General Clearing Member and seeks the Re-Registration of Contracts registered in the Account of such General Clearing Member pursuant to the execution of Trades by such Member Firm to the Account of the Member Firm or the Account of another General Clearing Member whose services the Member Firm has decided to use;
  - iii) the Registered Contracts to which the request relates were effected on behalf of a Client who has requested that its positions be transferred to another Clearing Member;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- iv) the Registered Contracts to which the request relates were effected on behalf of a Member Firm as a Client of a Broker, and the Member Firm has requested that the positions in question be transferred to its Proprietary Account;
- v) the Re-Registration is requested following the transfer of the business of the transferor Member Firm to the transferee Member Firm or other similar event; or
- vi) that the Registration of the Contract in the Account in question was the result of an error;
- vii) the Re-Registration is requested by a Member Firm for a trade that has failed to be accepted by the receiving party via a (Give-Up);
- viii) The Re-Registration is requested by a Member Firm for an incorrectly Registered Contract or trade.

7.5.3 Requests for Re-Registration shall be submitted to the Exchange by submitting a duly completed request in writing. Any request which seeks the Re-Registration of a Contract to or from a Client Account shall not be considered unless the Member Firm requesting Re-Registration provides satisfactory confirmation that the Clients affected thereby have consented to the Re-Registration.

7.5.4 Requests for Re-Registration of a Registered Contract to or from the Account of a General Clearing Member (other than an Account used solely for the Registration of positions entered into by such General Clearing Member on its own Account) shall be submitted by a completed request in writing by the party affected by such request.

7.5.5 A Request for Re-Registration shall be submitted within the Trading Hours, as set out in the Contract Specifications, on the Trading Day following the day in question when the position or trade was registered with the Designated Clearing House. The request contains the following details:

- i) the Contracts/trades to be registered;
- ii) the Account of the transferor; and
- iii) the Account of the transferee.

7.5.6 A Request for Re-Registration can be accepted prior to the specific Listed Product opening for trading; requests must be submitted no later than 07:30 London time.

7.5.7 All Requests for Re-Registration will be considered at the discretion of the Exchange and the Designated Clearing House and shall, if accepted, result in the Re-Registration of the Contract/trade in question being affected at the time specified by the Designated Clearing House.

The Exchange will inform the Member Firm which submitted the Request for Re-Registration of the decision with regard to the request as soon as practicable following receipt of the Request.

The decision of the Exchange and the Designated Clearing House in this respect shall be final and binding.



## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

Where a Request for Re-Registration is accepted, the Exchange shall arrange for the terms of any Registered Contract affected by its decision to be amended by the Designated Clearing House. Standard fees shall apply to Re-Registration of trades.

### EXERCISE OF OPTIONS CONTRACTS

- 7.6.1 The timing governing the Exercise of Options Contracts is set out in the section of the applicable Listed Product in question as defined in the individual Contract Specification.
- 7.6.2 The automatic Exercise procedures for all Option Contracts are as per the relevant section of the Trading Services Description. At-the-Money or Out-of-the-Money Option Contracts are not subject to automatic Exercise and will expire worthless, unless Exercise is expressly requested.
- 7.6.3 The holder of an American Style Option which wishes to Exercise on a non Expiry Day shall submit such Exercise request through the Clearing System via its electronic connection. Only when valid confirmation is received will the Exercise request be submitted.
- 7.6.4 Exercises must comply with the Exercise Windows featured below.

| Option style                      | Exercise   | Exercise Window / manual Exercises |       |
|-----------------------------------|--|------------------------------------|-------|
|                                   |  | Open                               | Close |
| American style                    | Any Trading Day from the Trade Day until the Trading Day before Expiration Day | 07:30                              | 18:00 |
| European style and American style | Expiration Day only  | 18:10                              | 18:40 |

All times are London times

- 7.6.5 The above timings can be subject to alteration by the Exchange; any change to the above will be communicated through a Notice.
- 7.6.6 On Exercise of an Options Contract, the Exercise Settlement Amount will be indicated on the Statements made available to Member Firms in the clearing System.
- 7.6.7 For Physical Settled Options Contracts refer to section 7.8.
- 7.6.8 The Exchange's determination of the time at which an Exercise request was received by shall be final and binding.
- 7.6.9 Where an Exercise has been accepted by the Exchange or an Options Contract is Exercised in accordance with these procedures, the Exchange will select a corresponding Options Contract to be Exercised against. Such Contracts will be selected on a random basis from the available short positions in the relevant Contracts.
- 7.6.10 The Exchange shall inform the Designated Clearing House of all positions that will be subject to Exercise and Assignment so that the Designated Clearing House may take the necessary action in respect of the Settlement of the related Options Contracts.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## SETTLEMENT AND DELIVERY FOR PHYSICALLY SETTLED CONTRACTS

- 7.7.1 The rights and obligations for a Member Firm and the Exchange regarding the Settlement of Registered Contracts relating to Physical Settled Future and Options Contracts are set out in the respective Contract Specifications for the Listed Products in question and in the following provisions of this rule.
- 7.7.2 For the purposes of cash settlement, the specified delivery settlement amount will be calculated based on either the Expiration Settlement Price on the Expiration Day or the closing price defined by the Exchange on the day on which cash settlement was initiated, the better price for the buyer will be used.
- 7.7.3 Protests concerning Delivery or Settlement will be considered by the Designated Clearing House, not the Exchange.

## EXPIRATION SETTLEMENT PROCEDURES FOR PHYSICALLY SETTLED CONTRACTS

- 7.8.1 The rights and obligations for a Member Firm and the Exchange regarding Expiration Settlement of Registered Contracts relating to physically settled Contracts shall be performed in accordance with this rule.
- 7.8.2 Expiration Settlement comprises two elements:
- i) the Delivery of the quantity of the Underlying Contract by the seller to the buyer; and the Expiration Settlement Amount by the buyer to the seller;
  - ii) the Expiration Settlement Price and Expiration Settlement as determined in the relevant Contract Specification.
- 7.8.3 On the Expiration Date the Exchange shall make available reports detailing Settlement and Delivery obligations for each Member Firm holding one or more positions in an expiring Series showing the quantity of the underlying Contract in question to be delivered to or by the Member Firm together with the correlative payment obligation in respect of such Settlement.
- 7.8.4 The seller of a Stock or underlying Depository Receipt Contract shall deliver the specified amount against payment in accordance with the Exchange's instructions on the second Business Day following the Expiration Day for the Contract in question.
- 7.8.5 The buyer of a Stock or underlying Depository Receipt Contract shall pay the Expiration Settlement Amount to the seller against the Delivery of the Stock or Depository Receipt on the second Business Day following the Expiration Day for the Contract in question.
- 7.8.6 The Exchange may defer its Expiration Settlement Procedures if abnormal circumstances occur which prevent Settlement being effected at the normal time. The Exchange shall inform Member Firms at the earliest opportunity of any such occurrence.
- 7.8.7 The Exchange shall notify all Member Firms of the determined Expiration Settlement Price.
- The published Expiration Settlement Price on the Expiration Day may be subject to amendment if the Exchange deems necessary.
- 7.8.8 The Exchange will make available reports through BCS and in the absence of manifest error; the information provided by the Exchange shall be final and binding.

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- 7.8.9 Where the performance of any Settlement obligation relating to a physically settled Contract falls on the same day as a settlement obligation relating to a corresponding Tailor-made Contract, such obligations shall be combined so as to produce a single net settlement entitlement for the Member Firm.

### **EXPIRATION SETTLEMENT PROCEDURES FOR CASH SETTLED CONTRACTS**

- 7.9.1 The Exchange may defer Expiration Settlement if abnormal circumstances occur which prevent Settlement being effected at the normal time. The Exchange shall inform Member Firms at the earliest opportunity of any such occurrence.
- 7.9.2 The rights and obligations of the buyer and the seller in respect of the Expiration Settlement of cash settled Contracts shall be performed in accordance with this rule.
- 7.9.3 The Exchange shall notify all Member Firms of the determined Expiration Settlement Price.

The published Expiration Settlement Price on the Expiration Day may be subject to amendment if the Exchange deems necessary.

- 7.9.4 Settlement on Expiration of a cash settled Contract shall be affected as a final Daily Cash Settlement on the Expiration Settlement Day plus 1 for such Contract, as defined in the Contract Specification.
- 7.9.5 All payments required to be made under this rule shall be made in accordance with instructions issued by the Exchange. Such payments shall be made in the currency of the cash settled Contract as specified in the relevant Contract Specification.
- 7.9.6 All obligations to make cash payments under the procedures governing Expiration Settlement of cash settled Contracts shall be affected by way of the PPS arrangements established by the Designated Clearing House for such purposes. Such payments shall be effected in accordance with the instructions issued by the Designated Clearing House.
- 7.9.7 On the Expiration Day of a cash settled Contract, the Exchange will make available to each Member Firm holding positions Statements relating to those positions and corresponding obligations. The Exchange's Statements shall be final and binding.
- 7.9.8 Where the performance of any cash Settlement obligation relating to cash settled Contracts falls on the same day as a settlement obligation relating to a corresponding Tailor-made Contract, such obligations shall be combined so as to produce a single net settlement entitlement for the Member Firm.

### **EXPIRATION PROCEDURES FOR IOB DIVIDENDS**

- 7.10.1 The rights and obligations of the buyer and the seller in respect of the settlement of an IOB Dividend Futures Contract or corresponding late IOB Dividend Futures Contract shall be performed in accordance with this section.
- 7.10.2 The Expiration Settlement Amount is determined by reference to the Expiration Settlement Price on its Expiration Date for the Contract in question as detailed in the relevant Contract Specification.

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- 7.10.3 The payment of the Expiration Settlement Amount shall be due on the Expiration Settlement Day for the Contract as per the contract specification.
- 7.10.4 The Exchange may defer its Expiration Settlement procedures if abnormal circumstances occur which prevent Settlement being effected at the normal time. The Exchange shall inform Member Firms at the earliest opportunity of any such occurrence.
- 7.10.5 The Exchange shall notify all Member Firms of the determined Expiration Settlement Price.
- The published Expiration Settlement Price on the Expiration Day may be subject to amendment if the Exchange deems necessary.
- 7.10.6 The Exchange will make available reports through the Clearing Application In the absence of manifest error; the information provided by the Exchange shall be final and binding.

### **DAILY CASH SETTLEMENT PRICE**

- 7.11.1 Futures Contracts are subject to Daily Cash Settlement.
- 7.11.2 Daily Cash Settlement for a Listed Product only occurs on official Bank Days for that Listed Product as detailed in the Exchange's Trading Calendars available on the Exchange Website.
- 7.11.3 Where both the Opening Transaction and the Closing Transaction are Registered on the same day, cash Settlement between the Designated Clearing House and the Member Firm shall be affected by reference to the difference between the Future Price for the two transactions.
- 7.11.4 The first Daily Cash Settlement occurs on the first Bank Day following the Registration of the Futures Contract. Thereafter, Daily Cash Settlement shall be affected on each Bank Day until the Expiration Day in accordance with the provisions of these rules.
- 7.11.5 During the term of a Futures Contract, the Daily Settlement Price shall normally be determined in accordance with the process provided for in the relevant Contract Specification.
- 7.11.6 The first Daily Settlement Amount for a Futures Contract shall be determined by reference to the difference between the Future Price for the Futures Contract in question and the Daily Settlement Price for the Futures Contract on that Trade Day.
- 7.11.7 The Daily Settlement Amount for a Futures Contract (other than the first Daily Settlement Amount) shall be determined by reference to the difference between the Daily Settlement Price for the Futures Contract on the Trading Day in question and the Daily Settlement Price for the immediately preceding Trading Day for such Futures Contract.
- 7.11.8 The Daily Settlement Amount shall be payable on the first Bank Day following the Trading Day in question in accordance with the instructions of the Designated Clearing House.
- 7.11.9 The Exchange makes available daily Statements to Member Firms with registered positions normally no later than 22:00 London time on each Trading Day.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## COMPLIANCE PROCEDURES

### DISCIPLINARY PROCESS

Where the Exchange believes there has been a breach of these rules by a Member Firm, the Exchange may commence disciplinary action against such Member Firm. The Exchange may impose a fixed penalty, issue a warning notice and/or refer disciplinary matters to either the Executive Panel or the Disciplinary Committee. In appropriate cases (including where a greater sanction than the Executive Panel is authorised to impose is deemed appropriate by the Executive Panel), the Executive Panel may refer the case to the Disciplinary Committee.

There are a number of factors which the Exchange takes into account when considering what disciplinary action to take in relation to a rule breach. These are set out below:

- The seriousness, size and nature of the rule breach;
- How the rule breach came to light;
- The actual or potential market impact of the rule breach, and any other repercussions;
- The extent to which the rule breach was deliberate or reckless;
- The general compliance history of the Member Firm, and specific history regarding the rule breach in question;
- Consistent and fair application of the rules (any precedents of previous similar rule breaches);
- The responsiveness and conduct of the Member Firm in relation to the matter under investigation.

The Exchange's approach to regulation is aimed at maintaining the integrity, orderliness, transparency and good reputation of its markets and changing Member Firms' behaviour in those markets where necessary. The Exchange will investigate the facts of each case, seeking to understand why the rule breach occurred and will assess whether any remedial action the Member Firm has taken is adequate to prevent similar future occurrence.

The Executive Panel is a panel comprised of appropriately experienced senior persons from the Exchange's staff. The procedures followed by the Executive Panel are set out in rules 8.2.1 to 8.2.34. The Executive Panel also considers appeals against fixed penalties. Any final decision of the Executive Panel (other than a decision to refer a matter to the Disciplinary Committee) may be appealed to the appeals committee. There is no appeal on interim decisions.

The Disciplinary Committee is drawn from a pool of appropriately experienced (non-Exchange) persons and its procedures are set out in rules 8.3.1 to 8.3.41. The Disciplinary Committee may impose a wider range of sanctions than the Executive Panel and has discretion to publicise its findings. Any final decision of the Disciplinary Committee may be appealed to the appeals committee. There is no appeal on interim decisions.

The Appeals Committee is also drawn from a pool of appropriately experienced (non-Exchange) persons and hears appeals against the findings of both the Executive Panel and the Disciplinary Committee. The procedures followed by the appeals committee are set out in rules 8.4.1 to 8.4.35. The Appeals Committee may uphold, quash or vary any decision it is asked to consider.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

The table below summarises the disciplinary process operated by the Exchange.

| Process                | Normal use  | Constitution                                     | Appellate body    |
|------------------------|---|--|-------------------|
| Warning Notices        | • Rule breaches   | (no hearing)                                     |                   |
| Fixed penalties        | • Rule breaches where a fixed penalty notice is in issue  | (no hearing)                                     | Executive Panel   |
| Executive Panel        | •Disciplinary matters<br>•Appeals against fixed penalties   | Senior Exchange staff                            | Appeals Committee |
| Disciplinary Committee | •Disciplinary matters   | Appropriately experienced (non-Exchange) persons | Appeals Committee |
| Appeals Committee      | •Disciplinary appeals against Executive Panel findings<br>•Disciplinary appeals against Disciplinary Committee findings | Appropriately experienced (non-Exchange) persons |                   |

The table below summarises the sanctions available to the Exchange for any breach of these rules.

| Process                               | Available sanctions  | Appellate body    |
|---------------------------------------|--|-------------------|
| Warning Notices                       | • May stipulate corrective action required<br>• Formal record of action for Member Firm's case history   |                   |
| Fixed Penalty                         | • As set out in any applicable fixed penalty notice  | Executive Panel   |
| Executive Panel <sup>(i)</sup>        | One of:<br>• Private censure<br>• Fine up to £50,000 per breach<br>• Referral to Disciplinary Committee  | Appeals Committee |
| Disciplinary Committee <sup>(2)</sup> | One or more of:<br>• Private censure<br>• Public censure<br>• Unlimited fine<br>• Suspension of activities<br>• Restitution<br>• Expulsion from membership | Appeals Committee |
| Appeals Committee <sup>(2)</sup>      | Executive Panel referrals:<br>• Any sanction available to the Executive Panel  |                   |
|                                       | Disciplinary Committee referrals:<br>•Any sanction available to the Disciplinary Committee   |                   |

- i) Findings of the Executive Panel in respect of breaches of these rules by Member Firms are published anonymously by the Exchange from time to time.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- ii) Disclosure of findings is at the discretion of the committee hearing the case (subject to rule 8.1.2) in accordance with these rules. Matters subject to appeal will not be published before the appeal is completed.

### NON-DISCIPLINARY APPEAL PROCESS

In the first instance, appeals against decisions of the Exchange permitted under these rules are heard by the Executive Panel. The Executive Panel may uphold, quash or vary any decision it is asked to consider. There is no appeal on the Exchange's decision to refer a matter to the Executive Panel or the Disciplinary Committee.

Appeals against the findings of the Executive Panel, and referrals from the Executive Panel are heard by the Appeals Committee. The Appeals Committee may uphold, quash or vary any decision it is asked to consider.

The table below summarises the non-disciplinary appeals process operated by the Exchange.

| Process           | Normal use   | Constitution  | Appellate body    |
|-------------------|--|---|-------------------|
| Executive Panel   | • All non-disciplinary appeals (in the first instance)                 | Senior Exchange staff                                     | Appeals Committee |
| Appeals Committee | • Appeals against Executive Panel findings in non-disciplinary matters | Appropriately experienced (non- <b>Exchange</b> ) persons |                   |

The table below summarises the sanctions available to the **Exchange** for any breach of these rules.

| Process           | Sanction  | Appellate body    |
|-------------------|---|-------------------|
| Executive Panel   | One of:<br>• Uphold decision<br>• Quash decision<br>• Vary decision | Appeals Committee |
| Appeals Committee | One of:<br>• Uphold decision<br>• Quash decision<br>• Vary decision |                   |

### PROCESS AND PROCEDURES

- 8.1.1 The burden of proof shall be on the Exchange. The Exchange, the Executive Panel, the Disciplinary Committee or the Appeals Committee (as appropriate) shall not find an allegation proved unless it is satisfied on the balance of probabilities.
- 8.1.2 The Exchange reserves the right to publish, without disclosing the identity of any party concerned, in part, in summary or in full the findings of the Executive Panel, Disciplinary Committee or Appeals Committee where the Exchange believes that to do so would be of assistance to the market.
- 8.1.3 The Exchange may issue a warning notice to a Member Firm for a breach of these rules.
- 8.1.4 A warning notice forms part of a Member Firm's formal compliance record.

# RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

## FIXED PENALTIES

- 8.1.5 The Exchange may impose a fixed penalty on a Member Firm for a breach of these rules if the breach is one for which the Exchange has set out a fixed penalty by a notice in force at the time of the breach.
- 8.1.6 The Exchange imposes a fixed penalty by notifying a Member Firm's compliance department in writing of the breach and the amount of the fine, and specifying that the fine be paid within 30 days of receipt of the notification.
- 8.1.7 If the Exchange considers the circumstances of a case sufficiently serious, the Exchange may issue a warning notice or refer the matter to the Executive Panel or the Disciplinary Committee.
- 8.1.8 A Member Firm may appeal against a fixed penalty imposed by the Exchange to the Executive Panel.
- 8.1.9 Appeals must be made by service of a notice in writing on the Exchange within five days of being notified of the penalty, setting out the name of the Member Firm and the decision appealed against. Within 10 days of being notified of the penalty the Member Firm shall notify the Exchange of the grounds of appeal and all material facts and shall provide copies of all documents relevant to the appeal.
- 8.1.10 Within 10 days of receipt of the Member Firm's notice of appeal, the Exchange may submit to the Member Firm a statement of case setting out all material facts and attaching to it copies of all documents relevant to the charge(s).
- 8.1.11 The Member Firm may respond to the Exchange's statement of case in writing, within five days of receipt of the Exchange's statement of case. The Exchange and the Member Firm may vary this period for response by written agreement.
- 8.1.12 At the expiry of the period referred to in rule 8.1.11, the Exchange shall submit to the Executive Panel the statement of case (which shall include the notice of appeal) and the Member Firm's response (if any), together with copies of all other relevant documents.
- 8.1.13 The Executive Panel will conduct the appeal in accordance with the procedure set out in rules 8.2.1 to 8.2.34.

## EXECUTIVE PANEL

- 8.2.1 The Executive Panel shall, when acting as a tribunal of first instance, hear and determine charges against a Member Firm in respect of a breach of these rules.
- 8.2.2 The Executive Panel shall, when acting as an appellate tribunal, hear and determine appeals:
- i) by a Member Firm against a fixed penalty;
  - ii) by an appellant against a decision of the Exchange.
- 8.2.3 Where the Executive Panel acting as a tribunal of first instance finds an allegation proven on the balance of probabilities the Executive Panel may:
- i) issue a written warning (a private censure);



## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- ii) impose a fine of up to £50,000 for each breach; or
  - iii) refer the case to the Disciplinary Committee for hearing.
- 8.2.4 The Executive Panel may grant a consent order in respect of any settlement within its powers that may be negotiated between the Exchange and a Member Firm in relation to any disciplinary action taken by the Exchange.
- 8.2.5 The Executive Panel may, when acting as an appellate tribunal, uphold, quash or vary (in accordance with these rules) any decision by the Exchange which can be appealed under these rules or refer the matter to the Appeals Committee for further consideration.
- 8.2.6 Members of the Executive Panel shall be appropriately experienced senior Member Firms of the Exchange's staff.
- 8.2.7 The Executive Panel appointed pursuant to a referral or an appeal shall have between three and five members (including the Chairman) and shall have a quorum of three.
- 8.2.8 No member of the Exchange's staff who has been involved in the investigation or prosecution of the charge(s) in a disciplinary case shall be appointed to the Executive Panel considering that disciplinary case.
- 8.2.9 No member of the Exchange's staff who has been involved in a decision by the Exchange which is the subject of an appeal to the Executive Panel shall be appointed to the Executive Panel considering an appeal against that decision.
- 8.2.10 The names of the member of the Executive Panel will be disclosed to the Member Firm.
- 8.2.11 Each Executive Panel hearing a case shall appoint one of its members to be the Chairman.
- 8.2.12 A party may object to the membership of the Executive Panel on the grounds of conflict of interest or breach of rules 8.2.9 or 8.2.10. Such objection must be notified promptly, and prior to the hearing of the case, to the Exchange. If the Executive Panel upholds the objection, it will take appropriate action to address the objection. The decision of the Executive Panel under this rule is an interim decision and cannot be appealed separately from an appeal against the final decision of the Executive Panel under rule 8.2.30.
- 8.2.13 Other than as set out in these rules, and other than as between a party and its advisers, each party shall keep confidential any matters relating to any proceedings save where disclosure is permitted or required by law.
- 8.2.14 Proceedings before the Executive Panel shall be commenced by the Exchange submitting a statement of case to the Member Firm. The statement of case shall set out the charge(s) and all material facts taken into account and shall have attached to it copies of all documents relevant to the charge(s).
- 8.2.15 The Member Firm may, within five days (or such other period agreed between the parties) of receipt of the statement of case, submit to the Exchange a statement in response setting out all material facts and having attached to it copies of all documents relied upon.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 8.2.16 The Chairman of the Executive Panel may vary the period referred to in rule 8.2.15 at the request of the Member Firm.
- 8.2.17 Following receipt of the Member Firm's statement of response, the Exchange shall submit to the Executive Panel the statement of case and the Member Firm's response (if any), together with copies of all other relevant documents.
- 8.2.18 Appeals to the Executive Panel must be commenced by service of a notice in writing on the Exchange within 10 business days of the service of the decision by the Exchange. The notice should set out the name of the appellant, the decision appealed against, the grounds of appeal, all material facts and shall have attached to it copies of all documents relevant to the appeal. The notice should be copied to the Exchange's Company Secretary, who will ensure that the notice is transmitted to the Chairman of the Executive Panel.
- 8.2.19 The Exchange may, within 10 business days (or such other period agreed between the parties) of receipt of the notice under rule 8.2.18, submit to the Chairman of the Executive Panel a statement in response setting out all material facts and having attached to it copies of all documents relied upon. Such statement shall be copied to the appellant (subject to any legal duty of confidentiality with respect to any details in such response).
- 8.2.20 On receipt of a notice under rule 8.2.18 and any statement in response under rule 8.2.19, the Chairman of the Executive Panel will arrange a hearing as soon as reasonably practicable.
- 8.2.21 The Chairman of the Executive Panel may vary the time periods referred to in rules 8.2.18 – 8.2.20 (other than the period during which an appeal may be made under rule 8.2.18) at the request of either party.
- 8.2.22 Save in circumstances where either party notifies the Chairman of the Executive Panel that it believes an oral hearing is essential to establish all the relevant facts and requests the Chairman to hold such an oral hearing, proceedings before the Executive Panel will take place through the consideration of documents with no oral hearing.
- 8.2.23 Where there is to be a hearing in accordance with rule 8.2.22, the Executive Panel will conduct it in private
- 8.2.24 The parties may attend the hearing but any hearing may proceed in the absence of one or both of the parties.
- 8.2.25 The Executive Panel will give not less than five business days notice of the time and place of any hearing to the parties. This notice period may be shortened with the agreement of the parties.
- 8.2.26 The Executive Panel may deliberate at any time and make any decision in the absence of the parties. The Executive Panel is entitled to reach decisions on a majority basis. Where a majority decision is reached, this will not be disclosed.
- 8.2.27 When considering appeals, the Executive Panel will only quash or vary a decision of the Exchange if it is satisfied, on the balance of probabilities, that the decision is a misinterpretation or an erroneous application of any of these rules or is not justified by the evidence on which it is based.
- 8.2.28 Following its determination, the Executive Panel will notify the parties in writing of:

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- i) its decision;
- ii) the reason(s) for its decision;
- iii) in disciplinary cases, whether any penalty is to be imposed under rule 8.2.3. Any fine must be paid by the Member Firm within 30 days of receipt of such notification unless appealed in accordance with these rules; and
- iv) a time limit for lodging any appeal against the decision or any part thereof, which will be not less than 10 days from the date of service of the decision on the parties.

8.2.29 If the Executive Panel decides to refer a case to the Disciplinary Committee as set out under rule 8.2.3(iii), no public announcement will be made until the Disciplinary Committee has reached a decision.

8.2.30 Appeals against final decisions of the Executive Panel (as notified to the parties under rule 8.2.28) are heard by the Appeals Committee, in accordance with its procedures. Appeals must be commenced by service of a notice in writing on the Chairman of the Executive Panel within 10 days of the service of the Executive Panel's decision (or such other time period as prescribed under rule 8.2.28 (iv)), setting out the name of the appellant, the decision appealed against, the grounds of appeal, all material facts and attaching copies of all documents relevant to the appeal.

8.2.31 On receipt of a notice under rule 8.2.30, the Chairman of the Executive Panel will arrange for the appointment of a Secretary of the Appeals Committee who will arrange a hearing as soon as reasonably practicable.

8.2.32 The Chairman of the Executive Panel or the Appeals Committee may extend the time for appeal.

8.2.33 Notwithstanding rule 8.2.30, appeals against decisions of the Executive Panel on grounds of new evidence (including those where there are other grounds of appeal), shall be heard by way of rehearing by the Executive Panel before the right of appeal to the Appeals Committee arises. Where the appellant wishes to rely on evidence which was not before the Executive Panel, this shall be stated in the appeal notice and copies or details of such evidence shall be attached to the notice.

8.2.34 The Executive Panel may vary any of its procedures to adapt to the circumstances of any particular case.

### **DISCIPLINARY COMMITTEE**

8.3.1 The Disciplinary Committee shall, as a tribunal of first instance, hear and determine charges against a Member Firm in respect of a breach of these rules.

8.3.2 If the Disciplinary Committee finds an allegation proven on the balance of probabilities it may impose one or more of the following sanctions:

- i) a written warning (censure) which may be public or private;
- ii) an unlimited fine for each breach;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- iii) an order that the Member Firm make restitution to any person (when the Member Firm has profited from a breach of the Exchange's rules at that person's expense); and
  - iv) where the Exchange recommends it:
    - a) suspension of the right to use any system of the Exchange;
    - b) suspension from dealing in securities, or any class of securities, dealt on Exchange; and
    - c) expulsion from membership.
- 8.3.3 The Disciplinary Committee may grant a consent order in respect of any settlement that may be negotiated between the Exchange and a Member Firm in relation to any disciplinary action taken.
- 8.3.4 The Disciplinary Committee appointed pursuant to a referral shall have a quorum of three (including the Chairman). The maximum number of member of the Disciplinary Committee shall be seven. Any person whom the Disciplinary Committee co-opts will count as a member of the Disciplinary Committee.
- 8.3.5 Members of the Disciplinary Committee are drawn from a panel ("the panel") appointed by the Exchange.
- 8.3.6 The Disciplinary Committee may co-opt any person whom it considers appropriate.
- 8.3.7 No-one who is a member of the Exchange's staff may be appointed or co-opted.
- 8.3.8 The Chairman may appoint a legally qualified adviser who shall be independent of any party. Such legal adviser will not be counted as a member of the Disciplinary Committee, but shall advise the Disciplinary Committee on legal matters. The Chairman may replace the legal adviser.
- 8.3.9 Members of the Disciplinary Committee will notify the Secretary or the Chairman of any possible conflict of interest at the earliest possible opportunity and in any event prior to any hearing to be held under rule 8.3.22 or 8.3.23 below. The Chairman will take appropriate action and will then notify the parties to the disciplinary proceedings of the names of the member of the Disciplinary Committee and any proposed legal adviser. If any party to the disciplinary proceedings believes that a potential conflict of interest exists, it shall notify the Chairman at the earliest possible opportunity. The Chairman will take appropriate action.
- 8.3.10 Where the Disciplinary Committee wishes to co-opt a person or to appoint a person to replace a member unable to act whether because of illness, conflict of interest or otherwise and/or the Chairman wishes to replace the legal adviser and the hearing has commenced:
- i) the appointment shall only take effect with the consent of the parties and the person co-opted or appointed will be subject to the provisions of rule 8.3.28; and
  - ii) if, in the absence of such consent, the Disciplinary Committee does not wish or is not able to continue with the hearing, it will cease to deal with the referral and an entirely new Disciplinary Committee will be appointed from the panel, and a new legal adviser

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

will be appointed by the new Chairman in both cases in accordance with these procedures, and the hearing, but not any pre-hearing procedures, will start afresh in front of the new Disciplinary Committee.

- 8.3.11 A Secretary (“the Secretary”) to the Disciplinary Committee shall be appointed by the Exchange. The parties will be notified of the name of the Secretary as soon as reasonably practicable. For the avoidance of doubt, the Secretary may be a member of the Exchange’s staff.
- 8.3.12 The Secretary will carry out any administrative functions. Any notices, notifications and other documents required to be submitted to the Disciplinary Committee must be served upon the Secretary who will ensure that copies are provided to the other parties, the members of the Disciplinary Committee and any legal adviser as appropriate. Where the Disciplinary Committee wishes to notify the parties of any matter it shall do so through the Secretary.
- 8.3.13 Any notices or other documents required to be served shall be served by delivering by hand or posting by first class post or by sending a fax with a confirmatory copy by first class post to the addresses set out below, save that the Secretary may agree with any of those referred to at 8.3.13 (i) to 8.3.13 (iii) a different place for service upon them:
- i) in the case of a Member Firm, to its head office;
  - ii) in the case of the Exchange, to the Secretary with a copy to the Company Secretary, at the Exchange's registered office; and
  - iii) in the case of any other party, to a place agreed with the Secretary.
- 8.3.14 Service shall be deemed effective on the date of delivery by hand or, where first class post is used, on the second day after posting.
- Member Firms can send a courtesy copy in advance by fax, but service is deemed effective on the date of delivery either by hand, or on the second day, after posting first class.
- 8.3.15 All communications relating to the proceedings (save those which would be privileged from production in a court of law) between the parties and with the Disciplinary Committee shall be channelled through the Secretary.
- 8.3.16 If any Disciplinary Committee Member or the legal adviser is approached by any person to discuss any matter connected with the proceedings such member shall, without delay, notify the Chairman who will take appropriate action.
- 8.3.17 Other than as set out in these rules, and other than as between the parties and their advisers, all parties shall keep confidential any matters relating to any proceedings save where disclosure is permitted or required by law.
- 8.3.18 The Exchange shall refer cases to the Disciplinary Committee by service of a written statement of case on the Secretary, who will as soon as reasonably practicable serve a copy of the statement of case on the Member Firm. The statement of case shall set out the charges and a summary of the main facts to be relied on.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 8.3.19 In the case of referral by the Executive Panel (under rule 8.2.3 (iii)), the Exchange shall serve a copy of the statement of case together with the statement of response made by the Member Firm.
- 8.3.20 Following service of a statement of case pursuant to rule 8.3.18 or 8.3.19:
- i) the Member Firm may submit to the Disciplinary Committee a statement in response (or in the event of referral under rule 8.2.3 (iii) – a further statement of response) and shall submit to the Disciplinary Committee a statement of all material facts and attach to it copies of all documents relied upon; and
  - ii) each party will then notify the Disciplinary Committee of any directions to be sought at a pre-hearing review or their assessment that there is no need for a pre-hearing review.
- 8.3.21 The Secretary may by agreement with the parties set a timetable for the completion of the steps under rule 8.3.20. If no agreement is reached, the Chairman of the Disciplinary Committee may specify by notice in writing to the parties the time limits within which the steps at rule 8.3.20 are to be carried out.
- 8.3.22 Following the completion of the procedures set out in rule 8.3.20, the Chairman or any member of the Disciplinary Committee whom he nominates may give any directions and take any other steps he considers appropriate for the clarification of the facts and issues and generally for their just, efficient and expeditious presentation and the determination of the matters in issue. The Chairman or any member of the Disciplinary Committee whom he nominates may hold one or more pre-hearing reviews for those purposes and the determination of the matters in issue. By way of example, these directions may include:
- i) fixing a time and place for any pre-hearing review and hearing;
  - ii) by written consent of all parties, directing that the hearing or any part of the hearing shall proceed by written representations;
  - iii) recording any admissions made by any party and any request to any party to make admissions;
  - iv) directing any party to indicate whether it admits any particular fact(s) or document(s);
  - v) directing any party to disclose and serve copies of any documents;
  - vi) setting time limits for any purpose of the proceedings;
  - vii) extending or abridging time limits;
  - viii) adjourning the pre-hearing review, with such orders as it thinks fit;
  - ix) granting leave to amend (including adding documents to) any statement submitted pursuant to rule 8.2.20;
  - x) varying any previous directions; and

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- xi) making any order for the payment of costs of or in connection with pre-hearing preparation or any pre-hearing review.
- 8.3.23 The Disciplinary Committee will usually conduct hearings in private, although a Member Firm which is subject to proceedings has the right to ask for such hearing to be conducted in public. A Member Firm requiring such hearing to be conducted in public shall notify the Chairman at least five days prior to commencement of the hearing.
- 8.3.24 A party may be legally represented at any pre-hearing review or hearing.
- 8.3.25 A party may submit evidence to the Disciplinary Committee at any time until two business days before the hearing.
- 8.3.26 The parties will be given not less than three business days notice of the time and place of a pre-hearing review and seven business days notice of the time and place of the hearing by the Secretary. Any shorter notice period may apply if the parties agree.
- 8.3.27 If any party fails to attend or be represented at a pre-hearing review or a hearing, the Disciplinary Committee may proceed in its absence.
- 8.3.28 At the hearing:
- i) the members of the Disciplinary Committee and the legal adviser will be introduced to the parties by the Chairman who will state that each of the members and the legal adviser believes himself to have no conflict of interest in hearing the case;
  - ii) the parties will be asked to confirm that there is no reasonable objection to any of the Disciplinary Committee members hearing the case or the legal adviser on the grounds of conflict of interest; and
  - iii) if the Disciplinary Committee, which for these purposes shall exclude any member objected to and shall have a quorum of two, upholds an objection it may appoint another person from the panel to replace any relevant member and where the objection relates to the legal adviser the Chairman may appoint another person to replace the legal adviser; in all cases the appointment shall be made in accordance with these procedures.
- 8.3.29 Unless otherwise ordered by the Disciplinary Committee, the order of proceedings at the hearing shall be as follows:
- i) the allegation(s) made by the Exchange will be read and the Member Firm will state whether the allegation(s) is/are admitted;
  - ii) each party (the Exchange followed by the other party(ies)) may present its evidence and/or call witnesses, who may be cross-examined and re-examined by the other parties and questioned by the Disciplinary Committee, and may make submissions to the Disciplinary Committee; and
  - iii) where the Disciplinary Committee is satisfied that any allegation has been proved it shall take into account any representations made by the parties on whether any and if so what sanction(s) should be imposed before deciding whether and if so what sanction(s) should be imposed.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

8.3.30 At a hearing the Disciplinary Committee may:

- i) admit any evidence whether oral or written, whether direct or hearsay, without any requirement that it be on oath and whether or not the same would be admissible in a court of law;
- ii) make any directions which may be given at a pre-hearing review, and vary any direction which has been made; and
- ii) make all such directions with regard to the conduct of and procedure at the hearing as the Disciplinary Committee considers appropriate for securing a proper opportunity for the parties to present their cases and otherwise as may be just.

8.3.31 A record of the pre-hearing review may be made at the request of any party or if the Chairman so decides. A transcription or copy of the record will be made available to a party on payment of the cost of making such transcription or copy or a proportion thereof as the Secretary in his discretion shall determine. For the avoidance of doubt, it shall be sufficient for such record to be in the form of minutes taken by the Secretary.

8.3.32 A record of the hearing will be made. A transcription or copy of the record will be made available to a party on payment of the cost of making such transcription or copy or a proportion thereof as the Secretary in his discretion shall determine. For the avoidance of doubt, it shall be sufficient for such record to be in the form of minutes taken by the Secretary

8.3.33 The Disciplinary Committee may deliberate at any time and make any decision in the absence of the parties. The Disciplinary Committee may adjourn any hearing at any time as it thinks fit. The Disciplinary Committee is entitled to reach decisions on a majority basis. Where a majority decision is reached, this fact will not be disclosed. In the case of an equality of votes, the Chairman shall have a second or casting vote which shall be exercised in favour of the Member Firm.

8.3.34 Following the conclusion of the proceedings, the Disciplinary Committee will notify the parties in writing of:

- i) its decision(s), including any penalty under rule 8.3.2 and any statement intended for publication;
- ii) the reason(s) for its decision(s);
- iii) any order for costs to be imposed; and
- iv) a time limit for the lodging of any appeal against the written decision or any part thereof which will be not less than 10 days from the date of service on the parties of the written decision save in exceptional circumstances where the Disciplinary Committee may order a shorter period.

8.3.34 The matters at rules 8.3.34 (i) to 8.3.34 (iii) will not take effect until the expiry of the period for the lodging of any appeal or any extension thereof. If an appeal is lodged in relation to any or all of rules 8.3.34 (i) to 8.3.34 (iii) the relevant matters at rules 8.3.34 (i) to 8.3.34 (iii) will not take effect until the appeal is withdrawn or the Disciplinary Appeals Committee orders that they or any of them shall take effect.



## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- 8.3.35 The Disciplinary Committee may order any party to pay such reasonable costs as it thinks fit, regardless of any finding or the outcome of the case. Such costs may include the remuneration and expenses of members of the Disciplinary Committee, the legal adviser, the Secretary and any costs incurred by the other party in the preparation and presentation of its case. Costs may be awarded against the Exchange only if, in the opinion of the Disciplinary Committee, the Exchange has acted in bad faith in bringing or conducting the proceedings. Such order will be made only after the parties to the proceedings have been given the opportunity to make submissions on costs to the Disciplinary Committee.
- 8.3.36 Any fine shall be paid within 30 days of receipt of the written decision of the Disciplinary Committee or the conclusion of any appeal against that determination and any costs ordered to be paid shall be paid within 30 days of receipt of the notification in writing of the amount payable.
- 8.3.37 The Disciplinary Committee may publish part or all of its written decision or a summary of it, and the reasons for the decision. Where the sanction imposed is a private censure the Disciplinary Committee may publish its decision in part or a summary of it and the reasons for the decision without revealing the identity of the Member Firm sanctioned.
- 8.3.38 Appeals must be made by service of a notice in writing, within 10 days of the service of the Disciplinary Committee's decision, setting out the name of the appellant, the decision appealed against, the grounds of appeal, the principal matters relied upon and attaching copies of any documents relied upon on the Secretary to the Disciplinary Committee who will as soon as reasonably practicable serve a copy on the other party. Where the appellant wishes to rely on evidence or documentation which was not before the Disciplinary Committee, this shall be stated in the notice together with details of such evidence and copies of such documentation shall be attached to the notice.
- 8.3.39 On receipt of a notice under rule 8.3.38, the Secretary to the Disciplinary Committee will arrange for the Exchange to appoint the Chairman and members of the Appeals Committee and the Chairman will arrange a hearing as soon as reasonably practicable.
- 8.3.40 The Disciplinary Committee or the Appeals Committee may extend the time for appeal.
- 8.3.41 The Disciplinary Committee may vary any of these procedures to adapt to the circumstances of any particular case.

### **APPEALS COMMITTEE**

- 8.4.1 The Appeals Committee shall hear and determine appeals against decisions of the Disciplinary Committee made pursuant to referrals made under rule 8.3.38 and appeals against decisions of the Executive Panel made pursuant to rule 8.2.30.
- 8.4.2 The Appeals Committee may uphold, quash or vary any decision by the Disciplinary Committee or the Executive Panel. In the case of an appeal from the Executive Panel in a disciplinary case, the Appeals Committee may vary any penalty imposed by the Executive Panel subject to awarding a maximum fine of £50,000 for each breach.
- 8.4.3 The Appeals Committee appointed following service of a notice pursuant to rule 8.2.30 or rule 8.3.38 (as applicable) shall have a quorum of three (including the Chairman). The maximum number of members of the Appeals Committee shall be seven. Any person whom the Appeals Committee co-opts will count as a member of the Appeals Committee.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 8.4.4 Members of the Appeals Committee are drawn from the panel referred to in rule 8.3.5.
- 8.4.5 The Appeals Committee may co-opt any person whom it considers appropriate.
- 8.4.6 The Chairman may appoint a legally qualified adviser who shall be independent of any party. Such legal adviser will not be counted as a member of the Appeals Committee but shall advise the Appeals Committee on legal matters. The Chairman may replace the legal adviser.
- 8.4.7 No-one who served on the Disciplinary Committee, whose decision is the subject of the appeal, nor its legal adviser nor anyone who is at the relevant time a member of the Exchange's staff, may be appointed or co-opted to the Appeals Committee.
- 8.4.8 Members of the Appeals Committee will notify the Secretary or the Chairman of any possible conflict of interest at the earliest possible opportunity and in any event prior to any hearing to be held under rule 8.4.19 or 8.4.20 below. The Chairman will take appropriate action and will then notify the parties to the disciplinary proceedings of the names of the members of the Appeals Committee and any proposed legal adviser. If any party to the disciplinary proceedings believes that a potential conflict of interest exists, it shall notify the Chairman at the earliest possible opportunity. The Chairman will take appropriate action.
- 8.4.9 Where the Appeals Committee wishes to co-opt a person or to appoint a person to replace a member unable to act whether because of illness, conflict of interest or otherwise and the hearing has commenced:
- i) the appointment shall only take effect with the consent of the parties and the person co-opted or appointed will be subject to the provisions of rule 8.4.23; or
  - ii) if in the absence of such consent the Appeals Committee does not wish or is not able to continue with the hearing it will cease to deal with the appeal and an entirely new Appeals Committee will be appointed in accordance with these procedures and the hearing, but not any pre-hearing procedures, will start afresh in front of the new Appeals Committee.
- 8.4.10 The Secretary will carry out any administrative functions and act as secretary to the Appeals Committee. The parties will be notified of the name of such person as soon as reasonably practicable. For the avoidance of doubt, the Secretary may be a member of the Exchange's staff and notwithstanding rule 8.4.7 may be the same Secretary who was Secretary of the Disciplinary Committee.
- 8.4.11 Any notices, notifications and other documents required to be submitted to the Appeals Committee must be served upon the Secretary who will ensure that copies are provided to the other parties, the members of the Appeals Committee and any legal adviser as appropriate. Where the Appeals Committee wishes to notify the parties of any matter it shall do so through the Secretary.
- 8.4.12 Any notices or other documents required to be served shall be served by delivering by hand or posting by first class post or by sending by fax with a confirmatory copy by first class post to the addresses set out below, save that the Secretary may agree with any of those referred to at 8.4.12 (i) to 8.4.12 (iii) a different place for service upon them:
- i) in the case of an appellant, to its head office;

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- ii) in the case of the Exchange, to the Secretary with a copy to the Company Secretary, at the Exchange's registered office; and
  - iii) in the case of any other party, to a place agreed with the Secretary.
- 8.4.13 Service shall be deemed effective on the date of delivery by hand or, where first class post is used, on the second day after posting.
- Member Firms can send a courtesy copy in advance by fax, but service is deemed effective on the date of delivery either by hand, or on the second day, after posting first class.
- 8.4.14 All communications relating to the proceedings (save those which would be privileged from production in a court of law) between the parties and with the Appeals Committee shall be channelled through the Secretary.
- 8.4.15 If any Appeals Committee member or the legal adviser is approached by any person to discuss any matter connected with the hearing the member or legal adviser, as appropriate, shall notify the Chairman without delay, who will take appropriate action.
- 8.4.16 Other than as set out in these rules, and other than as between the parties and their advisers, all parties shall keep confidential any matters related to the appeal save where disclosure is permitted or required by law.
- 8.4.17 Following service of a notice pursuant to rule 8.2.30 or 8.3.38 and the appointment of the Appeals Committee:
- i) the appellant may submit to the Appeals Committee a statement amending or expanding upon the notice; and
  - ii) any other party may submit to the Appeals Committee a statement in support of its case and any such party wishing to rely on evidence or documents not already before the Appeals Committee must submit a statement containing details thereof and attach to it copies of any such documents.
- 8.4.18 If both parties consent in writing to the Secretary, the appeal may be by written submissions only.
- 8.4.19 The Appeals Committee shall make any directions including any that may be made by the Disciplinary Committee and take any other steps it considers appropriate including holding pre-hearing reviews for the clarification of the facts and issues and generally for their just, efficient and expeditious presentation and the proper determination of the appeal.
- 8.4.20 The Appeals Committee will usually conduct hearings in private, although an appellant which is subject to proceedings has the right to ask for such hearing to be conducted in public. An appellant requiring such hearing to be conducted in public shall notify the Chairman at least five days prior to commencement of the hearing.
- 8.4.21 Any party may be legally represented at any hearing.
- 8.4.22 The parties will be given not less than 10 days notice of the time and place of the hearing by the Secretary. The notice period may be shortened with the consent of the parties.

## RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET

- 8.4.23 If a party fails to attend or be represented at any hearing or pre-hearing review, the Appeals Committee may proceed in its absence.
- 8.4.24 At the hearing:
- i) the members of the Appeals Committee and the legal adviser will be introduced to the parties by the Chairman who will state that each of the members and the legal adviser believes himself to have no conflict of interest in hearing the appeal;
  - ii) the parties will be asked to confirm that there is no reasonable objection to any of the Appeals Committee Member hearing the appeal or to the legal adviser on the grounds of conflict of interest or otherwise; and
  - iii) if the Appeals Committee, which for these purposes shall exclude any member objected to and shall have a quorum of two, upholds an objection, the Chairman may appoint a replacement in accordance with these procedures.
- 8.4.25 The order of proceedings shall be at the discretion of the Appeals Committee.
- 8.4.26 No party may rely on any statement or document not served on the Appeals Committee more than two business days before the hearing save with the leave of the Appeals Committee.
- 8.4.27 Save in exceptional circumstances and with the leave of the Appeals Committee, no party may present evidence (including calling new witnesses) that was not available to the Disciplinary Committee or the Executive Panel, although additional submissions may be made. Whether such new evidence should be permitted and, where it is permitted, the procedure for its presentation shall be decided on a case by case basis by the Appeals Committee.
- 8.4.28 A record of any hearing will be made. A transcription or copy of the record will be available to any party, on payment of the cost of making such transcription or copy or a proportion thereof as the Secretary in his discretion shall determine. For the avoidance of doubt, it shall be sufficient for such record to be in the form of minutes taken by the Secretary.
- 8.4.29 The Appeals Committee may deliberate at any time and make any decision in the absence of the parties.
- The Appeals Committee may adjourn any hearing at any time as it thinks fit. The Appeals Committee is entitled to reach decisions on a majority basis. Where a majority decision is reached this will not be disclosed. In the case of an equality of votes, the Chairman shall have a second or casting vote which shall be exercised in favour of the appellant.
- 8.4.30 The Appeals Committee will only quash or vary a decision of the Disciplinary Committee or the Executive Panel if it is satisfied, on the balance of probabilities, that the decision is a misinterpretation of or an erroneous application of any of these rules or is not justified by the evidence on which it is based.
- 8.4.31 Following the conclusion of the proceedings, the Appeals Committee will notify the parties in writing of:
- i) its decision(s), including any statement intended for publication;

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- ii) the reason(s) for its decision; and
- iii) any order for costs to be imposed.

- 8.4.32 The Appeals Committee may order any party to the proceedings to pay such reasonable costs as it thinks fit regardless of any finding or the outcome of the case. Such costs may include the remuneration and expenses of members of the Appeals Committee, the Secretary and the legal adviser and any costs incurred by any other party in the preparation and presentation of its case. Costs may be awarded against the Exchange only if, in the opinion of the Appeals Committee, the Exchange has acted in bad faith in bringing or conducting the proceedings. Such order will be made only after the parties to the proceedings have been given the opportunity to make submissions on costs to the Appeals Committee.
- 8.4.33 Any fine shall be paid within 30 days of receipt of the written decision of the Appeals Committee and any costs ordered to be paid shall be paid within 30 days of receipt of the notification in writing of the amount payable.
- 8.4.34 The Appeals Committee may publish part or all of its written decision or a summary of it, and the reasons for the decision.
- 8.4.35 The Appeals Committee may vary any of these procedures to adapt to the circumstances of any particular case.

### **CONSENT ORDERS**

- 8.5.1 At any time after the Exchange has decided to refer a case to the Executive Panel or Disciplinary Committee, the Exchange and the Member Firm may without prejudice negotiate a proposed settlement ("consent order") and jointly submit it in writing to the Executive Panel or Disciplinary Committee for approval. A disciplinary action may at the discretion of the Exchange be delayed, and if already commenced – halted, by the commencement of the negotiation of a consent order.
- 8.5.2 At the request of the Member Firm, the consent order submitted to the Disciplinary Committee for approval may be anonymous, provided the Exchange has reasonable grounds for believing that this will have no impact on the decision taken by the Disciplinary Committee. The Disciplinary Committee retains the right to insist that the name of the Member Firm is disclosed to it.
- 8.5.3 If the Executive Panel or Disciplinary Committee approves the proposed consent order, or any variation agreed by the Exchange and the Member Firm, it shall immediately make the order.
- 8.5.4 The consequences of a consent order made by the Executive Panel or Disciplinary Committee shall be the same as those of a decision made by the Executive Panel or Disciplinary Committee sitting as a tribunal of first instance, except that there can be no appeal and the consent order and penalties on any charges to which it relates shall have immediate effect.
- 8.5.5 The Executive Panel or Disciplinary Committee shall, in considering the consent order, take into account and give due weight to the fact that the parties are jointly applying for the consent order to be made.

## **RULES OF THE LONDON STOCK EXCHANGE DERIVATIVES MARKET**

- 8.5.6 If the Executive Panel or Disciplinary Committee does not approve the proposed consent order, there shall be no reference in any hearing before the Executive Panel or Disciplinary Committee to the negotiations, the proposed consent order or the submissions made to the Executive Panel or Disciplinary Committee, all of which shall be confidential.
- 8.5.7 Where rule 8.5.6 applies, the Executive Panel or Disciplinary Committee constituted to hear the disciplinary charges shall contain no person who was part of the Executive Panel or Disciplinary Committee that considered the consent order.



**London**  
Stock Exchange