London Stock Exchange Derivatives Market

Bilaterally Negotiated Trade Guidance

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Table of Contents

1.0 Introduction

London Stock Exchange Derivatives Market ("LSEDM" or the "Exchange") permits the trading of Bilaterally Negotiated Trades in certain of its Listed Products, as further detailed in this document. A Bilaterally Negotiated Trade is a privately negotiated transaction that is a Basis Trade, Exchange for Security, Exchange of Future for Swap, or a Block Trade.

The trading of Bilaterally Negotiated Trades is governed by Section 5 of the Rules of the London Stock Exchange Derivatives Market ("the Rules") and this Bilaterally Negotiated Trade Guidance. Member Firms should be familiar with both documents. A breach of the Rules or any of the associated guidance set down in this document may result in disciplinary action.

2.0 Definitions

2.1 Trade types

"Bilaterally Negotiated Trade" means a Block Trade, Exchange for Security, Basis Trade, or Exchange of Future for Swap transaction.

"Block Trade" means a privately negotiated transaction in one or more Futures and/or Options that is allowed to be executed away from the Order Book in a quantity that meets a minimum volume threshold.

"Basis Trade" means a privately negotiated transaction consisting of the simultaneous execution of an Interest Rate Derivative against an offsetting equivalent amount of a related underlying cash bond instrument in a quantity that meets a minimum volume threshold.

"Exchange for Security" means a privately negotiated transaction consisting of the simultaneous execution of an Equity Derivative against an offsetting equivalent amount of a related underlying cash equity instrument in a quantity that meets a minimum volume threshold.

"Exchange of Future for Swap" means a privately negotiated transaction consisting of the simultaneous execution of an Exchange Futures Contract against an offsetting equivalent amount of a related swap not listed on the Exchange in a quantity that meets a minimum volume threshold.

3.0 Participation in Bilaterally Negotiated Trades

3.1 Participation

Member Firms may transact in Bilaterally Negotiated Trades subject to a Member Firm:

- Being correctly permissioned by the Exchange to trade the relevant Listed Products;
- Carrying all appropriate permissions, authorisations and regulatory licences, or holding relevant exemptions in appropriate cases, as required by applicable laws; and
- Ensuring that, when trading with or on behalf of a customer that is not an LSEDM Member Firm, they follow all relevant regulations including those related to suitability and appropriateness.

4.0 Guidance on Basis Trades, Exchange for Security and Exchange of Future for Swap transactions

4.1 Eligible Products

A Basis Trade, Exchange for Security, or Exchange of Future for Swap may be traded with the Exchange leg as a Future in the following products:

	Interest Rate Derivatives	Equity Derivatives
Basis Trade	✓	×
Exchange for Security	×	✓
Exchange of Future for Swap	✓	✓

For Interest Rate Derivatives, all Futures are eligible as the Exchange leg.

For Equity Derivatives, the following Futures are eligible as the Exchange leg:

- IOB DR Derivatives, except Dividend Futures, Late Dividend Futures and Dividend Neutral Stock Futures;
- UK Derivatives;
- Turkish Derivatives.

4.2 Price requirements

A Basis Trade, Exchange for Security or Exchange of Future for Swap transaction must be executed at a price that is reasonable in light of the commercial circumstances of the buyer and the seller.

The Exchange will implement price controls on Basis Trade, Exchange for Security and Exchange of Future for Swap transactions at **+/- 20% from the best bid and offer ("BBO") in the Order Book for both Interest Rate Derivatives and Equity Derivatives.**

In cases where there is no BBO in the Order Book at the time the Basis Trade, Exchange for Security or Exchange of Future for Swap is reported, the Exchange may apply the relevant price control to the last observed BBO in the Order Book as a guide although discretion will be applied in appropriate cases.

Member Firms are reminded that Basis Trade, Exchange for Security or Exchange of Future for Swap transactions must be consistent with LSEDM Rule 1.3.1 ("Market Conduct rules").

~~The agreed price of the Futures leg must be consistent with the minimum tick increment of the Listed Product in question (which for Equity Derivatives will include tick increments of the flexible parameters as set out in the Equity Derivatives Contract Specification).~~

4.3 Minimum volume thresholds

Members may only transact a Basis Trade, Exchange for Security or Exchange of Future for Swap provided that the Futures leg meets the minimum size for negotiated transactions, specified in the LSEDM BNT and DP Threshold Parameters document available here.

In all cases the quantity of the Related Position Leg must be broadly equivalent to the quantity represented by the Futures leg when considered in light of the overall economic exposure between the two legs.

In order for a Basis Trade, Exchange for Security or Exchange of Future for Swap to be considered for deferred publication, as further detailed in Section 7 below, the Futures leg of the Basis Trade, Exchange for Security or Exchange of Future for Swap must meet the minimum size for the deferred publication of negotiated transactions, as specified in the LSEDM BNT and DP Threshold Parameters document.

4.4 Hedge Ratios

Appropriate hedge ratios must be used depending on the type and combination of legs of the Basis Trade, Exchange for Security or Exchange of Future for Swap transaction. By way of example, acceptable hedge ratio methods for Interest Rate Derivatives include a ratio of basis point values, a duration based method, a combination of price factor and duration, or a Notional value ratio (currency adjusted if applicable).

4.5 Related Position Leg

The Futures leg and the Related Position Leg must be executed for accounts with the same beneficial ownership. The Related Position Leg is the underlying physical asset, forward, basket instrument or swap to a Exchange for Security, Basis Trade or Exchange of Future for Swap transaction.

The Related Position Leg must bear reasonable equivalence in terms of physical and/or economic properties with the Underlying of the relevant Listed Product, including price correlation. Generally acceptable Related Position Legs could include (but are not limited to) the following types of assets:

For Interest Rate Derivative Futures:

- Deliverable cash bonds
- Non-deliverable cash bonds
- Forward Rate Agreements (FRA)
- Swaps
- Sale and Repurchase Agreements (Repos)
- Interest rate options

For Equity Derivative Futures:

- For single stock instruments (futures), cash instruments of the underlying equity or single name equity swap;
- For index instruments (futures):
  - ETFs and ETNs;
  - Equity index swaps; or
  - bespoke stock baskets;

  provided that in all cases there is a minimum 50% cross-over in the constituents of the basket and the index future and there is a reasonable degree of correlation between the two;
- For eligible single IOB futures, the underlying DR. **Please note that the use of stock underlying the IOB DR as the related position is strictly prohibited**.

Upon the request of the Exchange, Member Firms must provide a justification as to how the related position is deemed equivalent to the associated Listed Product.

4.6 Accounts with Common Beneficial Ownership

Generally the Exchange would expect the opposing parties to a Basis Trade, Exchange for Security or Exchange of Future for Swap transaction to possess independently controlled accounts with different beneficial ownership.

However the Exchange recognises that in certain cases a Basis Trade, Exchange for Security or Exchange of Future for Swap transaction could legitimately occur between accounts with beneficial ownership that is common to both the buyer and the seller. Where this is the case Member Firms must ensure that the parties to the Basis Trade, Exchange for Security or Exchange of Future for Swap are sufficiently independent from each other and the Exchange may ask for evidence that this is the case.

In assessing whether the accounts of parties to a Basis Trade, Exchange for Security or Exchange of Future for Swap transaction are independent the Exchange would look for evidence of the following:

(a) both the buyer and the seller have bona fide commercial rationale for executing the transaction;

(b) there is no explicit or implicit form of common control between the buyer and the seller, and therefore absent a lack of common control they are acting independently; and

(c) the price of a Basis Trade or Exchange for Security or Exchange of Future for Swap transaction is reasonable in light of the commercial circumstances of the buyer and the seller.

4.7 Recordkeeping

Member Firms must maintain or cause to be maintained accurately all relevant records related to a Basis Trade, Exchange for Security or Exchange of Future for Swap transaction. For brokered transactions, this includes Reporting Brokers maintaining all records relevant to the facilitation and confirmation of the transactions.

The Exchange considers the following non-exhaustive list of records to be relevant:

- Records relating to the placement, negotiation, execution and confirmation of the Basis Trade, Exchange for Security or Exchange of Future for Swap transaction such as order tickets, broker slips, agreements and confirms, whether in electronic or hard copy;
- Internal records of the Member Firms reflecting the booking of the Basis Trade, Exchange for Security or Exchange of Future for Swap transaction, including both the Futures leg and Related Position Leg;
- Evidence of a bona fide Related Position Leg, such as an underlying swap or cash instrument transaction, with counterparty information consistent with the Futures leg;
- Payment records and/or proof of title transfer for the settlement of cash instrument transactions; and
- Futures statements reflecting the Basis Trade, Exchange for Security or Exchange of Future for Swap transactions.

Member Firms should produce such records in a timely manner if requested to do so by the Exchange.

5.0 Guidance on Block Trades

5.1 Eligible Products

Member Firms may transact Block Trades in all Listed Products on LSEDM, subject to Member Firms meeting the Participation requirements in section 2.

5.2 Price Requirements

Block Trades must be traded at **fair market value.** Where Block Trades contain multiple Listed Products legs for simultaneous and contingent execution, and where a Member is reporting each of those legs separately, then each leg must be traded at fair market value. In assessing whether this requirement has been met the Exchange will consider the following factors:

1) The quantity executed as a Block Trade;

2) The quantity and prices of Trades, as well as bids and offers, in the relevant Listed Product(s) (or for Tailor-made Contracts, the related Listed Product(s) where relevant);

3) The quantity and prices of trades, as well as bids and offers, in related markets;

4) Any other circumstance the Exchange deems relevant to the deal, including the particular circumstances of the participants or general market conditions.

LSEDM will operate price parameter checks on Block Trades. These checks require the price to be either within the best bid and offer ("BBO") in the Order Book or a permitted maximum deviation from the BBO, as further detailed in the LSEDM BNT and DP Threshold Parameters document available here. These parameters should be seen as the "outer limit" of the permissible price of a Block Trade. For Norwegian Derivatives that exceed the outside spread minimum size, a fair market value assessment will be made considering such factors as the BBO and other price value measures, alongside other circumstances specific to the market at the time such as market liquidity and volatility.

In cases where there is no BBO in the Order Book at the time the Block Trade is reported, the Exchange will use its discretion to determine whether the Block Trade represents fair market value, and may choose to apply the price parameter checks to the **last** BBO in the Order Book as a guide and have reference to other price information in related markets where relevant.

If a Block Trade is rejected by LSEDM as a result of the price falling outside the price parameter controls, parties to the Block Trade may choose to renegotiate the terms of the deal and resubmit it as a new Block Trade.

The Exchange reserves the right to reject a Block Trade (for manually submitted deals) or cancel a trade (for electronically submitted deals) if in the sole view of the Exchange the Block Trade does not represent fair market value or fails to meet the minimum thresholds. Although not required to do so, the Exchange would typically contact the Member Firm(s) involved in the Block Trade before taking this action.

5.3 Block Trade Minimum Thresholds

All Block Trades must meet the minimum size for the relevant product detailed in the LSEDM BNT and DP Threshold Parameters document available here, depending on whether the negotiated price lies within the BBO or within the permitted maximum deviation from BBO.

For a Block Trade strategy, price controls apply on per leg basis: in order to qualify for a price outside BBO on a particular leg that leg must meet the minimum size for outside BBO.

For Block Trade strategies in Interest Rate Derivatives each leg must meet the minimum threshold.

For Block Trade strategies in Equity Derivatives at least one leg must meet the minimum threshold **except** in the following circumstances where each leg must meet the minimum threshold:

- For Index Futures: Block Trade strategies with 2 legs where both legs have the same underlying index and a maturity of 6 months or less; or

- For Index Options: Block Trade strategies with 2 legs where both legs have the same underlying index and the same expiry date.

In order for a Block Trade to be considered for deferred publication, as further detailed in section 7, the Block Trade must meet the minimum size for the deferred publication of negotiated transactions, as specified in the LSEDM BNT and DP Threshold Parameters document available here. For details on the deferred publication of Block Trade strategies, please consult section 7.

Member Firms must not aggregate Orders from separate Customers in order to meet the minimum block thresholds, except in cases where a fund manager is acting on behalf of two or more Customers pursuant to the same trading strategy. However, Member Firms may aggregate counterparty exposure on one side of a Block Trade provided that the quantity for each counterparty when considered in isolation meets the Block Trade minimum threshold. In order for the Block Trade to be eligible for deferred publication the quantity for each counterparty must meet the minimum size for deferred publication.

Partial fills of Customer orders as a Block Trade are permitted provided the Customer has given their consent and the Block Trade meets the minimum threshold requirement.

Note that Inter-Product strategies are only permitted within a common market i.e. within Interest Rate Derivatives or Equity Derivatives, but not across these markets.

5.4 Recordkeeping

Member Firms are reminded of the requirements of LSEDM Rule 1.1.32 to retain a record of each trade entered into by it for at least three years. LSEDM reserves the right to request information from Member Firms to assess Member Firms' compliance with LSEDM rules, in particular Chapter 5. Member Firms must produce such records in a timely manner at the request of the Exchange.

6.0 Timing and Trade Reporting Requirements

6.1 Timing and Trade Reporting Requirements

(i) Permitted times for execution

A Bilaterally Negotiated Trade may be agreed at any time subject to the following:

- For Interest Rate Derivatives only, Basis Trades and Exchange of Future for Swap transactions may not be executed in a delivery / expiry month that has never traded; and
- On the Last Trading Day, for Manual Trade Reporting:
  - For Equity Derivatives, the Bilaterally Negotiated Trade is reported within 15 minutes and in any event not later than the close of the Manual Trade Reporting window specified in the Contract Specification of the Listed Product. In all cases, Bilaterally Negotiated Trades must be agreed **before** the expiry of the underlying Future or Option;
  - For Interest Rate Derivatives, the Bilaterally Negotiated Trade is reported **before the last 1 hour** of trading on the Last Trading Day of any delivery / expiry month;
- On the Last Trading Day for Electronic Trade Reporting, all Member Firms have reported and confirmed their respective sides before the expiry of the underlying Future or Option.

Failure to comply with the timeframes above will mean the Bilaterally Negotiated Trade will not be accepted.

(ii) Trade Reporting times

Subject to the restrictions detailed under the "Permitted times for execution" section above, once the counterparties to the Bilaterally Negotiated Trade have agreed the terms of the deal, the Bilaterally Negotiated Trade must be reported to the Exchange within the following time periods:

<table>
<tr><th colspan="4">Trade Reporting Requirements</th></tr>
<tr><th rowspan="2"></th><th colspan="2">Block Trades</th><th rowspan="2">Basis Trade, Exchange for Security or Exchange of Future for Swap transactions</th></tr>
<tr><th>Outrights</th><th>Spreads and Strategies</th></tr>
<tr><td>LSEDM Equity Derivatives</td><td colspan="2">15 minutes</td><td rowspan="2">15 minutes</td></tr>
<tr><td>LSEDM Interest Rate Derivatives</td><td>5 minutes</td><td>15 minutes</td></tr>
</table>

However, the Exchange will only accept the reporting of a Bilaterally Negotiated Trade during the Trade Reporting hours set out in the Contract Specification of the relevant Listed Product, which can be accessed on the LSEDM document library through the following link: http://www.lseg.com/derivatives/document-library

Where a Bilaterally Negotiated Trade is agreed outside of the Trade Reporting hours specified in the relevant Contract Specification, the transaction must be reported within the applicable time periods set out in the table above from the next time the Trade Reporting window reopens.

Where a Bilaterally Negotiated Trade has been agreed on a Trading Day “T” and has not been reported to the Exchange within the permissible time period for reporting, a Member Firm may not report the Bilaterally Negotiated Trade past that Trading Day i.e. on T+1 or later.

Where relevant, **the Member Firm(s) that has/have the responsibility to report a Bilaterally Negotiated Trade must have reported and provided any relevant confirmations to the Exchange within the required timeframe**. Late, inaccurate or incomplete reporting may subject the responsible Member Firm(s) to disciplinary action.

(iii) Responsibility for Trade Reporting

For brokered transactions, unless otherwise agreed to by the parties, the responsibility for reporting resides with the Reporting Broker or Member Firm acting as a Broker.

For bilateral transactions:

- where that Member Firm is trading against a non-Member Firm, the Member Firm has the responsibility for reporting; or
- where there are two Member Firms party to the Bilaterally Negotiated Trade, the seller has the responsibility for reporting unless otherwise agreed to by the parties.

(iv) Methods of Trade Reporting

There are two methods for Trade Reporting a Bilaterally Negotiated Trade – Manual Trade Reporting and Electronic Trade Reporting. The Reporting Broker or Member Firm responsible for Trade Reporting should inform all other Member Firms which method of reporting is being used to ensure all reporting and confirmation obligations are met in a timely manner.

For **Manual Trade Reporting,** Member Firms must use the relevant email template found on the LSEDM webpage, which can be accessed here. **Before a Member Firm submits a Trade Report, or a Trade Report is submitted on its behalf, a Member Firm must ensure that that the deal terms are in compliance with any relevant risk limit in place with its Clearing Member.** Upon receipt of a manually submitted Bilaterally Negotiated Trade, subject to being satisfied the transaction is in accordance with the Rules, the Exchange will accept the deal.

When completing the Trade Report with the details of the Bilaterally Negotiated Trade it is imperative that:

- The Buy and Sell Member Mnemonics are completed **with details of LSEDM Members only**. The complete list of LSEDM Members can be found **here**.
- The Account Reference cell must be populated with House (H),Client (C) or Matched Principal depending on the nature of the business conducted; and
- The time the Bilaterally Negotiated Trade was agreed by all parties is added to the Trade Report.

Failure to do so could mean the Trade Report is rejected by LSEDM.

A Member Firm may also choose to populate the optional following fields on the Trade Report:

- Client ID Code and Client ID Qualifier;
- Investment Decision ID Code and Investment Decision ID Qualifier; and/or
- Execution Decision ID Code and Execution Decision ID Qualifier.

Although these fields are optional, if populated these fields will be included in execution messages so completing them may assist Members with their transaction reporting requirements. Details relating to the population of these fields can be found in Appendix F of the LSEDM Trading Services Description (available here).

For Bilaterally Negotiated Trades that are entered into SOLA following **Manual Trade Reporting,** Basis Trade, Exchange for Security or Exchange of Future for Swap transactions will be entered using the Price Type "B"; Block Trades will be entered with Price Type "C".

For **Electronic Trade Reporting**, Member Firms can directly enter Bilaterally Negotiated Trades into the SOLA platform using available functionalities as described in the London Stock Exchange Derivatives Market Trading Services Description ("TSD") document. Either a Reporting Broker or other Member Firm (as determined per the priority set out in the "Responsibility for Trade Reporting" section above) will enter the transaction details, and all other Member Firms involved in the deal must accept their respective sides of the transaction. **All Member Firms must ensure that their respective sides have been reported and confirmed within the required timeframe.**

For Electronic Trade Reporting a Member Firm may choose to populate the optional fields below in order to assist them with their transaction reporting requirements. However where they are not populated, a Member Firm must populate them using the text provided in brackets below:

- Client ID Code with (0) and Client ID Qualifier with (none);
- Investment Decision ID Code with (0) and Investment Decision ID Qualifier with (none); and/or
- Execution Decision ID Code with (3) and Execution Decision ID Qualifier with (none).

For **Electronic Trade Reporting** of Basis Trade, Exchange for Security or Exchange of Future for Swap transactions, Member Firms must use Price Type "B" in SAIL and OrdType "B" in FIX; for Block Trades, Member Firms must use Price Type "C" in SAIL and OrdType "C" in FIX.

(v) Tailor-made Contracts

"Tailor-made Contracts" refers to Series which are not available for trading on the Order Book in which certain parameters, as set out in the Contract Specification, have been altered with respect to Standard Contracts. Tailor-made Contracts are **only** available in certain Equity Derivative products. A Tailor-made Contract may be reported to the Exchange using either Manual Trade Reporting or Electronic Trade Reporting method.

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.

6.2 Publication of Post trade information

Once a Bilaterally Negotiated Trade is accepted by the Exchange, a Contract will arise between the CCP and each Clearing Member Firm, subject to and in accordance with the Clearing House Regulations. Details of the Bilaterally Negotiated Trade will be disseminated via the High Speed Vendor Feed immediately, unless the Bilaterally

Negotiated Trade qualifies for a deferred publication, as described in Section 7[1]. The time, price, size and instrument code of the Bilaterally Negotiated Trade will be published, whether immediately or on a deferred basis.

A Bilaterally Negotiated Trade will not affect the Exchange's price high/low metrics nor affect the last traded price.

[1] For Basis Trade, Exchange for Security or Exchange of Future for Swap transactions only the details of the Futures leg will be published.

7.0 Deferred Publication of Trade details

Deferred publication allows for the publication of the trade details of the Futures leg of a Basis Trade, Exchange for Security or Exchange of Future for Swap transaction or the Block Trade to be deferred until the end of the trading day on Trade Day. In order to qualify for a deferred publication the following conditions must be satisfied:

1) The relevant instrument group(s) must be enabled for deferred publication, as specified in the LSEDM TSD;

2) At least one Member that is party to the Bilaterally Negotiated Trade must request for the trade details to be deferred at the time of Trade Reporting; and

3) The Bilaterally Negotiated Trade must comply with the requirement specific to the relevant trade type below:

   - For Basis Trade, Exchange for Security or Exchange of Future for Swap transactions, only the Futures leg must meet the relevant deferral threshold.

   - Single-leg Block Trades must meet the minimum size for the deferred publication of negotiated transactions.

   - For Block Trade strategies in equity derivatives at least one leg must meet the minimum size for deferred publication of negotiated transactions **except** in the following circumstances where each leg must meet the relevant deferral threshold:

     - For Index Futures: Block Trade strategies with 2 legs where both legs have the same underlying index and a maturity of 6 months or less; or

     - For Index Options: Block Trade strategies with 2 legs where both legs have the same underlying index and the same expiry date.

   - For Block Trade strategies in interest rate derivatives each leg must meet the relevant minimum size for deferred publication of negotiated transactions threshold.

The minimum sizes for the deferred publication of trade details are specified in the LSEDM BNT and DP Threshold Parameters document available **here**.

Requests for the deferred publication of trade details can be made through the Manual Trade Reporting and Electronic Trade Reporting methods, as described in Section 6.1(iv).