

International in a security without the prior consent of the Exchange may have its registration as a market maker in such security terminated. A market maker that has withdrawn its quote on SEAQ International shall not, without the prior consent of the Exchange, re-enter quotations for that security during the day it was withdrawn unless the withdrawal arose by a failure of its market maker computer system (rule 3.10). A market maker shall obtain Exchange consent before withdrawing or re-entering its quotation in a SEAQ security during the mandatory quote period, and where withdrawal of a quotation was caused by the failure of a market maker computer system,

the market maker shall re-enter its quotation as soon as it is able to do so (rule 4.17(b)).

A member firm may not resume market making on SEAQ or SEAQ International in a security in which its registration has been terminated without the prior consent of the Exchange. A market maker may have its registration in a security withdrawn by the Exchange where it has so requested (and where it has met any Exchange requirements in connection with such withdrawal) or where the Exchange has so ordered. A market maker cannot re-register in a security within three months of a prior de-registration in respect of the same security.

These rules are designed to inhibit "fair weather market making" by effectively preventing a member firm from resuming market making activities in a security for a period of three months after the member firm ceases to make a market in that security.

#### *Trading characteristics of SEAQ and SEAQ International Securities*

Securities listed on the Exchange and quoted on SEAQ are categorized according to a system based on normal market size ("NMS"). The NMS classification for SEAQ securities is determined by the following formula.

$$\text{NMS} = \frac{\text{value of customer turnover in prior 12 months (£)}}{\text{closing mid-price on last day of quarter} \times 10,000}$$

The Exchange uses fourteen NMS categories that range from 100 shares, the lowest NMS category, to 200,000 shares, the highest NMS category. The NMS classifications of SEAQ securities are reviewed quarterly.

Securities listed on the Exchange generally trade at lower prices per share than comparable United States ("US") securities. The share prices of many of the most highly capitalized companies in the United Kingdom are less than the equivalent of \$5.00 per share.

Securities quoted on SEAQ International are categorised as either firm quote or indicative securities (and this includes price on enquiry securities).

Firm quote securities are generally the leading internationally traded equity securities listed on the major stock exchanges throughout the world. All other securities are indicative securities. The price per share of securities quoted on SEAQ International ranges from approximately \$1 to \$1,000 due to differences in market customs in the countries of these issuers. Normally, at least three member firms are required to register as market makers in a SEAQ International security before it can be designated as a firm quote security. However, there is discretion to permit a security to achieve firm quote status where only one or two member firms are registered to make markets in the security and wish to make firm quotes. A minimum quote size will be set for the security and, in general, each market maker will be committed to deal at the price and size it displays on the screen. The display of these securities is normally arranged on the basis of their country of origin giving rise to the geographic sectors on SEAQ International.

Market users are kept informed of any significant issues affecting the operation of the market by the transmission of market status messages which are transmitted via the same mechanism used to distribute market maker prices to quote vendors.

Member firms which register to make markets in indicative quote securities input indicative quotations without a minimum quote size to SEAQ International during the relevant mandatory quote period. If the market maker receives an enquiry from a

member firm or counterparty, it is obliged to quote a firm two-way price in the security which must be based on the quotation displayed on SEAQ International. As a result, it is implicit that market makers in indicative quote securities must actively maintain and update the quote such that they are representative of the current market value.

At least one member firm is required to register as a market maker before a security can be admitted to this category. Where a minimum of two market makers are registered in a security, the competing quotations for that security are gathered together on one display page but the price and size in each quotation will be indicative rather than firm.

As with firm quote securities, indicative securities are normally displayed according to their country of origin.

Price on enquiry securities are securities in respect of which no price and size quotation is displayed. A member firm registers as a market maker and only the name of the firm, the security and contact number are disseminated to the market. The market maker is obliged, however, to quote a firm two-way price when receiving an enquiry from another member firm or counterparty.

#### *Exchange Trade Reporting and Surveillance*

As in RIE, the Exchange is the principal agency for receiving trade reports and transaction reports by its member firms for investment business.

The Exchange requires its member firms to trade report specific details of every transaction effected on the Domestic Equity Market (rule 4.50). Rule 4.53 generally requires trade reporting to the Exchange to take place within three minutes of the execution of a transaction in a SEAQ security. This is followed by transaction reporting to Checking which matches reports from firms.

A member firm is required to report to the Exchange every transaction to which it is a party in an international Equity Market security on the International Equity Market. Rule 3.22 imposes time deadlines for transaction reporting.

Transaction surveillance is effected by interrogating data received via the Checking

and SEQUAL services under Exchange rules. Routine surveillance takes place to ensure that the member firms have complied with the dealing and reporting rules governing activity on SEAQ and SEAQ International.

Member firms must comply with rule 2.9, which prohibits any act, conduct or practice which, *inter alia*, creates a false or misleading impression as to the price or value of any security and which may induce another person to enter into or refrain from entering into any transaction. A market maker in a security that is a component with an index shall not change its displayed quotation in that security with the sole intention of moving the index value (rule 2.10). The Exchange may bring disciplinary proceedings against member firms which have, *inter alia*, failed to comply with a direction of the Exchange having binding effect, or have engaged in conduct detrimental to the interests of the Exchange (rule 14.11).

Member firms also must comply with the FSA, including section 47(2) thereunder, which provides:

Any person who does any act or engages in any course of conduct which creates a false or misleading impression as to the market in or the price or value of any investments is guilty of an offense if he does so for the purpose of creating that impression and of thereby inducing another person to acquire, dispose of, subscribe for or underwrite those investments or to refrain from doing so or to exercise, or refrain from exercising, any rights conferred by those investments.

#### *Bringing Securities to the Market*

There are three main methods of flotation which are presently used in the UK for Domestic Equity Market securities. (Other techniques may be used for offers of International Equity Market securities.)

1. Offers for Sale. Shares are offered by a company's sponsor to the public, inviting subscriptions both from institutional investors and private individuals. The shares made available may be new shares being issued for cash or existing shares held by