Guidance to Members on Penalties for Serious Misconduct

1. Introduction

The Exchange has reviewed and amended its disciplinary process. To complement this, the Exchange has conducted a review of penalties in serious cases of infringements of the IPE Regulations ("misconduct" or "Rule breaches") under the aegis of the Authorisation, Rules and Conduct Committee. Rule E.2.2A was introduced in January 2002 providing that behaviour amounting to market abuse as set out in Sections 1.1.3 (2) (b) and (c) of the Financial Services Authority's Code of Market Conduct shall be in breach of the Regulations. Rule E.2.2A supplements the pre-existing Exchange Rules dealing with market abuse (see, for example, Rules E.2.2(a)(v),(vi) and (vii)).

The objectives of this guidance are:

- to promote consistency in the application of penalties (in particular, by providing guideline parameters for different categories of misconduct);

- to emphasise that the Exchange views market misconduct, including market abuse and client abuse, as extremely serious and will impose penalties accordingly.

This guidance is designed to provide guidelines on penalties to any disciplinary body, it being understood that the term ‘disciplinary body’ shall be used throughout this guidance and when it is used is intended as a defined term which comprises, as appropriate in the circumstances, any Disciplinary Panel, Appeals Panel, quorate meeting of the Authorisation, Rules and Conduct Committee and any other consideration of the issuing of a penalty for an act of serious misconduct, including a settlement negotiation.

This guidance will apply to all conduct after the date on which the guidance is published. This guidance does not apply to Delivery Conduct penalties as defined in Appendix I of the IPE Rules and Regulations (Schedule of Common Offences: Delivery Conduct - Category 1- Serious Offences).

2. Main Points of Guidance

Members, Responsible Individuals and Members’ staff registered with the Exchange (Registered Individuals) should note the following main points in relation to this guidance:

- This guidance is an enhancement to Appendix I of the IPE Rules and Regulations (Schedule of Common Offences: Market and Trading Conduct - Category 1 - Serious Offences; Category 2 -Intermediate Offences; Category 3 - Summary Offences). This guidance may be supplemented from time to time;
- This guidance is not designed to be comprehensive; serious misconduct could include conduct outside the defined categories described below;

- This guidance is not designed to prevent any disciplinary body applying a penalty outside the parameters indicated below if considered appropriate in the circumstances;
- When considering penalty, each case will be judged on its individual merits, with specific circumstances of an incident taken into consideration, including any aggravating or mitigating factors;
- The parameters described in the guidance (that is, the maximum and minimum penalties) do not take into account any profits made or losses avoided as a consequence of the misconduct. Accordingly, a penalty may be adjusted appropriately where profit has been made or loss avoided as a result of the misconduct;
- The maximum and minimum penalties refer to levels for each separate Rule breach;
- This guidance is applicable to the IPE open outcry and electronic markets including electronic markets with an order routing capability;
- The Exchange has the right (and in some cases the obligation) to disclose market misconduct to other investment exchanges, clearing houses or regulatory bodies as it deems appropriate (for example the Financial Services Authority (FSA)). Those other bodies may consider further action in appropriate circumstances.

3. Regulatory Considerations

3.1 General

In developing this guidance, the Exchange has taken account of regulatory considerations. The IPE is a Recognised Investment Exchange (RIE) and has certain statutory responsibilities. Regulations made under The Financial Services and Markets Act 2000 (FiSMA 2000) stipulate that: "The UK RIE must ensure that business conducted by means of its facilities is conducted in an orderly manner and so as to afford proper protection to investors" (See FiSMA 2000 Schedule to the Recognition Requirements Regulations, Paragraph 4(1)). This includes (but is not limited to):

- the maintenance of an orderly market;
- affording proper protection to investors;
- having appropriate arrangements to reduce the risk that the RIE's facilities will be used in ways which are incompatible with regulatory or legal requirements and the willingness and ability to promote high standards of integrity and fair dealing.

The Exchange views any conduct that undermines the achievement of these aims as serious misconduct.

3.1.1 Orderly markets

Market integrity is critical to the Exchange fulfilling its regulatory obligations. Only by ensuring that users, both current and potential, continue to have confidence in the Exchange as a regulated, professional and liquid market can the Exchange maintain and build further on its Member and customer base. Any conduct that affects or risks affecting adversely market integrity could have significant repercussions for Exchange business. An “orderly market” is described by the FSA as one where:

(i) Exchange Rules and procedures are consistent with the Code of Market Conduct;

(ii) Exchange Rules and procedures prohibit abusive trading practices or the deliberate reporting or publication of false information about trades;

(iii) Exchange Rules and procedures prohibit or prevent:
- trades in which a party is improperly indemnified against losses;
- trades intended to create a false appearance of trading activity (“wash trades”);
- cross trades executed for improper purposes;
- improperly arranged or pre-negotiated trades;
- trades intended to assist or conceal any potentially identifiable trading abuse (“accommodation trades”); or
- trades which one party does not intend to close out;

(iv) Exchange arrangements and practices enable Members or clients to obtain the best price available at the time for their size and type of trade and market conditions;

(v) Exchange arrangements and practices ensure:
- sufficient pre trade transparency taking account of the practices in those markets and trading systems used;
- sufficient post trade transparency taking into account the nature and liquidity of the specific contracts, market conditions and the scale of transactions, the need (where appropriate) to preserve anonymity for Members and clients for whom they act and the needs of different market participants for timely price information;

(vi) Exchange arrangements and practices include procedures which enable the RIE to influence trading conditions or suspend trading promptly when necessary to maintain an orderly market;

(vii) If Exchange arrangements and procedures include arrangements to support or encourage liquidity then such arrangements:
- are transparent;
- are not likely to encourage any person to enter into a transaction other than for proper trading purposes (which may include hedging, investment speculation, price determination, arbitrage and filling orders from any client for whom he acts);
- are consistent with a reliable, undistorted price formation process;
- alleviate dealing or other identified costs associated with trading on the RIE markets and do not subsidise a market position of a user of its facilities or subsidise any margin payments (or the provision of collateral) which such a user would have to make.

(See FSA Recognised Investment Exchanges and Recognised Clearing Houses Sourcebook, Section 2.6 - General Safeguards for Investors; 2.6.5 "Orderly Markets”).

Market misconduct including, but not confined to, price distortion, manipulation of prices, manipulation of settlement prices or deliberate reporting of false volume, would be viewed as undermining market integrity and therefore considered as extremely serious misconduct.

3.1.2 Investor/client protection

Investor protection is ensured partly by the maintenance of market integrity. Exchange Rules and Regulations address investor protection further through enforcing core Rules, which include client priority requirements, prohibiting price distortion and/or manipulation and requiring Members and Registered/Responsible Individuals to manage the conflicts of interest inherent in dual capacity.

Market misconduct may result in financial disadvantage for a client or investor. However, the Exchange believes that detriment to a client or investor is not a prerequisite for allegations of abuse of orders or failure to give client priority. The impact of misconduct on the market and on investor(s) may be taken into account by any disciplinary body determining penalty. They may also require restitution of specific losses to clients whose order(s) were abused and who were therefore *directly* affected by the misconduct.

Both market integrity and investor protection are affected by improper trading practices or offences committed on the trading floor or electronic platform (IPE ETS). Rule breaches could undermine the integrity of the market and result in reputational damage. Whilst breaches of crossing Rules, the withholding or disclosure of orders and other misconduct would be considered less serious as isolated incidents, if occurring as part of a course of conduct resulting in manipulation or abuse of orders for example, these offences will be viewed with greater gravity.

As a further point to consider, erroneous trades on IPE ETS could be viewed as directly impacting both on the provision of an orderly market and on ensuring investor protection. Any disciplinary proceedings that may ensue can take into account the scale of the market impact of such trades and/or any loss to investors when considering not only the form of disciplinary action but also level of penalty in cases where misconduct is proven.

3.1.3 Arrangements to ensure IPE facilities are not used in inappropriate ways and promotion of high standards of integrity and fair dealing

A specific policy to apply financial penalties for misconduct is not a RIE recognition requirement. However, the Exchange considers that a fair, consistent and robust penalties regime will act as a deterrent to those who seek to use the Exchange's facilities in inappropriate ways, and foster high standards of integrity and fair dealing. The Exchange considers that, along with the other regulatory considerations mentioned above, high standards of integrity and fair dealing are also fostered by Members adopting adequate systems and controls to prevent misconduct.

The Exchange considers that such systems and controls should be adopted throughout a Member's business, not merely any trading division but also Operations, Deliveries and Compliance departments. Members and Registered/Responsible Individuals should be aware of those responsibilities set out in the Code of Practice for Approved Persons (APER) and Senior Management Arrangements, Systems and Controls (SYSC), which can be sourced from the FSA Handbook on High Level Standards.

4. Who may be the subject of disciplinary action?

Depending on the nature of the misconduct, the Exchange may bring disciplinary action against any persons subject to the Regulations (as defined in the Regulations) including:

- the relevant Member;
- Registered Individuals, namely (i) floor traders, (ii) Responsible Individuals (in the case of IPE ETS), and (iii) other staff of the Member registered with the Exchange.

Which of these persons is subject to disciplinary action in any given case will depend on all the circumstances. The Exchange will have regard to the following factors (without limitation) when deciding who should be subject to disciplinary action:

(a) As a general rule, a Member is liable for the acts of its employees, agents and other representatives ("representatives"), whether registered or non-registered individuals (or companies);

(b) In the case of conduct by a non-registered representative, the Member could be the subject of disciplinary action, and this will ensure that no Rule breach escapes appropriate disciplinary action and penalties. In addition, for individuals not registered with the Exchange, under Rule E.3.8(f), the Exchange Compliance Officer or Authorisation, Rules and Conduct Committee may report any findings of an investigation to any investment exchange, clearing house or regulatory body as they deem fit. These bodies may initiate disciplinary action on the basis of a referral from the Exchange;

(c) In the case of conduct by a Registered Individual (whether in the context of floor trading or IPE ETS), the Member may also be the subject of disciplinary action, although the Exchange will usually look first to the registered individual in any investigation of Rule breaches;

(d) In the case of IPE ETS specifically, a Responsible Individual is responsible for all business submitted under the Responsible Individual's unique ITM. It is accepted that there are a number of situations in which business might be submitted under the Responsible Individual's unique ITM. However, the situations might effectively be distinguished as scenarios:
   i) where business is submitted onto IPE ETS under the Responsible Individual's unique ITM by an individual on behalf of the Member ("Scenario 1"); or

ii) where business is submitted onto IPE ETS under the Responsible Individual's unique ITM by an individual on behalf of a client of the Member ("Scenario 2").

Irrespective of whether the business is submitted under the Responsible Individual's unique ITM in accordance with Scenario 1 or Scenario 2, in the event of a Rule breach, penalties may be imposed on the Responsible Individual and/or the Member unless he/it can prove, to the satisfaction of the Exchange, that he/it had taken all reasonable steps to prevent such a breach.

5. Guidance on Penalties

5.1 General

In the guidance set out below, the Exchange has categorised misconduct under generic headings and has provided some explanation of the type of conduct which would fall into each category. However, these categories are by no means exhaustive and each case should be considered on its individual and specific circumstances. In addition some categories overlap so that particular types of conduct might fall within more than one category. In such cases, the conduct should be considered under the heading most appropriate to the particular circumstances of the case.

Rule E.4.11 states that the penalties which may be imposed on a person subject to the Regulations by a Disciplinary Panel shall not exceed the following:

(a) the issue of a warning or reprimand;

(b) the issue of a notice of censure;

(c) in the case of an individual, disqualification (either indefinitely or for a fixed term) from being a Director or member of a committee or any panel of the Exchange;

(d) in the case of a Member, disqualification (either indefinitely or for a fixed term) of any partner in, director, employee or associate of the Member from being a Director or member of a committee or any panel of the Exchange;

(e) a fine of any amount, to be paid on such terms as may be prescribed;

(f) in the case of an individual entitled to enter or access the Market, suspension or curtailment of his right to do so (which may include suspension of his registration as a Responsible Individual), for a fixed term up to a maximum of 36 months;

(g) a recommendation to the Directors that any or all of the Member's rights of membership be suspended under Rule B.7.1(b);

(h) a recommendation to the Directors that they expel a Member from membership of the Exchange, or in the case of other persons subject to the Regulations, permanently remove their right to access the premises or the trading facilities of the Exchange under Rule B.7.1(a) or Rule BB.7.1(a) (as applicable);

(i) the issue of an order requiring the Member found to have committed the breach (or the person found to have committed the breach and the Member with whom he was associated at that time, or either of them) to take such steps including making an order for compensation, as the Panel may direct to remedy the situation including, without limitation, making an order for restitution to any affected person when the Member (or person concerned) has profited (or avoided a loss) from an act of misconduct at that person's expense;

(k) any combination of the foregoing.

The majority of guideline penalties detailed below set out a maximum figure "down to" a minimum applicable to Members and Registered/Responsible Individuals. These parameters allow those determining penalties to set the starting point anywhere between the maximum figure and the minimum figure. The discretion of any disciplinary body shall not be constrained by the parameters should it feel a penalty outside the parameters is appropriate in the circumstances.

No maximum penalty has been applied to 2 categories, "market manipulation and false or misleading impressions" and "failure of Member controls and processes" (see 5.2.1 and 5.2.5 below). Given the potential seriousness of such misconduct, the Exchange considers that it would be inappropriate for any maximum figure to be specified.

The maximum and minimum parameters do not take into account any profits made or losses avoided. Accordingly, the penalty may be adjusted appropriately where profit has been made or loss avoided as a result of the misconduct.

The maximum and minimum parameters refer to levels for each separate Rule breach.

Should multiple breaches of specific Rules suggest a pattern of misconduct, a disciplinary body may wish to consider an aggregate penalty for the misconduct as a whole rather than separate penalties for each and every breach. However, multiple acts of misconduct will not necessarily constitute a single course of misconduct attracting an aggregate penalty. This will depend upon the circumstances of the case. Any aggregate penalty would not necessarily be subject to the maximum penalty indicated below.

Any disciplinary body will take account of all relevant circumstances in assessing the seriousness of misconduct and therefore the appropriate penalty. These circumstances may include but not be limited to:

- Whether the misconduct was deliberate or inadvertent, premeditated or opportunistic;
- Whether the individual/Member benefited from the misconduct;
- The impact of the misconduct on the market;

- Whether the misconduct resulted in loss to investors/clients;
- The extent of the individual/Member's responsibility for the misconduct;
- The individual/Member's disciplinary record;
- The individual's seniority, responsibility or experience;
- The level of co-operation provided by the individual/Member with the Exchange in the investigation of the misconduct;
- The financial circumstances of the individual/Member being sanctioned;
- Remedial action taken since the misconduct;
- Any profit made or loss avoided as a result of the misconduct;
- Penalties imposed in previous similar cases.

5.2 The offences and penalties

5.2.1 Market manipulation and false or misleading impressions

The FSA Code of Market Conduct characterises market manipulation as behaviour which, in the eyes of the regular market user, would or would be likely to, distort the market. This includes both price distortion and abusive squeezes. Any attempt to manipulate market prices undermines the proper operation of market forces and market users' confidence in the independence and price transparency of the market. It subverts the integrity of the whole market and impacts on those who rely on Exchange generated prices for off exchange transactions. This would especially (but not exclusively) pertain to settlement prices. The existence of any instances of manipulation would damage the Exchange's reputation for operating an orderly market. In addition, any conduct which creates a false or misleading impression of the supply or demand, price or value or volume of any IPE contract, could result in market users no longer being able to rely on the prices formed in the market or volumes of trading as a basis for investment decisions, potentially undermining confidence in the market.

Rules captured
Rules captured here would include, but not be limited to:

Rule E.2.1 (b)	No Member and no person subject to the Regulations shall knowingly or recklessly permit the use of his or her services, facilities or membership or trading privileges by any person in a manner which is in the opinion of the Exchange liable to bring the Exchange or its Members into disrepute, impair the dignity or degrade the good name of the Exchange, create or maintain or exacerbate manipulations (or attempted manipulations) or corners (or attempted corners) or violations of the Regulations (or arrangements, provisions or directions made or given there under) or otherwise be substantially detrimental to the interests or welfare of the Exchange
Rule E.2.2 (a) (v)	Knowingly disseminating false, misleading or inaccurate reports concerning any product or market information or conditions that affect or tend to affect prices on the Market

Rule E.2.2 (a) (vi)	Manipulating or attempting to manipulate the Market, creating or attempting to create a disorderly Market, or assisting its clients, or any other person to do so
Rule E.2.2 (a) (vii)	Making or reporting a false or fictitious trade
Rule E.2.2A	Behaviour amounting to market abuse as set out in Sections 1.1.3 (2)(b) and (c) of the FSA Code of Market Conduct.

Conduct covered in this category

Conduct covered in this category would include, but not be limited to:

- Any behaviour which manipulates the settlement price or attempts to manipulate the settlement price of any contract on the Exchange. This behaviour may include, but not be limited to:
    - Placing late bids or offers in the market where there is no intention to trade at these levels; where the late bids and offers are solely designed to influence settlement prices;
    - Deliberate misreporting of volumes executed in the designated settlement period solely for the purpose of inclusion in the settlement calculation and creating distortion of the settlement price;
    - Wash trades executed for no economic purpose but executed at prices beneficial to either the Member or the Registered/Responsible Individual or the client placing the wash trade order;
    - Generating unrepresentative prices solely to influence a settlement price beneficial to either the Member or the Registered/Responsible Individual or the client placing the order;
- Disclosure of "contingent" orders which generates trading deliberately designed to result in market conditions reaching a position where the contingent order is triggered;
- The establishment of abusive squeezes in any contract and/or a failure to manage these positions in accordance with Exchange instructions or the establishment of dominant positions and a failure to manage these positions in accordance with Exchange instructions.

Member Penalty	**Registered/Responsible Individual or Local Trader Penalty**
No maximum penalty down to £25,000 and/or suspension of trading rights or expulsion from the market for open outcry trading and/or for electronic markets, immediate suspension of the right to trade through mnemonic and suspension from the electronic market	No maximum penalty down to £10,000 and/ or a period of suspension up to a maximum term of 1 year or expulsion

5.2.2 Abuse of client orders

The abuse of client orders threatens market integrity, potentially harms investors, and has serious implications for market user confidence. The market user must have confidence that its orders are a Member's first priority and that Members and Registered/Responsible Individuals do not abuse their knowledge of privileged information. While the abuse of an order need not necessarily result in a financial disadvantage to an individual client, the Exchange considers that the market as a whole has been disadvantaged by the abusive action. This view has been reinforced by the decisions of recent Disciplinary and Appeals Panels. The Exchange accepts that establishing any proprietary position results in the trader taking on a degree of market risk. However, the assumption of some degree of market risk does not, in itself, provide a defence against an allegation of abusing a client order (or a mitigating factor when considering penalty). Nonetheless, in considering such an allegation, a Panel is entitled to consider all relevant factors. The Exchange is not prepared to be prescriptive in defining what constitutes "market risk". Each case involving possible abuse of client orders will be judged on its particular circumstances.

Rules captured
Rules captured here would include, but not be limited to:

Rule G.7	Priority of orders
Rule G.9	Abuse of orders
Rule G.8	Disclosure, withdrawal and withholding of orders

Conduct in this category
Conduct in this category would include, but not be limited to:

- A Registered/Responsible Individual establishing a proprietary position in the knowledge of a client order that has the potential to affect the market in a way beneficial to the proprietary position. The proprietary position need not necessarily be closed out by a cross trade against the client order, although if it is, this may be an indicator of premeditation;
- Failure to allocate improved executions to a client;
- A failure to afford a client order priority over proprietary account trading;
- Withholding client orders from the market which may or may not result in the client receiving inferior executions;
- Withholding client orders from the market, followed by deliberate disclosure of the order to other clients in order to generate a matching order. This allows a cross trade to be constructed resulting in double commission for the Member.

Where conduct of the kind described above does not involve potential abuse of the client, it may be more appropriately considered in category 4, "Market Offences" (see 5.2.4 below).

Member Penalty	**Registered/Responsible Individual or Local Trader Penalty**
Maximum £500,000 down to £10,000	Maximum £200,000 down to £10,000 A period of suspension up to a maximum of 1 year or expulsion

5.2.3. Conduct failing to meet high standards of integrity and fair dealing

The market user is entitled to expect that Members and Registered/Responsible Individuals operate to high standards of integrity and fair dealing. Failure to do so threatens the credibility of the Exchange.

Rules captured
Rules captured here would include, but not be limited to:

Rule E.2.3 (a)/A.2.1(c)	High standards of integrity and fair dealing in accordance with the Statements of Principle issued by the Financial Services Authority or any successor thereto
Rule C.4	Accuracy of information
Rule E.1	Failure to notify the Exchange of breaches of the Regulations
Rule E.2.1	Bringing the Exchange into disrepute
Rule E.2.2	Conduct in relation to trading
Rule E.2.3	Other acts of misconduct
Rule E.8 (o)	Inciting another individual to commit an offence or act of misconduct (as detailed in Category 3 – Summary Offences in the Schedule of Common Offences)

Conduct in this category
Conduct in this category would include, but not be limited to:

- Deliberate attempts to conceal any acts of misconduct and relevant audit trails
- Inciting another Registered/Responsible Individual to commit a breach of the Regulations or act of misconduct
- Where a Registered/Responsible Individual has knowledge that a breach of the Regulations or act of misconduct has occurred but fails to notify or report this

Member Penalty	**Registered/Responsible Individual or Local Trader Penalty**
Maximum £500,000 down to £10,000	Maximum £200,000 down to £4,000 and/or a period of suspension of up to 1 year

5.2.4 Market offences

(a) Attempts to circumvent market mechanisms or exclude market participants

This category envisages conduct which attempts to circumvent market mechanisms or deliberately to exclude market participants. This impacts on market integrity and potentially undermines the reputation of the market itself as a vehicle for openness, fairness and equality. This category includes conduct which may affect the validity of trades executed on electronic markets as a result of improper access to the market by Registered Individuals, Responsible Individuals or individuals not authorised to access the market. A Member's failure to prevent unauthorised access to IPE ETS may be deemed a failure of the Member's internal processes and controls. This category would also include conduct involving the failure to give a client priority and the withholding and disclosure of an order or orders where there is no client abuse.

Rules captured
Rules captured here would include, but not be limited to:

Rule G.3	Validity of contracts
Rule G.4	Prior arrangement prohibited
Rule G.7	Priority of orders
Rule G.8	Withdrawal, withholding and disclosure of orders
IPE ETS Trading Procedure 1	Access to the Electronic Trading System

Conduct in this category
Conduct in this category would include, but not be limited to:

- Failure by a Registered Floor Trader to trade by open outcry, whereby a trader unilaterally registers a trade;
- Failure by Registered Floor Traders to trade by open outcry, whereby a trade is registered by both Registered Floor Traders subject to a prior arrangement and without opportunity for market participation;
- Unrepresentative bids or offers deliberately placed in the market potentially degrading market credibility;
- A failure to afford a client order priority over proprietary account trading
- Withholding client orders from the market;
- Withholding client orders from the market, followed by deliberate disclosure of the order to other clients in order to generate a matching order. This allows a cross trade to be constructed resulting in double commission for the Member.

Offence	**Member Penalty**	**Registered Floor Trader or Local Trader or Responsible Individual Penalty**
(i) For a failure to trade by open outcry by a unilateral registration of trades	Maximum £10,000 down to £2,000	Maximum £5,000 down to £1,000 and/or suspension from the market for up to 1 month
(ii) For a failure to trade by open outcry without sufficient opportunity for market participation	Maximum £10,000 down to £2,000	Maximum £5,000 down to £1,000
(iii) For a failure to trade by open outcry due to prearrangement	Maximum £10,000 down to £2,000	Maximum £10,000 down to £5,000 and/or suspension from the market for up to a maximum of 6 months
(iv) For the deliberate placing of unrepresentative bids/offers	Maximum £10,000 down to £2,000	Maximum £5,000 down to £1,000

(v) Failure to give client priority	Maximum £25,000 down to £5,000	Maximum £10,000 down to £2,000
(vi) Withholding of orders	Maximum £10,000 down to £1,500	Maximum £5,000 down to £600
(vii) Disclosure of orders	Maximum £10,000 down to £2,000	Maximum £5,000 down to £1,000 Repeat offence: suspension of up to a maximum of 3 months

(b) Breach of crossing procedures

Failure to comply with the designated crossing procedures is an attempt to circumvent the mechanism of market price and volume transparency and the fair and equal opportunity to trade. It may also deny a customer an improved execution had the market had the opportunity to participate in the business. The scenarios envisaged in the parameters below are situations where a Registered Individual/Responsible Individual has unintentionally failed to follow the correct crossing procedures. Deliberate breaches of crossing procedures may require more severe penalties, for example, a breach of the Principal Cross Trades Rule, where the pit is excluded from trading by a cross trade where one side of the trade is allocated to a Registered Individual's/Responsible Individual's proprietary account resulting in possible personal benefit.

Rules captured
Rules captured here would include, but not be limited to:

Rule G.5 Floor Cross Trades

Offence	**Member Penalty**	**Registered Floor Trader or Local Trader**
(i) For a breach of Floor Cross Trades procedure	Maximum £10,000 down to £2,000	Maximum £5,000 down to £1,000 Repeat offence: suspension up to a maximum of 1 month
(ii) For a breach of Principal Cross Trades procedure	Maximum £10,000 down to £2,000	Maximum £7,500 down to £2,000 Repeat offence: suspension up to a maximum of 1 month

5.2.5 Failure of Member controls and processes

For maintenance of its regulatory status, the Exchange requires all Members to ensure there is appropriate supervision of personnel and other arrangements to enable the

Member to monitor and control its IPE business in a way that ensures compliance with the Rules. This will extend to an obligation on the Member to ensure that business submitted onto IPE ETS under a Responsible Individual's unique ITM by a client of a Member will be undertaken to the same standards.

Rules captured
Rules captured here would include, but not be limited to:

Rule E.2.3(a)/A.2.1(d)	Organisation and control of internal affairs in a responsible manner, adequacy of internal record-keeping and adequate arrangements to ensure that staff and directors of Member firms are fit and proper, adequately trained and properly supervised and that each Member has well-defined procedures for ensuring compliance with the Rules

IPE ETS Trading Procedures 1 and 1A

Member Penalty	**Registered Floor Trader or Local Trader**
No maximum penalty down to £5,000	n/a

5.2.6 Failure to co-operate with the Exchange

This category envisages a situation where a Member or Registered/Responsible Individual fails to assist the Exchange in any of its inspections, enquiries or investigations.

Rules captured
Rules captured here would include, but not be limited to:

Rule C.4	Ensure to best of ability that all information and documents from time to time given to the Exchange or to the Clearing House are complete, fair and accurate

Offence	**Member Penalty**	**Registered/Responsible Individual or Local Trader**
Failure to provide accurate information	Maximum £100,000 down to £5,000	Maximum £40,000 down to £1,000 and/or a period of suspension of no less than 1 month

6. Referral to FSA

IPE Rule E.2.2A states that: "The Financial Services and Markets Act 2000 defines behaviour which amounts to market abuse. Members and persons subject to the

Regulations whose behaviour amounts to market abuse as set out in Sections 1.1.3 2(b) and (c) of the FSA Code of Market Conduct, shall be in breach of the Regulations". The FSA and the Exchange have agreed Operating Arrangements which detail how suspected cases of market abuse will be handled by the two authorities. (For specific details, see IPE Circular 02/03 RO3).

Rule E.3.8 (f) allows the Compliance Officer or the Authorisation, Rules and Conduct Committee to report any disciplinary matter to such investment exchanges, clearing houses or regulatory bodies as it thinks fit.

As a result, Members and Registered/Responsible Individuals should note that Members and Registered/Responsible Individuals could be subject to FSA action irrespective of any IPE disciplinary proceedings (see, in particular, Section 11.8.4 in the FSA Handbook on Enforcement, which relates to FSA action involving other regulatory authorities, and Attachment 1 to IPE Circular 02/03 RO3, Operating Arrangements with the FSA on Market Misconduct).

7. Settlement Procedure

Rule E.4.3A allows a Member or person alleged to have committed a Rule breach to settle disciplinary proceedings with the Exchange at any stage (including any appeal). The Exchange's procedure for settlement negotiations is as follows:

i. A settlement may be negotiated up until the time when a Disciplinary Panel is seized formally of any allegations made by the Exchange against an individual or Member including before the issue of a notice under Rule E.4.2.
ii. A Member, individual or their legal representatives, should contact the Exchange and request settlement negotiations.
iii. Any number of formal meetings, between the Compliance Officer (and/or representatives of) and Member or individual (and/or representatives of), may be held to discuss a prospective settlement.
iv. The Exchange will make a formal offer of settlement without prejudice and in writing. This formal offer will detail the terms of the settlement, including any financial penalty, term of suspension or any other penalty to be applied. The settlement offer and any terms will be valid for a specific period of time, after which the offer will lapse. In this event, the matter will be referred back to a Disciplinary Panel for resolution.
v. Any negotiated settlement is subject to ratification by the Chairman of the Authorisation, Rules and Conduct Committee or, in his absence, a quorum, comprising 5 members, of the Authorisation, Rules and Conduct Committee.
vi. Should a settlement be negotiated whilst a Disciplinary Panel or Appeal Panel is formally considering any allegations of misconduct, ratification of a proposed settlement by the Disciplinary Panel or Appeals Panel would be required.

8. Publicity

Rule E.4.13 allows the Authorisation, Rules and Conduct Committee to publicise any finding of, or any penalty imposed or other order made by a Disciplinary Panel or

Appeals Panel, or any ratified settlement. Any Member or individual cited in a Disciplinary Circular will have the opportunity to comment on any draft Circular prior to issue but the Committee reserves the right to give such publicity as it considers appropriate pursuant to Rule E.4.13. The provisions of this Rule are without prejudice to the right of the Exchange under Rule A.4.3 or otherwise to disclose information to other regulatory or law enforcement bodies.

9. Recovery of Fines

It is the Exchange's policy to recover fines imposed upon persons subject to the Regulations. Without prejudice to any other rights of the Exchange, where a fine is not paid by the relevant person subject to the Regulations, the Exchange will, if necessary, take steps to recover the fine as a debt through the courts. Following subtraction of costs, residual amounts from fines are paid to charity through the IPE Charity Trust.