

SCREEN DEALING BULLETIN NO. 28/00



Custom Market Trading Procedures

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The level of enquiry and interpretation of trading rules and procedures relating to the custom market have increased in recent weeks.

In an attempt to clarify any issues, the following trading guidelines are presented.

CREATING A NEW CUSTOM MARKET STRATEGY

Request the exact strategy via the message function before entering the order.
Enter the strategy into the custom market using the individual levels and ensuring the volume ratio is at the lowest common denominator. The maximum allowed in the volume ratio is 50 except when the order is a ratio strategy and the smaller leg must be equal to or less than 50.
Individual custom market legs must conform to Schedule F.

JOINING AN ESTABLISHED CUSTOM MARKET STRATEGY

Unnecessary to announce interest via message function.
If you are first to join, improve or create the opposite side of a Custom Market, only the price of one leg can be changed to alter the total premium of the strategy.

PROCEDURE WHEN JOINING AN ESTABLISHED TWO WAY CUSTOM MARKET STRATEGY

No need to announce interest via message function.
As the fixed leg/legs are already established, improvements to the market should be made to the variable leg.

CHANGES TO BASIS, DELTA OR CONSTANT LEG

Treated exactly the same as creating a new strategy.

The strategy must be requested via the message function stating the exact changes.

For an altered strategy to trade it must represent an improvement to the original strategy.

Altered Custom Market strategies that result in an identical strategy with an identical total premium will be disallowed as they represent queue jumping.

Rules regarding the creation of the fixed and variable legs remain the same.

CROSSING MECHANISM

Crossing an order in the custom market takes 60 seconds. If you are first on the bid and offer you will automatically cross 50% of the smaller size with odd volumes rounded down.

Crossing for options in the outright market is exactly the same as the custom market but the duration is only 30 seconds.

Orders may only be crossed in the final 60 seconds of the day if at least one side of the trade has been in the market prior to the final 60 seconds of the day.

CANCELLATIONS AND SETTLEMENT DISPUTES

Errors must be reported to SYCOM® within 5 minutes of the trade's occurrence. Deals can be cancelled with counter-party approval or when out of market. It is the trader's responsibility to contact SYCOM® and to seek counter-party approval. When allowing a trader off a trade, you must also inform SYCOM® of your intention. Trades cannot be cancelled 10 minutes after the close of trading for the day regardless of circumstances.

If a trader has a dispute with a settlement price, it is the trader's responsibility to contact SYCOM® within 5 minutes of the prices being posted to the market. A committee can then be held to adjudicate the new settlement price.

SCHEDULE D TRADES

A Schedule D trade may be used when a trader receives an order that consists of 5 or more legs. The trader must contact SYCOM® with the exact strategy and leg prices. Improvements, joining or creation of the other side of a market must be communicated via the message facility.

VOLUME REQUIREMENTS FOR SETTLEMENTS

Interest Rate Products (IR/XB/YB) Settlements will be taken from:

- 1.. At The Money straddles (minimum 50 lots)
- 2.. At The Money straight puts/calls (minimum 50 lots)
- 3.. At The Money F/O (minimum 50 lots on the options)
- 4.. In and Out of the money straight puts/calls (minimum 25 lots)

Equity Products (AO/AP/AI) Settlements will be taken from:

- 1.. At The Money straddles (minimum 25 lots)
- 2.. At The Money straight puts/calls (minimum 50 lots)
- 3.. At The Money F/O (minimum 25 lots on the options)
- 4.. In and Out of the money straight puts/calls (minimum 10 lots)

Relevant orders must be present for the entire final 10 minutes of trading to be used for settlements.

Trades that occur during the final 10 minutes may be considered for settlement. Traded volume, times of order entry and whether the market is bid or offered at the same level will be used to determine implied volatility.

All outright option bids and offers will be considered for settlements if they meet time and volume requirements

The order of preference for settlements is outright option orders, then futures/options orders and then at-the-money straddle orders.

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