

CIRCULAR



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**To: Floor Members
Local Members
Market Representatives
SYCOM Traders**

No: 307/98

Trading to the Exclusion of the Market

The Market Practices Committee (the Committee) recently considered issues in regard to market practices that have been determined to constitute trading to the exclusion of the rest of the market. The following are examples of these practices:

Example 1

Note: This is a worked example based directly on a complaint from the Trading Floor by a Member.

Member A is working two (2) orders in the 90 Day Bank Accepted Bill (BAB) contract:

1. Selling 200 Decs 7 points under March (ie. negatives at 7 points); and
2. Selling 100 March at 95.44.

Member B is also working 100 Dec/March negatives at 7 points.

The BAB bids and offers are as follows:

Dec	March
95.37A	95.45A
95.36B	95.43B

Member A is offering March at 95.45 and Dec at 95.37 then crossing March at 95.44 when it executes solds in Dec. Dec remains 95.37 offered.

Member B is bidding 95.43 in March in order to hit the Dec bid at 95.36, however it is not working an outright offer in Dec because it

is not aware there is an offer at 95.44 in March.

Member A is in fact trading on the knowledge of an order not known to the rest of the market and is ultimately trading to the exclusion of Member B and potentially the rest of the market.

Member A has the following options to avoid contravening the Exchange's Business Rules:

- to offer March at 95.44 whilst it offers Dec at 95.37;
- should it choose not to offer March at 95.44 (even by Client instruction) it cannot offer Dec at 95.37; and
- should it choose not to offer March at 95.44 it can only offer Dec at 95.37 on the basis of an outright order in Dec ie. if it is to sell Dec at 95.37, then the solds must be allocated to the outright order. It cannot cross March for the spread.

Example 2

Note: This is a worked example loosely based on an investigation conducted by Surveillance staff where the Member concerned was found to be in breach of the Business Rules regarding prearrangement and trading to the exclusion of the rest of the market and accordingly, a fine was imposed.

Member C is working two (2) orders in the Three Year Bond (YB) option contract:

1. Selling 200 Dec 95.75 calls at 13 points; and
2. Paying 13 points for 100 Dec 95.75 calls basis 95.52.

A Local Member is working to buy the Dec 95.75 strike at 3.54% volatility ie:

1. Paying 13 basis selling YB at 95.52; or
2. Paying 12.5 basis selling YB at 95.51.

The YB bids and offers are as follows:

Dec	Dec 95.75 call
95.52A	13.5A
95.51B	12.5B

Member C is bidding 12.5 for the 95.75 calls and offering at 13.5 whilst it works a hedge in YB at 95.52. When Member C executes sold futures in the YB at 95.52, it crosses the 95.75 calls at 13.0 points.

The Local Member is bidding 12.5 for the 95.75 calls in order to sell YB at 95.51 should its option bid be hit. The Local Member is not aware that there is an offer at 13.0 in the 95.75 calls, and is therefore unable to work a hedge in the YB at 95.52.

Member C is in fact trading on the knowledge of an order not known to the rest of the market and is ultimately trading to the exclusion of the Local Member and potentially the rest of the market.

It should be noted that the above examples are not considered withholding in order to cross because both orders were shown in the market prior to crossing, even though not at their limit prices.

The Market Practices Committee (the Committee) has directed that the practices outlined above, or any similar practices, are considered trading to the exclusion of other Market participants and therefore should cease immediately.

Should you have any queries in regard to the above, please contact the undersigned on 9256 0699.

Bronwyn Hill
Senior Surveillance Officer

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