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To: All Members

No: 371/98

Amendments to the Floor Trading Etiquette

Members are advised of amendments which have been made to the Floor Trading Etiquette as set out below:

1. to TE.5 to provide for the Board to appoint members of the Floor Committee in the interim period prior to the closure of the Trading Floor;
2. to TE.6 to incorporate procedures for letting a party to a trade off that trade; and
3. to TE.7.6(r) and (t) to require parties to a dispute in respect of which a decision has been made by the Floor Dispute Panel, to comply with the decision within a prescribed period.

Details of the amendments are set out in Annexure "A".

All these amendments come into effect immediately, but are subject to regulatory disallowance.

1. **Amendments to Trading Etiquette TE.5 Relating to the Floor Committee**

Under the current Trading Etiquette Rules, in TE.5, all members of the Floor Committee retire after 12 months and an election for a new Committee is held. Where a vacancy occurs before the end of the twelve month period, giving rise to a casual vacancy, an election must be held to fill that position. Traders express their preference by voting, but final approval of all members of the Committee rests with the Board (TE.5.1(a)).

Following consultation with the Floor Committee, the Board has determined that, in order to avoid possible delays in filling casual vacancies on the Committee after 31 December 1998, and to ensure that there will continue to be a Committee at the end of the term of the current Committee, amendments be made to TE.5 to provide for the Board to appoint members to the Floor Committee. This power arises:

1. where a casual vacancy occurs; and
2. at the end of the term of the current Floor Committee,

and the amendments also provide flexibility so that the number of members on the Committee may be less than 10 and may comprise more than two Exchange staff members.

It is proposed that the Board would consult with the existing Committee in relation to the persons whom it appoints, and it is envisaged that the Board would appoint these members of the existing Committee to continue, should they wish to be appointed.

The new TE.5A(c) provides for persons to be appointed for a term of approximately one year. It is expected that the term of appointment will be less than one year and will cease when the Floor closes. For drafting purposes however the term of one year has been used, and the section will be further amended when a firm date for closure of the Floor has been determined.

Amendments have been made as follows (additions underlined, deletions lined through):

Add new TE.5A.1 to 5A.3 to read as follows:

- TE.5A.1** *The provisions of TE.5.1 shall not apply after 31 December 1998 and the following provisions shall apply.*
- TE.5A.2** *Subject to TE.5A.3 and TE.5A.4 the members of the Floor Committee at 31 December 1998 shall continue in office.*
- TE.5A.3** ***Filling of Casual Vacancies to the Floor Committee***
- (a)** *In the event of a casual vacancy occurring amongst the Members of the Committee the Board shall appoint a member to fill that casual vacancy.*

Establishment of the Floor Committee After 31 December 1998

All elected members of the Committee shall retire on the date of the next annual general meeting occurring after 31 December 1998. Either before or after that date, the Board shall appoint a Committee as follows to act as the Floor Committee from that date:

- (a) The Board shall appoint a Floor Committee of up to ten (10) members consisting of the following:

 - (i) Up to six (6) Committee members who shall be representatives of Floor Members and shall be either Senior Traders or representatives of Floor Members who, although not Traders, have a significant level of experience on the Trading Floor which would enable them to contribute to the Floor Committee.
 - (ii) Up to two (2) Committee members who shall be Local Member Traders; one Local Member Trader shall (unless already a member thereof) be elected by the Floor Committee to be a member of the Locals Committee where such a Committee has been established by the Board under Article 12.
 - (iii) Two (2) or more Committee members who shall be employees of the Exchange.
- (b) The Board shall appoint members to the Floor Committee each year as close as practicable to the date of the Annual General Meeting.
- (c) An appointed member shall be appointed to the Floor Committee for a term of approximately one (1) year. A retiring Committee member shall retain office until a successor has been appointed.
- (d) Upon the expiry of the term of the Floor Committee all appointed members of the Committee including any Member holding a casual vacancy shall retire.
- (e) The Floor Committee shall meet regularly to perform its duties.
- (f) The Board shall have the power at any time by written notice to remove any person as a member of the Committee where it is of the opinion that the person is not a fit and proper person to be a member of the Committee, or if the Floor Committee so recommends.

2. **Amendments to Trading Etiquette TE.6 Procedures for Letting a Party to a Trade Off the Trade**

Amendments to TE.6 have been made by the Board following recommendations by the Market Practices Committee that it was not appropriate for a trader who has made an error to be "let off" the trade by the counterparty if the trade had not yet been reported to the client; the Committee was of the view that once a trade had been executed the trader could be "let off" the trade only if the client gives specific consent to the trade being cancelled. The Board has specified clearly the only circumstances under which a trader may be "let off" a trade in the new TE.6.3.5 which replaces the existing section.

The amendments are as follows:

Delete the existing TE.6.3.5, which stated:

~~TE.6.3.5~~ **~~Mistakes~~**

~~In the event of a Trader claiming to have made a mistake in trading he may, if the other party agreed, cancel the trade. Any trade so cancelled shall be announced to the Pit.~~

and replace it with the following:

TE.6.3.5 Letting a Party to a Trade Off the Trade

Subject to TE.6.3.6, where a counterparty or counterparties to a trade claim to have made a mistake and subsequently requests to be let off the trade, a trader may only let the counterparty or counterparties off the trade in the following circumstances.

- (a) Where the trader:
 - (i) can immediately execute the same trade in the market; and
 - (ii) immediately executes such trade; or
- (b) Where the trader obtains the client's express consent to let a counterparty or counterparties off the trade. In such circumstances a record of the client's consent must be retained by the trader; or
- (c) Where the trader is a representative of a Floor Member trading its House Account (purple badge); or
- (d) Where the trader is a representative of a Floor Member and the trade would have been allocated to its error account; or
- (e) Where the trader is a Local Member trading its own account; or

- (f) Where the trader is a Local Member trading on a "give up" basis; and
(i) the provisions of TE.6.3.5(a) apply; or
(ii) the provisions of TE.6.3.5(b) apply.

Where a counterparty or counterparties to a trade are let off a trade under any of the above circumstances, the fact of the let off shall be announced to the pit.

3. **Amendment to Trading Etiquette TE.7.6(r) and (t) - Clarification of Dispute and Arbitration Provisions**

Amendments have been made to TE.7.6(r) and a new TE.7.6(t) has been inserted, the purpose of which is to make it clear that failure to pay an award as determined by the Floor Dispute Panel pursuant to TE.7.6 constitutes a breach of the Business Rules, and where a party to a decision fails to comply with the decision within a prescribed period, the rights of the party's Trader or Representative to attend the Floor shall be automatically suspended until the decision has been complied with.

As there is a right for a party who believes that the Floor Dispute Panel has based its decision on a misconstruction or misinterpretation of the Business Rules, to refer the matter to the Board by the use of a Notice of Reference within 21 days of being notified of the decision, the prescribed period is:

- if a Notice of Reference is referred to the Board - 14 days after the Board has made its decision, or such other period as the Board may specify; or
- if no Notice of Reference is referred to the Board - 21 days after the Dispute Panel's decision has been made. (It should be noted that it is proposed that this period will be reduced to 14 days following proposed amendments to the provisions in Article 40.17 which relate to Notices of Reference).

The amendments read as follows (additions underlined):

- TE.7.6 (r) Except as provided in Article 40.17 and notwithstanding the provisions of the Commercial Arbitration Act 1984 as amended, a decision by a Floor Dispute Panel shall be final and binding on all parties. Failure by the parties to comply with the decision of the Floor Dispute Panel shall be deemed to be a breach of the Business Rules.
- (t) Subject to Article 40.17, the parties must comply with the decision of the Floor Dispute Panel within the prescribed period after the decision has been made. Without limiting the operation of disciplinary powers under the Rules, where a party fails to comply with the decision within this prescribed period, then the rights of the Trader, or other representative of that party involved in the dispute, to attend the Floor shall be automatically suspended until such time as the decision has been complied with.

The prescribed period shall be:

- (A) where no party lodges a Notice of Reference pursuant to Article 40.17(b) - that period which is specified in Article 40.17(b) as being the period within which a party to a Dispute may lodge a Notice of Reference pursuant to that Article; and
- (B) where one party lodges a Notice of Reference pursuant to Article 40.17(b) – 14 days after being served with the determination of the Board in respect of such Notice, or such other period as the Board may specify.

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