

CIRCULAR TO: FLOOR MEMBERS

**EXPRESSIONS OF INTEREST, CUSTOM MARKET
AND MARKET FACILITATION RULES FOR LARGE ORDERS**

PRACTICE NOTE

No. 285/99

As Members would be aware the Exchange has introduced new Trading Rules for Screen Trading. These are currently applicable to all SFE markets except daytime trading on 90 Day Bank Accepted Bill, Three Year Bond and Ten Year Bond contracts, which will transfer to SYCOM® from 15 November 1999 (subject to Floor Membership vote).

The attached Practice Note has been prepared in order to outline the system functionality and also clarify the rules in regard to Expressions of Interest, the Custom Market and the Large Order Market.

Members and SYCOM® Traders should be aware that it is for guidance only and should be read in conjunction with the Trading Rules and associated Schedules.

Members with Compliance Manuals should insert the Practice Note as new Practice Note 37.

Members should note that the Surveillance Department will conduct a survey in relation to the practicalities of the Market Facilitation rules in a screen based trading environment. This will be in the form of a letter to all Members, to which it will be requested that feedback be provided in order that all issues are addressed in relation to the appropriateness of these rules in relation to a fair and orderly market in the future. This will be issued shortly.

Members should also be aware that a separate Practice Note will be issued in regard to Strip Trades and Option Strategies with five (5) or more legs.

Should Members have any questions or comments regarding the above, please contact either Paul Stonham, Deputy Screen Dealing Manager on 9256 0152 or the undersigned on 9256 0699.

BRONWYN HILL
MANAGER, SURVEILLANCE

8 OCTOBER 1999

PRACTICE NOTE

SUBJECT: Expressions of Interest, Custom Market Trades and Market Facilitation Rules for Large Orders

RELEVANT BUSINESS RULES: Trading Rules TR.10, TR.16, and TR.20
Schedule F and Schedule H

ISSUED: 8 October 1999

PRACTICE NOTE NO: 37

As Members would be aware the Exchange has introduced new Trading Rules for Screen Trading. These are currently applicable to all SFE markets except daytime trading on 90 Day Bank Accepted Bill, Three Year Bond and Ten Year Bond contracts, which will transfer to SYCOM® IV from 15 November 1999 (subject to Floor Membership vote).

This Practice Note has been issued in order to outline the system functionality and also clarify the rules in regard to Expressions of Interest, the Custom Market and the Large Order Market.

Members and SYCOM® Traders should be aware that it is for guidance only and should be read in conjunction with the Trading Rules and associated Schedules.

Expressions of Interest:

Trading Rule TR.10

An Expression of Interest (EOI) is an enquiry made by a client to a Member or SYCOM® Trader to either:

- (i) obtain the current best bid and/or offer in a specific market; or
- (ii) enquire as to the volume that may be obtained at a given price.

An EOI is not an order.

It is a requirement that upon receipt of an EOI by a Member or SYCOM® Trader it must be broadcast to the market. The EOI, which will contain contract details, and may also contain price or volume details, must be broadcast to the market via the screen by either of the following methods:

- the “Request for Quote” facility where the EOI is for a single contract or option strike; or
- the “Message” facility where the EOI is for a multi-legged strategy.

Members are advised that when using the message facility they must ensure that all EOI requests are sent to All Users. EOI requests cannot be directed to specific Members or SYCOM® Traders, rather they must be broadcast to the Market as a whole.

When a Member or SYCOM® Trader utilises the Message facility, Members must restrict the information contained in an EOI message to the content of the EOI request. Where the message facility is used other than for EOI requests, then the Member may be subject to disciplinary action where the message is not consistent with the promotion and protection of the goodwill and public image of the Exchange, its markets and its Members. Accordingly, the Screen Dealing Department will conduct regular reviews of the Message facility.

Once the EOI has been entered via the Request for Quote or Message facility, the Member or SYCOM® Trader may then make enquiries regarding that EOI amongst other market participants and must only disclose that same information that has been broadcast to the market in relation to the EOI.

Should the Member or SYCOM® Trader receive opposite orders based on the EOI prior to 60 seconds from the initial entry of the EOI via the Request for Quote or Message facility, they must wait until the 60 seconds has expired to ensure that the market has had adequate opportunity to place orders into SYCOM®, or respond to the EOI in another way, before attempting to cross.

Custom Market:

Trading Rule TR.16 and Schedule F to the Trading Rules

The Custom Market allows Members to create their own multi-legged strategies consisting of up to four legs. This may consist of either futures or options or a combination of both. Simultaneous futures/options transactions may be placed for execution within the Custom Market.

The Custom Market eliminates legging risk as the order is filled at a user-defined ratio and at specific leg prices.

Each individual leg of a Custom Market trade must be allocated to the same account.

No Custom Market order should have any resemblance to order functionality which may already exist in SYCOM®, for example futures spreads that are available on Spread Trading windows and any Inter-commodity markets listed on SYCOM®.

Should a Member or SYCOM® Trader be in possession of a Custom Market order and there is no existing market for that particular strategy, the Member or SYCOM® Trader must ask for a market via the message facility broadcast to 'all users' before inputting the order.

Prices for all legs of a Custom Market order must be within the following price limits at the time of order entry:

- (a) The high/low of the Trading Date for the appropriate contract;
- (b) If only a bid or only an offer then the specified tick range as set out in Schedule J to the Trading Rules (copy attached) from the existing bid or offer (if the bid is below prior settlement then prior settlement may be used, if the offer is above prior settlement then prior settlement may be used);
- (c) If no bid or offer exist, then the specified tick range as set out in Schedule J to the Trading Rules from the settlement price. In the case of an Option Contract then within the specified tick range as set out in Schedule J to the Trading Rules from the system generated indicative price; and
- (d) For Futures/Options orders, deltas must be within the range as set out in Schedule J to the Trading Rules.

All orders traded on the Custom Market must be traded at the lowest common denominator, however the maximum volume that can be used in the volume ratio field is 50 lots. When a Custom Market order is matched, SYCOM® Traders will receive confirmations for each leg of the Custom Market order at the defined ratio.

The crossing of Custom Market orders will be effected through the SYCOM® crossing mechanism where, upon entry of both legs of the cross, half of the entered volume will be executed immediately (odd numbered volumes will be rounded down) with the remaining volume locked into the market for open trading for a period of 60 seconds. At the expiry of the period such remaining volume as is possible will be automatically crossed, the remainder being available to the market.

Market Facilitation Rules for Large Orders:

Trading Rule TR.20 and Schedule H to the Trading Rules

The Board has prescribed the following classes and associated quantities of futures and options contracts to constitute a large order:

- 1000 SPI® Options or the delta equivalent of 250 SPI futures contracts; or
- 1 Share futures contract.

Prior to accepting a large order, the Member or SYCOM® Trader must be authorised by the Client in writing to execute trades pursuant to the Market Facilitation rules.

Where a Member or SYCOM® Trader receives an instruction from a Client (“originating Client order”) which constitutes a large order, the Member or SYCOM® Trader must make an enquiry via the SYCOM® Message facility as to the forthcoming bids and offers, for example “*How is interest in a large sell order in the Dec 2950 calls*” or “*Requesting large order interest for the Dec 2950 calls*”.

The Member or SYCOM® Trader may then either:

- enter the large order into the SYCOM® system on behalf of the Client although full volume and best price may not necessarily be shown; or
- solicit counterparties to the large order amongst Market participants.

Where the Member or SYCOM® Trader solicits counterparties for the large order they may:

- (a) withhold transmission of the instructions for the large order in order to solicit counterparties;
- (b) disclose those details of the instructions authorised by the Client; and
- (c) aggregate orders received from other Clients in satisfaction or part satisfaction of the originating Client order.

Once counterparties have been solicited in relation to the large order, the Member or SYCOM® Trader must enter the large order on SYCOM® for execution. However, a Member or SYCOM® Trader who has made a large order enquiry via the Message facility shall not enter any order which is opposite in effect (i.e. a cross trade) until a 60 second period has elapsed from the initial broadcast.

A Member or SYCOM® Trader shall be subject to the normal trading rules of the Exchange once a large order is released into the SYCOM® system i.e. there is no guarantee that previously solicited counterparties will be matched with the originating Client.

It should be noted that Members will be asked to provide feedback on the practicalities of the Market Facilitation rules in the near future.

Note: The above information is for the guidance of Members and does not purport to be legal advice. The note should be read in conjunction with the legislation and any ASIC practice notes. Where appropriate, legal or other professional advice should be sought.