

CIRCULAR TO: FULL MEMBERS
SYCOM® TRADERS

No. 159/00

MARKET FACILITATION RULES FOR LARGE ORDERS

The Market Practices Committee (MPC) recently considered an enquiry involving the Market Facilitation Rules for Large Orders (Market Facilitation Rules). A Member was found in breach of disclosure of information and withholding orders in order to cross on the basis that it did not correctly follow the procedures for the Market Facilitation Rules.

The enquiry identified that a Member received a Large Order (an originating client order) in the SPI® options and, in accordance with the rules, broadcast an enquiry via the SYCOM® Message facility as to the forthcoming bids and offers.

Another Member then received a Large Order based on that original enquiry, however this Member did not at any time broadcast an enquiry to the market. Instead, the Member withheld that order from the market. During this period, that Member contacted potential counter-parties and disclosed information regarding the Large Order and withheld counterparty orders. This Member eventually crossed large volume orders.

This Member had been of the view that once a Large Order enquiry had been broadcast to the market pursuant to Trading Rule TR.20.2, then all Members, regardless of which Member had initiated the Large Order, were permitted to participate in the solicitation of counterparties under the Market Facilitation Rules. This Member was of the belief that it did not have to make an enquiry of the market broadcasting its own interest once in possession of a Large Order for the same option strategy.

The MPC's view of Trading Rule TR.20.2 [(Market Facilitation Rules for Large Orders) "*Where a Member or SYCOM® Trader receives an instruction from Client ("originating Client order"), which constitutes a large order, the Member or SYCOM® Trader must make an enquiry via the SYCOM® message facility...*"], is that the Member was clearly obliged to broadcast its large order to the market by enquiry through the SYCOM® Message facility.

The MPC was of the view that the Member had made an incorrect assumption as to the operation of the Market Facilitation Rules.

On the basis that this may be a common misconception in the market, the MPC recommended that this Circular be issued indicating that the Member's actions were not in accordance with the Rules and procedures relating to Large Orders and ultimately constituted a breach of the Disclosure and Withholding prohibitions.

Therefore, where a Member receives any Large Order, regardless of existing enquiries broadcast by other Members on the SYCOM® Message facility, then, prior to the solicitation of counterparties through other market participants, that Member must make an enquiry of the market for that Large Order through the Message facility.

In addition, for the information of Members, please find attached the Market Facilitation Rules as Annexure A.

Should you have any queries in relation to this matter, please do not hesitate to contact the undersigned on 9256 0699.

BRONWYN HILL
MANAGER, SURVEILLANCE

14 AUGUST 2000

- TR.20 **MARKET FACILITATION RULES FOR LARGE ORDERS**
- TR.20.1 For the purpose of TR.20, a “large order” means an order in a class of Futures Contract or Option Contracts prescribed by the Board and detailed in Schedule H and which is equal to or more than the quantity of such Futures Contract or Option Contract prescribed by the Board.
- A large order must be a firm order to buy or sell.
- TR.20.2 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. The Member or SYCOM® Trader may then either:
- (i) enter the large order into SYCOM® on behalf of the Client; or
 - (ii) solicit counterparties to the large order amongst Market participants.
(Amended 22/12/99)
- TR.20.3 Where the Member or SYCOM® Trader solicits counterparties for the large order pursuant to TR.20.2, the Member or SYCOM® Trader 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.
- TR.20.4 Where the Member or SYCOM® Trader solicits counterparties for the large order pursuant to TR.20.2, the Member or SYCOM® Trader may only enter orders that are opposite in effect where the provisions of TR.17.1(c)(ix) apply. (Amended 22/12/99)
- TR.20.5 Before trading a large order on behalf of a Client pursuant to this TR.20, a Member or SYCOM® Trader must be authorised In Writing by the Client to do so either specifically or generally.
- TR.20.6 Transactions negotiated pursuant to TR.20.3 shall not be in breach of General By-Laws G.8(h), (j), (k), (o), TR.17.1(c)(v), TR.18 or TR.19.
- TR.20.7 Once counterparties have been solicited for the large order pursuant to TR.20.2, the Member or SYCOM® Trader must enter the large order on SYCOM® for execution. 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.
- TR.20.8 Each Member or SYCOM® Trader must ensure that the originating Client order receives priority in allocation of trades when executing a large order.
- TR.20.9 Where it can be established that a Member or SYCOM® Trader has used information relating to a large order other than as provided in TR.20, that Member or SYCOM® Trader shall be referred to the Market Practices Committee or Business Conduct Committee.
- TR.20.10 For the purpose of TR.20, in respect of any Member which is a corporation, a “Client” shall include a related corporation as defined by the Corporations Law or a division of the Member - which is separate from the Member’s futures division.