

CIRCULAR TO:

FULL PARTICIPANTS
SYCOM® TRADERS

NO.200/00

RE: SETTING OF LIMITS IN PARTICIPANTS' AUTOMATED ORDER ENTRY
INTERFACES (AOEI)

The Business Conduct Committee (“the Committee”) have recently considered a number of cases relating to the failure to set limits in Participants' AOEI's. The Committee considers this failure to set limits a serious offence.

The Committee would like to remind Participants of their responsibility in relation to the setting of limits in Participants' AOEI's. The Exchange's Rules are as follows:

Trading Rule TR.27.2 states:

Any Participant, who has permitted any of its Clients to have access as described in TR27.1, shall be responsible for any orders entered through the AOEI by that Client or otherwise via a MFOS and shall take all reasonable steps to:

- (a) ensure that each order so placed, and any MFOS complies with the Business Rules and the Law;
- (b) provide for appropriate risk management systems including the imposition and position and / or order limits; and
- (c) provide appropriate controls on the access of their Clients and their staff to such system.

Trading Rule TR 27.4 states:

- (a) The Participant must place an appropriate pre-determined order and/or position limit on each of its Client accounts, including a volume per order limit, an aggregate loss limit and an aggregate net session limit, based on the Participant's analysis of the Clients' financial resources or other relevant factors.
- (b) Th limits determined in paragraph (a) must be input by a Participant's risk manager into SYCOM® account maintenance and will be established as preset accounts.
- (c) Limit setting capability must exist in the Participant's MFOS which reflects prudent account risk management. Where the MFOS is fully automated then the MFOS must have order rejection capability where orders are in excess of limit parameters input by the Participant.

- (d) The Participant may in its absolute discretion amend the pre-determined order and/or position limit.
- (e) Where a Participant fails to demonstrate prudent risk management procedures to the Exchange when calculating the above limits, the Participant shall be referred to the Business Conduct Committee by the Screen Dealing Committee or the Compliance and Surveillance Department or otherwise.
- (f) A failure to demonstrate prudent risk management procedures shall be considered a breach of the Business Rules and the Business Conduct Committee shall exercise its powers pursuant to Article 38.
- (g) Orders in excess of the agreed pre-determined limits must be rejected by the Participant's MFOS and may be rejected by the AOEI.
- (h) The Exchange reserves the right to exercise its discretion to cancel orders where, in the Exchange's opinion, the above risk management procedures are not complied with.

Participants should note that if they set appropriate limits in their MFOS that comply with TR.27.4 it is not necessary to set limits in the AOEI.

The Committee wishes to advise Participants that in future any instances by Participants of failure to comply with the above Trading Rules will incur an automatic financial penalty.

If Participants have any questions in relation to the technical aspects of setting limits in the AOEI, please contact Mr Paul Stonham, Manager Market Operations Development on 9256 0152.

Should you have any questions in relation to the contents of this circular, please contact me on 9256 0580.

MICHELLE WAGNER
MANAGER – COMPLIANCE

10 NOVEMBER 2000