

SFE CIRCULAR**NO. 231/00****AGGREGATING ORDERS**

The Market Practices Committee (MPC) and Screen Dealing Committee (SDC) have recently considered the issue of aggregating orders on SYCOM®. This circular is to advise Participants of scenarios in which it is acceptable and unacceptable to aggregate orders.

Participants should note that in general, it is not acceptable to aggregate orders on SYCOM®. It is a requirement of the Business Rules of the Exchange that orders at or near the market must be entered upon receipt. Therefore orders will generally be entered separately into the system as they are received.

However, the Exchange recognises that in some particular instances it may be necessary to aggregate orders to enable them to be executed expeditiously. Therefore, only where there is a specific and legitimate reason to do so, orders may be aggregated for execution. This will occur when orders cannot be entered upon receipt, either because of the nature of the orders or because of the nature of the system functionality. For instance 'market on open' and 'market on close' orders cannot be entered until they are required to be executed, therefore, to enable the efficient execution these orders may be aggregated. Also, spread orders that are received prior to open may be aggregated as they cannot be entered into the market until after the open.

In addition to the above three cases, the Market Practices Committee has identified a specific scenario in the Custom Market where aggregating orders may be appropriate. This scenario occurs when a Participant has a number of orders on one side of a particular strategy. The Participant may replace the existing orders with an aggregated order if it is to the advantage of the orders involved and does not disadvantage any other orders. This is allowable as no Rules are breached, no clients are disadvantaged, no other Participants are disadvantaged and it allows the Participant to avoid being potentially disadvantaged by the Custom Market crossing mechanism. It should be noted that this only occurs in specific circumstances and in all other instances Custom Market orders must be entered individually.

It is important to note that aggregation of orders must not result in any breaches of the Rules. For instance, when aggregating orders the audit trail must be strictly maintained. In this regard, where orders are aggregated the relevant client identifier should reflect all orders, or alternately, the client identifier should be designated as 'split' and manual order records maintained to reflect each component order. Participants will be required to provide these manual order records upon request.

In addition, aggregated orders remain subject to the principle of allocating subsequent trades in sequence of receipt. Allocating out of sequence, irrespective of whether orders have been aggregated or not, is a breach of the Corporations Law and the Exchange's Business Rules.

The Compliance and Surveillance division of the Exchange will monitor the aggregation of orders and any identified breaches of the Rules will be referred to a disciplinary committee for consideration.

Participants should also note that promoting orders within a SYCOM® queue to take the place of orders that have been cancelled is not allowed. This situation arises when a Participant attempts to exploit a favourable queue position where the original order has been cancelled by the client. If a client cancels an order it is against the sequencing provisions of the Law and the Business Rules to leave that order in the SYCOM® system and promote another client order to take its place, or indeed to solicit another client order to take its place.

In short, if a client cancels an order the Participant must cancel that order in SYCOM®. If the order was entered as part of an aggregated order in SYCOM®, then the participant must reduce the volume of the aggregated order by the amount of the cancelled order. The broking or offering of a favourable queue position is a breach of the Rules, in particular General By-Law G.3.14(b), failure to deal in a proper and efficient manner, and accordingly will be referred to a disciplinary committee for its consideration.

Should you have any queries in relation to this matter please do not hesitate to contact the undersigned on +612 9256 0699.

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