



SFE Bulletin No: 66/02

From: SFE Corporation Limited ABN 74 000 299 392

Date of Issue: 27 June 2002

Effective Date: 28 June 2002

AMENDMENTS TO TRADING RULES RELATING TO PRE-NEGOTIATED BUSINESS AND CROSSING RULES

Participants are advised that amendments have been made to the Trading Rules, to become effective 28 June 2002 at 5.10pm.

Amendments to the existing crossing rules and new rules relating to pre-negotiated business seek to stimulate screen based options by encouraging on-screen price visibility and more efficient trade execution. These amendments permit Participants to:

- Pre-negotiate trades for serial and quarter month interest rate options.
- Execute cross trades for all outright options, that is, interest rate options, SPI200™ Options and Greasy Wool Options, and custom market orders without being subject to the SYCOM® Crossing Mechanism.

Interpretation of the Pre-negotiated Business Rules (TR.20B)

To assist Participants in interpreting the Pre-negotiated Business rules as set out in TR.20B, a detailed explanation of the key requirements is provided below.

TR.20B.9 Written Authorisation by Client

Before trading pre-negotiated business on behalf of a client, the SYCOM Trader or Participant must receive written authorisation to do so from the client. There is no prescribed format for this authorisation other than that it be in writing (e-mail is acceptable) and it must state that the client authorises trades to be pre-negotiated on its behalf. This can be a general authorisation and only needs to be done once, and it can also be part of a Client Agreement. The written authorisation should be kept on file.

TR.20B.4 Withholding and Disclosure

When business is pre-negotiated there is no requirement to send an Expression of Interest. The Expression of Interest may still be sent if desired but it is not a requirement. The broker is free to withhold the order, disclose information not known to the rest of the market and pre-negotiate the other side of the order. An order may of course still be entered into the market, but it is not a requirement when pre-negotiating business.

TR.20B.6 and TR.20B.7 Request For Quote and Message Facility Requirement

When opposing orders are obtained by pre-negotiation, prior to their release to market, a Request for Quote or Message must be sent to the market. The relevant prescribed period of time must then elapse before opposing orders can be entered into the market. The prescribed periods are 10 seconds for outright options and 30 seconds for Custom Market and Off Market Option strategies. When entering orders after this prescribed period they can be entered simultaneously, for instance, by 'tagging and releasing' or entry via two separate workstations at the same time.

If an order is not pre-negotiated and a Request for Quote or Message is not sent prior to entry of opposing orders then the Participant must conform with the usual Rules. This includes prohibitions on withholding, disclosure and trading to the exclusion of the market. If Participants are unsure whether orders have been pre-negotiated or not they are encouraged to send a Request for Quote or Message and wait the prescribed period before releasing opposing orders.

Participants should note that where a SYCOM® Request for Quote Facility is available all request for quotes must be made via that facility. If the SYCOM® Request for Quote Facility is not available, Participants must make all request for quotes via the SYCOM® Message Facility.

TR.20B.8 Trade Entry on SYCOM® for Execution

Where a Participant holds opposing orders at a particular price, and a market is made following a Request for Quote or Message that touches or overlaps that specific price, then a Participant must trade with the market even if it means missing out on a cross trade. To hold back execution of a client order that is in market would be inconsistent with client instructions and detrimental to the client's best interests.

Trading Rules Amendments

Participants may notice that the amendments have been drafted in a new, simpler style, (which is intended to be introduced progressively throughout the rules as substantive amendments are made). This new style provides for the Exchange to make determinations which were previously set out in Schedule D (except for clause 5) and Schedule G, making it easier for substantive rules to be identified. The content of clause 5 of Schedule D (which imposed price limits on the basis prices for all legs of an off-market Strip Trade or Options Strategy order) has been imported into the Trading Rules as a new TR.15.13.

Trading Procedures set out in the old Schedule D (which specified how various off-market trades were to be executed) and the Determinations made in the old Schedule G (which detailed contracts in respect of which the crossing mechanism was to have been disabled) will be recorded in a Determinations and Trading Procedures document which will be published on SFE's web-site (under the SFE Trading Section) and kept up to date.

A marked up copy of the amendments to the existing rules and the new rules relating to pre-negotiated business is attached to this Bulletin.

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RULE AMENDMENTS (additions underlined, deletions lined through)

TR.1 DEFINITIONS

<u>SYCOM Crossing Mechanism</u>	<u>A function of SYCOM as described in TR.17</u>
<u>SYCOM Message Facility</u>	<u>A function of SYCOM which enables messages to be sent to the market</u>
<u>SYCOM Requests for Quote Facility</u>	<u>A function of SYCOM which enables requests for quote to be sent to the market</u>

TR.15 OFF-MARKET STRIP TRADING AND OFF-MARKET OPTION STRATEGIES

TR.15.1 For the purpose of this TR.15:

- (a) an off-market ~~(Schedule D)~~ Strip Trade means a trade where seven (7) or more consecutive traded months of a Futures Contract are bought or sold simultaneously, with the same volume for each of those traded months and the trade is unable to be executed on a designated SYCOM market (as the trade does not commence with the spot contract) or via the Custom Market; and
- (b) an Option Strategy means a strategy consisting of seven (7) or more legs of a combination of any Futures or Options Contract and, except where otherwise stated, includes such a strategy that can be executed as pre-negotiated business pursuant to TR.20B.

TR.15.2 ~~(a)~~ An off-market Strip Trade or Option Strategy, ~~as defined in TR.15.1,~~ must be executed in a manner determined by the Trading Manager or Board ~~in accordance with this TR.15 and the off market Strip Trade and Option Strategy SYCOM® Trading Procedures as set out in Schedule D.~~

~~(b)~~ An order which may be traded on SYCOM® where there is a specific pre-defined Strip market designated by the Exchange must be traded pursuant to Schedule DA.

TR.15.3 Upon receipt of an expression of interest in an off-market Strip Trade or Option Strategy, the Participant or SYCOM® Trader must make an enquiry pursuant to TR.10.2~~(i) or (ii)~~ unless it relates to an off-market Option Strategy which can be executed as pre-negotiated business pursuant to TR.20B.

TR.15.4 Once the expression of interest has been entered pursuant to TR.10.2~~(i) or (ii)~~, the Participant or SYCOM® Trader may then make further enquiry amongst other market participants pursuant to TR.10.3.

TR.15.5 ~~(a)~~ Upon receipt of an order in an off-market Strip Trade or Option Strategy to be executed pursuant to TR.15 ~~and Schedule D,~~ the Participant or SYCOM® Trader must transmit the order immediately to SYCOM® via the message function, stating the average price or Net Premium of the trade and the number of lots to be traded for each contract month.

~~(b)~~ deleted

TR.15.6 ~~Where an off market Strip Trade or Option Strategy is entered pursuant to Schedule D, then, upon release of the order to the market by SYCOM®, Participants have a period of five (5) minutes to attempt to obtain counterparties. Should a Participant receive an opposite order in the off market Strip Trade or Option Strategy, it must transmit the order to SYCOM® via the message function. After the five (5) minute period has elapsed, the Exchange will match the orders on a first in first out basis, however, the originating Participant is guaranteed to cross 50% of the original order volume. Should there be any volume remaining of the originating order, the originating Participant may cross this remaining volume, otherwise, the originating order shall lapse.~~

(a) A properly executed off-market Strip Trade entered into SYCOM will be matched by the Exchange on a FIFO basis.

- (b) A properly executed off-market Option Strategy entered into SYCOM will be matched by the Exchange on a FIFO basis unless the order relates to a market prescribed by the Exchange as being subject to the Crossing Mechanism detailed in TR.17.
- (c) Where there is volume remaining of the originating order after any remaining volume, as is possible, has been automatically crossed, and there are no interested counterparties, the Trading Manager may determine a period after the automatic crossing at the end of which the remainder of the originating order will lapse.

- TR.15.7
- (ia) Where an off-market Strip Trade or Option Strategy has traded pursuant ~~to Schedule D~~ this TR.15, and once orders are matched, the Exchange will inform the selling Participant of its counterparties. The selling Participant must within ten (10) minutes of receiving the identities of counterparties from the Exchange, confirm with each of its counterparties the basis of each contract month for the off-market Strip Trade or Option Strategy and obtain authorisation of such confirmations by an Exchange Official, otherwise the matter will be referred to the Trading Manager.
 - ~~(ib)~~ Deleted.
 - ~~(iic)~~ Where an off-market Strip Trade or Option Strategy Trade Record is not received by the Exchange within the time required in TR.15.7(i) and (ii), or the parties to the off-market Strip Trade or Option Strategy cannot agree the prices to be inserted on the off-market Strip Trade or Option Strategy Record, the Exchange shall allocate the indicative prices generated by the Exchange as the individual prices to the legs of the off-market Strip Trade or Option Strategy. The trade shall be deemed to be confirmed by the parties and recorded by the Exchange as being executed by SYCOM®.

- TR.15.8
- A record providing details of the off-market Strip Trade or Option Strategy must be completed by the Seller and provided to the Buyer for verification containing the following information:
- (ia) the average price of the off-market Strip Trade or Net Premium of the Option Strategy;
 - ~~(ib)~~ which Participant bought and sold;
 - ~~(iic)~~ the number of lots traded; and
 - ~~(ivd)~~ the basis for each contract month.

The form of the off-market Strip Trade or Option Strategy record to be provided to the Exchange is attached at Schedule E.

- TR.15.9
- Any off-market Strip Trade or Option Strategy which is not executed in accordance with this TR.15 ~~and Schedule D~~ shall be invalid. Each record for an off-market Strip Trade or Option Strategy must be provided to the Exchange in writing for verification. Full details shall be recorded by the Exchange and the record shall be retained by the Exchange and full details of the off-market Strip Trade or Option Strategy shall be provided on SYCOM®.

- TR.15.10
- Participants and their SYCOM® Traders are responsible for ensuring that records for off-market Strip Trades or Option Strategies are lodged with the Exchange within ten (10) minutes of the trade being executed.

- TR.15.11
- Exchange Officials are under no obligation to accept record details in accordance with TR.15.8 where the information cannot be readily and properly verified.

- TR.15.12
- Each individual leg of an off-market Strip Trade or Option Strategy must be allocated to the same account.

- TR.15.13 The basis prices for all legs of an off-market Strip Trade or Option Strategy orders must be within the following price limits:

- (a) The bid/offer of the appropriate contract.
- (b) If only a bid or only an offer then the specified tick range as set out in Schedule J 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 exists, then the specified tick range as set out in Schedule J from the settlement price. In the case of an Option contract then the specified tick range as set out in Schedule J from the system generated indicative price.

TR.16 **CUSTOM MARKET**

- TR.16.1 A Custom Market shall be established and, subject to these Trading Rules, trades in the Custom Market must be entered into SYCOM in accordance with this TR.16 and the Custom Market SYCOM® Trading Procedures as set out in Schedule F.
- TR.16.2 (a) Subject to TR.16.2(ii) 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 fifty lots.
- (ii) Where the Custom Market Order is for a strategy which includes two or more option legs or two or more futures legs in a ratio, then the volume that can be used in the volume ratio field, in relation to the option leg or futures leg with the larger ratio denomination only, may exceed fifty lots.
- TR.16.3 Orders which may otherwise be traded on SYCOM® where there is a specific pre-defined Market designated by the Exchange, cannot be traded on the Custom Market.
- TR.16.4 Custom Market Order cross trades shall be subject to TR.17.
- TR.16.5 Each individual leg of a Custom Market Order must be allocated to the same account.

TR.17 **CROSS TRADES**

- TR.17.1 (a) Subject to ~~General By Law C.26 and~~ TR.17.1(b) below, SYCOM® Traders or Participants who have in hand at the same time both buying and selling orders from different accounts for the same contract and delivery month may enter such orders to execute a cross trade provided that all such orders are entered into SYCOM® in the strict order in which they are received.
- (b) The crossing of orders in Markets which are prescribed by ~~the Board in Schedule G~~ the Exchange 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 ~~as specified in Schedule G or such other period~~ as determined by the Trading Manager. At the expiry of the period such remaining volume as is possible will be automatically crossed, the remainder being available to the market.
- (c) Subject to TR.20, TR.20A and TR.20B ~~C~~cross trading is restricted as follows:
- (i) If a SYCOM® Trader executes a cross in error it may be cancelled or amended only with the express authorisation of an Exchange Official subject to TR.24.
- (ii) No Participant or SYCOM® Trader shall accept opposite buy and sell instructions on the basis that such opposite instructions will be traded against each other without giving other SYCOM® Traders the opportunity to participate in the trade.
- (iii) No Participant or SYCOM® Trader may indicate to any other Participant or SYCOM® Trader that they should not seek to participate in a cross trade.
- (iv) No Participant or SYCOM® Trader shall effect, or have effected, any trade where both sides of the trade are on behalf of the same account.
- (v) No Participant or SYCOM® Trader shall withhold execution of a Client's order in order to cross.
- (vi) No Participant or SYCOM® Trader shall seek to avoid trading with other parties with the express intent to cross.
- (vii) No Participant or SYCOM® Trader shall enter opposite buy and sell instructions into two (2) separate SYCOM® Workstations, or two (2) separate SYCOM® Interface's as the case may be, with the ~~express~~ intent to cross.

- (viii) Where an expression of interest has been made pursuant to TR.10.2(i) or (ii), no Participant of SYCOM® Trader shall enter opposite buy and sell instructions as a result of orders received from such expression of interest unless a period of sixty (60) seconds has elapsed from the initial entry of the expression of interest.
- (ix) Where counterparties have been solicited pursuant to TR.20, no Participant or SYCOM® Trader shall enter opposite buy and sell instructions as a result of the large order enquiry unless a period of sixty (60) seconds has elapsed from the initial entry of the large order enquiry via the SYCOM® "Message" facility.
- (x) Where the Custom Market is a prescribed Market ~~in Schedule G~~, No Participant or SYCOM® Trader may attempt to execute a cross in the Custom Market in the final sixty (60) seconds of a SYCOM® Trading Date unless the net premium of one Custom Market Order included in the cross has been entered into SYCOM® prior to the final sixty (60) seconds of that SYCOM® Trading Date.

TR.18 DUTY NOT TO DISCLOSE

TR.18 ~~Subject to TR.20, TR.20A and TR 20B~~ No SYCOM® Trader or Representative or Officer of a Participant shall disclose to any party any information about a Client order which he is holding except to the extent necessary to enable that order to be executed.

TR.19 PRE-ARRANGEMENT

TR.19 ~~Subject to TR.20, TR.20A and TR.20B~~ No Participant or SYCOM® Trader may give or accept a request or instruction that a trade only be done between particular Participants or SYCOM® Traders and no Participant or SYCOM® Trader shall in any way arrange to so trade to the exclusion of other Participants or SYCOM® Traders.

TR.20B PRE-NEGOTIATED BUSINESS

~~TR.20B.1 For the purpose of TR.20B, "pre-negotiated business" refers to orders executed in accordance with this TR.20B. The Exchange may prescribe contracts which may be traded as pre-negotiated business:~~

- ~~(a) in any or all classes of Options Contracts;~~
- ~~(b) in the Custom Market; and~~
- ~~(c) as off-market option strategies~~

~~TR.20B.2 Where a Participant or SYCOM® Trader receives an instruction from a Client which can be executed as pre-negotiated business, the Participant or SYCOM® Trader may solicit orders from Clients and other Participants.~~

~~TR.20B.3 Where the Participant or SYCOM® Trader solicits counterparties pursuant to TR.20B.2, the Participant or SYCOM® Trader may:~~

- ~~(a) withhold transmission of the instructions in order to solicit counterparties;~~
- ~~(b) disclose details of Clients' instructions;~~
- ~~(c) aggregate orders received from Clients in satisfaction or part satisfaction of the originating Client order; and~~
- ~~(d) subject to Tr.17.1(b), execute a cross trade.~~

~~TR.20B.4 Transactions negotiated pursuant to TR.20B.3 shall not be in breach of General By-Laws G.26(g), (i), (j), or (n), TR10.2, TR10.3, TR10.5, TR.17.1(c)(v), (vii), or (viii), TR.18 and TR.19.~~

~~TR.20B.5 Subject to TR.20B.6, once counterparties have been solicited pursuant to TR.20B.2, the Participant(s) or SYCOM® Trader(s) must enter the orders on SYCOM® for execution.~~

TR.20B.6 Prior to entering the pre-negotiated orders on SYCOM for execution in the relevant contract month or strategy, the Participant or SYCOM® Trader holding the originating Client order must make an enquiry via the SYCOM® Message Facility or via the SYCOM® Request For Quote Facility for a market in that contract month or strategy. No pre-negotiated business order shall be entered into SYCOM® unless the prescribed period has elapsed after the entry of the enquiry. For the purposes of this TR.20B.6 the prescribed period is the period prescribed by the Board, the Chief Executive or his Delegate, being not less than 5 seconds.

TR.20B.7 Where a SYCOM® Request for Quote Facility is available all requests for quote must be made via that facility. Where a SYCOM® Request for Quote Facility is not available, all requests for quote must be made via the SYCOM® Message Facility.

TR.20B.8 Following the entry of an enquiry via the SYCOM Message Facility or SYCOM Request for Quote Facility the pre-negotiated orders must be entered on SYCOM® for execution immediately after the prescribed period has elapsed pursuant to TR.20B.6

TR.20B.9 Before entering a pre-negotiated business trade on behalf of a Client pursuant to TR.20B, a Participant or SYCOM® Trader must be authorised In Writing by the Client to do so either specifically or generally.

TR.20B.10 For the purpose of TR.20B, in respect of any Participant that is a corporation, a "Client" shall include a related body corporate as defined by the Corporations Law or a division of the Participant - which is separate from the Participant's futures division.

SCHEDULE D (Off-Market Strip Trade and Option Strategy SYCOM Trading Procedures) Deleted

SCHEDULE G-(Contracts and their Crossing Times subject to the SYCOM Crossing Mechanism) Deleted