



**SFE Bulletin No:** 11/05

**From:** SFE Corporation Limited ABN 74 000 299 392

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## **CLARIFICATION OF MARKET PRACTICES: - PRE-NEGOTIATED BUSINESS ORDERS & CUSTOM MARKET MESSAGING**

### **1. PRE-NEGOTIATED BUSINESS ORDERS AND ORDER TRANSMISSION**

SFE Compliance and Surveillance has recently become aware of some confusion in the market regarding the application of the Pre-Negotiated Rules with regard to the entry of orders obtained using Pre-Negotiated Business Rules and their transmission into the Trading Platform if an agreement on price and/or volume cannot be met.

Participants are reminded of SFE Operating Rule 3.3.3 which states that where a Participant receives an instruction from a Client which can be executed as pre-negotiated business, the Participant may:

- (a) withhold transmission of the instructions in order to solicit orders from Clients and other Participants;
- (b) disclose details of Clients' instructions; and
- (c) aggregate orders received from Clients in satisfaction or part satisfaction of the originating Client order.

However, in the event that a Participant's Clients are unable to agree on price and/or volume as Pre-negotiated Business, then Operating Rule 3.3.3 and the latitude which it provides no longer applies; the Participant's remaining course of action is to enter the orders into the Trading Platform individually and in the sequence of receipt in which they were received in accordance with SFE Operating Rule 3.1.8 which states:

*"A Participant shall transmit orders in the sequence in which they are received unless it would be fair and equitable, as determined by the Exchange, to transmit those orders out of sequence."*

The entering of aggregated client orders into the Trading Platform as a single SYCOM® order not received in accordance with those scenarios previously detailed in Bulletin 20/04, Execution and Allocation of Pre-Negotiated Business Orders, would be considered a breach of Operating Rule 3.1.8.

## 2. CUSTOM MARKET MESSAGING

It has also come to the attention of Compliance and Surveillance that from time to time, traders may omit sending an Expression of Interest to 'all users' via the Message Facility if a particular strategy has previously traded in the Custom Market and there are no current prices left in the market. Participants and their representatives are reminded of Operating Rule 3.2.3(d)(i) which states:

*"If there is no market for a particular strategy in the Custom Market the Participant must ask for a market via the Trading Platform Message Facility broadcast to "all users" before inputting the order."*

Should a Participant enter an Expression of Interest into the Trading Platform Message Facility which results in orders being entered into the Trading Platform that are subsequently executed in full leaving no remaining interest in that Custom Market, then any further orders in that strategy must be preceded by a further Expression of Interest being broadcast to 'all users.'

Participants are further reminded that any change in delta of an existing Custom Market order also requires a message to be sent to 'all users' via the Message Facility in accordance with Operating Rule 3.2.3(d)(ii) as previously advised in Bulletin 37/04, Mandatory Use of the Message Facility.

Should you have any queries with regard to either of the above matters, please do not hesitate to contact the Andrew Couper, Senior Compliance and Surveillance Officer on 9256 0589 or at [acouper@sfe.com.au](mailto:acouper@sfe.com.au).

A handwritten signature in black ink, appearing to read 'Anne Brown', is positioned to the left of a vertical red line.

ANNE T. BROWN  
GENERAL MANAGER, RISK AND COMPLIANCE