

SCREEN DEALING BULLETIN NO. 53/99



STRIP TRADING

Discussions have been held by the Exchange and Bank Bill traders over the last couple of months regarding strip trading and the ability to facilitate this on SYCOM® IV.

Following agreement to the method adopted to facilitate strip trading on SYCOM® IV and the approval of new trading rules, the Exchange intends to list a strip contract on SYCOM® IV on Wednesday, 10 November 1999.

The new trading rules are attached for Members' information and a brief summary is set out below. (Please note that the new trading rules are subject to ASIC's 28 days disallowance period.)

- **Commodity Code:** **ST**

- The standard for listing a ST contract will be that the last expiry month for that strip will be the contract month to identify the strip in the market window, ie. if the IRZ9 is the spot month, then the 1-5 strip would be designated STZ0.

- The ST commodity will always be traded basis the Three Year Treasury Bond contracts. (Further assessment for other strip combinations will be undertaken after the launch of the above.)

- Contracts listed will be the 1-5 strip out to the 1-20 strip.

- Pricing convention will be:
Differential = (IR strip price - YB price) + 1000
Ie. trading 50 under, differential input into market for order entry = 950.00
Differential price tick movement will be to 0.01

- On the first business day of the expiry month of the spot Bank Bill contract, the ST contract will be trading the next expiry as the first month of the strip.

- Prices and volumes entered must be at valid levels otherwise deals will not stand.

- The ST market window will look and behave as any other currently listed futures market window.
- When prices are matched, both parties will be sent indicative prices for the individual Bank Bill legs on a strip trading record which requires verification and sign-off by each party within a given time frame.
- Changes to any indicative individual Bank Bill prices may be made with the approval of both parties provided they comply with the guidelines in the attached trading rules.

Particular attention should be given to scheduled DA in the attached rules as this outlines the procedures for this new market.

SYCOM® Managers and Risk Managers should note that account maintenance and user maintenance will need to be performed on MFWSs and AOEIs to enable users to trade this new commodity.

A demonstration of strip trading on SYCOM® IV will be available for Members at 4.30 pm on Tuesday, 9 November 1999 in the SYCOM® Training room on Level 1, Grosvenor Place.

If further information is required, please contact the undersigned on 9256 0152.

PAUL STONHAM
DEPUTY SCREEN DEALING MANAGER

05 NOVEMBER 1999

- TR.15 **STRIP TRADING AND OPTION STRATEGIES**
- TR.15.1 For the purpose of this TR.15:
- (a) a Strip Trade means a trade where five (5) 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
 - (b) an Option Strategy means a strategy consisting of five (5) or more legs of any Option Contract.
- TR.15.2
- (i) A Strip Trade or Option Strategy must be executed in a manner determined by the Screen Dealing Committee, SYCOM® Manager or Board in accordance with this TR.15 and as applicable either the Strip Trade and Option Strategy SYCOM® Trading Procedures as set out in Schedule D or the Strip Trading Procedures as set out in Schedule DA
 - (ii) 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 a Strip Trade or Option Strategy, the Member or SYCOM® Trader must make an enquiry pursuant to TR.10.2.
- TR.15.4 Once the expression of interest has been entered pursuant to TR.10.2, the Member or SYCOM® Trader may then make further enquiry amongst other market participants pursuant to TR.10.3
- TR.15.5
- (i) Upon receipt of an order in a Strip Trade or Option Strategy to be executed pursuant to Schedule D, the Member 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.
 - (ii) Upon receipt of an order for a Strip Trade to be executed pursuant to Schedule DA, the SYCOM® Trader must transmit the order via order entry into the defined SYCOM® market window.
- TR.15.6 Where a Strip Trade or Option Strategy is entered pursuant to Schedule D, then upon release of the order to the market by SYCOM®, Members have a period of five (5) minutes to attempt to obtain counterparties. Should a Member receive an opposite order in the Strip Trade or Option Strategy, it must transmit the order to SYCOM® via the message function. After the five (5) minute period has elapsed, SYCOM® will match the orders on a first in first out basis, however, the originating Member is guaranteed to cross 50% of the original order volume. Should there be any volume remaining of the originating order, the originating Member may cross this remaining volume, otherwise, the originating order shall lapse.
- TR.15.7
- (i) Where a Strip Trade or Option Strategy has traded pursuant to Schedule D, and once orders are matched, SYCOM® will inform the originating Member of its counterparties. The originating Member must within five (5) minutes of receiving the identities of counterparties from SYCOM®, confirm with each of its counterparties the basis of each contract month for the Strip Trade or Option Strategy and obtain authorisation of such confirmations by an Exchange Official, otherwise the matter will be referred to the SYCOM® Manager.
 - (ii) Where a Strip has traded pursuant to Schedule DA, the seller and the buyer shall complete a Strip Trade and Option Strategy Trade Record pursuant to TR.15.8 . The Strip Trade and Option Strategy Trade Record must be transmitted to the Exchange within five (5) minutes after the Strip Trade has been confirmed so that the Exchange can present the trades to the Clearing House for registration.

(iii) Where a 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 Strip Trade or Option Strategy cannot agree the prices to be inserted on the 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 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 SYCOM₂®.

TR.15.8 A record providing details of the Strip Trade or Option Strategy must be completed by the Seller and provided to the Buyer for verification containing the following information:

- (i) the average price of the Strip Trade or Net Premium of the Option Strategy;
- (ii) which Member bought and sold;
- (iii) the number of lots traded; and
- (iv) the basis for each contract month.

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

TR.15.9 Any Strip Trade or Option Strategy which is not executed in accordance with this TR.15 shall be invalid. Each record for a 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 Strip Trade or Option Strategy shall be provided on SYCOM®.

TR.15.10 Members and their SYCOM® Traders are responsible for ensuring that records for Strip Trades or Option Strategies are lodged with the Exchange within five (5) 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 a Strip Trade or Option Strategy must be allocated to the same account.

STRIP TRADE AND OPTION STRATEGY
SYCOM® TRADING PROCEDURES

Strip Trades, consisting of five (5) or more consecutive traded months of a Futures Contract which are bought or sold simultaneously with the same volume for each of those traded months, which cannot otherwise be executed pursuant to Schedule DA, and Option Strategies consisting of 5 or more legs of any Option Contract may be executed in accordance with the procedures outlined below:

1. A SYCOM® Trader wishing to transmit an order to SYCOM® must state the following:
 - (a) the average price of the Strip Trade and the volume to be traded for each contract month; or
 - (b) the Net Premium of an Option Strategy, and the volume to be traded for each Option Contract.

This should be sent to SFE SYCOM® Control Centre via the message function.

2. The terminology used on the quote facility for a Strip Trade should be as follows:

“Sell /Buy CCMY – CCMY x lots @ average price”

Option Strategy:

“Sell/Buy CCMYXXXXXP/C, Sell/Buy CCMYXXXXXP/C, Sell/Buy CCMYXXXXXP/C, Sell/Buy CCMYXXXXXP/C, Sell/Buy CCMYXXXXXP/C @ a/b/c/d/e ratio for x lots @ net premium”

Exchange officials will then “broadcast to the market” the Strip Trade or Option Strategy order. The order will be allocated a number for that SYCOM® Trading Date.

Example of Strip Trade order message sent by SYCOM®:

“MNM Sell/Buy CCMY – CCMY x lots @ average price (Strip/Option #1)”

SYCOM® Traders interested in taking the other side of the Strip Trade or Option Strategy shall notify the SFE SYCOM® Control Centre via the “message” function.

Example of Strip Trade order message sent by SYCOM® Trader:

“Buy/Sell x lots of Strip/Option #(order no.)”

3. After the 5 minute period has elapsed per TR.15.6 an Exchange Official shall allocate any volume on a First In First Out (FIFO) basis, however the originating Member is guaranteed of crossing 50% of the original order volume. Messages are time stamped at the trading engine and this time will determine the FIFO allocation. Partial trades will also be allocated. Therefore SYCOM® Traders should take note that they may receive a partial fill on their order message.

If there are no interested parties or not all of the available volume is traded then the SYCOM® Trader initiating a Strip Trade or Option Strategy may cross any remaining volume. Should there be volume remaining of the originating order, and there are no interested counterparties, the originating order will lapse.

4. The basis (ie: the underlying contract price) of each contract month for the traded Strip Trade or Option Strategy will need to be confirmed between the counter parties.

5. The basis prices for all legs of a 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.
6. A Strip Trade or Option Strategy Trading Record must be completed by both parties and faxed to the SFE SYCOM® Control Centre within five (5) minutes of notification by SYCOM® of counterparties to a trade otherwise the matter will be referred to the SYCOM® Manager. Information on the Record shall include the average price/net premium of the trade, whether bought or sold, the number of lots, and the basis for each contract.
7. An Exchange official will verify each Record for a trade. No trade shall be confirmed until verified by an Exchange official and authorised by the SYCOM® Manager. Full details shall be recorded by the SFE and the record will be retained by the Exchange.
8. An Exchange official will notify the market of a trade via the message function on SYCOM®. This notification shall confirm the trade.

The Exchange will pass on the trade details to the Clearing House and STACS.
9. SYCOM® Traders are responsible for ensuring that the trade is recorded by the Exchange.
10. Exchange Officials are under no obligation to accept Strip Trade or Option Strategy Trading Records that cannot be readily and properly verified.

SCHEDULE DA

Defined Strip Market SYCOM® Trading Procedures

Strip markets that have their own defined market window in SYCOM® must be executed in accordance with the procedures outlined below:

1. The Exchange's standard for defining a Strip market will be that the last expiry month for that Strip market will denote the contract month to identify that Strip market in the defined market window in SYCOM®.

For example: if the H0 contract was the spot (1) contract then:

1-5 strip =	STH1
1-6 =	STM1
1-7 =	STU1
1-8 =	STZ1
1-9 =	STH2
1-10 =	STM2
1-11 =	STU2
1-12 =	STZ2

2. Contracts listed in the defined market window in SYCOM® will be the 1-5 strip out to the 1-20 strip
3. Pricing convention in the defined market window in SYCOM® will be:

$$\text{Differential} = (\text{IR strip price} - \text{YB price}) + 1000$$

IR strip	=	9400
YB price	=	9450

ie trading 50 under, differential input into market for order entry = 950

4. Where a Strip Trade is traded basis the Three Year Treasury Bond Contracts, the Three Year Treasury Bond Contract price allocated to the trade will be the last traded price in the Three Year Treasury Bond Contract at the trade time of the Strip Trade. If the Three Year Treasury Bond Contracts have not traded, then the price allocated by the Exchange will be the Three Year Treasury Bond Contract settlement price.
5. Once the Strip Trade is executed, the seller shall complete and sign a Strip Trade and Option Strategy Trade Record filling out the individual 90 Day Bank Accepted Bills of Exchange Contract leg prices. The seller shall then transmit the Strip Trade and Option Strategy Trade Record to the buyer for verification and signing. The seller and the buyer shall arrange for the Strip Trade and Option Strategy Trade Record to be provided to the Exchange within the times provided for in Trading Rule TR.15 for presentation to the Clearing House for registration.
6. Prices for the first six (1-6) 90 Day Bank Accepted Bill contract months must be within the high/low for that SYCOM® Trading Date. From the seventh to twentieth (7-20) month, prices must be within the tick range as set out in Schedule J from the bid or offer for that particular contract month. Where there is no bid or offer, then the previous spread differential from the spot month must be used to determine the price.
7. If verification for a Strip Trade is not received within the time limit detailed in Trading Rule TR.15, or agreement to the prices cannot be reached between the seller and buyer, the individual prices allocated to the legs of the Strip Trade shall be the indicative prices calculated by the Exchange.
8. On the first business day of the expiry month of the spot 90 Day Bank Accepted Bill contract the strip market will be trading the next expiry month as the first month of the strip.

9. There is no time limit after the entry of a bid or a offer before entering a bid or offer in the same Strip contract at the same price, which is opposite in effect.
10. SYCOM® Traders are responsible for ensuring that the trade is recorded by the Exchange.
10. Exchange Officials are under no obligation to accept Strip Trade or Option Strategy Trading Records that cannot be readily and properly verified.

