

CIRCULAR



30 - 32 Grosvenor Street

Sydney NSW 2000

Australia

Telephone (02) 9256
0555

Facsimile (02) 9256
0666

**To: All Members
SYCOM Traders**

98/98

No:

Trading Option Strategies on SYCOM

The Business Conduct Committee (BCC) has considered a number of investigations involving trading of option strategies on SYCOM and has found that Members are, at times, forced into a position of executing what are essentially prearranged trades.

This situation arises from the fact that the current SYCOM system allows only the entry of an option strategy into the system in its individual legs, thereby exposing the Member to the risk of being hit on one leg only. In order to circumvent this risk, the only practical alternative available to Members is to pre-determine the price of the strategy and find the opposite side before taking the orders to the market. However, such action compromises the Member's compliance with the Exchange's Rules regarding prearrangement, withholding and disclosure.

The Screen Dealing Committee (SDC) considered this issue and agreed that owing to the inadequacies of the current system, the trading of option strategies on SYCOM does expose Members to "legging risk." In addition, the Committee acknowledged that Members are placed in a position of executing what are essentially prearranged trades, thereby compromising their compliance with the Exchange's Rules.

In the absence of any viable alternative and until the introduction of SYCOM IV which will allow for the trading of option strategies (up to 4 legs), the BCC has agreed to a recommendation made by the SDC. The BCC has determined it is appropriate to introduce a moratorium on the enforcement of the prearrangement, withholding and disclosure rules in so far as they relate to option strategy trades on SYCOM. Accordingly, where breaches of these rules are identified no disciplinary action will be taken. However, the Surveillance Department will continue to monitor such trading and if abuses are identified resulting in participants being disadvantaged then the moratorium will be withdrawn.

**Deborah Horne
GM - Compliance & Surveillance**

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**SYDNEY FUTURES EXCHANGE LIMITED
ACN 000 299 392**

Address all correspondence to PO Box N680 Grosvenor Place Sydney NSW 2000 Australia

