

CIRCULAR TO:

FULL MEMBERS
SYCOM® TRADERS

NO. 59/2000

TAGGING AND RELEASING STRATEGIES WITH THE INTENT TO CROSS

The Market Practices Committee (MPC) recently considered the practice whereby Members enter offsetting orders into SYCOM® as strategies, then tag and release the orders to the market at exactly the same time in order to effect a cross trade.

In outright futures, spread and strip markets, provided the price of the orders is between the current bid and offer, the practice results in the execution of a cross trade with no opportunity for other Members or SYCOM® Traders to participate. In Exchange Traded Option and Custom Markets, half the volume will cross automatically and the remaining volume will be held open to the market for 30 and 60 seconds respectively.

The MPC was of the view that when orders are tagged and released in this way with the intent to cross it may leave other market participants at a disadvantage and ultimately is not in accordance with the spirit of an open and competitive market.

It should be noted there are legitimate scenarios when orders may be tagged and released, such as when orders are received outside trading hours and entered as strategies, then tagged and released when the market opens. However, it is inappropriate to use SYCOM® functionality for the purpose of executing cross trades in an attempt to exclude other market participants.

Therefore Members and SYCOM® Traders are advised that tagging and releasing strategies at the same time with intent to cross is considered inappropriate and may constitute a contravention of Trading Rule TR.17.1(c)(vi), which states:

“No Member or SYCOM Trader shall seek to avoid trading with other parties with the express intent to cross.”

It is also deemed inappropriate to tag and release opposing orders that were received at the same time. Further, Members and SYCOM® Traders are reminded that opposite orders received at the same time must not be entered into separate workstations in order to cross as this would constitute failure to comply with TR.17.1(c)(vii).

In addition, it should be noted that although Members may be complying with order recording procedures where they enter orders upon receipt as strategies but do not release them immediately, a Member or SYCOM® Trader that does not release its order until it has an opposite order to cross will be deemed to have withheld an order to cross and thus contravened Trading Rule TR.17.1(c)(v).

Surveillance staff also consider it appropriate to remind Members and SYCOM® Traders of the prohibitions of Trading Rule TR.19 (Prearrangement) which states:

“No Member or SYCOM Trader may give or accept a request or instruction that a trade only be done between particular Members or SYCOM® Traders and no Member or SYCOM® Trader shall in any way arrange to so trade to the exclusion of other Members or SYCOM® Traders”

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

BRONWYN HILL
MANAGER, SURVEILLANCE

16 MARCH 2000