CIRCULAR

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To: **Floor Members**
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Market Representatives
SYCOM Traders

No: **343/98**

Withdrawal of Circular No. 307/98 - Trading to the Exclusion of the Market

The Market Practices Committee (the Committee) recently issued a Circular regarding market practices that have been determined to constitute trading to the exclusion of the rest of the market.

The Committee in conjunction with the Floor Committee considered further scenarios which appeared to reflect that a Member had traded on knowledge not known to the rest of the market (and therefore traded to the exclusion of the market). However, it appears there may be instances, especially during the rollover of Three Year and Ten Year Bond and SPI® contracts, where Members and ultimately their clients may be disadvantaged if they cannot utilise these trading practices in order to fulfil two or more client orders.

Accordingly, the Committee resolved that Circular 307/98 be withdrawn, and directed that Surveillance staff investigate allegations of trading to the exclusion of the market on a case by case basis.

It should be noted that the two (2) examples outlined in Circular 307/98 are still considered instances where the Member has traded to the exclusion of the market, and thus, practices of this nature will be considered a breach of the Business Rules.

Circular 307/98 (Examples 1 & 2) demonstrated scenarios where the Member had opposite orders, one of which either had discretion or was being finessed. The Member used its knowledge of the limit price in order to execute one leg of a spread order, for example, then cross the other leg at the limit price, which was not known to the rest of the market.

However, the Committee determined that the following scenario accords with the spirit of the Business Rules:

Member A is working an order in the Ten Year Bond (XB) contract to buy 50 lots of the roll at 7 points. Member B is also working positives at 7 points.

The XB bids and offers are as follows:

Dec	March
94.88A	94.81A
94.87B	94.80B

Members A and B are both working offers in the March contract at 94.81 in order to pay 94.88 for Dec if they get hit. Member A then receives an order to pay 94.81 for 100 March XB. Member A may buy the Dec leg before it executes the March cross.

The important distinctions between this scenario and those that do not comply with the Business Rules are:

- that the Member did not have discretion as to the time of execution ie. the trader was not holding an order with discretion to a limit price that the rest of the market was not aware of;
- that the Member was able to execute the trades immediately that it received the buy order; and
- that both prices were current in the market prior to the trade.

Should you have any queries in regard to the above, please contact Bronwyn Hill on 9256 0699 or Duncan McDonald on the Trading Floor.

Duncan McDonald
Floor Committee

Bronwyn Hill
Manager; Surveillance

04/12/98