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PRE-NEGOTIATED TRADING RULES

The Exchange has recently identified instances where Participants appear to have failed to comply with the Pre-negotiated Trading Rule, TR.20.B.

This Rule was introduced to assist market participants in the execution of certain option and custom market orders and allows the executing Participant to withhold transmission of orders to solicit counterparties, disclose details of client instructions and subsequently execute a cross trade. However, in order to legitimately effect this, Participants must abide by all relevant components of the Rule. This bulletin is intended to emphasise some of those key components and provide further guidance with regard to the time periods within which pre-negotiated orders should be entered.

Specifically, pursuant to Trading Rule TR.20.B.9, a Participant should have, in writing, authorisation from its client(s) allowing it to pre-negotiate business on each client's behalf prior to entering into a pre-negotiated business trade. This authorisation can be in the form of an e-mail and is a 'one-off' requirement, however, the Participant should maintain such authorisation on file. Alternatively, this authorisation may be included as part of the Participant's Client Agreement Form.

Further, prior to entering pre-negotiated orders into SYCOM® for execution, the Participant holding the originating client order must make an enquiry via the SYCOM® Message Facility or Request For Quote (RFQ) Facility, pursuant to Trading Rule TR.20B.6.

Following the RFQ or Message, Participants must wait for a prescribed time period to elapse before entering pre-negotiated orders. The prescribed time period for outright option contracts is ten seconds and for custom market orders, thirty seconds.

When this prescribed period has elapsed, pre-negotiated orders should be entered 'immediately', as required by Trading Rule TR.20B.8. The Exchange has determined to interpret the term 'immediately', for the purposes of this Rule only, as being within sixty seconds. Therefore, the time window for entering pre-negotiated orders following an RFQ or Message is 10 to 70 seconds for outright option contracts and 30 to 90 seconds for Custom Market strategies.

The Exchange will continue to monitor pre-negotiated business and any identified breaches of the above Rules may lead to the matter being referred to the Market Practices Committee for its consideration.

S F E B U L L E T I N C O N T I N U E D

Should you have any queries in relation to this Bulletin, please contact Mark Floyd on (02) 9256 0477 or mfloyd@sfe.com.au

A handwritten signature in black ink that reads "M Floyd". The letter "M" is large and stylized, with a horizontal line extending from its base. The word "Floyd" is written in a cursive script below the "M".

Mark Floyd
Manager, Compliance and Surveillance

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