

# virt-x *compliance*

The cross-border exchange



Newsletter from  
virt-x Regulation and Compliance Department

May 2003  
Issue 6

We hope you will find this sixth issue of virt-x *compliance* a useful source of information and we would very much welcome your comments and suggestions.

Emma Vick  
Director of Regulation and Compliance

<b>Contents</b>	<b>Special topics in this issue</b>
Market Notices Updates to Rules and Directives Special topics	Trade reporting – deadlines for Swiss securities; use of trading capacity codes; FAQ Market integrity – input and deletion of orders

## MARKET NOTICES

Please note that of the Market Notices issued since No 390 and up to No 442, all except the following have been included in the Rules, Directives or standing data.

Date	Market Notice(s)	Content
20.02.03	411	Market holidays: virt-x will be closed on the following days in the rest of 2003: <ul style="list-style-type: none"><li>• May 29 - Ascension Day</li><li>• June 9 - Whit Monday</li><li>• December 25 - Christmas Day</li><li>• December 26 - Boxing Day</li></ul>

## UPDATES TO RULES AND DIRECTIVES

virt-x has updated the following Rules and Directives:

Rule/ Directive	Date	Market Notice(s)	Content
Various	29.11.02	390	Proposed changes to the Rules and Directives for the introduction of the central counterparty, for comment
Rule 2.15	12.12.02	393	New mistrades provisions, effective initially for a trial period until 14.03.03
Directive 18	19.12.02	396	New Directive detailing the Default Contribution Fund
Various	21.01.03 18.02.03	402 & 410	Rule 2.10a) - inputting and deleting orders during auctions Rule 3.1 – reporting of crosses Directive 9 – deletion of sponsored membership classification; clearing membership fees Directive 14 – update references to EC Directives
Directive 19	31.01.03	406	New Directive concerning SMI 2 <sup>nd</sup> line stocks
Various	15.04.03	435	Rules and Directives for the introduction of the central counterparty

All Market Notices are available at [www.virt-x.com](http://www.virt-x.com) under the Member section at Notifications & Forms. All Rules and Directives are available on the web site under the Regulation section.

## TRADE REPORTING

### DEADLINES FOR SWISS SECURITIES

With the deferral of the introduction of the central counterparty and the EM6.2 systems release from 3 March to 5 May 2003, changes to the deadline for reporting Swiss securities also came into effect from 5 May in compliance with virt-x's Rule 3.1. That rule requires virt-x members to enter trade reports for off-order book transactions within 3 minutes of the transaction (except where the special provisions for block trades, enlarged risk trades and portfolio trades apply).

virt-x will continue to closely monitor reporting across all sectors to ensure adherence to Rule 3.1.

### USE OF TRADING CAPACITY CODES

The Nostro Flag has been replaced by Trading capacity codes, which have the following values:

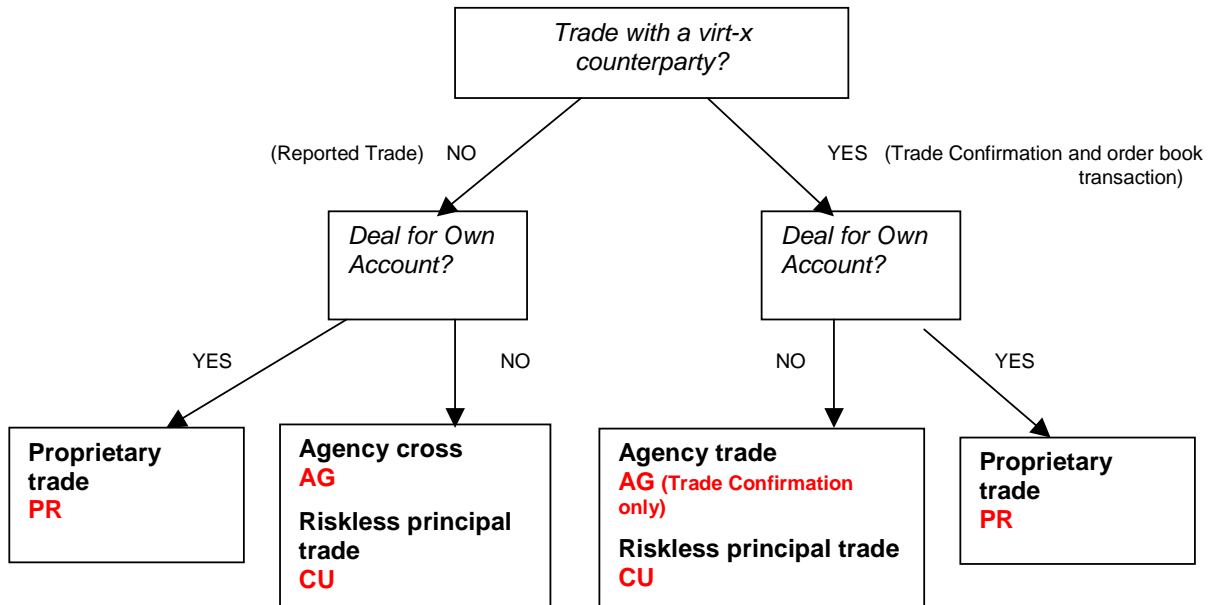
- Own book (no client) PR
- Customer trade – principal CU
- Customer trade – agency AG.

The codes are as follows:

- the **PR** (Principal) code is for trades where the member is taking risk: the member is trading for its own book
- the **CU** (Customer Trade – Principal) is for trades where the member is taking no market risk but is acting as principal for a customer (e.g riskless principal)
- the **AG** (Agency) code is for use when a member is acting in an agency capacity on behalf of a client. Swiss members are unlikely to use the code since Swiss law does not have the agency concept. The agency capacity affects the treatment of unsettled market contracts on the default of a member.

Rule 5.2 provides that a clearing member must always contract as principal for transactions which are intended for clearing through the new central counterparty service. Cleared trades carried out by ICMs (Individual Clearing Members) or GCMs (General Clearing Members) must therefore carry either the PR or CU code, but not the AG code. Please ensure that the correct code is used to avoid the need to make Nostro corrections.

The following diagram illustrates the position:



#### TRADE REPORTING FAQ

Q1 How should a riskless principal transaction be reported?

A1 In a riskless principal transaction, a Member simultaneously buys and sells a given quantity of a security at the same price and on the same terms (excluding commission). The sale is reported as CU and the purchase is not reported.

Q2 How should a trade with a non-virt-x counterparty be reported?

A2 If the Member deals for its own account, it should be reported as PR. If however the Member is executing the order as an intermediary, the trade should be reported as AG or CU (as applicable).

Q3 Which trade capacity code should be used where a member deals, not on behalf of a client, with another member?

A3 It's PR.

## **MARKET INTEGRITY – INPUT AND DELETION OF ORDERS**

The practice note to Rule 2.10 referred to inputting and deleting orders during auctions in a manner which gives or is likely to give a false or misleading impression of the value or probable opening state of the market in that security. The practice note also referred to times other than during auctions in which the inputting or deletion of order gives or is likely to give a false or misleading impression of the value or price of the security or the order flow in a security.

Members should take reasonable care to avoid unnecessary volatility by not entering significantly large orders in one security during the pre-opening phases shortly prior to the opening auction and the closing auction. This applies particularly at times when volatility is likely to be high, for example on days of options and futures expiries.

Issue No 7 (March 2003) of FSA's Market Watch newsletter on market conduct issues featured an article on the FTSE 100 Index Futures and Options Expiry and noted that firms may wish to alert their clients that market conditions may be more volatile during the expiry and to consider the limits they may set on where they will be willing to trade. virt-x members may wish to advise their clients similarly in respect of expiries affecting SMI securities.

The Market Watch newsletter is available on [www.fsa.gov.uk/marketconduct/](http://www.fsa.gov.uk/marketconduct/). If you wish to receive copies of the Newsletter, please contact FSA on [market.watch@fsa.gov.uk](mailto:market.watch@fsa.gov.uk).

## **TOPICS FOR FUTURE COMPLIANCE NEWSLETTERS**

We welcome topics for inclusion in future issues of the compliance newsletter.

Please contact us with suggestions.

Thank you!

<p>Please address any comments or questions to <a href="mailto:compliance@virt-x.com">compliance@virt-x.com</a> Tel: 44 (0) 20 7074 4545 - Fax: 44 (0) 20 7074 4532</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------