

virt-x *compliance*
The cross-border exchange



Newsletter from
virt-x Regulation and Compliance Department

12 May 2004
Issue 9

We hope you will find this 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

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MARKET NOTICES

Please note that of the Market Notices issued since No 485 and up to No 534, all have been included in the Rules, Directives or standing data except for the following:

Date	Market Notice(s)	Content
17.02.04	502	Only members with clearing arrangements for agency trading can submit orders using the trading capacity code AG

UPDATES TO RULES AND DIRECTIVES

virt-x has updated the following Rules and Directives:

Rule/ Directive	Effective Date	Market Notice(s)	Content
Rule 2.4, Definitions and Directive 1	19.03.04	503 & 514	Introduction of the Delivery Instruction Service to enable members to match delivery instructions via the virt-x Trading System and therefore to benefit from virt-x's straight-through processing
Rules 1.1, 3.1, 3.2, 3.4 and 3.26 Definitions	13.05.04	523 & 534	Introduction of Trade Reporting & Publication Service

All Market Notices are available at 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.

ENHANCED TRADE REPORTING & PUBLICATION SERVICE

virt-x's Market Notice 534 dated 12 May 2004 advised members that virt-x will be admitting further fully listed non-SMI equities to off-order book trading and introducing Reporting Members and Reporting Member Users.

Reporting Members generally make a commitment to match the best available price in the market to assist other brokers (e.g. high street banks, discount brokers) with meeting their best execution obligations. virt-x is keen to ensure that this commitment is not exploited by other members.

virt-x will therefore regard as detrimental to the fairness and integrity of the markets any trading practice which seeks to exploit this commitment, for example where an order is entered with the intention of creating a new best price away from generally accepted trading levels for the principal purpose of executing a larger order against a Reporting Member by virtue of its commitment to deal on the basis of the current best order book price.

In this context, members are asked to note that, as explained in FSA's Market Watch newsletter in December 2002, their Code of Market Conduct (market abuse regime) applies to everyone. The trading behaviour described above - whether or not involving moving prices away from generally accepted trading levels - may give a false or misleading impression as to price or value, demand or supply. It may also lead to a distortion of the market. In either case, if substantiated, it would amount to market abuse.

The following is an extract from FSA's Market Watch newsletter in December 2002:

"Breaches of the Code of Market Conduct may attract various penalties, including unlimited fines. We certainly do not endorse the behaviour of those who use this trading strategy. Accordingly, we will follow up all allegations of market abuse to determine whether it is appropriate for us to exercise any of our statutory powers."

The full text of the newsletter is available at
http://www.fsa.gov.uk/pubs/other/mw_newsletter6.pdf.

FAQ

Q1 Should we report to virt-x using BST/GMT or CET?

A1 Reports should be made in Central European Time or CEST as appropriate (GMT +1 or BST +1 as appropriate)

Q2 What are the criteria for hidden size orders?

A2 The original order size must meet the prescribed threshold for the relevant currency as set out in Directive 4. The Member must ensure that the value of the original order complies with the Directive. When entering a market order, Members should calculate the value of the original order entered using the virt-x Exchange price at the time the order is entered using the best "Buy" or "Sell" price as appropriate. In the absence of the appropriate price on the virt-x Exchange, the last price should be used.

Q3 What about amended hidden size orders?

A3 Amended hidden orders are considered to be new orders and must meet the minimum threshold requirements.

TOPICS FOR FUTURE COMPLIANCE NEWSLETTERS

We welcome topics for inclusion in future issues of the compliance newsletter.
Please contact us with suggestions at our new internet address below.

Thank you!

**Please address any comments or questions to regulation@virt-x.com
Tel: 44 (0) 20 7074 4545 - Fax: 44 (0) 20 7074 4532**