



Newsletter from
virt-x Regulation and Compliance Department

28 October 2005
Issue 13

We hope you will find this issue of virt-x *compliance* useful. We welcome your comments and suggestions.

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Director of Regulation and Compliance

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MARKET NOTICES

Please note that the provisions of Market Notices 721 to 760 inclusive have been included in the Rules, Directives or standing data, with the exception of the following:

Date	Market Notice(s)	Content
04.07.05	736	virt-x will be making spot checks on Swiss Tariff users' documentation on the adequacy of their controls to ensure accurate identification of trade capacity. An absence of adequate documentation will be treated as grounds for discontinuing a member's use of the Swiss Tariff. Guidance on the standards for 'proper documentation' is attached to the Market Notice
14.10.05	756	virt-x's trading days and market holidays for the Christmas and New Year period will be: <ul style="list-style-type: none"> • 26 December 2005: market holiday • 27 - 30 December 2005: normal trading days • 2 January 2006: market holiday • 3 January 2006: first trading day in 2006

UPDATES TO RULES AND DIRECTIVES

virt-x has updated the following Rules and Directives:

Rule/ Directive	Effective Date	Market Notice(s)	Content
Rules: * Legal Basis * Definitions	01.07.05	727 & 732	Introduction of market segments (see Market Segmentation below)
Various, mainly of a clarifying and tidying nature	01.07.05	731	Confirmation of changes in MN 719 in respect of various Rules and Directives: An additional change was made to Directive 9 (Fees) for the Cross CCP Charge
Rules: * Definitions * Rule 2.4 Directive 4	31.10.05	733 & 737	Changes to the Delivery Report Service (previously named the Delivery Instruction Service) and reporting of VWAP transactions

Directive 19	01.11.05	755	<p>The heading of the Directive has been changed from 2nd line trading to Separate line trading.</p> <p>Also, where a member which is not responsible for buying back trades on a separate line, an equivalent transaction in the original line of the security must be transacted if the seller so wishes</p>
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All Market Notices are available at www.virt-x.com in the Regulation section. The Rules and Directives are also in the Regulation section.

MARKET SEGMENTATION

As member will be aware, two EU Directives which were implemented in the UK on 1 July 2005 affected trading on virt-x:

- the Prospectus Directive (“PD”), which is applicable when securities are offered to the public or admitted to trading on an EU-regulated market (“EURM” - a market which must comply with a number of requirements set at EU level)
- the Market Abuse Directive (“MAD”) which concerns insider dealing and market manipulation in relation to an EURM.

With effect from 1 July, virt-x introduced the following market segments:

- an EURM for SMI securities, which complies with the EU provisions
- a UK exchange-regulated market (“UKEM”) for SMI securities, which generally preserves the regulatory requirements for Swiss issuers which existed before 1 July
- an EURM for pan-European securities admitted to trading on virt-x as at 1 July 2005, which complies with the EU provisions
- a UKEM for pan-European securities admitted to trading on virt-x on or after 1 July 2005, unless the issuer has requested admission to trading on the EURM.

All segments have the same trading and member compliance requirements, and all segments are subject to supervision by the Financial Services Authority (“FSA”) in London.

MARKET INTEGRITY

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.

Low volume orders or transactions may also be unacceptable and could amount to market abuse, for example where there is no legitimate commercial rationale for a transaction or where a misleading impression of the market could be created. Low volume transactions can be disruptive and expensive for the member’s counterparty.

Entering orders to seek to affect the price of a derivative instrument is clearly unacceptable.

TRADER IDs

Members are also reminded that Trader IDs are personal and may not be used by other individuals. Misuse of IDs may render a member for proceedings under virt-x’s disciplinary rules.

VWAP REPORTING

Our previous Compliance Newsletter referred to the trade reporting requirements of the Swiss Federal Banking Commission (“SFBC”) in their Circular EBK-RS 04/3 entitled “Reporting Obligation for Stock-Exchange Transactions (Obligation to Report)”.

The changes, which will take effect at virt-x from 1 November, are set out in Market Notices 733 and 737.

HIDDEN SIZE ORDERS

The thresholds for hidden size orders are in Directive 4 and are as follows:

Currency	Order Book	Exchange Traded Funds
CHF	3 Million	1 Million
DKK	15 Million	n/a
EUR	2 Million	1 Million
GBP	1.5 Million	n/a
JPY	n/a	150 Million
NOK	16 Million	n/a
SEK	18 Million	n/a
USD	n/a	900,000

Please note that members are responsible for ensuring that the value of the original order entered complies with these thresholds; the virt-x trading system will not confirm that an order meets the threshold.

Directive 4 is available at www.virt-.com/regulation/download/directive_4.pdf.

TRADE REVERSALS

As members are aware, trade amendments and reversals must be made as soon as possible, as incorrect transactions cannot be reversed or amended after T+1.

Additionally, virt-x may invoke Rule 2.15 when a transaction has been dealt at an unrepresentative price. If virt-x decides that a transaction must be reversed, a member shall take all such actions as may be necessary to ensure that the transaction is reversed. In normal circumstances, virt-x expects reversals conducted through the system to take place in a matter of minutes of receiving the instruction from virt-x.

TOPICS FOR FUTURE COMPLIANCE NEWSLETTERS

We welcome topics for inclusion in future issues of the compliance newsletter. Please contact us with suggestions. Thank you!

Please address any comments/questions/suggestions to

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