

## Guidance Note

### Released:

07 June 2019  
Version: 3.2

### Key concepts

Block Trades

### Related Information

FGL Operating Rules

*Part 4*

FGL Procedures

*Part 4*

FEX Guidance Note

*GN 45 - Fair and Orderly Pricing for Block Trades and Exchange for Physical Transactions*

ASIC

*ASIC Market Integrity Rules (Futures Markets) 2017*

### Recommended Audience

Trading Managers

Derivatives Staff Members

Compliance Managers

### Previous Issues:

Nil

## GN 25 - Block Trades

### Introduction

The FGL Trading System provides the functionality for Trading Participants to lodge and either “approve” or “reject” Block Trades, as defined in the FGL Operating Rules.

The Block Trade, as per the Operating Rules, will also be required to be approved by FGL after counterparty confirmation has been received. These transactions, as they are transacted away from the underlying Individual FGL Product market, require FGL to ensure that the price agreed upon and recorded is deemed Fair and Orderly.

### Guidance

The Block Trade functionality is provided by the Exchange in order to facilitate the Off-market transaction of large volumes in an Individual FGL Product at a price that may be different from the prevailing market price.

The Exchange recognises the need for such functionality in dealing with large volumes of a specific product and in recognition that such volume could create excessive short-term price volatility, that may result in a suboptimal price being achieved by the initiator of the Block Trade or which may lead to a breach of fair and orderly price movements if this volume was forced to be transacted through the market.

Equally, the Exchange recognises the potential for misuse of this facility and has defined various constraints and validation procedures to monitor and prevent any misuse.

Any use or attempted use of this facility for another purpose will be deemed a breach of the FGL Operating Rules by the Trading Participants, with commensurate disciplinary action resulting.

### Process

As described within the FGL Operating Rules and FGL Procedures there are four main steps to the Block Trade process:

- 1 Arrangement of a Block Trade by an originating Trading Participant
- 2 Lodgement of a Block Trade by the Trading Participant representing the seller
- 3 Confirmation of a Block Trade by the Trading Participant representing the buyer
- 4 Verification of the details of the Block Trade by FGL Market Control

Upon verification and approval by FGL the Block Trade created is forwarded to the Clearing House in the normal manner.

Where a single Trading Participant is acting for both the buyer and the seller of the Block Trade, they will still need to confirm details for the buyer in the normal way even though they lodged details for the seller. The Trading Participant, as the counterparty, will receive a notification in the normal way.

## Key Block Trade Arrangements

As Block Trading is, in effect, a size exemption from the FGL Operating Rules requirement to enter all orders for an Individual FGL Product into the market immediately (See ASIC Market Integrity Rules (Futures Markets) 2017, Rule 3.1.4) it is critical for the Trading Participant to ensure that only those orders that:

- are received from a Client with whom the Trading Participant has an agreement to perform Block Trades;
- the Client has requested to be treated as an order for a Block Trade;
- meet the minimum size determined by the Exchange for Block Trades in the specific Individual FGL Product; and
- are for an Individual FGL Product for which Block Trading is permitted and has not been temporarily suspended due to the proximity of an expiry,

are withheld, from being immediately transmitted to the market, in preparation for a Block Trade.

When seeking counterparties a Trading Participant must:

- maintain the confidentiality of the Beneficial Owner whilst disclosing only those details of the order necessary for a counterparty to determine their interest;
- ensure that the price proposed is likely to meet the fair and orderly determination of the Exchange given the published price methodology of the Exchange;
- ensure that the counterparty is aware of the price differential from the existing market; and
- ensure that the Trading Participant acting for the seller lodges details of the Block Trade with the Exchange.

## Key Verification Focus

FGL Market Control will review the lodged details prior to approving or rejecting a Block Trade. The review will seek to ensure that:

- The price at which the two parties have agreed upon can be considered as Fair and Orderly by comparing the entered price details against a FGL-determined set of pricing ranges for the relevant contract (for further guidance see GN45 - Fair and Orderly Pricing for Block Trades and Exchange for Physical Transactions.);
- The volume of the Block Trade meets the minimum size criterion and is not composed of aggregated orders;
- The Beneficial Owners involved are different entities (i.e. change of ownership will occur); and
- The transaction is a valid Off-market trade and not part of a broader scheme to use Off-market capabilities to manipulate Individual FGL Product positions.

FGL Compliance Officers will review in detail each Block Trade, and the records kept to support the transaction as an element of the regular audits of Trading Participants.

Where a Trading Participant observes that any of their intended Off-market activity may be of interest to the FGL Compliance Team, the Trading Participant is strongly advised to discuss the details of this activity with their Compliance Officer before entering a request for a Block Trade.

FGL has issued this Guidance Note to give general assistance to Trading Participants and Clearing Entities in their compliance with the Operating Rules. FGL is not bound by this Guidance Note in any particular case. This Guidance Note is not legal advice and Trading Participants and Clearing Entities should seek their own professional advice on their obligations under the Operating Rules in their particular circumstances. FGL may replace this Guidance Note at any time. Current Guidance Notes are available at [www.fex.com.au/Guidance](http://www.fex.com.au/Guidance) or by contacting FGL on [enquiries@fex.com.au](mailto:enquiries@fex.com.au) or on +61 2 8024 5200

Defined terms in this Guidance Note have the meaning given in the Operating Rules.