Guidance Note

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Key concepts

Process for entry and validation of Tailored Strategy Orders

Related information

FGL Operating Rules

Rule 4.4

Recommended Audience

Derivatives Staff Members

Compliance Managers

Operations Managers

Previous Issues:

Nil

GN 29 – Tailored Strategies

Introduction

Tailored Strategy Market (TSM) orders are user-defined strategies with up to a maximum of eight (8) legs. These strategies can be a mixture of products across FGL markets and each leg can be allocated an individual ratio to all other legs.

Guidance

To ensure a fair, orderly and transparent market place, the following rules are in place to ensure orders are executed according to the FGL Operating Rules;

1   The minimum number of legs allowed for use in a TSM order is two (2).

2   The maximum number of legs allowed for use in a TSM order is eight (8).

3   All TSM orders must be entered using the lowest common denominator for each leg.

4   The maximum size of a leg in a TSM order is 50 lots. (See (e) for exception).

5   If the TSM order has two or more options legs and also has a futures contract attached, one leg of the TSM order may exceed 50 lots but must not exceed 100 lots.

6   Defined Strategies (e.g. Intra-commodity spreads and strip products) listed on the FGL Exchange are not valid for entry into the TSM market. This includes Intra-commodity spreads at a ratio different to that already defined (1:1 ratio). Any orders and any subsequent trades executed in the TSM facility of defined strategies will be cancelled by FGL.

7   All legs of a TSM trade have to be allocated to the same account.

8   Each individual TSM order's leg price is validated on entry by the FGL Exchange system at the time of Order entry. Each leg's price must meet the following criteria:

   (a)   If the underlying product has not traded for the current trade date and there are no valid bids and/or offers, the individual leg price must fall within the Sweep Price parameters from the Reference Price.

   (b)   If the underlying product has traded for the current trade date and there are no valid bids and/or offers, the individual leg price must fall within the Sweep Price parameters from the last traded price.

   (c)   If the underlying product has valid bids and/or offers, the individual leg price must fall within the Sweep Price parameters from the relevant bid or offer.

9   Prior to the entry of a TSM order into the marketplace, the user must send a 'Request for Quote' (RFQ) to all FGL users outlining

the individual contract legs included in the TSM order and the ratios to be used. E.g. RFQ: CLH1 65OO straddle Or RFQ: +1 CLZO 37.5OP -3 CLH1 42.5OC.

10   Once the above RFQ has been disseminated to all users, the trader must wait thirty (30) seconds prior to entering the order into the TSM facility unless another Trading Participant has already entered a bid, offer or both in the requested strategy.

11   After 5 (five) minutes have passed from the completion of the 30 second waiting period if no bids or offers have been entered, the RFQ sent for the specific TSM order is no longer valid. If the user wants to enter a TSM order, and has not already done so, they must resend an RFQ and wait the prescribed time (30 seconds) prior to order entry.

12   (Prior to the entry of a TSM order into the marketplace, the user must follow the below rules:

    (a)   If the TSM market has already been established, no RFQ message is required to be sent.

    (b)   If you are improving a TSM market or entering an opposing order, an individual leg price must remain constant. If the TSM order contains multiple option legs, the leg that is assigned the constant price must be the one with the lowest delta.

    (c)   If a TSM market already has a valid two-way market (which includes there being a common leg price) and you want to improve either side of the strategy, the price change must occur on one of the TSM legs that does not have the constant price (the variable leg).

13   If the user has a TSM order in the TSM facility at the close of the daytime trading session and wishes to re-enter this in to the next session, the user is required to send out a new RFQ message once the product/s are in an Open state and must also wait the prescribed time prior to order entry (30 seconds).

14   If the user wants to join a pre-defined TSM market but wants to use a different delta or futures basis price, this will be deemed to be a new TSM market and in turn requires a new RFQ to be sent and the prescribed timings to be abided by.

15   **Order types of 'Good till Cancelled' and 'Good till Date' are not valid** order types for TSM orders.

16   TSM orders cannot be entered in the Pre-Open period.

17   FIFO Price/Time matching occurs when TSM orders are matched exclusively against opposing TSM orders regardless of the matching algorithm used in the individual products.

18   The matching algorithm assigned to the underlying product is used if a TSM order is matched against the underlying markets that make up the TSA legs.

19   The FGL Exchange system, each time a TSM order is entered, will validate and try and match the order using the following steps;

    (a)   The system will attempt to match the new TSM order with existing opposite orders in the TSM facility. It may be fully traded, partially traded or not at all.

    (b)   Any portion of the original TSM order remaining after the above matching has occurred will then attempt to be matched in the underlying markets that make up the TSM legs.

        –   Trading in this manner can only occur if all legs and ratios can be dealt as per the original TSM order.

    (c)   The outright market will not imply into the TSM facility.

    (d)   Any portion of the original TSM order remaining after the above points is left active in the TSM facility as an open order. This order, once traded against or modified, will re-check both the TSM and underlying markets to execute.

    (e)   TSM orders will not imply into the outright markets.

    (f)   All TSM orders trading exclusively with an opposing TSM will not update outright markets Open/High/Low/Last statistics. However, volumes in the outright markets will be updated accordingly.

(g)   Any TSM order that trades with the outright market will update each outright markets Open/High/Low/Last and Volume statistics.

Example #1

User #1 wants to sell 50 CLZ0 futures at 64.50 and buy 300 CLZ06500C at 0.45.

Step #1

The user identifies there is no existing market in the TSM facility and therefore sends an RFQ out to all users stating the legs and ratio for their TSM order. The RFQ needs to be clear and easy to understand so other participants can determine quickly what the originating user wants to do.

RFQ: - 1 CLZ0 +6 CLZ065000C (Note: the RFQ is required to be sent stating the lowest common denominator {Ratio} for all legs of the TSM order).

Step #2

The user then waits for 30 seconds prior to entering their order into the TSM facility.

Contract	Net Price	Qty	Price	B/S	Ratio	Price	B/S	Ratio
-CLZ0 +CLZ065000C	n/a	50	64.50	Sell	1	0.45	Buy	6

As you can see from the above example, the total order volume is 50 lots with leg ratios of one (1) and six (6). This is the lowest common denominator for both legs of the TSM order.

Example #2

User #1 wants to buy 300 GGZ065000C options @ 0.70 and sell 300 GGZ066000C options @ 0.45.

Step #1

The user identifies there is an existing market in the TSM facility therefore is not required to send an RFQ out.

Contract	Net Price	Qty	Price	B/S	Ratio	Price	B/S	Ratio
-+GGZ065000C	0.25	300	0.70	Buy	1	0.45	Sell	1
-GGZ066000C								

Step #2

The user is now required to join the existing market and use its pre-defined leg prices unless improving the TSM market. This is due to the fact the existing TSM market has the same Net price as the user.

If the user attempts to enter an order into the TSM with the same products and ratios however has different leg prices that equals an existing net price, this order will be rejected.

As you can see from the above example, the total order volume is 300 lots with leg ratios of one (1) and one (1). This is the lowest common denominator for both legs of the TSM order.