Guidance Note

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Key concepts:

Price limits on Order entry, Trade execution and Trade cancellation.

Related information:

FGL Operating Rules

Part 4, Part 5 and Part 9

FGL Procedures

Part 4

FEX Guidance Notes

GN 23 - Order Types

GN 35 - Daily Settlement Price for Option Contracts

GN 39 - Error Trades and Cancellation of Trades

GN 43 - System Failure & Market Halts

Recommended Audience:

Derivatives Staff Members

Compliance Managers

Previous Issues:

Nil

GN 38 – Price Limits

Introduction

The aim of this Guidance Note is to explain the types of price limits that the Exchange has implemented and how they interact.

Guidance

FGL has implemented a range of price limits applicable to each Individual FGL Product that are specified in the relevant Contract Specification. These price limits constrain the price at which an Order may be entered into the Trading System, constrain the price at which a Trade may occur and provide certainty with regard to the price at which a Trade will not be cancelled.

Limitation on the price at which an Order will be accepted

To reduce the potential of clearly erroneous Trades occurring, the Exchange has implemented an Order Price Movement Limit that determines the price at which an Order will be accepted. The Order Price Movement Limit is specified in the relevant Contract Specification and is expressed as an amount:

- Accepted for a buy Order above the current best sell Order in the orderbook.
- Accepted for a sell Order below the current best buy Order in the orderbook.
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Buy Quantity	Buy Price	Sell Price	Sell Quantity
		$65.05	100
		$64.31	50
10	$63.65		
30	$63.20		

An Order to buy will be accepted at any price below $64.36 and an Order to sell will be accepted at any price above $63.60.

For some FGL Products, the amount of an Order Price Movement Limit would need to be quite large to enable legitimate Trades to take place. The Exchange has therefore implemented two types of Order Price Movement Limits:

- A limit alert - the Trading System will not immediately accept the Order and will send a message to the Trading Participant alerting it that the Order is outside of an Order Price Movement Limit; or
- An absolute limit – the Trading System will reject the Order.

If the Trading Participant receives a limit alert it can resubmit the Order confirming that the price entered is correct and the Order will be accepted. Trading Participants are reminded the Exchange may cancel an Order in accordance with Rule 4.2.12 if it considers the Order is not in the best interests of a fair, orderly and transparent market.

Refer to **GN 23 for information on different types of Orders**.

Limitation on the price at which a Trade will be executed

FGL has established a Daily Price Movement Limit for each Individual FGL Product. The Daily Price Movement Limit is expressed as an amount and when applied in concert with the prevailing Reference Price, determines a currently tradeable price range (Tradeable Price Range) for each Individual FGL Product.

At the start of each Trading Day the Reference Price for an Individual FGL Product will be set to the Daily Settlement Price for the previous Trading Day.

If at any time during Trading, matching Orders exist in the Trading System that would result in a Trade being executed outside of the Tradeable Price Range, Trading in the Individual FGL Product will be halted. Where the affected Individual FGL Product is:

- An Option Contract - only this Individual FGL Product and any Tailored Strategies for this Individual FGL Product will be halted.
- A Futures Contract - all Futures Contracts, Option Contracts, Defined Strategies and Tailored Strategies for this FGL Product will be halted.

Refer to **GN35 for details on how the indicative Daily Settlement Price for Option Contracts** is determined and GN43 for information on the resumption of Trading in a halted FGL Product Market; and GN23 for details on what Order functions may occur when a market is halted. Unless explicitly stated otherwise within the contract specifications, a default price floor of $0.00 can be assumed for all products.

Limitation on the price at which a Trade will be cancelled

The Exchange has established two price ranges for each Individual FGL Product that, as specified in the relevant Contract Specification, control whether a request to cancel an Error Trade is considered or rejected:

- No-Bust Price Range: a price range above and below the Established Market Price for the Individual FGL Product.
- Request for Cancellation Price Range: a price range between the No-Bust Price Range and the Tradeable Price Range for the Individual FGL Product.

Every Trade will fall into either one of these two price ranges. A price exactly on the limit of the No-Bust Price Range is considered to be within this range and will not be considered for cancellation.

Refer to GN39 – Error Trades and Cancellation of Trades for information on the Exchange process for the consideration and cancellation of Error Trades.

Ability to adjust price limits

In accordance with Rule 5.2.6 the Exchange may adjust the price limits for an Individual FGL Product at any time where it considers it is in the best interests of fair, orderly and transparent operation of the FGL Product Market to do so. The price limits that may be adjusted and the most likely reasons for these adjustments are as follows:

1. Reference Price adjustment intra-day

(i) Adjustment due to market trend

Throughout each Trading Day, the Exchange will regularly review the current Reference Price for each Individual FGL Product to determine if an adjustment is required. The Exchange will review current market activity:

- In the FGL Product Market for the Individual FGL Product;
- In the FGL Product Market for all Individual FGL Products in the same FGL Product; and
- In the market for the underlying physical market.

If there is a trend in a particular direction, the Exchange may adjust the Reference Price to reflect this trend.

(ii) Adjustment due to Clearing House adjustment to a Daily Settlement Price

In accordance with Rule 4.7.7, the Clearing House may instruct the Exchange to adjust the Daily Settlement Price for the previous Trading Day. If the current Reference Price has not been adjusted since it was set at the start of the Trading Day, the Exchange will adjust the Reference Price to reflect the adjusted previous Trading Day's Daily Settlement Price.

(iii) Notification of an adjustment to a Reference Price

If any Reference Price is adjusted, the Exchange will notify Trading Participants of the adjusted Reference Price and the reason for the adjustment as soon as practicable.

Trading Participants need to be aware that the adjustment to the Reference Price results in an adjustment to the limitation on the price at which a Trade may be executed or cancelled.

2. Temporary Daily Price Movement Limit Adjustment

(i) Adjustment due to frenetic market activity

If the Exchange considers that the Tradeable Price Range for a FGL Product needs to be increased to maintain the fair, orderly and transparent operation of the Exchange Market, a FGL Product Market or an Individual FGL Product, it will call a frenetic market. The Exchange will determine that a frenetic market exists or is predicted where there are clear business indicators that such a change in market volatility is to be expected and that the marketplace has had time to absorb these indicators. The Exchange may survey market participants as a means to establish whether a frenetic market is reasonably expected.

In essence calling a frenetic market means that the Daily Price Movement Limit for each affected Individual FGL Product will be widened to allow for continuing market operation during a period where an increase in volatility is occurring or anticipated.

For example, the Contract Specification for the FEX API5 Newcastle Coal (AUD) Futures Contract may have the Daily Price Movement Limits set at +/- $2.00 from the Reference Price. The Exchange may amend this to +/- $4.00 from the Reference Price when calling a frenetic market.

Factors that the Exchange may consider prior to calling a frenetic market include:

- An increase in volatility in the FGL Product Market;
- An increase in volatility in the market activity of the underlying physical market; and
- An imminent announcement that may result in increased volatility and price discovery.

When the Exchange calls a frenetic market, these new Daily Price Movement Limits override those specified in the Contract Specifications.

(ii) Notification of a frenetic market

If a frenetic market is called, the Exchange will notify Trading Participants of the frenetic market and the new Daily Price Movement Limits as soon as practicable.

(iii) Notification of cessation of a frenetic market

When the market volatility has abated, the Exchange will reverse the frenetic market limits and revert to the Daily Price Movement Limits as specified in the relevant Contract Specification. The Exchange will notify all Trading Participants that the frenetic market activity has ceased.

3. On-going Daily Price Movement Limit Adjustment

The Exchange may consider that an adjustment to the Daily Price Movement Limit for a FGL Product is required to reflect an on-going trend in the market. For example, that the daily range of prices Traded for a FGL Product has reduced and remained consistently at the reduced level over a period of time, so that a narrower Daily Price Movement Limit would be more appropriate.

When the Exchange considers an ongoing adjustment to the Daily Price Movement Limit for a FGL Product is required, the Exchange will notify Trading Participants of the adjustment prior to implementation.

4. Amendment to Price Limits in Contract Specification

The Exchange will regularly review the price limits that are specified in the Contract Specifications. Where the Exchange determines that a change is required to:

- An Order Price Movement Limit; or
- A Daily Price Movement Limit,

it will advise Trading Participants of the amendment at least 4 weeks prior to implementation.