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 and Part 9

FEX Guidance Notes

GN 23 - Order Types

GN 39 - Error Trades and Cancellation of Trades

GN 43 - System Failures & 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, the limit settings are specified in the FGL Product Determinations document. These price limits constrain the price at which an Order may be entered into the Trading System (Order Price Movement Limit), constrain the price at which a Trade may occur (Daily Price Movement Limit) and provide certainty with regard to the price at which a Trade will not be cancelled (No Bust Range).

Limitation on the price at which an Order will be accepted

To reduce the potential for 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 expressed as a number of minimum price movements:

- 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.

In this orderbook example the minimum price movement is set as $0.01 and the Order Price Movement Limit is 5 minimum price movements.

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 or equal to $64.36 and an Order to sell will be accepted at any price above or equal to $63.60. Orders outside of these limits will be rejected.

For some FGL Products, the amount of an Order Price Movement Limit (also known as the sweep price) needs to be quite large to enable legitimate Trades to take place.

The Order Price Movement Limit also defines the maximum price away from the current Reference Price that a Market Order may interact with. For example, if we consider the above orderbook and a Market Order to Buy 100 is entered, the incoming Buy order would match with the full volume of the best Sell order but it would not match with the second Sell order because that price ($65.05) is too far away from $64.31. The remaining unmatched volume of the Market Order would be set as a Limit Order to Buy 50 at $64.36

In the case where this same orderbook has a Reference Price of $64.31 but all Sell order volume is withdrawn before a Market Order to Buy 100 is entered (see below),

Buy Quantity	Buy Price	Sell Price	Sell Quantity
10	$63.65		
30	$63.20		

no matching would occur and the full volume of the Market Order would be set as a Limit Order to Buy 100 at $64.36 (Reference Price + Order Price Movement Limit* minimum price movement size).

Buy Quantity	Buy Price	Sell Price	Sell Quantity
100	$64.36		
10	$63.65		
30	$63.20		

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 Order Types.

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 a number of minimum price movements 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. The Trading Day rolls from one day to the next after the close of the Day Session for a given product. Any Night Session for a product occurs after the Trading Day rolls and prior to the Day Session of a product on a given Trading Day. The sessions for a product are specified in the Trading Hours attribute in the FGL Product Determinations document, the FGL Trading Calendar is published on the FGL website.

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

- An Option Contract - only this Individual FGL Product and any Tailored Strategies including 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 GN 43 for information on the resumption of Trading in a halted FGL Product Market; and GN 23 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 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 as any Trade that falls beyond the Tradeable Price Range will halt the market as described above. 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 a 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 an 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

If the Exchange considers that the Tradeable Price Range for a FGL Product needs to be widened 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 the Exchange will notify Trading Participants of the frenetic market and the new Daily Price Movement Limits as soon as practicable, these new Daily Price Movement Limits override those specified in the Product Determinations document.

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 Product Determinations document. 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 particular 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 the Product Determinations document

The Exchange will regularly review the price limits that are specified in the Product Determinations document. 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 as soon as practical and as much as 4 weeks prior to implementation.