

Guidance Note

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Key concepts:

Trades in this price range may be considered for cancellation.

Related information:

FGL Operating Rules

Part 4 and Part 9

FGL Procedures

Part 4

FEX Guidance Notes

GN 38 – Price Limits

Recommended Audience:

Trading Participants

Derivatives Staff Members

Compliance Managers

Previous Issues:

Nil

GN 39 - Error Trades and Cancellation of Trades

Introduction

The purpose of this Guidance Note is to describe the process that the Exchange will follow when considering the cancellation of Trades, including requests to cancel Error Trades. It also describes how the Established Market Price (and thus the No-Bust Price Range) for each Individual FGL Product is determined.

Guidance

To provide certainty to Trading Participants with regard to whether a Trade may be considered for cancellation, the Exchange has established the concepts of a No-Bust Price Range and a Request for Cancellation Price Range for each Individual FGL Product. These price ranges control whether a request to cancel a Trade is considered or rejected by FGL.

- *No-Bust Price Range*: a price range above and below the Established Market Price for the Individual FGL Product. An Error Trade in this price range will not be cancelled under any circumstances.
- *Request for Cancellation Price Range*: a price range between the No-Bust Price Range and the Tradeable Price Range for the Individual FGL Product (see GN 38 - Price Limits for a description of how the Tradeable Price Range is determined).

Every Trade will fall into one of these two (2) price ranges.

To determine the boundaries of these price ranges at any time for an Individual FGL Product it is therefore necessary to determine the:

- No-Bust Price Range;
- Daily Price Movement Limit;
- Reference Price; and
- Established Market Price.

The No-Bust Price Range and the Daily Price Movement Limit settings are specified in the relevant Product Determinations document.

Calculation of the Reference Price

The Reference Price is set as follows:

- 1 At the start of a Trading Day, the Reference Price for each Individual FGL Product will be set to the Daily Settlement Price for the Individual FGL Product for the previous Trading Day (as described in GN 38 - Price Limits).

- 2 Should the Exchange determine that an adjustment to the Reference Price is required intra-day then the newly published intra-day Reference Price becomes the current Reference Price for the Individual FGL Product. This adjusted Reference Price will be used in the following calculation of the Established Market Price.

Calculation of the Established Market Price

The purpose of the Established Market Price (EMP) is to determine a fair price for an Individual FGL Product at a time just preceding the execution of the Trade under consideration for cancellation that will be used as the basis to establish the No-Bust Price Range.

The calculation of the EMP is dependent on whether the Individual FGL Product is a Futures Contract or an Option Contract and whether the settlement month is the nearest to expiry (spot) month for the FGL Product.

EMP Calculation – Futures Contract, spot month

- 1 If Trades occurred in the Individual FGL Product during the sixty (60) seconds prior to the execution of the Trade which is being considered for cancellation, the EMP will be set to the volume weighted average price of Trades for the Individual FGL Product during this period.
- 2 If no Trades occurred during this period, however one or more Trades did occur in the Individual FGL Product for the current Trading Day prior to the execution of the Trade which is being considered for cancellation, then:
 - (a) If there is a buy Order for the Individual FGL Product that is greater than the price of the last Trade, the EMP will be set to the price of the buy Order; or
 - (b) If there is a sell Order for the Individual FGL Product that is less than the price of the last Trade, the EMP will be set to the price of the sell Order; or
 - (c) The EMP will be set to the price of the last Trade; or
 - (d) If an intra-day adjustment to the Reference Price has occurred since the last Trade then the EMP will be calculated as above using the current Reference Price in place of the price of the last Trade.
- 3 If no trades have occurred for the current Trading Day prior to the time of the Trade being considered for cancellation, then:
 - (a) If a there is a buy Order for the Individual FGL Product that is greater than the current Reference Price, the EMP will be set to the buy Order price; or
 - (b) If a there is a sell Order for the Individual FGL Product that is less than current Reference Price, the EMP will be set to the sell Order price; or
 - (c) The EMP will be set to the current Reference Price.

EMP Calculation – Futures Contract, non-spot month

- 1 If Trades occurred in the Individual FGL Product during the sixty (60) seconds prior to the execution of the Trade which is being considered for cancellation, the EMP will be set to the volume weighted average price of Trades for the Individual FGL Product during this period.
- 2 If no Trades occurred during this period, however one or more Trades did occur in the Individual FGL Product for the current Trading Day prior to the execution of the Trade which is being considered for cancellation, then:
 - (a) If there is a buy Order for the Individual FGL Product that is greater than the price of the last Trade, the EMP will be set to the price of the buy Order; or
 - (b) If there is a sell Order for the Individual FGL Product that is less than the price of the last Trade, the EMP will be set to the price of the sell Order; or
 - (c) The EMP will be set to the price of the last Trade; or

- (d) If an intra-day adjustment to the Reference Price has occurred since the last Trade then the EMP will be calculated as above using the current Reference Price in place of the price of the last Trade.
- 3 If no trades have occurred for the current Trading Day prior to the time of the Trade being considered for cancellation, then:
- (a) Calculate the EMP for the spot month of the Individual FGL Product following the steps above;
 - (b) Calculate the differential between the current Reference Price for the Individual FGL Product and for the spot month of the Individual FGL Product;
 - (i) If there is a buy Order for the Individual FGL Product that is greater than the EMP for the spot month calculated in (a) plus the differential between the current Reference Price calculated in point (b), the EMP for the Individual FGL Product will be set to the buy Order price; or
 - (ii) If there is a sell Order for the Individual FGL Product that is less than the EMP for the spot month calculated in (a) plus the differential between the current Reference Price calculated in point (b), the EMP for the Individual FGL Product will be set to the sell Order price; or
 - (iii) The EMP for the Individual FGL Product will be set to the EMP for the spot month calculated in (a) plus the differential between the current Reference Price calculated in point (b).

EMP Calculation – Option Contract

- 1 If Trades occurred in the Individual FGL Product during the sixty (60) seconds prior to the execution of the Trade which is being considered for cancellation, the EMP will be set to the volume weighted average price of Trades for the Individual FGL Product during this period.
- 2 If no Trades occurred during this period, however one or more Trades did occur in the Individual FGL Product for the current Trading Day prior to the execution of the Trade which is being considered for cancellation, then:
 - (a) If there is a buy Order for the Individual FGL Product that is greater than the price of the last Trade, the EMP will be set to the price of the buy Order; or
 - (b) If there is a sell Order for the Individual FGL Product that is less than the price of the last Trade, the EMP will be set to the price of the sell Order; or
 - (c) The EMP will be set to the price of the last Trade; or
 - (d) If an intra-day adjustment to the Reference Price has occurred since the last Trade then the EMP will be calculated as above using the current Reference Price in place of the price of the last Trade.
- 3 If no trades have occurred for the current Trading Day prior to the time of the Trade being considered for cancellation, then:
 - (a) Calculate the EMP for the Underlying following the steps above;
 - (b) Determine the volatility for the Individual FGL Product used to calculate the Reference Price;
 - (c) Calculate the Option Contract price by entering the values in (a) and (b) into the Option Contract Pricing Model for the Individual FGL Product.
- 4 If there is a buy Order for the Individual FGL Product that is greater than the Option Contract price calculated in point (c), the EMP for the Individual FGL Product will be set to the buy Order price; or
- 5 If there is a sell Order for the Individual FGL Product that is less than the Option Contract price calculated in point (c), the EMP for the Individual FGL Product will be set to the sell Order price; or
- 6 The EMP for the Individual FGL Product will be set to the Option Contract price calculated in point (c).

Error Trade Process

Request to cancel an Error Trade

The Exchange will consider a request to cancel an Error Trade where:

- 1 in accordance with Operating Rule 4.8.2:
 - (a) The request is received within 5 minutes of the Error Trade occurring; or
 - (b) The Exchange in its absolute discretion decides to consider a request received after this, for example a request received at 5 minutes and 20 seconds after the Error Trade occurred.
- 2 in accordance with Rule Procedure 4.8.2, the request is made by a Primary Contact of the Trading Participant responsible for the Error Trade and the request includes:
 - (a) The Trading System Order number;
 - (b) The error that was made;
 - (c) The Trading System Trade number;
 - (d) The Individual FGL Product;
 - (e) The Trade price; and
 - (f) The Trade quantity.

Notification that a request to cancel an Error Trade is under consideration

The Exchange will notify all Trading Participants that a request to cancel an Error Trade is under consideration. The notification will:

- 1 be sent via the Trading System message facility and/ or other such mechanism as the Exchange chooses from time to time;
- 2 include -
 - (a) The Trading System Trade number;
 - (b) The Individual FGL Product;
 - (c) The Trade price; and
 - (d) The Trade quantity.

Rejection of Error Trade in the No-Bust Price Range

The Exchange will determine whether the Error Trade falls into the No-Bust Price Range or the Request for Cancellation Price Range. To do this the Exchange will calculate the EMP for the Individual FGL Product as described above.

If the Error Trade falls within the No-Bust Price Range, the Exchange will reject the request to cancel the Error Trade and will notify the:

- 1 Trading Participant that requested the cancellation that its request has been rejected; and
- 2 All Trading Participants that the request has been rejected.

If the Error Trade falls in the Request for Cancellation Price Range, the Exchange will consider cancellation of the Error Trade.

Consideration of Error Trade in the Request for Cancellation Price Range

In its determination of whether to cancel an Error Trade, the Exchange will consider each factor described in Operating Rule 4.8.2(f) that it considers relevant. Specifically the Exchange will:

- 1 Contact a Primary Contact at the counterparty Trading Participant to the Error Trade to determine if the counterparty Trading Participant (and, where appropriate, its' Client) approves the proposed cancellation of the Error Trade. Counterparty approval may be given based on conditions. For example: such conditions may be that

the Trading Participant requesting cancellation of the Error Trade accepts Trades made by the counterparty as part of the same strategy Order as the Error Trade or from an Order entered contingent on the Error Trade.

- 2 Consider any objections that are received under Operating Rule 4.8.2(e).
- 3 If the Order resulting in the Error Trade is a strategy Order, consider whether the Trading Participant is requesting cancellation of all legs.
- 4 Consider all prevailing market conditions.
- 5 Identify any subsequent Trading resulting from the Error Trade in the same Individual FGL Product and in its discretion, any subsequent Trading in one or more related Individual FGL Products.

Trading Participants are advised that the Exchange is unable to reinstate Orders that resulted in Trades that are cancelled in this process. A counterparty Trading Participant to an Error Trade must consider this fact prior to responding to a cancellation request for an Error Trade.

Determination of whether to cancel an Error Trade

Having completed its consideration, the Exchange may determine that:

- 1 It is not in the best interest of a fair, orderly and transparent market to cancel the Error Trade, and it will reject the request; or
- 2 The Error Trade will be cancelled if proposed conditions are met by the Trading Participant that requested cancellation of the Error Trade; or
- 3 Cancellation of the Error Trade without conditions is in the best interest of a fair, orderly and transparent market, and it will cancel the Error Trade.

Where an Error Trade that is being cancelled involves a strategy Order matching another strategy Order, the Exchange will determine whether:

- 1 All legs of the strategy will be cancelled; or
- 2 Some (but not all) legs of the strategy will be cancelled; and
- 3 If one or more legs of the strategy will be cancelled despite being in the No-Bust Range. Note - in this scenario at least one leg being cancelled, the Error Trade, must be in the Request for Cancellation Price Range.

Notification of whether an Error Trade will be cancelled

The Exchange will notify all Trading Participants via the Trading System message facility of its decision to cancel an Error Trade or reject the request to cancel an Error Trade as soon as practicable.

Written confirmation from the requesting Trading Participant for cancellation of an Error Trade

Where the Exchange has determined to cancel an Error Trade, it will send the Trade cancellation details to the Primary Contacts of the parties to the Error Trade, requesting a signature to confirm the cancellation in accordance with Rule Procedure 4.8.2. This written confirmation may take place after the Error Trade has been cancelled.

Market Statistics

Where the Exchange cancels a Trade, the market statistics for the Individual FGL Product will be updated to reflect the cancellation.

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