

Guidance Note

Released:

07 June 2019
Version: 3

Key concepts

Powers of the Exchange under Part 5 of the FGL Operating Rules.

Related Information

FGL Operating Rules

5.2, 5.4 and 5.5

FGL Procedures

5.2.6

FEX Guidance Notes

GN 43 – System Failure and Market Halts

Recommended Audience

Operations Managers

Derivatives Staff Members

Compliance Managers

Previous Issues:

Nil

GN 40 – Powers of the Exchange

Introduction

Under Part 5 of the Operating Rules, the Exchange has various powers in relation to the oversight of the Exchange Market, including powers to halt Trading and declare Market Disruption Events.

Guidance

This Guidance Note explains some of these powers, how the Exchange intends to use the powers and how the use of these powers can affect Trading on the Exchange Market. The examples set out in this Guidance Note do not in any way limit the way in which the Exchange can exercise its powers under the Operating Rules.

Power to halt the Exchange Market, and related powers

Reasons for using these powers:

Under Operating Rule 5.2.6, the Exchange may use various powers if it considers that:

- 1 The fair, orderly and transparent operation of the Exchange Market, any FGL Product Market or any Individual FGL Product may be compromised; or
- 2 The calculation or determination of a Daily Settlement Price or the Expiry Settlement Price may be compromised so it may not be able to be determined in accordance with the Contract Specifications; or
- 3 A Market Disruption Event has occurred, or is likely to occur;

or for any other reason the Exchange considers appropriate.

These powers can be exercised in relation to the Exchange Market (i.e. all the FGL Product Markets), specific FGL Product Markets (i.e. the FGL market for Trading a particular FGL Product), or specific Individual FGL Products (i.e. a FGL Product for a particular settlement month, and, in the case of a put or call Option Contract, for a particular Exercise Price).

The relevant powers of the Exchange are not limited to those discussed in this Guidance Note.

Specific powers of the Exchange

If the Exchange thinks it necessary, the Exchange may (amongst other things):

- 1 Defer or extend the Settlement Date for a period of time it deems appropriate;

If this happens, the Settlement Obligations are postponed until the later date set by the Exchange.

For example, for a FGL Contract which is a cash-settled Futures Contract, the obligation to pay the cash settlement amount will not arise until the later date. Where the FGL Contract is a deliverable Futures Contract, the obligation to pay the settlement amount and receive delivery of the underlying asset (or receive the settlement amount and provide delivery of the Underlying) will not arise until the later date set by the Exchange.

2 Delay or postpone the calculation or determination of a Daily Settlement Price;

Normally the Exchange will calculate an indicative Daily Settlement Price at the close of each Trading Day and then will determine a final Daily Settlement Price. However, the Exchange can defer this calculation and determination.

3 Amend a Daily Settlement Price;

The Exchange can amend a Daily Settlement Price, even after notification of a Daily Settlement Price to Trading Participants and Clearing Entities.

4 Establish or amend price limits;

Normally the Daily Price Movement Limit that in concert with the Reference Price determines the tradeable price range in relation to each Individual FGL Product is set out in the Contract Specifications. Where matching Orders exist that would result in a Trade occurring outside the tradeable price range, FGL will halt Trading in that Individual FGL Product.

However, the Exchange may decide to increase or decrease the daily price movement limit in order to change the allowed daily volatility in the price of an Individual FGL Product before suspension of Trading in that product may occur.

5 Give directions to Trading Participants, including directions to Trade an offsetting Open Contract and Close Out any Open Contracts;

Where a Trading Participant is directed to Trade an offsetting Open Contract and Close Out an Open Contract, it must immediately enter into an equal and opposite Open Contract and effect settlement of the Open Contracts against each other.

The Exchange may make such a direction in relation to all Open Contracts on the Exchange Market, in relation to all Option Contracts for a particular FGL Product Market or in relation to all Open Contracts in an Individual FGL Product.

6 Limit Trading, for example – limiting Trading to Trading offsetting Open Contracts and Closing Out any Open Contracts;

Where the Exchange has limited Trading to Trading offsetting Open Contracts and Closing Out any Open Contracts, Trading Participants are only allowed to Trade (in the relevant market or Individual FGL Product) in order to offset any Open Contracts. This means that no new Open Positions can be entered into.

7 Delay Trading of an Individual FGL Products until the Daily Settlement Price for the previous Trading Day is available;

Product in accordance with the trading hours specified in the Contract Specifications.

8 Halt Trading for a period of time;

When Trading is halted, no trading will occur, Orders may not be entered or amended but Orders may be cancelled.

The Exchange has complete discretion as to the period of time to halt Trading.

How the Exchange will notify Trading Participants and Clearing Entities that it has exercised these powers

The Exchange will notify all affected Trading Participants and Clearing Entities.

The Exchange will notify the whole market if it considers appropriate.

In order to notify Trading Participants and Clearing Entities, the Exchange will do one or more of the following:

- (a) Put a notice on the Exchange website;
- (b) Directly contact Trading Participants and Clearing Entities; and
- (c) Notify all Trading Participants through the trading platform.

The Exchange may also notify the Clearing House, ASIC or any other person it considers appropriate.

No need to give reasons for exercise of powers in Part 5 of the Operating Rules

The Exchange does not have to give its reasons for using (or not using) any of these powers.

The Exchange may, however, provide reasons to regulators (including ASIC) and any other person that the Exchange considers appropriate.

Appeal

There is no right to appeal from the Exchange's decision to use (or not to use) any of these powers. However, the Exchange may take further action, or reconsider action taken, at any time, including where additional information becomes available.

Liability

The Exchange has no liability for any losses caused to Trading Participants, Clearing Entities, or their Clients, as a result of the exercise by the Exchange of any of its powers under Operating Rule 5.2.6.

Powers of the Exchange in relation to Market Disruption Events

Declaration of Market Disruption Event

Under Operating Rule 5.4.1, the Exchange may, at any time and in its discretion declare a Market Disruption Event by declaring an Undesirable Circumstance or Activity, a Market Emergency, a Physical Emergency, an Impediment to Performance or a Systems Disruption.

GN43 - System Failure and Market Halts gives guidance on the circumstances in which such a declaration may be made.

Under Operating Rules 5.3.3-5.3.5 the Exchange may declare that a Physical Emergency, Impediment to Performance or Systems Disruption has occurred.

The effect of a declaration of a Market Disruption Event

The Exchange will investigate the circumstances leading to the declaration of a Market Disruption Event after the event has been resolved.

If a Market Disruption Event is declared, the Exchange may (amongst other things):

- (a) Require any Trading Participant or Clearing Entity to respond to Exchange enquiries or investigations;
- (b) Require any Trading Participant or Clearing Entity to take any action, or not take a particular action, including action in relation to particular Market Contracts, Open Positions or Open Contracts;

Under this power, the Exchange may order a Trading Participant to enter into particular Market Contracts or Open Contracts. For example, to enter into an offsetting Open Contract to offset an Open Position.

The Exchange may also order a Trading Participant to cease entering into any new Market Contracts or not to enter into any more Trades on behalf of a particular Client or Clients.

- (c) Restrict any Trading Participant's or Clearing Entity's ability to conduct any activity in relation to any one or more FGL Product Markets;

The Exchange may restrict a Trading Participant's or Clearing Entity's activities in relation to specified FGL Product Market in any way.

- (d) Place conditions upon any activity of any Trading Participant or Clearing Entity or any one or more FGL Product Markets, which are not in relation to a particular FGL Product Market.

The Exchange may also impose conditions on particular FGL Product Markets.

- (e) Halt Trading in any one or more FGL Product Markets or individual FGL Products;

When Trading is halted under this power, no trading will occur and no Orders may be amended or entered. However, Orders may still be cancelled.

The Exchange has complete discretion as how long Trading is suspended and what conditions that may be imposed.

- (f) suspend any conduct or activity conducted on the Exchange Market;

- (g) suspend any of the rights of any Trading Participant or Clearing Entity;

Where the Exchange suspends the rights of a Trading Participant or Clearing Entity using this power, the disciplinary proceedings procedures do not apply and the Trading Participant or Clearing Entity does not have the right to make written submissions and there is no obligation on the Exchange to notify the Trading Participant or Clearing Entity of its reasons.

- (h) take any action or make any decision which the Exchange in its discretion considers necessary to minimise the impact of the Market Disruption Event;

The actions specified in Operating Rule 5.2.6 are merely likely responses to anticipated circumstances and in no way limit the actions that the Exchange may take. The Exchange has absolute discretion to take any action that it considers necessary to minimise the impact of a Market Disruption Event.

Binding nature of Exchange actions and breach

The declaration of a Market Disruption Event and any consequent actions by the Exchange are binding on each Trading Participant and Clearing Entity. This means a failure to comply constitutes a breach of the Operating Rules.

Exercise and delegation of Exchange powers and actions

The powers of the Exchange to take action in response to a Market Disruption Event will normally be exercised by the Board, but where it is impracticable or impossible to obtain a resolution of the Board, a delegate may exercise these powers. The delegation of an Exchange power does not give a Trading Participant or Clearing Entity any right to take action against the delegate.

Notification of declaration of Market Disruption Event

The Exchange must use its best endeavours to notify all Trading Participants or Clearing Entities of the declaration of a Market Disruption Event as soon as practicable.

It is intended that the Exchange will put a notice on the Exchange website when a Market Disruption Event is declared.

The Exchange is required to use its best efforts to notify regulators and any other affected persons of the declaration of a Market Disruption Event.

Reasons for declarations or exercise of powers

The Exchange is not obliged to provide Trading Participants or Clearing Entities with the reasons for the declaration of a Market Disruption, or their reasons for taking (or not taking) a particular course of action.

The Exchange may, however, provide reasons to regulators (including ASIC) and any other person that the Exchange considers appropriate.

Appeal

There is no appeal from any decision to declare a Market Disruption Event or take (or not take) a particular course of action.

However, the Exchange may take further action, or reconsider action taken, at any time, including where additional information becomes available.

Liability

The Exchange, and any delegate, has no liability for any losses caused to Trading Participants, Clearing Entities, or their Clients, as a result of the declaration of a Market Disruption Event or any associated actions taken by the Exchange.

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 or by contacting FGL on enquiries@fex.com.au or on +61 2 8024 5200

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