Guidance Note

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Key concepts

Defined Strategy trading

Related information

FGL Operating Rules

Part 4

FGL Procedures

Part 4

Recommended Audience

Derivatives Strategy Traders

Previous Issues:

Nil

GN 42 – Defined Strategies

Introduction

Defined strategies are pre-listed contracts on the FGL Exchange that can consist of varying legs, buy and sell positions and products. The strategies and their specific characteristics are outlined below.

Guidance

Intra-Commodity Spreads

Intra-Commodity spreads are Defined Strategies automatically listed on the FGL Exchange. These strategies allow users to buy one month of a FGL product and sell an opposing month of the same FGL product at a differential price.

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   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).

2   Any orders and any subsequent trades executed in the TSM facility of defined strategies will be cancelled by FGL Market Control and details forwarded to FGL Compliance.

3   All legs of an Intra-Commodity spread trade have to be allocated to the same account.

4   Each Intra-Commodity spread price is validated on entry by the FGL Exchange system at the time of Order entry. The following process is performed by the FGL Exchange system;

   (a)   The system calculates an indicative intra-commodity spread price using the two months involved prior day's settlement price (PDSP).

   (b)   The system then multiples the underlying products sweep price rule for Futures by the number of legs of the spread (always two).

   (c)   The system then calculates a valid price range for the Intra-Commodity spread order by taking the spread price calculated in (a) and adding the range calculated in (b) around it.

   (d)   If the intra-commodity spread order price is outside this calculated sweep price range, the order will be rejected by the FGL Exchange system.

5   If an order is rejected due to being outside a Trading Participant's configured soft limit price range, the user has the ability to re-enter the order and override the soft limit price rule validation.

6 Order types of 'Good till Cancelled', 'Good till Date' and 'Day' are not valid order types for Intra-Commodity spread orders

7 Intra-Commodity spread orders cannot be entered in the Pre-Open period.

8 The FGL Exchange system, each time a Intra-Commodity spread order is entered, will validate and try and match the order using the following steps:

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

    (b) Any portion of the original Intra-Commodity spread order remaining after the above matching has occurred will then try to generate an implied price into the underlying futures markets. The implied price can only be generated if there is a price in at least one of the futures being spread against.

    (c) After the above has occurred the Order can be traded via either the Intra-commodity spread market or the outright futures market.

9 The calculation of each individual leg price of an Intra-Commodity spread where the Intra-commodity spread order has traded with another Intra-Commodity spread uses the following process.

    (a) When a spread order trades with another spread order the FGL Exchange system calculates an intra-day settlement price using the current underlying market for the nearest of the two legs.

    (b) This is performed using the same settlement rules as those for daily settlement purposes.

    (c) The intra-day settlement price calculated for the nearest leg of the spread will be assigned as the traded price to this leg.

    (d) The FGL Exchange system will then calculate the far month leg of the intra-day settlement price using the nearest leg price calculated above and the traded spread price.