

Guidance Note

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Version: 3

Key concepts

Fair and Orderly Pricing

Related Information

FGL Operating Rules

Part 4

Recommended Audience

All Market Participants

Previous Issues:

Nil

GN 45 - Fair and Orderly Pricing Block Trades and EFP Transactions

Introduction

The FGL Trading System provides the functionality for Trading Participants to lodge, approve and/or reject Block Trades and Exchange for Physicals (EFP's) as defined in the FGL Operating Rules.

These trades, as they are transacted away from the underlying futures market, require FGL to ensure the prices agreed upon are deemed Fair and Orderly.

Guidance

Block Trading

FGL Trading Participants, after the arrangement of a Block Trade pursuant to FGL Operating Rule 4.5, are required to lodge Block Trade related details into the FGL Trading System.

This lodgement process validates the Block Trade has been dealt in no less than the minimum volume prescribed for the product in the Contract Specifications, and has been transacted in a valid contract month/strike.

FGL Market Control will review the lodged details prior to approving or rejecting a Block Trade. The review will seek to ensure that the price at which the two parties have agreed upon can be considered as Fair and Orderly by comparing the entered price details against a FGL-determined set of pricing ranges for the relevant contract.

All Block Trades will also be reviewed by FGL Compliance Department.

As a general rule, FGL Market Control will use the following price ranges to perform their fair and orderly price review:

- if the Block Trade price falls within 10 ticks (price increments) above or below the current trading days High/Low of the underlying Futures contract, FGL will approve the Block Trade; and
- where there has been no current day trading in the underlying Futures contract, if the price falls within 10 ticks (price increments) above or below the Prior Days Settlement Price (PDSP) of the underlying Futures contract, FGL will approve the Block Trade.

If a lodged Block Trade price is outside all of the above price ranges, FGL will contact the counterparties and request additional information surrounding the trade and its price.

If FGL Market Control receives reasonable explanations for the lodged price, which is outside the above price ranges, it is then at the discretion of the Market Control Manager to approve or reject the Block Trade.

Exchange for Physical (EFP)

FGL Trading Participants, after the arrangement of an EFP Trade pursuant to FGL Operating Rule 4.6, are required to lodge trade related details into the FGL Trading System.

FGL Market Control will review the lodged details prior to approving or rejecting an EFP. The review will seek to ensure that the price at which the two parties have agreed upon can be considered as “fair and orderly” by comparing the entered price details against an FGL-determined set of pricing ranges for the relevant contract.

As a general rule, FGL will use the following price ranges to perform their fair and orderly price review:

- if the EFP price falls within 10 ticks (price increments) above or below the current Trade Date’s High/Low of the underlying Futures contract; or
- where there has been no current day trading in the underlying Futures contract, if the price falls within 10 ticks (price increments) above or below the Prior Day’s Settlement Price (PDSP) of the underlying Futures contract; and
- if the value of the physical leg of the EFP is within +/- 10% of that of the Futures leg value; FGL will approve the EFP.

If an EFP price is outside all of the above price ranges, FGL will contact the counterparties and request additional information surrounding the trade and its price.

If FGL Market Control receives reasonable explanations for the lodged price, which is outside the above price ranges, it is at the discretion of the Market Control Manager to then approve or reject the EFP.

All EFPs will also be reviewed by FGL Compliance Department.

The Exchange may adjust these price settings as it sees fit and will provide the market with suitable advance notice of any intended change, such that Trading Participants can consider the likely impact of the change upon their current trading strategies.

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.