Guidance Note

Released:

11 February 2022

Version: 3

Key concepts:

Pre-Negotiation of Trades in Specific Products.

Related information:

FGL Operating Rules

Part 4

FGL Procedures

Part 4

ASIC Market Integrity Rules (Futures Markets) 2017

MIR 3.1.6

Recommended Audience:

Trading Participants

Previous Issues:

Nil

GN 53 – Pre-Negotiation

Introduction

FGL Operating Rules allow for Trading Participants (TPs) to withhold client orders and arrange trades off-market before bringing this pre-negotiated trade to market.

As outlined in the FGL Operating Rules and FGL Procedures, this trading mechanism is only available for specified contracts.

Guidance

A client must, prior to executing pre-negotiated Orders, have in place a signed agreement between itself and its TP enabling the TP to execute pre-negotiated Orders on its behalf as stated in the FGL Operating Rules.

Once a client has placed an order that can be pre-negotiated with the TP, the TP will contact other parties (clients and other TPs) to ascertain their interest.

When the TP has identified a counterparty to the order, they must then register interest in transacting in a specific product to the market via the Message Facility.

Once 30 seconds has elapsed, the TP has 90 seconds in which to enter the orders and execute the trade on the market.

Example: Using FEX Base Load Power Quarterly Futures

Current market in BNM3 bid 83.00 / 84.50 offer

1. Client has written agreement in place with TP that they may pre-negotiate business in this product;
2. Client places order with TP BNM3 BUY 10 @ 83.50;
3. TP withholds order from the market to contact other parties who may be interested in selling;
4. once TP has both the buy and sell side of the trade - TP uses the Message Facility to enter a Request for Quote (RFQ);

   RFQ BNM3
5. After waiting for 30 seconds:
   (i) no response from the market and the intended trade falls within bid/offer spread – therefore the trade can be executed on market as pre-negotiated;

   (ii) if there is a response from the market and intended trade is equal to or below the bid, the TP must hit the bid (giving the seller a better fill and the buyer none). Conversely if the intended trade is equal to or above the offer, the TP must lift the offer giving the buyer a better fill and the seller none; or

   (iii) if there is a response from the market and there is not enough volume to fill the intended trade on screen then the trade may be partially executed on screen and the rest done as pre-negotiation.

Example: Intended trade: Buy/Sell BNM3 @ 83.50 10 lots

Response to message on screen: Bid 83.00 5 lots, Offer 83.50 5 lots

Then TP must buy 5 lots @ 83.50 from the screen and then executes BUY/SELL 5 lots@ 83.50 as a pre-negotiated trade. The seller still has 5 more to sell which the TP must deal with according to the FGL Operating Rules.

The key points of note are:

- a TP may only pre-negotiate trades for clients who have agreements in place to engage in Pre-negotiation;
- orders may be aggregated from Clients in satisfaction or part satisfaction of the originating Client Order, providing each order being aggregated is itself of minimum pre-negotiation volume for the product and aggregation is performed in accordance with the ASIC Market Integrity Rules (Futures Markets) 2017, Rule 3.1.6.;
- a TP must place a request for quote through the Message Facility with all relevant information specified in the FGL Procedures;
- the message placed into the Message Facility must begin with “RFQ”;
- the TP must wait a minimum of 30 seconds after sending the message before executing the trade;
- the trade must be priced within the current bid/offer range if a range exists on-screen;
- the trade must be executed within 90 seconds following the 30 second wait;
- on-screen volume must be transacted with first if a price overlap exists; and
- any remaining volume to be traded can be pre-negotiated or entered on-screen providing all applicable rules are adhered to.

Please refer to FGL Operating Rules and FGL Procedures for further details.