

virt-x *compliance*

The cross-border exchange



Newsletter from
virt-x Regulation & Compliance Department

March 2002
Issue 3

We hope you will find this third issue of virt-x *compliance* a useful source of information and we welcome your comments and suggestions.

Emma Vick
Director of Regulation and Compliance

Contents	Special topics in this issue
Market Notices Updates to Rules and Directives Special Topics	Stabilisation Trade reporting guidance

MARKET NOTICES

Of the Market Notices issued since No 289 and up to No 315, please note that the following have not been included in the Rules, Directives or standing data:

Market Notice Number	Date	Content
301	1 February 2002	Clarification of proposed stabilisation rules
303	6 February 2002	Disciplinary fees
310	4 March 2002	Updated SWX software licensing conditions for virt-x
311	4 March 2002	Value dates for Easter 2002

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UPDATES TO RULES AND DIRECTIVES

virt-x has updated the following Rules and Directives:

Rule/ Directive	Date	Market Notice	Content
Rule book Section 7.0	7 March 2002	313	virt-x Stabilisation Rules
Directive 9	20 December 2001	292	Addition of tariffs for sponsored and networked members. Addition of details of the clearing and settlement infrastructure fee.
Directive 16	20 December 2001	292	virt-x continues to absorb the PTM Levy on behalf of members

All Market Notices are available at www.virt-x.com under the Member section at Notifications & Forms. All Rules and Directives are available on the web site under the Regulation section.

STABILISATION

A new virt-x rule regarding stabilisation has been approved. The virt-x rule supplements the FSA's Stabilising Rules, found in the Code of Market Conduct portion of the FSA Handbook (<http://www.fsa.gov.uk/handbook>).

The FSA's Market Abuse provisions apply to the activities of any firm (whether authorised by the FSA or not) in instruments traded on trading on prescribed market (all Recognised Investment exchanges are prescribed markets). As such, activities done on virt-x are covered by the Market Abuse provisions. The Market Abuse regime includes, generally, insider dealing, market distortion and creating a false or misleading impression to the market.

In drafting the Market Abuse regime, the FSA recognised that certain exceptions needed to be made for legitimate activities which might otherwise be construed as market abuse. Among these legitimate activities was stabilisation during primary or secondary offerings. The FSA rules therefore provide defence or a "safe harbour" for stabilisation, by which a firm which complies with the FSA Stabilising Rules will not be deemed to have engaged in market abuse (or the criminal provisions against insider dealing or manipulation) by virtue of their stabilising activities. Members with specific questions regarding the FSA Stabilising Rules or Market Abuse regime can consult the Market Abuse Sourcebook at <http://www.fsa.gov.uk/handbook/mar.pdf>.

The Market Abuse provisions anticipate that it may be appropriate for RIE's to supplement the FSA Stabilising Rules. The purpose of the virt-x rule is to provide for timely and adequate notice to be given to virt-x and to the public, in order to ensure a proper and orderly market at the time of the stabilisation. As a result, firms who wish to use the FSA safe harbour while conducting stabilising activities on virt-x would be required to comply with the virt-x stabilisation rule in addition to the FSA Stabilising Rules.

Consideration is being given to a series of workshops regarding the stabilisation rules, and any comments should include an indication as to whether your firm would be interested in attending a workshop. Please address any questions regarding the proposed rule to Scott McCleskey, Head of Regulatory Policy and Liaison, at scott.mccleskey@virt-x.com or +44 (0)20 7074 4415.

TRADE REPORTING GUIDANCE – USE OF NOSTRO FLAG

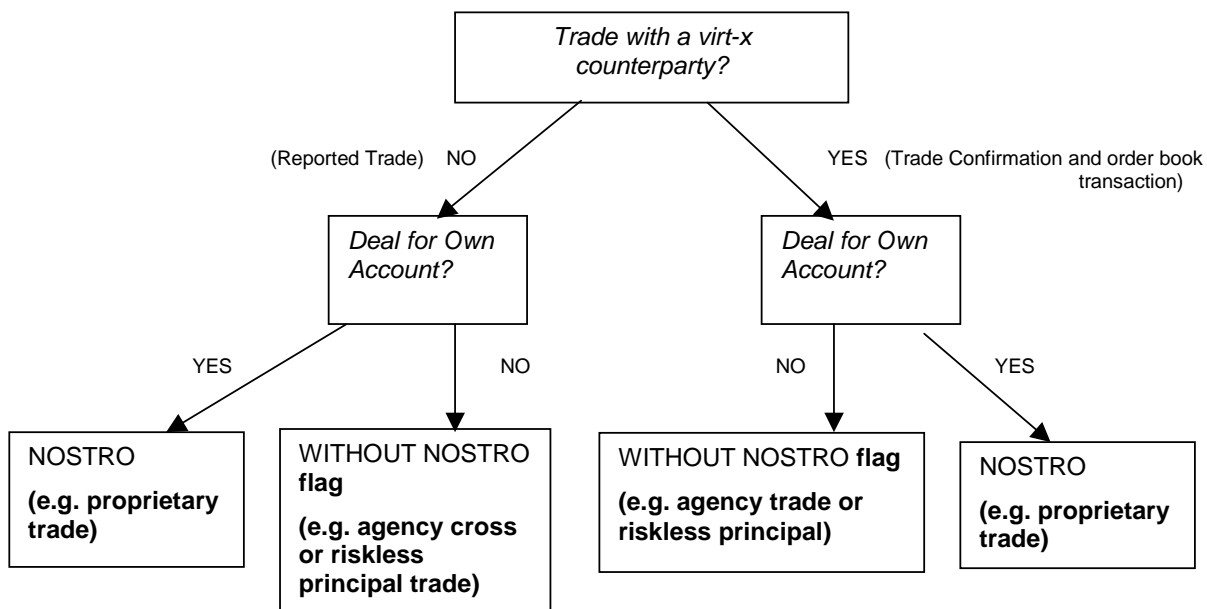
The following guidance is issued in response to queries from members about the use of the Nostro flag in reporting transactions to virt-x.

The Nostro flag is used when reporting a transaction executed for a participant's own account. Nostro is an indication of whether the Member deals for its own account. The term Nostro is only recognised for reporting purposes.

The following general scenarios describe when the Nostro flag should be used or not:

1. A market trade executed at a price which is passed on to a non-virt-x counterparty is reported without the Nostro flag
2. A market trade executed for the Member's own book is a Nostro trade
3. A series of market trades passed on a riskless principal basis to a non-virt-x counterparty at an average price is a series of trades which do not carry the Nostro flag. The arithmetical average price transaction should not be reported.

The following diagram illustrates the use of the Nostro flag:



Trade reporting FAQ

- Q1 How should a riskless principal transaction be reported?
A1 In a riskless principal transaction, a Member simultaneously buys and sells a given quantity of a security at the same price and on the same terms (excluding commission). The sale is reported without the Nostro flag and the purchase is not reported.
- Q2 How should a trade with a non-virt-x counterparty be reported?
A2 If the Member deals for its own account, it should be reported as Nostro. If however the Member is executing the order as an intermediary, the trade should be reported without the Nostro flag, i.e. Agency Cross.
- Q3 Is the Nostro flag needed for settlement instruction purposes (STP)?
A3 Yes.
- Q4 Is the Nostro flag needed for stamp duty purposes?
A4 Yes. The Nostro flag is/will be passed on to the CSDs (CREST, Euroclear and SIS).
- Q5 Is the Nostro flag used by virt-x for billing purposes?
A5 Yes.
- Q6 Do I use GMT or CET for reporting off-order book transactions?
A6 virt-x operates on Central European Time (CET) and therefore off-order book transactions should be reported to virt-x with reference to the time on the market, which is in CET.

Please address any comments or questions to compliance@virt-x.com
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