

# virt-x *compliance*

## The cross-border exchange



virt-x

Newsletter from  
virt-x Regulation and Compliance Department

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Issue 5

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

Emma Vick  
Director of Regulation and Compliance

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## MARKET NOTICES

Of the Market Notices issued since No 344 and up to No 389, please note that the following has not been included in the Rules, Directives or standing data:

Market Notice Number	Date	Content
351	10 July 2002	Trade reporting deadline for Swiss Securities moved to 10 minutes
356	9 August 2002	Introduction of ETF administration fees with effect from 4 November 2002
377	5 November 2002	Value dates for Christmas and New Year 2002/03
389	27 November 2002	Amendment of trade reversal provisions

## UPDATES TO RULES AND DIRECTIVES

virt-x has updated the following Rules and Directives:

Rule/ Directive	Date	Market Notice(s)	Content
Rule 1.5	29 July 2002	348 and 353	Registration of an individual for both trading and compliance is not usually permitted
Rule 2.15	29 July 2002	348 and 353	Trade reversal actions must be taken by a member within 1 hour of notification by virt-x
Rules 3.1, 3.2, 3.3 and 3.20	7 October 2002	349 and 368	Rule changes for the introduction of the off-order book transaction reporting service
Rule 3.20	29 July 2002	348 and 353	Members are not required to submit a trade report for both legs of a riskless principal transaction but may do so
Rule 7.1	29 July 2002	348 and 353	Stabilisation activity must be notified publicly one market day before the stabilisation period, or as soon as possible if the decision to stabilise is taken less than one day in advance
Directive 9	5 July 2002	348 and 353	Correction: minimum activity charge is € 65,000 per annum
Directive 15	5 July 2002	348 and 353	The order routing provisions apply also to quote engines and other automated systems

All Market Notices are available at [www.virt-x.com](http://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.

## **TRADE REPORTING DEADLINES FOR SWISS SECURITIES**

As members will be aware, virt-x now requires members to enter trade reports for off-order book transactions in Swiss securities within 10 minutes of the transaction.

From 3 March 2003, when trade reporting functionalities of the next maintenance release of the virt-x system come into effect, the reporting of Swiss securities must be compliant with virt-x's Rule 3.1. That rule requires virt-x members to enter trade reports for off-order book transactions within 3 minutes of the transaction (except where the special provisions for block trades, enlarged risk trades and portfolio trades apply).

The trade reporting deadline for all other (non-Swiss) securities remains unaffected at 3 minutes.

## **RESULT OF OPTION TRADES AND DEALINGS IN CONVERTIBLES**

A number of members have advised virt-x that they would like to report result of options business and dealings in convertible stocks to virt-x. Since the market needs to be aware that such transactions were executed at a special price, we are working to introduce such a flag next year. We will keep members informed on the timing within which we will be able to accept reporting of result of options trades and convertibles.

A transaction carried out in order to effect delivery of result of option business should nevertheless be reported. This is done automatically for order book trades but must be reported manually for off-order book trades (i.e. a Reported Trade or a Trade Confirmation).

## **OFF-ORDER BOOK TRADE REPORTING AMENDMENTS**

In response to requests for guidance, trade corrections to the following fields in off-order book trade reports must be notified to virt-x:

- Size
- Price
- Buy/Sell
- Nostro/Non-Nostro
- Counterparty
- Stock

Notification to virt-x is not required for trade splits, notes added to trade records or movements between internal accounts.

Any correction reports must be submitted to virt-x as soon as possible and members are reminded that incorrect trades cannot be reversed after T+1.

## **REPORTING OF CROSS TRADES**

Where a member carries out two or more transactions simultaneously buying and selling a given quantity of a security at the same price and on the same terms (excluding commission), the member required to submit a trade report for the sale but not the purchase.

However, where the sell leg of the cross is with a non member, but the buy leg is with a member, the selling member should submit a Trade Confirmation.

## **INPUT AND DELETION OF ORDERS IN OPENING AND CLOSING AUCTIONS**

Members are asked to note inputting and deleting orders during auctions may result in the creation of a false and misleading impression of the value or price of a security or its order flow. This may therefore constitute a breach of virt-x's Rule 2.10 a) and may render a member liable to disciplinary action by virt-x. It could alternatively be deemed to be in contravention of FSA's market abuse regime.

These provisions will soon be incorporated within the virt-x Rules

## **AMENDMENT OF TRADE REVERSAL PROVISIONS**

Following feedback from members on the current policy on mistrades, virt-x proposes to amend the current provisions to the effect that a trade reversal ("mistrade") will normally be made by virt-x when the price of a transaction is more than 2.5% away from the current local market price.

Initially, the new policy will be the subject of a 3 month trial, with a view to confirming the policy for the longer-term, possibly with some variations in the light of the experience of the trial and/or of a current review of erroneous trades being carried out by the Financial Services Authority. The 2.5% threshold will be kept under close review during the trial period.

The proposed changes to Rule 2.15 are set out in Market Notice No. 389 and members are invited to comment on the proposals by Wednesday 11 December.

## **TOPICS FOR FUTURE COMPLIANCE NEWSLETTERS**

We welcome topics for inclusion in future issues of the compliance newsletter.

Please contact us with suggestions.

Thank you!

Please address any comments or questions to [compliance@virt-x.com](mailto:compliance@virt-x.com)

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