

virt-x *compliance*

Newsletter from virt-x's Regulation and Compliance Department
Issue 18

7 September 2007

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



Emma Vick
Director of Regulation and Compliance

Market Notices

Since the last Compliance Newsletter, Market Notices 11/2007 to 25/2007 inclusive have been issued:

Market Notice	Date	Content
11/2007	21 May 2007	Baader Wertpapierhandelsbank AG – de-activation of Member ID
12/2007	24 May 2007	Transfer of activities from swissfirst to Banque Pasche SA, which became a member of virt-x on 25 May 2007
13/2007	30 May 2007	Changes to the Rules and Directives - please see the next section of this Compliance Newsletter for details
14/2007	10 July 2007	virt-x membership for Natixis S A with effect from 16 July 2007
15/2007	12 July 2007	Changes to the Rules and Directives in preparation for MiFID - please see the next section of this Compliance Newsletter for details
16/2007	20 July 2007	Confirming changes, with one exception, to the Rules and Directives - please see the next section of this Compliance Newsletter for details
17/2007	24 July 2007	virt-x membership for Berner Kantonalbank with effect from 27 July 2007
18/2007	24 July 2007	Change in name of Van der Moolen Equities Limited to Van der Moolen Derivatives Ltd
19/2007	30 July 2007	Change of price increments on Swiss Franc equities on virt-x with effect from 3 September 2007
20/2007	15 August 2007	virt-x membership for Citadel Derivatives Group (Europe) with effect from 20 August 2007
21/2007	20 August 2007	Switch of trading of SLI® securities from SWX Swiss Exchange to virt-x's UK Exchange Regulated Market Segment with effect from 24 September 2007: Actelion N Geberit N Kuehne & Nagel Int N Logitech N Petroplus N. Switch of trading from virt-x to SWX Swiss Exchange with effect from 24 September 2007: Swatch N and Swatch N 2nd Line
22/2007	20 August 2007	Rule changes for the admission of the constituents of the SLI® to trading on virt-x
23/2007	21 August 2007	Additional Member ID for Joh. Berenberg, Gossler & Co. KG
24/2007	22 August 2007	Additional Member ID for Hardcastle Trading AG
25/2007	23 August 2007	Changes to the Rules and Directives - please see the next section of this Compliance Newsletter for details

The contents of those Market Notices have been included in standing data.

All Market Notices are available at www.virt-x.com in the Regulation section.

Updates to Rules and Directives

The changes to the Rules since Compliance Newsletter 17 have been:

Market Notices	Rule / section	Summary of changes	Effective date
13/2007 and 16/2007	Definitions	Small updates	30 July 2007
	Rule 4.12 - Regulatory co-operation	To the extent permitted by law, each NCM authorises virt-x to give and receive relevant information about the member to a GCM with which the member has entered into a clearing services agreement which has not been cancelled	30 July 2007
15/2007 and 25/2007 MIFID changes	Definitions; Legal basis for all transactions on virt-x; Section 2: Trading – Rule 2.10; Section 3: Trade reporting - Rules 3.3 and 3.16	<p>Further to the changes in Market Notice 09/2007 dated 17 April 2007, the following changes were proposed:</p> <ol style="list-style-type: none"> 1. Transferring Pan-European (not Swiss) securities on virt-x's EURM to the UKERM Pan-European securities 2. Introducing criteria for admitting ETFs to trading on virt-x 3. Clarifying that virt-x does not have concentration provisions 4. Clarifying the market integrity rules in respect of orders 5. Clarifying that Trade Type Code "D" for special settlement is not required to be input when reporting transactions with a settlement due date which is not T+3. Use of "D" for such transactions should be considered where the volume of these trades is substantial or, more particularly, the size of any price adjustment is sufficient to mislead other market users. 5. Proposing the deletion of draft Practice Note 3.16 (1) in respect of reporting portfolio trades <p>virt-x's draft MiFID Rules and Directives can be found at www.virt-x.com in the Regulation section</p>	1 November 2007
22/2007	Legal basis for all transactions on virt-x	Changes for the admission of the constituents of the SLI® to trading on virt-x	24 September 2007

The changes to the Directives since Compliance Newsletter 17 have been:

Market Notices	Directives	Summary of changes	Effective date
13/2007 and 16/2007	9: Fees	Updating of the currency conversions for the Market Share Service in Section 10 (Billing Currencies and Equivalent Monetary Values)	30 July 2007
		Adding in Section 11 (Invoicing timetable) that any query in relation to fees paid or payable to virt-x must be made within 6 months of the relevant invoice date	30 July 2007
15/2007 and 25/2007 MIFID changes	4: Orders, off-order book trades and their attributes	<p>Adding a new Table Trade Type Codes in Section 5. As set out in that Table, please note that:</p> <ul style="list-style-type: none"> code "N" for negotiated transactions will be generated by the virt-x Trading System and not by member input for VWAP orders, the existing "VW" code will be optional on virt-x for portfolio trades, members may enter "PT" or "D" 	1 November 2007

The Rules and Directives are available at www.virt-x.com in the Regulation section.

Change of price increments on Swiss Franc equities

As set out in Market Notice 19/2007, the following parameters took effect after the closing auction on Friday 31 August 2007 in the virt-x production (live) environment:

Price Range	Increment	Impact
0.01 – 19.99	0.01	Amended
20.00 – 49.98	0.02	Amended
50.00 – 99.95	0.05	Amended
100.00 – 249.90	0.10	Unchanged
250.00 – 499.75	0.25	Unchanged
500.00 – 999.50	0.50	Unchanged
1000.00 – 4999.00	1.00	Unchanged
5000.00+	5.00	Unchanged

The changes reduce the minimum frictional cost of trading in Swiss securities within the price range of CHF 10.00 to CHF 49.98 to a level in line with the rest of the market.

MiFID

There have been a large number of articles in the recent industry press about the Markets in Financial Instruments Directive (MiFID) and its impacts on the industry, investment firms and venues. The following outlines some of the key highlights expected with the changes virt-x has made in response to its obligations under MiFID.

Pre-trade transparency - Negotiated trades waiver

There are several waivers that members could be entitled to and indeed that virt-x could apply as a regulated market under MiFID. One very important one, related to pre-trade transparency, is the negotiated trade waiver. Under Article 29(2) and 44(2) of MiFID, a Regulated Market or MTF has an obligation to provide pre-trade transparency. However, the competent authority may grant a waiver to pre-trade transparency where the Regulated Market or MTF operates a system that allows formalised negotiated transactions and those transactions are made at or within the current volume weighted average spread on the order book, or where there is no order book, within a percentage of a suitable reference price. virt-x has spent some time specifying new functionality for its market monitoring system to develop new reports ahead of 1 November to monitor those trades where there is an order book to check that they were executed at or within the volume weighted spread or, where there is no order book, that they were within a percentage of a reference price.

The calculation is performed only on the relevant side of the market but for all available sizes up to and including the size under consideration.

Post-trade transparency

Under Article 27 of MiFID any trades carried out, whether on exchange or OTC, have to be made public as close to real-time as possible but in any event within 3 minutes.

TTCs

The trade reporting requirements under MiFID have been modified and new trade reporting codes are now expected. As a result virt-x has changed its trade type codes for the post-trade reporting requirements under Article 27.

These should not be of significant concern and a table is set out overleaf.

Transaction type	Member input	Eligible for deferred publication?	Publication code(s)	Time of publication by virt-x	VWAS test applied?
Trade report without special conditions	None	Yes	DP + N	At end of delay period (or before the next market opening in the case of trades outside market hours)	Yes
		No	N	Immediate	Yes
Trade report (without special conditions) which is eligible for deferred publication but the member does not want deferred publication	IP	Yes but member has overridden the publication delay	N	Immediate	Yes
Trade report at a special price (other than portfolio trades and VWAPs)	D	Yes	DP + D	At end of delay period (or before the next market opening in the case of trades outside market hours)	No
		No	D	Immediate	No
Portfolio trade	PT or D (member's choice)	Yes (with each constituent treated separately)	DP + D	At end of delay period (or before the next market opening in the case of trades outside market hours)	No
		No	D	Immediate	No
VWAP trade	VW or D (member's choice)	Yes	DP + D	At end of delay period (or before the next market opening in the case of trades outside market hours)	No
		No	D	Immediate	
Amendment of trade report	A	As for the original transaction, with publication of A and either N or D as applicable			
Trade reversal	-	Yes for original transaction	-	No publication if the original transaction has not yet been published	No
			C	Immediate if the original transaction was published	No
		No for original transaction	C	Immediate	No

Transaction Reporting

virt-x took a decision some time ago, after consultation with its members that the most valued proposition would be to provide a reporting service for those transactions carried out on-exchange. Therefore we are retaining our position as a Permitted Reporting System and will be compliant under MiFID's Article 25 and Chapter III of the MiFID Regulation. Since our service will cover on-exchange transactions, we will not be an Approved Reporting Mechanism (ARM) but we will meet the requisite ARM technical and business standards. We have been heavily involved with the FSA's Transaction Reporting consultation process which included discussions on the date for migration. The FSA has gained agreement from CESR that the technical transition from non-MiFID to MiFID compliant transaction reporting will not now take place over the night of Wednesday 31 October but will be moved to the weekend of 3 and 4 November. This means that the first business day for reporting will be 5 November and those Transaction Reports from that day will be expected to be delivered to the FSA by the end of the following day, 6 November. Of course, virt-x will arrange for this transition to take place for those members who elect to use this service.

Rules and Directives

As mentioned earlier in this compliance Newsletter virt-x's draft MiFID Rules and Directives can be found at www.virt-x.com in the Regulation section.

Topics for Future Compliance Newsletters

We welcome topics for inclusion in future issues of the Compliance Newsletter.

Please contact us with suggestions. Thank you!

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