

virt-x *compliance*
The cross-border exchange



Newsletter from
virt-x Regulation and Compliance Department

15 December 2004
Issue 11

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

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MARKET NOTICES

Please note that the provisions of Market Notices Nos 588 to 690 inclusive have been included in the Rules, Directives or standing data, with the exception of the following:

Date	Market Notice(s)	Content		
26.08.04	610	Christmas and New Year arrangements:		
		<table border="1"><tr><td>Friday 24 December and Friday 31 December 2004</td><td>virt-x will be closed except for off-order book transactions. The Trade Reporting Service will be available until 13:30CET. Order maintenance will also be possible</td></tr><tr><td>Monday 27 December and Tuesday 28 December 2004, and Monday 3 January 2005</td><td>Normal business hours will apply</td></tr></table>	Friday 24 December and Friday 31 December 2004	virt-x will be closed except for off-order book transactions. The Trade Reporting Service will be available until 13:30CET. Order maintenance will also be possible
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17.09.04	623	Off-Order Book Service: additions to the list of Competent Authorities		
15.11.04	667	Value dates for trading during the Christmas and New Year period		

UPDATES TO RULES AND DIRECTIVES

virt-x has updated the following Rules and Directives:

Rule/ Directive	Effective Date	Market Notice(s)	Content
Directive 13	03.09.04	597	A member can request settlement discipline action in respect of a virt-x transaction from ISD+3, except in the case of a CREST residual security where action can be requested from ISD+20

Various	24.01.05 (EM6.4 launch date)	679 and 690	<p>Rule changes for trade reporting and new trade type code functionality:</p> <ul style="list-style-type: none"> - new trade advice transaction type for block trades and enlarged risk trades - changing the fields on trade confirmations in respect of the Delivery Instruction Service (DIS) - enhancing the Statement of Interest function to enable submission to a single member - extending the Addressed Offer functionality to support the sending of a quote to another member - adding a text field for communication between the parties to a Statement of Interest, Addressed Offer or Trade Confirmation. <p>The Market Notice also covers :</p> <ul style="list-style-type: none"> - rule changes in relation to portfolio trades - reporting of system problems
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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 website under the Regulation section.

REPORTING OF SYSTEM FAILURES

Members are reminded to notify virt-x immediately of any system failure that prevents the member from meeting its trade reporting obligations. (Rule 3.35 refers).

TRADE REPORTING

Following a period of consultation, the Swiss Federal Banking Commission ("SFBC") announced on 29 November 2004 that changes to the trade reporting requirements for Swiss Securities Dealers will take effect from 1 January 2005.

Details of the changes are available on the Commission's website in German and French:

http://www.ebk.ch/d/publik/rundsch/2004/rs_0403_d.pdf in German or
http://www.ebk.ch/f/publik/rundsch/2004/rs_0403_f.pdf in French.

Members' attention is particularly drawn to the SFBC requirement on page 7 (Ch 50) that VWAP transactions must be reported as client (agent) transactions. The trade capacity code of PR (Principal) should therefore not be used on trade reports to virt-x relating to VWAP transactions.

This treatment of VWAP transactions differs from the traditional UK practice of reporting VWAPs as principal transactions since they involve risk on the part of the member.

Our preference would clearly be for all members to report VWAPs on the same basis but we recognise that, following the SFBC's reporting policy, this may prove an issue for some members that are not regulated by the SFBC.

We envisage 2 possible ways forward:

- 1) to include provision in the virt-x rules that VWAP transactions must be reported as client (agent) transactions and not flagged as Nostro, unless virt-x gives specific prior approval for a member to report its VWAP business according to the traditional UK view, or
- 2) to include provision in the virt-x rules that members regulated by the SFBC must report VWAP transactions as client (agent) transactions and not flagged as Nostro, and that other members must report VWAPs as principal transactions flagged as Nostro.

We would like to hear which approach members would prefer. Please contact us at regulation@virt-x.com or on 44 (0) 20 7074 4545 by 29 December 2004 to let us know your preferred approach.

MARKET AND STOCK NOTICES

In October 2004, virt-x wrote to members about a proposal to notify stock changes by means of "Stock Notices" rather than by Market Notice.

Since the introduction of the Trade Reporting Service, there have been a significant number of changes to virt-x's stock list, in particular in respect of UK off-order book securities. Indeed, more than 80 % of virt-x's Market Notices during the period were related to such stock changes.

Twenty-nine members responded to the survey, of which 26 members were in favour of the proposed change. We will therefore be proceeding with the proposal, as follows:

- notification of changes to virt-x's list of securities will be moved to UK Stock Notices and Stock Notices
- UK Stock Notices will contain changes to the UK off-order book securities and will only be emailed to members on request

- Stock Notices will contain changes to other than UK off-order book securities and will be emailed to all members
- both UK Stock Notices and Stock Notices will be available publicly on the virt-x website.

These changes will take effect from 3 January 2005.

TOPICS FOR FUTURE COMPLIANCE NEWSLETTERS

We welcome topics for inclusion in future issues of the compliance newsletter. Please contact us with suggestions. Thank you!

We would like to take this opportunity to wish all our members a very Merry Christmas and a prosperous New Year!



Please address any comments/questions/suggestions to

regulation@virt-x.com

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