



05 July 2002

MARKET NOTICE NO – 348

CHANGES TO RULES AND DIRECTIVES

Following feedback from members, virt-x proposes a number of changes to the rules and directives as set out below. New wording is shown underlined and deletions are struck through.

Registration of Personnel

Additional rule for the registration of relevant personnel with virt-x.

1.5 A **member** shall register its relevant **personnel** with **virt-x**.

Practice note 1.5:

1. *The following are the categories of relevant **personnel**: **designated officer**; **trader**; compliance; clearing; and settlement. A **designated officer** may also be registered as a **trader**. A person may be registered for both clearing and settlement but a person in one or both of these categories may not also be a **trader**. A person who is registered as a **trader** may not also be registered for compliance.*
2. *A **trader** must receive training where applicable from virt-x and must satisfy virt-x as to his/her competence to trade.*

Reversal of Transactions

Rule 2.15 refers to the timings related to reversals of transactions on virt-x. A new deadline for the reversal of transactions has been added to the practice note.

2.15 If, after contacting the parties concerned and taking into account the relevant circumstances, **virt-x** decides that a **transaction** must be reversed, a **member** shall take all such actions as may be necessary to ensure that the **transaction** is reversed.

Practice note 2.15:

1. *This **rule** might apply where a **transaction** has been dealt at a wholly unrepresentative **price** as a result of a genuine error and the counterparty*

refuses to reverse the **transaction**. In taking into account the circumstances of the **transaction**, **virt-x** would also consider the effect on any subsequent **transactions** in the **security**.

2. Trade reversals are carried out through the **system**.
3. Requests by members for **virt-x** to invoke **Rule 2.15** must be made no later than 10 minutes after the **transaction** has taken place.
4. From the outset of a request made under point 3 above, **virt-x** will have a further 10 minutes to declare that the specific transaction is under investigation and will decide whether to reverse the transaction by no later than the end of the business day on which the request was made.
5. **virt-x** expects a **member** to take actions required under **Rule 2.15** so that a **transaction** is reversed within 1 hour of notification by **virt-x**.

Riskless Principal Transactions

Rule 3.20 has been changed to allow members to submit both legs of a riskless principal transaction, if they wish to do so.

- 3.20 A **member** ~~shall not~~ is not required to submit a trade report for a **transaction** where that **transaction** is one part of a **riskless principal transaction**, where the other part has already been reported to **virt-x**.

virt-x Stabilisation Rules

Rule 7.1(b) has been reworded for clarity.

- 7.1 A **member** who wishes to conduct price stabilisation activities on **virt-x** pursuant to the FSA Stabilising Rules set out in Chapter 2 of the FSA Market Conduct Sourcebook, acting as or on behalf of a stabilising manager, is required to disclose information related to its intended price stabilisation activities as follows:
- a) to inform **virt-x** at or before the later of
 - (i) one **market day** before the commencement of stabilisation period, and
 - (ii) the time of the first public announcement of the offer with respect to which stabilisation actions may be effected.
 - b) to inform the public one **market day** before the commencement of stabilisation period through designated media. If the decision to engage in stabilisation activity is made less than one **market day** prior to its commencement, the public should be informed as early as possible. ~~to~~ inform the market through a public announcement at or before the later of

- (i) ~~one market day before the commencement of stabilisation period, and~~
- (ii) ~~the time of the first public announcement of the offer with respect to which stabilisation actions may be effected.~~

Directive 9: Fees

The Minimum Activity Charge for the Swiss Equity Tariff has been corrected as follows:

2.2.2 Tariff

The Swiss equity tariff is as follows:

On and Off Order Book Transactions	
Description	Fee
Agency trade	1 basis point (0.01%)
Principal trade*	0.3 basis points (0.003%)
Minimum activity charge	EUR 65,000 per month <u>annum</u>
Rebate of up to 30% related to turnover in Agency trades per member.	

*The fee for amounts between the turnovers indicated is calculated using linear interpolation (applicable for principal fee calculation only).

Directive 15: Order Routing

Directive 15 has been amended to apply to Order Routing, Quote Engines and other Automated Systems.

1. Order Routing, Quote Engines and other Automated Systems

This directive covers order routing, which is the receipt and transmission to the virt-x order book of third party orders by a member via electronic means without manual intervention. In addition, the directive covers quote engines, where quotes are automatically entered to virt-x and other automated systems such as trading programs.

This directive does not cover the situation of a member entering orders on behalf of non-member clients where the member manually inputs the orders to virt-x.

1.1 Responsibility

Members are required under the rules to:

- maintain at all times adequate control and security over orders entered into the system and
- be responsible for the genuineness and accuracy of orders directed to virt-x in the name of, or by, the member.

Accordingly, a member which routes orders to virt-x must have sufficient order management systems, procedures and controls to prevent errors in the entry of orders to the order book.

Members may apply for a Trader ID specifically for the purposes of using these systems. virt-x would require information regarding the controls in place together with a list of contacts for orders entered via such systems.

1.3 Compliance Visits

To the extent permitted by law, virt-x may, as part of its compliance visit programme, inspect a member's systems, procedures and controls with regard to order routing, quote engines and other automated systems.

Members are invited to comment on these changes to rules and directives by contacting Emma Vick at emma.vick@virt-x.com or on +44 (0) 20 7074 4412 before 19 July 2002.

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