

Guidance Note: Cancellation of Transactions by SIM VSE

References: Chapters 6, CMAEC Business Rules

Introduction

This guidance note has been issued to assist Exchange brokers and other market participants understand when and how the Exchange will exercise its discretion to cancel a transaction under the CMAEC Business Rules.

Regulatory Objectives

The Exchange has limited powers under the CMAEC Business Rules to cancel a transaction in certain circumstances.

The purpose of the relevant Rules is to enable the Exchange to cancel a transaction in certain circumstances where a person or organization may otherwise be adversely and unfairly affected.

Exchange Discretion to Cancel a Transaction

There are two circumstances in which the Exchange has the power to cancel a transaction under the CMAEC Business Rules.

First, under CMAEC Business Rule 6.34, where the Exchange becomes aware of any error in the entry of a bid or offer, a transaction is effected in relation to the bid or offer and the Exchange believes it is appropriate in the circumstances, the Exchange may cancel the transaction.

Secondly, under CMAEC Business Rule 6.35, the Exchange may cancel a transaction if both Exchange brokers to the transaction agree to its cancellation.

If the Exchange does cancel a transaction it will notify the Exchange brokers to the transaction as soon as possible after doing so.

Factors Affecting Exercise of Discretion by the Exchange

The Exchange will not exercise its discretion to cancel a transaction lightly. The Exchange will always carefully consider the possible impact of cancelling a transaction on other

market participants as well as the parties directly involved.

In particular, the Exchange will take account of the following factors:

- the price at which the proposed cancelled transaction took place compared with other recent transactions in the market place in the same securities;
- the effect that cancelling the transaction is likely to have on other orders, or potential orders, on the market;
- how quickly the transaction can be cancelled; and
- general market conditions.

Examples

Administration Error by Exchange Market Operator (CMAEC Business Rule 6.34)

During the first stage of the market, the Exchange brokers convey orders to the market operator by phone, fax or email.

If the Exchange forms the view that the market operator has entered an order incorrectly into the Exchange trading system and no parties directly involved or indirectly affected by a transaction flowing from the order are likely to be adversely and unfairly affected, the Exchange will cancel the transaction.

In forming a view, the Exchange will take account of the factors described above.

CMAEC Business Rule 6.34 is not intended to cover an error made by an Exchange broker in submitting an order to the market operator. A transaction resulting from an error of this nature needs to be dealt with, if at all, under CMAEC Rule 6.35 (see below).

Agreement of the Exchange brokers to Cancel a Transaction (CMAEC Business Rule 6.35)

Where two Exchange brokers to a transaction have agreed between themselves to cancel the transaction they must request the Exchange to consent to the cancellation before it will be effective.

The Exchange will not consent to the cancellation of the transaction unless it is satisfied, having regard to the factors described above, that no parties directly involved or indirectly affected by the transaction are likely to be adversely and unfairly affected. The Exchange will also need to be satisfied that the ultimate parties to the transaction have agreed to it being cancelled.

Scope of Guidance Note

This guidance note is intended to assist Exchange brokers to comply with obligations under the CMAEC Business Rules. It is not exhaustive, does not in any way act as a substitute for any CMAEC Business Rules and is not binding on the Exchange in its application of the Rules in any particular case.

This guidance note does not constitute legal advice by the Exchange. Where appropriate, Exchange brokers should obtain their own professional advice about compliance with their obligations under the CMAEC Business Rules.