

Financial terms - glossary in Hull's book

1. Difference between stock and shares
2. Dividend
3. Spot price
4. Arbitrage
5. Derivative
6. Dynamic hedging
7. Naked position
8. Out-of-the-money option
9. Numeraire
10. Market Maker
11. Market order
12. Limit order
13. Iceberg order *
14. Short position
15. Employee stock option
16. Liquidity risk
17. Treasury Bond
18. Coupon



London
Stock Exchange

MIT201 · MILLENNIUM EXCHANGE

Guide to the Trading System

Issue 9.0 effective 30 April 2012

1. Orders and Quotes

It should be noted that the Order Types are not *explicitly* stated on FIX and Native messages, but are defined via a combination of tags. Please see the interface specifications for further information.

1.1. Order & Quote types

Table below summarises the orders and quote types supported by Millennium Exchange. More information on those that are actually available on each trading Service are set out on the ***Millennium Exchange Business Parameters Document.***

Table 3: Order & Quote types supported

Order Type	Description
Limit Order	A Limit Order is an anonymous priced order that is fully displayed when persistent in an order book and may execute at prices equal to or better than its limit price. Limit Orders never have price priority over market orders
Market Order	A Market Order is un-priced, and therefore not price forming, but has price priority over all priced orders. Market Orders cannot persist on the order book during continuous trading but can during an auction. Any that remain unexecuted following the completion of the auction will be automatically deleted.
Stop Limit Orders	A Stop Limit Order is a Limit Order that will remain unelected (will not be entered into order book) until the stop price is reached. Once elected, a Stop Limit Order will be treated as a regular Limit Order.
Stop Orders	A Stop Order is a Market Order that will remain unelected (will not be entered into order book) until the stop price is reached. Once elected, it will be treated similar to a regular Market Order.
Iceberg Orders	An Iceberg Order publicly displays only a portion of its total volume that is available for execution. The maximum displayed amount, known as the peak size, and the total size of the order can be specified by the participant and must be above specified minimums.
Hidden Limit Orders	Non-displayed limit order that on entry must exceed in size the relevant MIN RESERVE ORDER VALUE trading parameter. Minimum Execution Size is not currently supported on Millennium Exchange

Order Type	Description
Mid Price Pegged Orders	Non-displayed order which must exceed in size the relevant MIN RESERVE ORDER VALUE trading parameter on entry. Its limit updates to the mid of the security's visible best bid/offer
Named Orders	A Named Order is a non-anonymous limit order available to all participants on SETSqx.
Executable Quotes	Only for use by participants that are registered in individual instruments on SETS, IOB, Securitised Derivatives or Order Book for Retail Bonds as a market maker. Fully visible, electronically executable, named, dual sided quotes that must meet prescribed size and spread requirements on entry.
Firm Quotes ¹	Only for use by participants that are registered in individual SETSqx or SEAQ securities as a market maker. Fully visible, non-electronically executable, named, dual sided quotes that must meet a prescribed entry size.

¹ Only available via the FIX Interface

1.2. Iceberg Orders

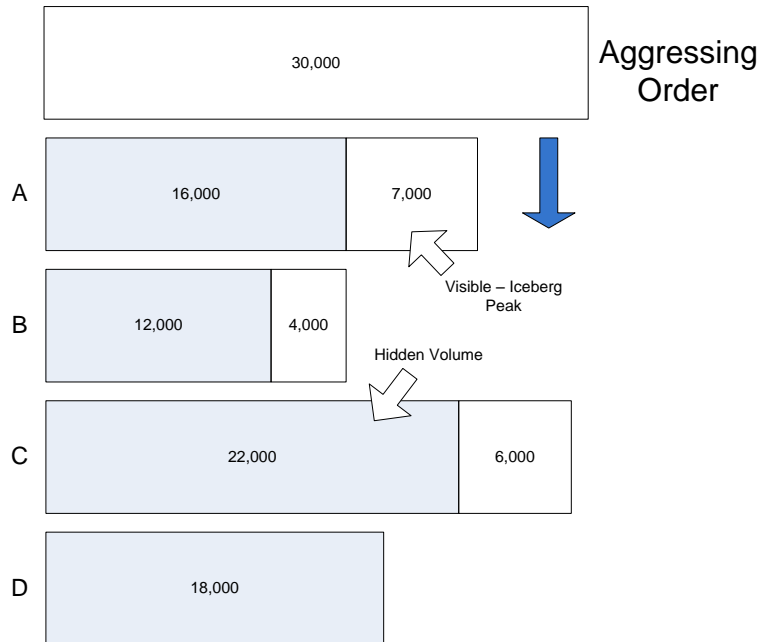
Conceptually the display (peak) quantity of iceberg orders is refreshed in full once it has been fully executed the peak is refreshed in size back to the display quantity.

It is however worth noting how the following scenarios will be handled on Millennium Exchange:

- If the incoming order is sufficiently large then each peak at the same price point will be executed against in time priority. However, once peak volume of all iceberg orders at a price level has been fully executed then any remaining incoming volume is allocated to the hidden volume of each iceberg order pro-rated on the remaining size of each iceberg order.
- Any remaining incoming volume is then allocated to any fully hidden orders before moving to the next price level. The total volume (hidden and visible) of an iceberg order always has a higher priority than fully hidden orders at the same price level.
- If the total volume of an iceberg order is partially filled then participants will receive two executions – one for the visible, and one for the hidden volume. However, if the total volume of the iceberg is fully executed against then participants will receive a single execution report that combines both visible and hidden volumes.

This approach applies to both Continuous Trading and Auction executions and is illustrated conceptually below. Order sizes are for illustrative reasons only and do not reflect any actual configuration or market model.

Figure 5 – Iceberg Order Execution



3 Iceberg Orders (Orders A, B, C)
 1 Hidden Order (Order D)
 ALL Orders are at the same Price Point

Incoming Order, Size 30,000 aggresses against this Price Point

All Iceberg Order Peaks execute:
 Order A: 7,000
 Order B: 4,000
 Order C: 6,000

Total Hidden Iceberg Order Volume = 50,000

Remaining aggressing volume = 13,000 which is allocated to the hidden Iceberg Order Volume as follows.

Order A: $16/50 \times 13,000 = 4160$
 Order B: $12/50 \times 13,000 = 3120$
 Order C: $22/50 \times 13,000 = 5720$

No aggressive volume remains, so Hidden Order D is not executed against. Would only execute if incoming Order > 67,000

1.2.1. Modification of an Iceberg Order

When modifying an Iceberg order a participant must submit both a value for Order quantity and Disclosed quantity. If the latter is set to a quantity greater than the actual visible peak of that order on receipt by the trading system, the order will lose time priority.