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Trading System Update – Trailing Stop Market (TSM) Order

All brokers are hereby informed that Exchange has introduced **Trailing Stop Market** as a new order type in PMEX trading system.

What are Trailing Orders?

Trailing Order is a type of stop order where the trigger (or stop) level gets amended automatically according to the parameters set by the trader. Trailing stops are designed as an alternative to frequent manual amending of stop orders. Trailing orders make the stop level improve as the market price moves in a favorable direction. In other words, a trailing order follows or trails the market. Trailing orders can be used instead of changing the stop order price each time the market moves in a certain direction. PMEX currently offers only one type of trailing order: **Trailing Stop Market (TSM).**

Definition TSM Order

TSM order adjusts its trigger price only when market moves in favorable directions. Trailing Stop requires two input parameters to work:

1. Trailing Step
2. Distance from the Market

Trigger Price

Trigger Price is determined by the distance from the market parameter based on market prices at time of order entry or amendment. Thereafter, the trigger price will be adjusted every time the market moves in favorable direction by the amount specified as Trailing Step.

This is the price at which a stop order will be triggered. This price will continue to change in a TSM order type. If a TSM Sell order is entered and the market moves up, the Trigger Price will also move up in steps defined at the order entry.

Trailing Step

This is the minimum amount of favorable market move that is required before the trigger level TSM gets trailed.

Minimum trailing step size is the tick size of the contract.

1

Distance

Distance is the minimum difference between Trigger Price and Market Price, before the trigger price can be amended.

Trigger Price will not change if market is moving in unfavorable direction.

TSM Buy/Sell – General Functionality

> **Sell – TSM:** The Sell Stop order moves up when the market moves up. If the market (Market Maker Bid Price or Trade) goes **downwards** to trigger price, a sell market order will be sent to market.

> **Buy- TSM:** The Buy Stop order moves down when market moves down. Once the market (Market Maker Offer or Trade) goes **upwards** to trigger price, a buy order will be sent to market.

Trading Rules - TSM Orders

The following modifications have been made in order matching rules for trailing stop loss market orders:

- **Buy/Sell** TSM order(s) shall only be triggered on the basis of market maker's **Offer/Bid Price or Trade while the Market Maker is present in the market**. Once triggering condition is met, the order shall be matched starting with the best offer/bid price/quantity in the order book. The order will continue to match until volume is exhausted on either side of the market. Any unfilled balance quantity from the TSM will be expired and will not be re-queued. If market maker quote is not present, TSM will not be triggered, even if there is a trade.

- All TSM orders shall be validated in pre-trade verification process.

- ALL TSM orders can be assigned time in force attributes as Day or GTC;

- At the start of trading session, All TSM orders marked as GTC shall be queued with reference to the latest daily settlement price of respective contract. Trigger price of these orders shall be computed by adjusting distance from the settlement price.

TSM orders have similar risks as normal stop orders due to their reliance on trigger processing, market data and other internal and external factors. During period of market volatility the TSM orders may trigger and execute at a price significantly different than current stop price. Exchange is not responsible for losses and damages related thereto and may cancel these orders / trades under certain circumstances.

Use of TSM orders indicates that trader have understood and accepted the risks associated with these orders and the PMEX Electronic Trading System in general.

In case the exchange finds any issues in the new system, the system will be reverted back to the previous version of the system. Following procedure will be followed in that case:

- Market will be stopped for about 120 minutes and then started again.

- All working orders may be cancelled by the Exchange.

- All trades will remain in the system until the time of reversion.

As mentioned in our Regulations, Exchange reserves the right to cancel trades executed due to any system errors and/or issues.

Brokers are requested to inform Exchange if any malfunctioning or other issues arise during live trading. Please take snapshot of the said error and send to support@pmex.com.pk for its resolution.

For and on behalf of
Pakistan Mercantile Exchange Limited - PMEX

Shehzad Hussain Makhani
Head of Operations

Example 1: Order Type TSM - Buy

Assume that you have a short position of 600 lots in GO1oz.
You then placed a TSM buy of 600 lots with the following parameters:

- Distance $10
- Trailing Step   0.1$

Consider the following market at the time of placement of this order:

	Vol	Bid	Offer	Vol	
MM Order	500	1600	1600.30	500	MM Order
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

MM means Market Maker

At this time, your order is queued in the system at trigger price of 1610.30 (1610 is derived from current 1600.30 – **distance** which is 10) and is waiting to be moved or triggered.

Now let's assume that market moves down by $1. New market will look like this:

	Vol	Bid	Offer	Vol	
MM Order	500	1599	1599.30	500	MM Order
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

And since the market has **moved down**, your TSM order will now be modified to the following settings:

- Previous Trigger Price was: 1610.30
- New Trigger Price is 1609.30 because the market (MM offer price) has moved down by $1.

The Step was only 0.1 and the market movement was more than that, hence the move was allowed by the system.

Let's assume that the price (market maker's offer price) **moves up** by $10. Now the market snapshot before triggering and matching 600 lots will be as under:

	Vol	Bid	Offer	Vol	
MM Order	500	1599	1605	10	
	10	1595	1608	15	
	40	1593	1609.30	500	MM Order
	5	1585	1620	10	

TSM Buy order of 600 lots will be triggered and will be matched with **best offer price** in following manner:
- 10 lots @ 1605
- 15 lots @ 1608
- 500 lots @1609.30
- 10 lots @ 1620
- 65 lots will be expired because there is no more volume available to be matched.

Example 2: Order Type - TSM Sell

Assume that you have a long position of 600 lots in GO1oz contract.
You then placed a TSM Sell of 600 lots with the following parameters:

- Distance $10
- Trailing Step $0.1

Consider the following market at the time of placement of this order:

	Vol	Bid	Offer	Vol	
MM Order	500	1600	1600.30	500	MM Orders
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

MM means Market Maker

At this time, your order is queued in the system at trigger price of 1590 (1590 is derived from current 1600 – **distance** which is 10) and is waiting to be moved or triggered.

Now let's assume that market **moves up** by $1. New market will look like this:

	Vol	Bid	Offer	Vol	
MM Order	500	1601	1601.30	500	MM Orders
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

And since the market has **moved up**, your TSM order will now be modified to the following settings:

- Previous Trigger Price was: 1590
- New Trigger Price is 1591 because the market (MM Bid price) has **moved up** by $1.

The Step was only 0.1 and the market movement was more than that, hence the move was allowed by the system.

Let's assume that the price (market maker's bid price) **moves down** by $10. Now the market snapshot before triggering and matching 600 lots will be as under;

	Vol	Bid	Offer	Vol	
	10	1595	1601.30	500	MM Orders
	40	1593	1605	5	
MM Order	500	1591	1608	2	
	5	1585	1620	3	

TSM order of 600 lots will be triggered and will be matched with **best bid price** in following manner;

- 10 lots @ 1595
- 40 lots @ 1593
- 500 lots @1591
- 5 lots @1585
- 45 lots will be expired because there is no more volume available to be matched.

Example 3: How trigger price moves?

Assume that you have a short position of 600 lots in GO1oz.
You then placed a *TSM buy* of 600 lots with the following parameters:

- Distance $ 10.0
- Trailing Step $ 2.0

Consider the following market at the time of placement of this order:

	Vol	Bid	Offer	Vol	
MM Order	500	1600	1600.30	500	MM Order
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

At this time, your order is queued in the system at trigger price of 1610.30 (1610 is derived from current 1600.30 – **distance** which is $10) and is waiting to be moved or triggered.

MM means Market Maker

Now let's assume that market moves down by $1. New market will look like this:

	Vol	Bid	Offer	Vol	
MM Order	500	1599	1599.30	500	MM Order
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

Market movement is less than current trailing step ($ 2) therefore trigger price will not be changed.

If market moves down by $3, your TSM order will now be modified to the following settings:

	Vol	Bid	Offer	Vol	
MM Order	500	1596	1596.30	500	MM Order
	10	1595	1605	5	
	40	1593	1608	2	
	5	1585	1620	3	

- Previous Trigger Price was: 1610.30
- New Trigger Price is 1606.30 by adjusting $4 move to maintain the distance value ($10) in favorable market direction,