

BSX Crossings

BSX Overview

The BSX is a leading offshore stock exchange and specializes in listing securities for institutional investors. The exchange has been trading since 1971 and lists more than 300 securities – including equities, fixed income, and offshore mutual funds.

The BSX is a fully electronic exchange, with trading volume that exceeds \$7 billion a month and growing rapidly. Market capitalization for BSX-listed companies (excluding mutual funds) now exceeds US\$125 billion.

The BSX adheres to international regulatory standards and is a full member of the FIBV (the International Federation of Stock Exchanges) and an affiliate member of IOSCO.

The BSX was recognized by the SEC as a Designated Offshore Securities Market (DOSM) in October 1996 within the meaning of Rule 902(a) of Regulation S of the Securities Act of 1933.

Crossings under NYSE Rule 390

NYSE Rule 390 (the NYSE's "Market Responsibility Rule") generally prohibits NYSE member firms and affiliated persons from trading in NYSE-listed stocks off the exchange, subject to several exceptions. NYSE Rule 390.10 states that a member, member organization or affiliated person may trade as principal or agent (1) in any NYSE-listed stock on any organized exchange in any foreign country at any time; and (2) in any NYSE-listed stock in a foreign country's over-the-counter markets outside of NYSE trading hours. The NYSE considers the BSX to be an organized exchange in a foreign country for the purposes of NYSE Rule 390.10. Rule 390.10 thus enables a member to trade **all** NYSE-listed stocks, including non-Rule 19c-3 securities, on the BSX **at any time**.

Crossings on the BSX

Traditionally, these off exchange trades have been executed on the exchanges in London, Toronto and Tokyo. Crosses may also be made on the NYSE itself between 4:00 p.m. and 5:15 p.m. (EST) after which an overseas exchange must be used.

Some of these trades are for a single security, but more often they comprise a **"basket"** of securities -- for example all of the S&P 500 constituent stocks -- which are traded simultaneously between one buyer and one seller.

At the moment all such cross trades are reported by the US institution to the NYSE on a Daily Program Trade Report (DPTR) as well as to the AMEX, on a weekly basis. There is no Rule 390 equivalent for NASDAQ.

There is no requirement that the offshore exchange is formally "approved" by the NYSE in any way for the purposes of Rule 390.10. The NYSE does not restrict the price at which such crosses are executed and this is freely negotiated between the two parties.

Advantages

Bermuda's time zone gives us a natural advantage for crossings, as the BSX opens 1.5 hours ahead of New York and remains open after the NYSE closes.

Crossing Expertise

The BSX commenced crossings in 1996 and trades approximately \$7 billion per month and growing. As a result, the BSX has fully automated systems, knowledgeable staff, and a service orientation.

Fully Automated

Due to the high volume of crossing activity, the BSX has implemented a crossing module to the exchange's BEST trading system to seamlessly integrate with members' proprietary systems.

Transparency/Visibility

The BSX posts summary information on crossings on Bloomberg at BSX <GO>, on Reuters at THEBSX, and on the Internet at www.bsx.com.

Trade Reporting

Many exchanges do not provide reporting capabilities for crossings. The BSX's BEST system allows customers to query their trade report database on all cross trades, print custom reports for clients, as well as maintain a full audit trail.

Low Cost

With our high degree of automation, the BSX is able to offer lower fees than competing exchanges. For large volume crossing users, use of the BSX can provide significant cost savings.

Flexibility for Size

The BSX provides several options to access the Bermuda Crossing facility, depending on the technology requirements of the client as well as the trading volume.

BSX Crossing Rules

Access

Only BSX trading members may access the crossing facility. US firms who wish to execute Bermuda crossings may take one of two routes:

- Join the BSX as a trading member.
- Establish a “correspondent broker” relationship with an existing BSX trading member who can print the trades on your behalf for a sharing of commission or fee arrangement. The BSX will be happy to provide introductions to members who provide this service.

Systems

The BSX is fully-electronic: Our BEST trading system is based on the *Horizon* software (developed by EFA Software and used by more than 20 exchanges worldwide). BEST runs on the stable IBM AS400 and IBM RS6000 computers (UNIX), with a fully mirrored backup facility. BEST is capable of handling large trading volumes securely. In 1998, the BSX implemented a customized crossing module developed by EFA Software, a specialist in developing trading systems.

Trading

Crossings of international securities may be made on the BSX at any time that the exchange is open. Members notify the BSX of crossing activity in two ways:

- **Small Volume:** the member can submit a Crossing Report Form with supporting documentation, which is time-stamped and reported back to the member after execution.
- **Large Volumes:** we automate the process using our BEST electronic trading system to allow the member to automatically upload their orders or crossing list for execution at an appointed time, with automatic reporting after execution.

Settlements

The settlement procedures for international securities traded on the BSX in a crossing will follow the primary market.

Crossing Fees

The BSX's crossing fees are significantly lower than competing jurisdictions. The BSX charges \$0.50 per crossing trade with a minimum of \$5 and a maximum of \$50 for a basket of stocks (a basket may consist of any number of trades between the same two parties and which constitute one transaction).

For the avoidance of doubt, the fee is a single charge per crossing and is not payable by both sides of the crossing. If the crossing includes international securities that are listed on the BSX, the crossing fee applies instead of the BSX's usual trading levy for BSX-listed stocks.

Joining the BSX

International firms with large Rule 390 crossing volumes are encouraged to join the BSX as a trading member.

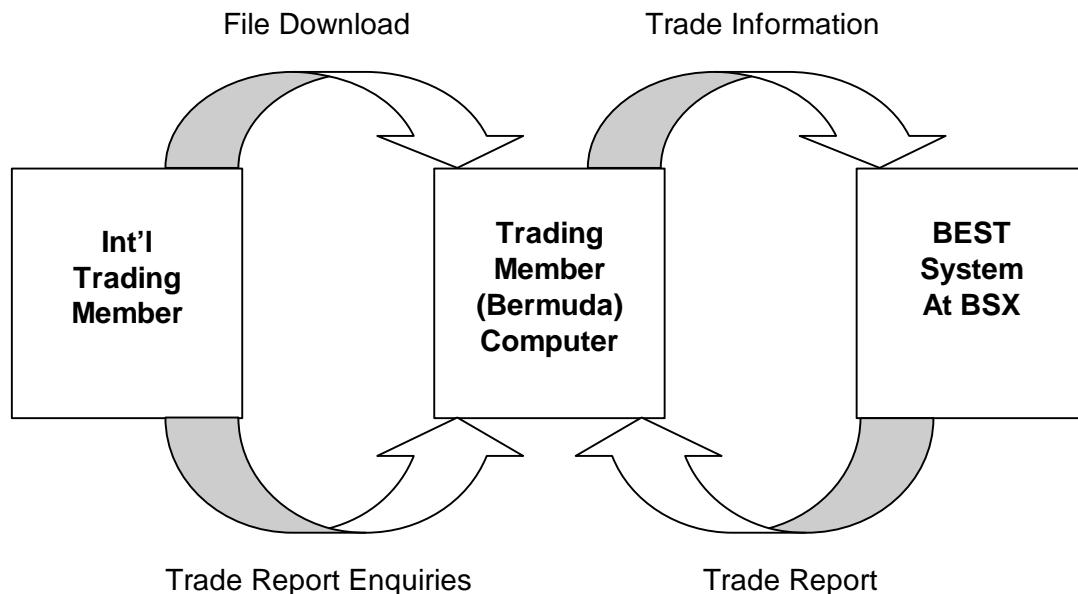
Membership requirements depend on the crossing structure. *Broker* members may print client-to-client crossings. However, members that stand in the middle of the crossing must join as *broker/dealers*.

<u>Category</u>	<u>Joining Fee</u>	<u>Annual Fee</u>	<u>Minimum Net Capital</u>
Broker	\$20,000	\$5,000	\$25,000
Broker/dealer	\$30,000	\$5,000	\$100,000

Members must be a Bermuda incorporated, limited liability company and meet the exchange's net capital requirements.

International members who wish merely to use the crossing facility do not need a physical presence in Bermuda. Rather, the BSX can assist in setting up a dedicated computer server on the island to act as the intermediary between the trading member's onshore operations and the BSX's offshore systems. This server contains a database of the member's crossing activity that can be used to generate custom reports.

Common Crossing Implementation



BSX Members

Trading Members

BSX trading members may trade on the local market, as well use the crossing facility. Trading members may also sponsor applications to list on the BSX.

- Barrington Investments Ltd.
- BCB Securities Ltd.
- Bermuda International Securities Ltd.
- Brooke Securities (Bermuda) Limited
- Butterfield Securities Ltd.
- First Bermuda Securities Ltd.
- FITX Capital Ltd.
- Forum Securities Services
- G*Trade Securities Ltd.
- Gibbons Brokerage Services Ltd.
- Instinet (Bermuda) Ltd.
- Lines Overseas Management Ltd.
- Matheson Investment Management (Bermuda) Ltd.
- MRM Securities Ltd.
- Nomura Securities (Bermuda) Ltd.
- Trafalgar Securities Ltd.
- Voyager Financial Services Ltd.

Listing Sponsors

A listing sponsor can sponsor applications to list on the BSX, but does not have trading privileges.

- Continental Sponsors Ltd.
- Harbour Financial Services Ltd.
- Quorum Sponsors Ltd.
- Reid Services Ltd.