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**THE SFE NEW ZEALAND BROAD WOOL FUTURES CONTRACT**

Subject to regulatory approval, the SFE will be listing a New Zealand Broad Wool Futures Contract on Tuesday 29 June 2004. To assist SFE Participants with their preparations the following information is presented in the Attachments to this Bulletin:

- a summary of the contract specifications and data vendor codes (Attachment 1);
- Exchange Fee, Initial Margins and information relating to the prescription of Pre-negotiation Rules (Attachment 2); and,
- a description of the SFE New Zealand 36 to 40 micron Wool Indicator (Attachment 3).

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A handwritten signature in black ink, appearing to read 'Peter Hiom', written in a cursive style.

**PETER HIOM**  
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## ATTACHMENT 1

### CONTRACT SPECIFICATIONS AND DATA VENDOR CODES

#### New Zealand Broad Wool Futures Contracts

|                         |   |
|-------------------------|---|
| Contract Unit:          | 2,500 kg clean weight of NZ Broad Wool (first and second shear wool in the 36 to 40 micron range).  |
| Contract Months:        | February/ April/ June/ August/ October/ December up to 18 calendar months ahead   |
| Commodity Code          | NW  |
| Minimum Price Movement: | Prices are quoted in cents per kilogram clean weight. (The minimum fluctuation of 1 cent per kilogram is equal to NZ\$25.00 per contract).  |
| Last Trading Day:       | The last day of trading shall be the 3 <sup>rd</sup> Friday of the contract month, or if that day is not a Business Day the Business Day immediately following that day.  |
| Settlement Day:         | The cash settlement day of the contract will be the first business day after the last trading day.  |
| Trading Hours:          | 3.00pm – 4.00pm NZ time   |
| Cash Settlement Price:  | The Settlement Price shall be the SFE New Zealand 36 to 40 Micron Wool Indicator published by Tectra Limited. All bought and sold contracts in existence at the close of trading will be settled by SFE Clearing at the Settlement Price. The SFE New Zealand 36 to 40 micron wool indicator will be announced to the market no later than 4pm NZT on the Last Trading Day. |

#### Data Vendor Codes

| LISTING PLATFORM         | NZ PLATFORM |
|--------------------------|-------------|
| Bloomberg                | NZA <comdy> |
| Bourse Data              | NW          |
| Derivatives.com.au       | NWMMYY      |
| FT Interactive Data      | NWmy        |
| FutureSource             | NNW         |
| IRESS                    | NWmy        |
| Moneyline Telerate Codes | AU@NW+      |
| Reuters 2000             | 0#NNW:      |
| Comstock - Aspen         | 1mNWmy      |
| Comstock - Internet      | 1mNWmy      |
| Telekurs                 | 3,NWym,359  |
| Thomson Financial        | NW          |

## ATTACHMENT 2

### EXCHANGE FEES, INITIAL MARGINS AND PRE-NEGOTIATION RULES

#### Exchange Fees and Initial Margins (excluding GST)

|                           |                               |
|---------------------------|-------------------------------|
| Exchange Fee              | NZD \$12.50 per contract side |
| EFP Registration Fee      | NZD \$12.50 per contract side |
| Initial Margin            | NZD \$360.00                  |
| Inter-month Spread Charge | NZD \$150.00                  |

#### Pre-Negotiated Business Orders Rules

The Pre-Negotiated Business Orders Rules provide Participants with the opportunity to facilitate client business in order to obtain the best price for that business at that time. These rules permit Participants (subject to client consent) to withhold orders and disclose order specific information to prospective counterparties and aggregate orders for entry into the Trading Platform, subject to first issuing a Request for Quote (RFQ) and waiting for a prescribed time period.

The requirement to send a RFQ and wait a prescribed time period before entering opposing orders into the Trading Platform is designed to enable other market participants to lodge their best bids and offers and, subject to their orders being competitive, participate in trades that have been pre-negotiated.

The premise behind the Pre-Negotiated Business Orders Rule is to give incentive to the originating Broker to obtain counterparties to a trade in an illiquid contract, whilst not excluding other market participants from the ultimate trade and to ensure that the best possible price is achieved for counterparties.

Subject to regulatory and SFE approvals the existing determinations for SFE wool futures and option contracts will be prescribed for the NZ Broad Wool Futures contract with minimum time periods and volume thresholds as follows:

| COMMODITIES                              | ALL SFE WOOL<br>FUTURES<br>CONTRACTS |
|--|--------------------------------------|
| <b>PRESCRIBED TIME PERIOD:</b>           |                                      |
| All Futures and Custom Market Strategies | 2 minutes                            |
| Minimum Volume Threshold                 | 1                                    |

## **ATTACHMENT 3**

### **DESCRIPTION OF THE SFE NEW ZEALAND 36 TO 40 MICRON WOOL INDICATOR**

The SFE New Zealand 36 to 40 Micron Wool Indicator is a subset of Tectra's crossbred indicators and has been specifically designed for SFE's New Zealand Broad Wool Futures contract to provide a measure of wool prices which is directly comparable from one sale to another regardless of the types of wool offered at those sales.

#### **About Tectra**

Tectra is a wholly owned subsidiary of Wool Equities, a company owned by New Zealand sheep farmers. Tectra or its parent/predecessors have been producing wool price indicators each week since 1987. These indicators cover NZ wool auctions. There is an indicator for each of Fine, Medium, Crossbred, and Lambs wool. An overall Market Indicator covering all wool at NZ auctions has been in existence since 1976.

#### **Background**

The SFE New Zealand 36 to 40 Micron Wool Indicator is very similar to the Strong Segment Indicator (SSI) which has been in use since 1987. The methodology used in its calculation is basically the same as for the SSI. There are two differences:

- 1) the range of wool covered by the SFE New Zealand 36 to 40 Micron Wool Indicator is restricted to 36 to 40 microns (instead of 32 to 41 for the SSI); and,
- 2) the set of weights used is constant; which makes it possible to compare indicator values across seasons.

#### **Method**

The Types comprising the 36 to 40 micron range of the clip are divided into eight Groups based on category, and length. There are around 150 Types defined in the process. These are defined in terms of diameter, category, style, and processing length. Definitions for Groups and for some Types are provided in this document.

The price averaging process is done in three steps. First, the selling prices of all lots of the same Type are averaged to produce Type prices for the sale. Second, the prices of all Types within each Group are averaged to produce Group prices. Finally, all the Group prices are averaged to produce the SFE New Zealand 36 to 40 Micron Wool Indicator. Weighted averaging is used throughout.

This method is used so that, should a Type not be present at the sale, a price can be estimated for it on the basis of the prices of other Types within the same Group. Prices of Types within each Group are assumed to behave similarly; so it is more likely that the price of a Type will move in the same way as the average price of its Group than in the same way as the overall SFE New Zealand 36 to 40 Micron Wool Indicator. For this purpose, the ratio of the price of each Type to its group price is calculated and updated each sale. Ratios of group prices to the SFE New Zealand 36 to 40 Micron Wool Indicator are also maintained and used to estimate prices for the Groups with little or no wool in the sale.

Both Type and Group ratios are updated using a process which smoothes out random fluctuations, but allows the ratios to follow any genuine trend.

## Type Prices

The average price of a Type is the total value divided by the total clean weight of all the wool of that Type sold at the sale. Type prices are calculated only when there are at least two lots of the Type at the sale.

## Group Prices

The Group price is a weighted average of all types within the Group, with the prices of Types not present at the sale being estimated by multiplying the Group price by the Type ratios. In essence, the process calculates the average price of the Types present at the sale, and then adjusts it by the average ratio of those Types so that the result is not affected by the composition of the offering. The ratios used are those calculated from the previous sale.

## Type Ratio Updating

Once the Group prices are known, the ratios of Type prices to their Group prices are calculated for use at the following sale. The ratios are updated from their previous values using double exponential smoothing.

## SFE New Zealand 36 to 40 Micron Wool Indicator Calculation

The SFE New Zealand 36 to 40 Micron Wool Indicator is a weighted average of Group prices and is calculated exactly as above, using the Group data instead of Type data. Group ratios are calculated, smoothed and adjusted in the same way as Type ratios.

## SFE New Zealand 36 to 40 Micron Wool Indicator Publication

The SFE New Zealand 36 to 40 Micron Wool Indicator will be published by Tectra along-side its existing wool price indicators. Tectra publishes its wool price indicators every week in:

- various newspapers and other publications on the day following the sale day, including the NZ Farmers Weekly, Wool Record Weekly Market Report, the New Zealand Herald, Dominion Post, Christchurch Press, Otago Daily Times and other regional newspapers;
- on Tectra's web-site – [www.tectra.co.nz](http://www.tectra.co.nz) ; and,
- on Reuters (see the list of Reuters codes presented in Attachment 1).

**Table 1 - The Eight Groups**

| Group                  | Weight   | Cat   | Diameter  | style | length  |
|------------------------|----------|-------|-----------|-------|---------|
| Fleece                 | 20314911 | F     | 35.5-40.4 | 0-6   | 105-124 |
| 2ndShear long          | 4750077  | F     | 35.5-40.4 | 0-5   | 95-104  |
| 2ndShear med           | 6698117  | F     | 35.5-40.4 | 0-5   | 65-94   |
| 2ndShear short         | 1618635  | F     | 35.5-40.4 | 0-5   | 55-64   |
| Cotts                  | 701309   | G,H   | 35.5-40.4 | 1-5   | 88-112  |
| Bell/Nks/Pcs           | 3663840  | B,N,P | 35.5-40.4 | 0-5   | 38-112  |
| 2 <sup>nd</sup> Pieces | 721448   | S     | 35.5-40.4 | 2-5   | 35-64   |
| Crutchings             | 881258   | K     | 35.5-40.4 | 0-5   | 38-62   |

**Table 2 - Some of the 150 Types**

| <b>Type</b> | <b>Weight</b> | <b>Diameter</b> | <b>Catgy</b> | <b>Style</b> | <b>Length</b> |
|-------------|---------------|-----------------|--------------|--------------|---------------|
| C360B100    | 17170         | 35.5-36.4       | G,H          | 1            | 88-112        |
| C360C100    | 42523         | 35.5-36.4       | G,H          | 2            | 88-112        |
| C360D100    | 58871         | 35.5-36.4       | G,H          | 3            | 88-112        |
| C360E100    | 37070         | 35.5-36.4       | G,H          | 4            | 88-112        |
| C370B100    | 24730         | 36.5-37.4       | G,H          | 1            | 88-112        |
| C370C100    | 97202         | 36.5-37.4       | G,H          | 2            | 88-112        |
| C370D100    | 109169        | 36.5-37.4       | G,H          | 3            | 88-112        |
| C370E100    | 29910         | 36.5-37.4       | G,H          | 4            | 88-112        |
| C380B100    | 32417         | 37.5-38.4       | G,H          | 1            | 88-112        |
| C380C100    | 146610        | 37.5-38.4       | G,H          | 2            | 88-112        |
| C380D100    | 77677         | 37.5-38.4       | G,H          | 3            | 88-112        |
| C380E100    | 27960         | 37.5-38.4       | G,H          | 4            | 88-112        |
| F360B100    | 261258        | 35.5-36.4       | F            | 1            | 95-104        |
| F360B110    | 649229        | 35.5-36.4       | F            | 1            | 105-114       |
| F360B120    | 587819        | 35.5-36.4       | F            | 1            | 115-124       |
| F360B60     | 201402        | 35.5-36.4       | F            | 1            | 55-64         |
| F360B80     | 175048        | 35.5-36.4       | F            | 1            | 75-84         |
| F360B90     | 126216        | 35.5-36.4       | F            | 1            | 85-94         |
| F360C100    | 312741        | 35.5-36.4       | F            | 2            | 95-104        |
| F360C110    | 714207        | 35.5-36.4       | F            | 2            | 105-114       |