

# NEW ZEALAND FUTURES & OPTIONS EXCHANGE LIMITED

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## NZFOE BULLETIN

**NZFOE Bulletin No:** 007/02  
**From:** New Zealand Futures & Options Exchange Limited  
**Date of Issue:** 27 June 2002

### **LAUNCH DATE FOR DOUBLING THE SIZE OF THE NEW ZEALAND 90-DAY BANK BILL FUTURES & OPTIONS CONTRACTS REVISIONS TO THE NZFOE FEES AND CHARGES STRUCTURE**

#### **Introduction**

The purpose of this Bulletin is to inform Participants of the:

- Date on which the conversion will take place to double the size of the New Zealand 90-day Bank Bill contract (**27 July 2002**)
- Details of the revised fees structure for all NZFOE products
- Details of the Fees Incentive Scheme for large volume users
- New contract specifications for the New Zealand 90-day Bank Bill contract
- Required changes to the NZFOE and SFE Clearing Rules to facilitate the conversion of the New Zealand 90-day Bank Bill contracts

#### **Launch Date for Doubling the Size of the New Zealand 90 Day Bank Bill Futures and Options Contracts**

Following the successful completion of internal conversion testing of the New Zealand 90-day Bank Bill futures and options contracts the contracts will be doubled in notional value size from NZ\$500,000 to NZ\$1,000,000. As a result of this implementation, open positions will be halved on the last weekend in July (**Friday 26<sup>th</sup>-28<sup>th</sup> July, 2002**). Trading of the new NZ\$1,000,000 contract will commence during the evening session on Friday 26<sup>th</sup> July. All open NZ\$500,000 positions prior to that evening session will be converted (i.e. positions halved and contract size doubled) on Saturday 27<sup>th</sup> July.

#### **Revised Fee Structure**

From Monday July 29<sup>th</sup>, 2002 the trading fee for the New Zealand 90-day Bank Bill futures and options contracts will increase from NZ\$2.50 (including GST) to NZ\$3.30 per side (including GST) (albeit this



represents a reduction in the trading fee from NZ\$2.50 (including GST) to NZ\$1.65 (including GST) per NZ\$500,000.)

Additionally, the fee for all the following NZFOE products and actions will increase from NZ\$2.50 (including GST) to NZ\$3.30 (including GST) per side:

- 3 and 10 Year Bond futures and options;
- Equity Index futures and options;
- Equity options;
- Electricity futures;
- Mandatory settlement of future contracts; and
- Registration of futures contracts resulting from options exercise.

### **Introduction of a Fees Incentive Scheme**

To coincide with the conversion of the New Zealand 90-day Bank Bill contract and the revised fee structure a new Fees Incentive Scheme for all NZFOE products is being introduced. Details of the scheme, designed to incentivise large volume users, is attached as Annexure A.

### **Rule Changes**

Changes to NZFOE Rules to reflect the change in the size of the New Zealand 90-day Bank Bill contract were recently approved by the New Zealand Securities Commission and are attached as Annexure B.

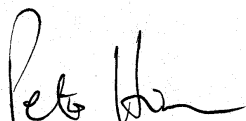
Changes to the rules of SFE Clearing Corporation to support the conversion (Annexure C) have been lodged with the Australian Securities & Investments Commission and are currently subject to regulatory disallowance.

### **Availability of Conversion Test Data & Implementation Procedures**

Test data from the SFE Clearing internal conversion testing and the detailed conversion procedures are available to assist Clearing Participants and Vendors in preparing their systems for the conversion. This information will be available in the SFE Clearing Market Briefing document entitled, "New Zealand 90 Day Bank Bill Contract Size Doubling - Conversion Procedure Briefing Paper" that will be emailed to nominated Clearing Participants and Vendors separately and concurrently to this Bulletin.

**Dealers and Participants should familiarise themselves with the conversion process so as to understand the benefits of ensuring that they hold an even number of contracts at the close of trading on the conversion date.**

Should you have any queries please contact Greg Boland, Regional Manager, New Zealand on +64 9 475 5194 or [gboland@sfe.com.au](mailto:gboland@sfe.com.au) in relation to this matter.



PETER HIOM  
**GENERALMANAGER**  
**STRATEGY & BUSINESS DEVELOPMENT**

**27 JUNE 2002**

**LARGE VOLUME INCENTIVE SCHEME**

The Large Volume rebate scheme will be used to recognise the value and importance of the volumes and liquidity provided by major customers trading NZFOE products.

House account business of Trading Permit Holders and major end users executing more than the annual eligibility threshold (set at 150,000 sides pa in 2002 -based on a calendar year) will become 'eligible customers' entitled to participate in the rebate scheme. Eligible customers will receive a pro rata allocation of an annual rebate enabling a reduction in their average exchange fee down to a minimum of \$1.50 (including GST) per side. See below for details of the administration of the rebate scheme.

The size of the annual rebate will be linked to NZFOE's total exchange volume. Once aggregate NZFOE exchange volume has exceeded the annual threshold (set at 700,000 contracts (1,400,000 sides) for 2002), the rebate scheme will be offered. A total annual rebate will be made available for distribution to eligible customers whereby customers will be rebated 70% of the revenue growth above the annual threshold.

Rebates will be paid annually, eligible customers will be required to make quarterly returns of volumes transacted, and NZFOE will provide an estimate of each customer's indicative rebate entitlement on a quarterly basis. The total rebate will be allocated pro-rata to eligible customer volumes.

The effect of the linkage between total exchange volume and the size of the available rebate is to ensure that NZFOE's commitment to offer Large Volume rebates is directly related to the ability of NZFOE to pay those rebates at different transaction volume levels. Any fall in principal listed contract volumes will trigger a reduction in available volume rebates to market participants.

As this scheme is being introduced part way through the year the thresholds have been adjusted. For the remainder of 2002 (July 29<sup>th</sup> – December 31<sup>st</sup>, 2002) the thresholds are as follows:

- House account business between July 29<sup>th</sup> and December 31<sup>st</sup> of Trading Permit Holders and major end users executing more than 62,500 sides will become 'eligible customers' entitled to participate in the rebate scheme.
- Aggregate NZFOE exchange volume for the period July 29<sup>th</sup> to December 31<sup>st</sup> has exceeded 292,000 contracts (584,000 sides).
- The minimum fee of \$1.50 (including GST) will be calculated on trades over the period July 29<sup>th</sup> – December 31<sup>st</sup>, 2002.

**ADMINISTRATION OF THE LARGE VOLUME INCENTIVE SCHEME**

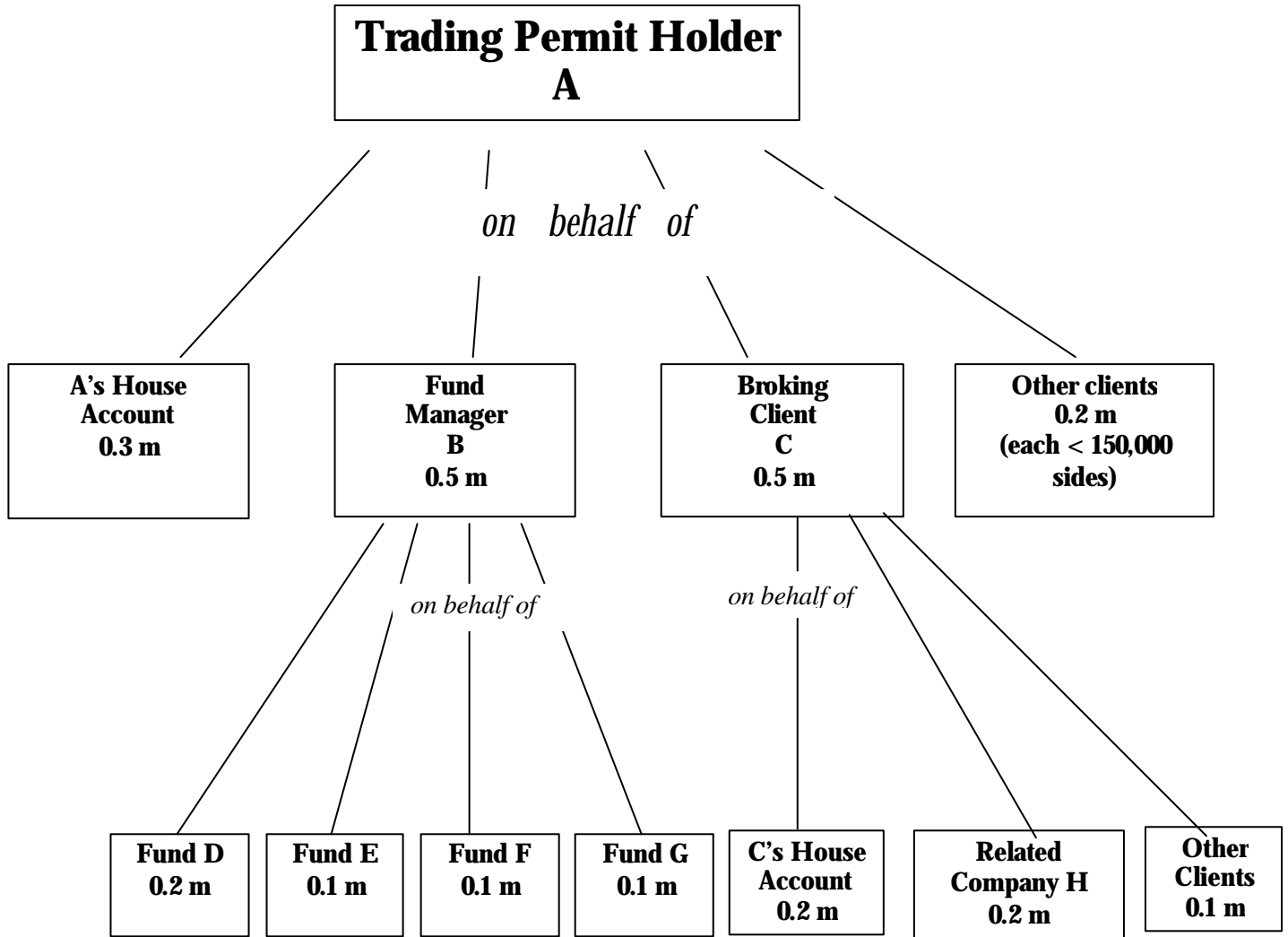
To become an 'eligible customer' to be entitled to participate in the scheme the eligibility test is as follows:

Any single entity, or group of entities comprising a parent company and its majority owned subsidiaries, whether a Trading Permit Holder or a client of a Trading Permit Holder, which trades in excess of 62,500 (equivalent to 150,000 annually) sides on its own account ("House trading") during 2002 will qualify for a rebate. "On its own account" means as principal not as broker, nor as a manager of clients' money. Fund Managers may claim on behalf of individual managed accounts, but not in respect of any aggregation of managed accounts. The total number of trades will be the aggregate for any individual entity through any Trading Permit Holder.

Trading Permit Holders must institute controls and procedures to ensure that only eligible trades (NZFOE products) are submitted for rebate.

An example of the application of the policy is set out below:

**Example**



The Trading Permit Holder is entitled to include the following eligible trades:

0.3 million (A's house account)  
 +  
 0.4 million (C (house account) & H's trades aggregated because they are related companies not acting on behalf of other parties)  
 +  
0.2 million (D's proprietary trading)  
0.9 million

Eligible Trading Permit Holders and eligible clients are required to submit quarterly returns of eligible volumes. The deadline for the receipt of the first 3 quarterly returns is within 1 month of quarter end.

Eligible Trading Permit Holders and eligible clients will be required to submit with their December 2002 quarterly return of eligible volumes a Schedule of Eligible Trades, showing the total eligible trades claimed in respect of the year to 31 December 2002, analysed between House and individual Client accounts together with an audit certificate signed by their statutory auditor supporting the eligibility of the volumes claimed.

The eligible volumes must be calculated in accordance with the rules set out in this bulletin. Any errors identified, during the audit or otherwise, must be corrected on the Schedule or identified as uncorrected in the

audit report. Audit certificates must be received before 28 February 2003 to allow the rebates to be paid by 31 March 2003. **Late, unaudited or incomplete returns will not be accepted.**

The required form of the audit report is set out below:

## **INDEPENDENT AUDIT REPORT**

To [The Directors of the Trading Permit Holder]

### Scope

We have audited the attached "Schedule of Eligible Trades" for the year ended 31 December 2002. [Trading Permit Holder] is responsible for the Schedule. We have conducted an independent audit of the Schedule in order to express an opinion on it to [Trading Permit Holder].

The attached Schedule has been prepared as required by New Zealand Futures and Options Exchange Limited to allow [Trading Permit Holder's] share (if any) of the Large Volume Rebate to be calculated and distributed. We disclaim any assumption of responsibility for any reliance on this report or on the Schedule to which it relates to any person other than by New Zealand Futures and Options Exchange Limited, and [Trading Permit Holder], or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian/New Zealand Auditing Standards. Our procedures included the examination on a test basis of evidence supporting the information included in the schedule. These procedures have been undertaken to form an opinion whether in all material\* respects, the schedule is presented fairly in accordance with the rules for eligibility for the NZFOE Large Volume Rebate as set out in NZFOE Bulletin XX/02 .

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the attached Schedule presents fairly in accordance with the NZFOE Bulletin XX/02 [Trading Permit Holder's] trades eligible for Large Volume Rebate for the year ended 31 December 2002.

Date	Firm
Address	Partner

\*For the purpose of this report the materiality threshold is 5% of the annual total of each category of claim (ie house account or individual client).

(NZFOE reserves the right to conduct inspections of Trading Permit Holders' records to confirm the eligibility of trades claimed.)

## RULE AMENDMENTS

**1 Amendments to NZFOE's Contract Specifications for BBC and BBO as follows:**

## 1.1 Amend definition of Unit Size for the BBC as follows:

Unit Size: face value of ~~500,000~~ 1,000,000

## 1.2 Amend the calculation of contract value and Mandatory Settlement Value as follows:

Contract Value and  
Mandatory Settlement Value  
Calculations

$$P = \frac{\cancel{500,000} \quad 1,000,000 \times 365}{365 + \left( \frac{\text{yield} \times 90}{100} \right)}$$

## 1.3 Amend the calculation of underlying security for which buying and selling yields shall be quoted as follows:

underlying security for which  
buying and selling yields shall  
be quoted

bank accepted bills or transferable or negotiable securities  
issued by a bank with a face value of ~~500,000~~ 1,000,000  
and a 90 day term to maturity from the Final Trading Day

## 1.4 Amend the calculation method of the premium value for options in BBO as follows:

Premium Value

$$\frac{\cancel{500,000} \quad 1,000,000 \times 365}{365 + \left( \frac{e \times 90}{100} \right)} - \frac{\cancel{500,000} \quad 1,000,000 \times 365}{365 + \left( \frac{e + (0.01) \times 90}{100} \right)} \times P$$


**2 Addition of a new NZFOE Rule 10.11 to read as follows:****10.11 Transitional Provision – 90 Day Bank Bill Futures and Options Contracts**

- 10.11 (a) Where a variation is made to the Contract Specifications of the 90 Day Bank Bill Futures and Options Contracts to provide that:
- (i) in the case of a futures contract the unit size of the underlying security is a bank accepted bill or bank issued transferable or negotiable security with a face value of \$1,000,000 rather than \$500,000 and
  - (ii) in the case of an option contract the unit size shall be one unit of the underlying security of the futures contract referred to in Rule 10.11(a)(i)
- the variation shall come into effect on a date determined by the Company and the provisions of this Rule 10.11 shall apply.
- (b) For the purposes of this Rule 10.11 'New Futures Contract' means a futures contract the unit size of the underlying contract of which is as specified in Rule 10.11(a)(i) and 'New Options Contract' means an option contract the unit size of which is specified in Rule 10.11(a)(ii).
- (c) When a variation referred to the Contract Specifications of the 90 Day Bank Bill Futures or Options Contract as specified in Rule 10.11(a)(i) or (ii) comes into effect, the provisions of Clearing By-Law 39B of the Clearing House By-Laws shall apply. In summary, this Clearing By-Law provides that:
- (i) in each of the House Clearing Account and the Client Clearing Account of a Clearing Member, each Open Contract on the same side in a futures contract month or options series held by the Clearing Member will be combined with an equivalent Open Contract on the same side in the same contract month or options series so that the Open Positions on each side in each account are halved; and
  - (ii) any odd lots which cannot be combined as set out in Rule 10.11(c)(i) will be cash settled and the contract extinguished.
- (d) Actions taken by the Clearing House under Clearing By-Law 39B shall apply equally to Open Positions held by Dealers and to Open Positions held by Dealers on behalf of clients. Clients' rights and obligations with respect to Open Positions held by clients with Dealers shall be deemed to be varied in the same manner as provided in Clearing By-Law 39B with respect to Open Positions held with the Clearing House.
- (e) (i) Dealers are required to notify their bank bill futures clients, in a form approved by the Company, that any odd lots which may be held on the date determined in accordance with Rule 10.11(a) will be cash settled and extinguished by the Clearing House in the terms set out in Clearing By-Law 39B.
- (ii) Dealers shall accurately advise odd lots to the Clearing House in accordance with Clearing By-Law 39B.
- (f) The Company may issue procedures as to how Dealers are to combine, convert or cash settle contracts to give effect to this Rule 10.11 and to Clearing By-Law 39B, and Dealers shall comply with such procedures.

**ADDITION TO CLEARING BY-LAWS OF SFE CLEARING CORPORATION**

## 39B.1 Definitions

For the purposes of this By-Law 39B, 'the Variation' means the variation referred to in By-Law 39B.2.

For the purpose of this By-Law 39B an 'Odd Lot' means any Open Contract which:

- (i) a Clearing Participant advises SFE Clearing by the prescribed time is held separately in an account such that it cannot be combined with another Open Contract; or
- (ii) whether or not such advice is given, cannot be combined by SFE Clearing in accordance with By-Law 39B.2(b) (ie the Open Position remaining after any Odd Lots advised are not an even number).

A reference in this By-Law 39B to an open contract or a contract with a particular subject shall include an option over a 90 Day Bank Bill futures contract or as the case may be an option over a 90 Day Bank Bill futures contract.

39B.2 This By-Law has effect upon the coming into effect of a variation to the Contract Specifications of the 90 Day Bank Bill Futures and Options Contracts of NZFOE to provide that:

- (i) in the case of a futures contract the unit size of the underlying security is a bank accepted bill or bank issued transferable or negotiable security with a face value of \$1,000,000 rather than \$500,000 and
- (ii) in the case of an option contract the unit size shall be one unit of the underlying security of the futures contract referred to in paragraph(i) above.

39B.2 Upon the coming into effect of the Variation:

- (a) the following provisions shall apply in relation to Open Contracts other than Odd Lots:
  - (i) in each of the House Clearing Account and Client Clearing Account of a Clearing Participant each Open Contract on the same side in a futures contract month or options series held by the Clearing Participant shall be combined with an equivalent Open Contract on the same side in the same futures contract month or options series, such that the Open Positions on each side in such account shall be halved (ie each bought position held with SFE Clearing by a Clearing Participant shall be combined with another bought position and each sold position shall be combined with another sold position);
  - (ii) the Open Contracts in force on the coming into effect of this By-Law shall be extinguished and Open Contracts referred to in paragraph (i) on the same terms (except as amended to have the unit size provided by the Variation) shall be deemed to be in force.
- (b) each Odd Lot shall be cash settled at the last Daily Settlement price such that upon payment of the Daily Settlement Amount by or to SFE Clearing each relevant Open Contract shall be discharged and extinguished.