SFE CIRCULAR

No. 207/00

EXCHANGE FOR PHYSICAL TRANSACTIONS USING EQUITY INSTRUMENTS

Exchange for Physical (EFP) transactions have traditionally been approved where a hedge exists between the physical and futures components. In regard to SPI® EFPs, the correlation (as measured by the Beta) and the dollar face value of the equities were required by the Surveillance Department to measure this hedge.

This Circular is to advise that the Exchange, following market consultation, has agreed to widen acceptance levels relating to the execution of SPI® EFPs. Accordingly, as of 30 November 2000 there will be an additional method by which SPI® EFPs (includes both Share Price Index and Share Price Index 200 contracts) may be transacted. Accordingly, please note the two (2) methods by which SPI® EFPs may be transacted:

- The first method is as currently practiced i.e. there must be a hedge between the physical and futures, meaning that both the dollar face value and the correlation (as measured by the beta) of the stocks and the futures must be 'substantially similar'. This is calculated using the following formula:

$$\frac{\textbf{Dollar face value of physical x Beta value}}{\textbf{Futures contract price x tick value of Futures contract}} = \textbf{Number of Futures contracts}$$

  For example:

$$\frac{\textbf{\$20M Equity Portfolio x 1.3}}{\textbf{3300 x \$25}} = \textbf{315 lots}$$

- The second method involves simply equating the dollar face value of the physical with the dollar face value of the futures. This enables market participants more flexibility in trading physical equities against futures. This method of trading SPI® EFPs does not require the provision of a beta and involves the following formula:

$$\frac{\textbf{Dollar face value of physical}}{\textbf{Futures contract price x tick value of Futures contract}} = \textbf{Number of Futures contracts}$$

  For example:

$$\frac{\textbf{\$20M Equity Portfolio}}{\textbf{3300 x \$25}} = \textbf{242 Lots}$$

There are no restrictions on the number of futures contracts that can be traded via a SPI® EFP. Similarly, there are no restrictions on the type or number of equities that may be traded. For example a Participant or its client may transact a SPI® EFP using a single stock or multiple stock portfolio of equities, provided there is parity between the physical and futures face values.

SPI® EFPs transacted using the new method, as outlined above, may be submitted to the Exchange for registration as of 30 November 2000. SPI® EFPs that do not represent execution via one of these two methods will not be approved.

Should you have any queries in relation to the above, please do not hesitate to contact either Tristan Strobl on 9256 0177 or the undersigned on 9256 0699.

BRONWYN HILL
MANAGER, SURVEILLANCE

23 NOVEMBER 2000