

CIRCULAR TO:

ALL PARTICIPANTS

NO 211/00

COMMODITY REVIEW

Introduction

SFE recently completed a review of its commodity activities that included market consultation with leading commodity participants. The review resulted in SFE affirming its commitment to commodity products and produced three areas of action:

- Change in the fee structure
- Product enhancements
- Future product enhancements

1. Change in the fee structure

SFE has been involved in commodity contracts since 1960 and is committed to retaining these products. However, current arrangements are not commercially sustainable. Therefore following Exchange consultation with key participants, the Board has approved the following changes to the fee structure of the commodity products that will come into effect from the 1 January 2001:

- Restructure of transaction fees
- Introduction of a delivery fee for deliverable contracts
- Introduction of a cash settlement fee for cash settled contracts

Should volumes increase significantly in the commodity contracts, it is anticipated that volume incentive fee initiatives will also be introduced.

1.1 Restructure of transaction fees

The following transaction fees will apply, from 1 January 2001, for commodity futures and options contracts:

- \$5.00 (plus GST) per side for the Wool (Greasy, Fine and Broad) and Electricity (NSW Base Load, VIC Base Load, NSW Peak Period and VIC Peak Period) contracts
- \$2.20 (plus GST) per side for the Barley, Sorghum and Wheat contracts
- \$0.90 (plus GST) per side for the Canola contract (unchanged from current transaction fee)

1.2 Introduction of a delivery fee for deliverable contracts

The following delivery fees will apply, from 1 January 2001, for the deliverable commodity futures contracts that go to delivery at contract expiry:

- \$25.00 (plus GST) per side for the Greasy Wool Futures contract
- \$10.00 (plus GST) per side for the Barley, Canola, Sorghum and Wheat Futures contracts

1.3 Introduction of a cash settlement fee for cash settled contracts

The following cash settlement fees will apply, from 1 January 2001, for the cash settlement (mandatory settlement) contracts that are held to contract expiry:

- \$5.00 (plus GST) per side for the Fine Wool, Broad Wool, NSW Base Load Electricity, VIC Base Load Electricity, NSW Peak Period Electricity and VIC Peak Period Electricity contracts.

These cash settlement fees are equal to the contract transaction fees.

2. Product enhancements

Participants are reminded that product enhancements to the Wheat Futures contract, announced in December 1999 (Circular 354/99), will come into effect for the January 2001 contract month onwards. It is believed that the following product changes will enhance the liquidity of the Wheat Futures contract:

- Pricing based off location differentials to NSW ports
- Removal of Newcastle as a delivery location
- Additional delivery locations

2.1 Pricing based off location differentials to NSW ports

For the January 2001 contract month onwards, NSW ports (Newcastle and Port Kembla) will be the pricing points but not delivery locations for the Wheat Futures contract. This will make the southern delivery sites viable delivery locations and bring the southern NSW grain into the delivery market.

Wheat deliveries made against a futures position will have the published location differentials applied to the settlement price. Location differentials are set for the life of the contract and are shown on the SFE web site <http://www.sfe.com.au>

2.2 Removal of Newcastle as a delivery location

For the January 2001 contract month onwards, Newcastle will be removed as a deliverable location. However it will continue to be a port pricing point. Newcastle is being removed as a deliverable location because it is uneconomical to remove grain from the export terminal site and due to the low demand for ASW 9% wheat (futures deliverable wheat) at Newcastle.

2.3 Additional delivery locations

Additional delivery locations will enhance the delivery system of the Wheat Futures contract. The delivery locations will be up-country (ie away from port) where there is a demand for wheat. The delivery locations have been expanded to include any suitable site up-country in NSW not just sites located in Moree, Parkes and Junee. The following delivery sites will be added for the May 2001 contract month onwards:

- ABA Coolamon-Marrar
- GrainCorp Temora
- ABA The Rock
- GrainCorp Werris Creek

3. Potential new product enhancements

In the coming months the SFE will investigate potential new product enhancements that will benefit the commodity contracts. Two enhancements to be investigated are:

- Canola contract – The possibility of introducing bonification (premium and discount) payments for oil content to trade as per Australian Oilseed Federation physical specifications.
- Electricity contracts – The restructure of the settlement process to bring the Electricity Futures contracts into line with the physical electricity market.

Enhancements that effect the pricing of the contracts will only be introduced on newly listed contract months or months with no open interest.

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