

C I R C U L A R



SFE CIRCULAR

32/01

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AMENDMENTS TO THE BUSINESS RULES

The purpose of this circular is to advise Participants and the market of amendments to the Business Rules of the Exchange, which are to come into effect on Monday 2 April 2001.

The purpose of the amendments is:

1. to remove the requirement that Full Participants who engage exclusively in proprietary trading must meet net tangible asset and reporting requirements (details are set out in Annexure A);
2. to transfer the compliance and surveillance function and the formal responsibility of monitoring the financial position of Participants from the Business Conduct Committee to Exchange staff, (details are set out in Annexure B); and
3. to provide for the timely payment of margin calls by the clients of Participants, (details are set out in Annexure C).

PROPRIETARY FULL PARTICIPANTS

The amendments remove the minimum NTA requirements and related reporting requirements in respect of Full Participants who are solely proprietary traders, the Exchange having determined that the current minimum net tangible asset backing of \$1 million is unnecessary in respect of Participants who do not act for clients.

Amendments have been made to G.3.16 to remove the minimum NTA requirement and associated reporting requirements in respect of proprietary traders, who will be called "Proprietary Full Participants". In all respects other than those relating to net tangible assets and associated reporting requirements, Proprietary Full Participants which will be subject to the existing Business Rules.

Any Full Participant proprietary traders who take advantage of this new provision would be non-clearing Full Participants whose trades would be cleared and settled in the name of their Guarantor Clearing Participant.

MONITORING OF FINANCIAL POSITION OF PARTICIPANTS

Until these amendments were made, the Compliance and Surveillance functions of the Exchange were jointly vested in the Business Conduct Committee (pursuant to General By-Law G.9.3) and in the Compliance and Surveillance Division which is responsible to the Chief Executive, (pursuant to General By-Law 11.6), and the monitoring of Participants' financial positions rested with the Committee (pursuant to General By-Laws G.3.16, G.4.15

S Y D N E Y F U T U R E S E X C H A N G E L I M I T E D

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and G.4.16).

In practice the Compliance and Surveillance Department undertook the monitoring function and reported to the Committee only if breaches of the By-Laws occurred.

Amendments have now been made to:

1. General By-Laws G.3.16, G.4.15 and G.4.16 to transfer formal responsibility for monitoring the financial position of Participants from the Business Conduct Committee to management (ie the Compliance and Surveillance Division); and
2. General By-Law G.9.3 so that responsibility for oversight of the Compliance and Surveillance activity of the Exchange is a matter for management and the Board rather than for the Business Conduct Committee.

General By-Law 11.6 remains unchanged.

To achieve this objective the various references to the "Business Conduct Committee" in the General By-Laws have been replaced by references to "the Exchange", as set out in Annexure B.

TIMELY PAYMENT OF MARGIN CALLS

These amendments, to General By-Laws G.20, 21, 22, 47 and 48, provide for an objective time frame within which payment of margins and the lodgement of cover must be made by a Client to his/her broker. They remove the need for a subjective interpretation of the former margin rules which provided for payment/lodgement to be made "at the earliest reasonable time" and if no time was specified, within 24 hours. This provision led to differing interpretations of what is a 'reasonable time' and did not specifically take into consideration the additional time which may be required by overseas clients.

The effect of the amendments is to require payment of margins and lodgement of cover to be made by the Client (or Local Participant) to the Participant within 24 hours of the call for the margin or the request for the lodgement of cover being made, or in the case of an overseas client, within 48 hours.

Barbara Jones

BARBARA JONES
COMPANY SECRETARY

27 MARCH 2001

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**AMENDMENTS TO GENERAL BY-LAWS TO PROVIDE FOR
PROPRIETARY FULL PARTICIPANTS**

The following new definition is are to be inserted in the General By-Laws:

“Proprietary Full Participant” means a Full Participant that is not also a Clearing Participant and that only executes House Trades on the Markets of the Exchange and does not accept orders from Clients for execution of Client Trades.

G.3.16 is to be amended as follows:

G.3.16 Subject to General By-Law G.3.17 it shall be the responsibility of each Full Participant:

- (a) Other than a Proprietary Full Participant, to ensure that at all times the value of the Net Tangible Assets of the Full Participant is not less than one million dollars (\$1,000,000); and
- (b) Other than a Proprietary Full Participant, in the event that the value of the Net Tangible Assets falls below the minimum, immediately to so notify the Exchange, and within twenty-four (24) hours to lodge with the Business Conduct Committee a detailed Financial Statement in a form approved by that Committee.
- (c) Other than a Proprietary Full Participant, to provide to the Business Conduct Committee:
 - (i) a statement of Net Tangible Assets, Liquid Assets and Secured Creditors in a form approved by that Committee within one (1) calendar month of the last Trading Day of the months of March, September and December in each year and within two (2) calendar months of the last Trading Day of the month of June in each year and at such other times as may be requested In Writing by the Committee. Such statement shall be binding on the Participant and shall be signed by a partner or Director or a person duly authorised by the Participant to sign such statement; and
 - (ii) a summary of Net Tangible Assets, including Client funds of the Participant, in a form approved by the committee, within one (1) calendar month of the last Trading Days of the months of January, February, April, May, June, July, August, October and November.
- (e) Other than a Proprietary Full Participant, where:
 - (i) the Participant knows, or should have known, that the value of its Net Tangible Assets at any time is less than one hundred and fifty per cent (150%) of the minimum required by sub-paragraph (a) hereof; and
 - (ii) the value of the Participant’s Net Tangible Assets is less than one hundred and fifty per cent (150%) of the minimum required by sub-paragraph (a) hereof and has decreased by more than twenty per cent (20%) since the last statement provided to the Committee pursuant to sub-paragraphs (c)(i) or (c)(ii) hereof,

to provide the Business Conduct Committee with written notice to that effect within five (5) Business Days. The Participant shall also provide the Committee with such statement or statements of its financial position as the Committee may require, at such time or times as the Committee may direct. Without limiting the generality of the foregoing, the Committee may direct the Participant to lodge with it a Financial Statement in the form required by sub-paragraph (c)(i) as at the close of business for each month until three (3) successive months have passed during which the Participant’s Net Tangible Assets were at all times in excess of one hundred and fifty per cent (150%) of the minimum.

- (j) Other than a Proprietary Full Participant, to effect and maintain such form of indemnity as the Exchange may from time to time determine to be appropriate to protect the interests of Clients of the Participants.

- (n) Other than a Proprietary Full Participant, to maintain internal records of instructions received from Clients and trades executed for Clients showing:
- (i) the time and date of receipt of instructions;
 - (ii) the nature of the instructions received;
 - (iii) the time and date of transmission of instructions; and
 - (iv) the time and date of execution of instructions,
- for a period of not less than seven (7) years from the date of a trade.
- (q) Other than a Proprietary Full Participant, before accepting a person as a Client:
- (i) to give to the person the documents
 - (ii) subject to sub-paragraph (iii) to have in force with such person an agreement duly signed by the Full Participant and the Client
 - (iii) to have in force with such Client one of the following agreements:
 - (A) where the Client is a Participant an agreement duly signed by the Full Participant
 - (B) where the Client is a Participant and such agreement referred to in sub-paragraph (A) has not been entered into.....or
 - (C) where there is provision in Part B of the First Schedule for the entering into of an agreement designated by the Board that agreement.....
- PROVIDED THAT.....
- (r) Other than a Proprietary Full Participant, to ensure that whilst such person is a Client to maintain an agreement in force with that person as required by sub-paragraphs 3.16(q)(ii) or (iii) (as the case may be) and to ensure that such agreement includes terms which have the effect of the requirements as set out in the relevant section of Part B or Part BB (as the case may be) of the First Schedule and any requirements as set out in the Trading Rules where applicable from time to time.
- (t) Other than a Proprietary Full Participant, to obtain proper authorities from Clients in relation to accepting instructions from any person or persons on behalf of a Client.
- (u) Other than a Proprietary Full Participant, to comply with General By-Law G.13 regarding payment of moneys into a Client's segregated account and the segregation of property and the investment of such moneys.
- (v) Other than a Proprietary Full Participant, not to permit any one Client (in which context the expression "Client" shall include all persons, Firms and corporations related to associated or affiliated with the Client or otherwise financially dependent upon the Client) to represent such a percentage of the trading by the Participant as may prejudice or diminish the ability of the Full Participant to meet its obligations.
- (z) Other than a Proprietary Full Participant, subject to General By-Law G.3.16(aa), to ensure that any Director, partner, employee or representative of the Participant who advises, or solicits instructions from, persons or corporations in relation to the sale or purchase of Futures or Options Contracts is registered with the Exchange as a Registered Representative at the time of engaging in such activities and where the Registered Representative is approved under General By-Laws G.8.5 or G.8.9 that such activities are within the restrictions or conditions imposed under those General By-Laws.
- (ee) Other than a Proprietary Full Participant, notify the Exchange of the existence of any agreement entered into with an Introducing Broker Associate pursuant to General By-Law G.4.16(y)(iii) and advise the Exchange of the termination of any such agreement.

ANNEXURE B**AMENDMENTS RELATING TO THE TRANSFER OF THE COMPLIANCE AND SURVEILLANCE FUNCTION**

G.3.16 is to be amended as follows:

G.3.16 Subject to General By-Law G.3.17 it shall be the responsibility of each Full Participant:

- (a) to ensure that at all times the value of the Net Tangible Assets of the Full Participant is not less than one million dollars (\$1,000,000); and
- (b) in the event that the value of the Net Tangible Assets falls below the minimum, immediately to so notify the Exchange, and within twenty-four (24) hours to lodge with the ~~Business Conduct Committee~~ Exchange a detailed Financial Statement in a form approved by ~~that Committee~~ the Exchange.
- (c) To provide to the ~~Business Conduct Committee~~ Exchange:
 - (i) a statement of Net Tangible Assets , Liquid Assets and Secured Creditors in a form approved by ~~that Committee~~ the Exchange within one (1) calendar month of the last Trading Day of the months of March, September and December in each year and within two (2) calendar months of the last Trading Day of the month of June in each year and at such other times as may be requested In Writing by the ~~Committee~~ Exchange. Such statement shall be binding on the Participant and shall be signed by a partner or Director or a person duly authorised by the Participant to sign such statement; and
 - (ii) a summary of Net Tangible Assets, including Client funds of the Participant, in a form approved by the ~~Committee~~ Exchange, within one (1) calendar month of the last Trading Days of the months of January, February, April, May, June, July, August, October and November.
- (d) To provide the ~~Business Conduct Committee~~ Exchange with a copy of any annual statement lodged by the Full Participant with the Commission pursuant to the Futures Law at the time of its lodgement with the Commission.
- (e) Where:
 - (i) the Participant knows, or should have known, that the value of its Net Tangible Assets at any time is less than one hundred and fifty per cent (150%) of the minimum required by sub-paragraph (a) hereof; and
 - (ii) the value of the Participant's Net Tangible Assets is less than one hundred and fifty per cent (150%) of the minimum required by sub-paragraph (a) hereof and has decreased by more than twenty per cent (20%) since the last statement provided to the ~~Committee~~ Exchange pursuant to sub-paragraphs (c)(i) or (c)(ii) hereof, to provide the ~~Business Conduct Committee~~ Exchange with written notice to that effect within five (5) Business Days. The Participant shall also provide the ~~Committee~~ Exchange with such statement or statements of its financial position as the ~~Committee~~ Exchange may require, at such time or times as the ~~Committee~~ Exchange may direct. Without limiting the generality of the foregoing, the ~~Committee~~ Exchange may direct the Participant to lodge with it a Financial Statement in the form required by sub-paragraph (c)(i) as at the close of business for each month until three (3) successive months have passed during which the Participant's Net Tangible Assets were at all times in excess of one hundred and fifty per cent (150%) of the minimum.
- (f) To provide to the ~~Business Conduct Committee~~ Exchange an annual audit certificate in the prescribed form (as set out in the Eighth Schedule) within three (3) months of its financial year end.
- (p) To maintain such accounting records as correctly record and explain the transactions of the Participant and the financial position of the Participant and in addition will enable compliance with these General By-Laws to be conveniently ascertained by the ~~Business Conduct Committee~~ Exchange, such records to be maintained in a form that will enable them to be conveniently and properly audited.

G.4.15 Subject to General By-Law G.4.17 it shall be the responsibility of an Associate Participant to:

- (a) Maintain such accounting records as correctly record and explain the financial position of the Associate Participant and in addition will enable compliance with these General By-Laws to be conveniently ascertained by the ~~Business Conduct Committee~~ Exchange. Such records are

to be maintained in a form that will enable them to be conveniently and properly audited.

G.4.16 Subject to General By-Law G.4.17, it shall be the responsibility of that Associate Participant:

- (a)
- (b)
- (c) In the event that the value of the Net Tangible Assets falls below the minimum, immediately to so notify the Exchange, and within twenty-four (24) hours to lodge with the ~~Business Conduct Committee~~ Exchange a detailed Financial Statement in a form approved by ~~that Committee~~ the Exchange.
- (d) To provide to the ~~Business Conduct Committee~~ Exchange:
 - (i) a statement of Net Tangible Assets, Liquid Assets and Secured Creditors in a form approved by ~~that Committee~~ the Exchange within one (1) calendar month of the last Trading Day of the months of March, September and December in each year and within two (2) calendar months of the last Trading Day of the month of June in each year and at such other times as may be requested In Writing by the ~~Committee~~ Exchange. Such statement shall be binding on the Associate Participant and shall be signed by a partner or Director or a person duly authorised by the Associate Participant to sign such statement; and
 - (ii) a summary of Net Tangible Assets, including Client funds of the Associate Participant, in a form approved by the ~~Committee~~ Exchange, within one (1) calendar month of the last Trading Days of the months of January, February, April, May, June, July, August, October and November.
- (e) To provide the ~~Business Conduct Committee~~ Exchange with a copy of any annual statement lodged by the Associate Participant with the Commission pursuant to the Futures Law at the time of its lodgement with the Commission.
- (f) Where:
 - (i) the Associate Participant knows, or should have known, that the value of its Net Tangible Assets at any time is less than one hundred and fifty per cent (150%) of the minimum required by sub-paragraph (b) hereof; and
 - (ii) the value of the Associate Participant's Net Tangible Assets is less than one hundred and fifty per cent (150%) of the minimum required by sub-paragraph (b) hereof and has decreased by more than twenty per cent (20%) since the last statement provided to the ~~Committee~~ pursuant to sub-paragraphs (d)(i) or (ii) hereof, to provide the ~~Business Conduct Committee~~ Exchange with written notice to that effect within five (5) Business Days, the Associate Participant shall also provide the ~~Committee~~ Exchange with such statement or statements of its financial position as the ~~Committee~~ Exchange may require, at such time or times as the ~~Committee~~ Exchange may direct. Without limiting the generality of the foregoing, the ~~Committee~~ Exchange may direct the Associate Participant to lodge with it a Financial Statement in the form required by sub-paragraph (d)(i) as at the close of business for each month until three (3) successive months have passed during which the Associate Participant's Net Tangible Assets were at all times in excess of one hundred and fifty per cent (150%) of the minimum.
- (g) To provide to the ~~Business Conduct Committee~~ Exchange an annual audit certificate in the prescribed form (as set out in the Eighth Schedule) within three (3) months of its financial year end.
- (l) To maintain such accounting records as correctly record and explain the transactions of the Participant and the financial position of the Participant and in addition will enable compliance with these General By-Laws to be conveniently ascertained by the ~~Business Conduct Committee~~ Exchange, such records to be maintained in a form that will enable them to be conveniently and properly audited.

G.9.3 The BCC shall have the following functions and powers:

- (a) to consider potential, alleged, or actual breaches of the Business Rules referred to it by the Compliance and Surveillance Division, otherwise brought to the notice of the BCC, or on its own motion;
- ~~(b) to have the general oversight of the compliance and surveillance activity of the Exchange;~~
- (c)

ANNEXURE C**AMENDMENTS RELATING TO THE TIMELY PAYMENT OF MARGIN CALLS**

Amendments have been made as follows:

- G.20 (a) The minimum Initial Margin to be Called shall
- (i).....
 - (ii)
 - (iii)
 - (iv)
 - (v)
 - ~~(vi) — Payment of Initial Margin or lodgement of Cover must be effected within the earliest reasonable time and no Participant shall provide credit or Cover for a Client or Local Participant beyond that period. In determining whether payment of Initial Margins or lodgement of Cover has been effected within the earliest reasonable time by a particular Client or Local Participant, the Business Conduct Committee or the Board (as the case may be) shall take into account the circumstances of that Client or Local Participant at the time such obligation arose. (Amended 24/11/97)~~
- (b) Subject to sub-clause (c) Full and Associate Participants may Call Variation Margin from the Client, and Nominating Full Participants may Call Variation Margin from Local Participants..... AND:
- (i)
 - (ii)
 - (iii)
 - ~~(iv) — Payment of Variation Margin or lodgement of Cover must be effected within the earliest reasonable time and no Participant shall provide credit or Cover for a Client or Local Participant beyond that period. In determining whether payment of Variation Margin or lodgement of Cover has been effected within the earliest reasonable time by a particular Client or Local Participant, the Business Conduct Committee or the Board (as the case may be) shall take into account the circumstances of that Client or Local Participant at the time such obligation arose. (Amended 20/7/90, 24/11/97)~~
- G.22 (a) Where a request is made for the lodgement of Cover and/or a Call is made for the payment of Initial or Variation Margin the Full or Associate Participant shall stipulate the time for lodgement or payment. —of Approved Securitiesand unless stipulated such Lodgment or payment shall be made within twenty-four (24) hours of the request or the Call. Where a Client is overseas then lodgement of Cover or payment of a Call must be made within 48 hours. No Participant shall provide credit or Cover for a Client or a Local Participant beyond these periods. The time so stipulated shall not exceed the earliest reasonable time as defined in General By Laws G.20(a)(vi) and (b)(iv). Time shall be of the essence in respect of the lodgement of Cover or payment of a Call made. (Amended 20/7/90)
- G.47 (a) Where a Participant of the Exchange transacts Futures Contracts or Options Contracts on behalf of a Client.....; and
- (i).....
 - (ii).....
 - ~~(iii) — Payment of Variation Margin or lodgement of Cover must be effected within the earliest reasonable time and no Participant shall provide credit or Cover for a Client beyond that period. In determining whether payment of Variation Margin or lodgement of Cover has been effected within the earliest reasonable time by a particular Client the Business Conduct Committee or the Board (as the case may be) shall take into account the circumstances of that Client at the time such obligation~~

- G.48 (a)
- (b)
- (c)
- (d) Where a request is made for the lodgement of Cover and/or a Call is made for the payment of Initial or Variation Margin the Participants shall stipulate the time for payment. ~~(or lodgement of Approved Securities) and unless stipulated such Lodgement~~ or payment shall be within twenty-four (24) hours of the request or the Call. Where a Client is overseas then lodgement of Cover or payment of a Call must be made within 48 hours. No Participant shall provide credit or Cover for a Client or a Local Participant beyond these periods. The time so stipulated shall not exceed the earliest reasonable time as defined in General By Laws G.20(a) (vi) and (b) (iv). Time shall be of the essence in respect of the lodgement of Cover or payment of any Call. made. (Amended 9/10/86, 20/7/90)