SFE BULLETIN

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NEW SETTLEMENT ALGORITHM FOR SFE OVERNIGHT OPTION PRODUCTS

Participants are advised that from **Monday 18 June 2001** a new settlement algorithm will be used to determine the Overnight Option Futures Price (Reference Price) for all Overnight Option products listed on the SFE. The new algorithm will be used for the settlement of Overnight Option trades on the 90 Day Bank Bill contract, Three Year Treasury Bond contract and Ten Year Treasury Bond contract from trade date 18 June 2001.

The new algorithm provides for the Reference Price to be calculated as the weighted average of trade prices occurring in the underlying market between 8.30am and 8.40am. This new methodology replaces the existing process of averaging bid and ask prices taken at two minute intervals over the same time period.

The new settlement algorithm has been introduced following concerns that the former methodology resulted in a Reference Price that was not an accurate reflection of market activity. End users, including the SFE Options Committee and AFMA Options Committee, had requested the Exchange consider applying a weighted average trade algorithm.

AMENDMENTS TO SFE BUSINESS RULES

Amendments to the Business Rules for the Overnight Option settlement algorithm for the 90 Day Bank Bill contract, Three Year Treasury Bond contract and Ten Year Treasury Bond contract have been made and come into effect on 18 June 2001.

The relevant rules, which have been amended, are:

- BAB 206(a) and (b)
- TB 207(a), (b) and (c),
- TRB 207(a), (b) and (c).

The amendments to the 90 Day Bank Accepted Bill contract, Three Year Treasury Bond contract and Ten Year Treasury Bond contract (additions underlined, deletions struck through) are attached.

Except for the references to the name of the contract, the amendments to the By-Laws are identical in paragraph (a) in all cases, but to enable the changes to be put into context, the Overnight Options section of each set of By-Laws is attached.

It should be noted that the sections relating to the Treasury Bond contracts include the recent changes relating to the coupon rate.

The opportunity has been taken to update TB/TRB.207(c) in that it is now the Contract Committee rather than the Pit Committee, which arbitrates any disputes.

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OVERNIGHT OPTIONS RULES FOR 90 DAY BANK ACCEPTED BILL CONTRACT

Overnight Option Futures Price

BAB.206 The Overnight Option Futures Price referred to in By-Law BAB.205(b) hereof shall be determined by the following procedure:

(a) ~~For the purposes of this By-Law BAB.206, the quotation times shall be 8:32 am., 8:34 am., 8:36 am., 8:38 am~~The Exchange shall determine the weighted average of trade prices executed in the underlying 90 Day Bank Accepted Bill of Exchange Futures contract between 8.30am~~.~~ and 8:40 am~~.~~ on each trading day of the 90 Day Bank Accepted Bill of Exchange Futures contract.

(i) The weighted average of trade prices is defined as:

$$WA = \frac{S(price_n \text{ x } volume_n)}{V}$$

where n = deal executed between 8.30am and 8.40am

and V = total volu me traded between 8.30am and 8.40am

(b) The ~~Exchange shall determine the arithmetic mean of the prevailing market bid and offer quotations at the quotation times in the underlying 90 Day Bank Accepted Bill of Exchange Futures contract~~ weighted average of trade prices shall be calculated to three decimal places and rounded to two decimal places. In rounding, the ~~arithmetic mean~~ weighted average of trade prices shall be expressed to the nearest second decimal place on the condition that where the third decimal place is five the ~~arithmetic mean~~ weighted average of trade prices shall be rounded to the next highest second decimal place. The ~~arithmetic mean~~weighted average of trade prices so calculated shall be the Overnight Option Futures Price.

(c) In the event of disagreement on the Overnight Option Futures Price, the Contract Committee shall arbitrate in any dispute; however this will in no way derogate from the powers of the Exchange to make a final decision on Overnight Option Futures Prices.

(d) Subject to By-Law BAB.207, the Exchange shall announce the Overnight Option Futures Price by no later than 8:45 am. on the same business day.

TEN YEAR BOND OVERNIGHT OPTIONS

Overnight Option Futures Price

TB.207 The Overnight Option Futures Price referred to in By-Law TB.206(b) hereof shall be determined by the following procedure:

(a) ~~For the purposes of this By-Law TB.207, the quotation times shall be 8.32 am, 8.34 am, 8.36 am, 8.38 am~~The Exchange shall determine the weighted average of trade prices executed in the underlying Ten Year Treasury Bond Futures Contract between 8.30am and 8.40 am on each trading day of the Ten Year Treasury Bond Futures Contract.

The weighted average of trade prices is defined as:

$$WA = \frac{S(price_n \text{ x } volume_n)}{V}$$

where n = deal executed between 8.30am and 8.40am

and V = total volume traded between 8.30am and 8.40am

(b) The ~~Exchange shall determine the arithmetic mean of the prevailing Market bid and offer quotations at the quotation times in the underlying Ten Year Treasury Bond Futures Contract~~ weighted average of trade prices shall be calculated to four decimal places and rounded to the nearest multiple of 0.005 per cent per annum. In rounding, the ~~arithmetic mean~~ weighted average of trade prices shall be expressed to the nearest multiple of 0.005 per cent per annum on the condition that where the third and fourth decimal places are two and five or seven and five respectively, ~~the arithmetic mean~~the weighted average of trade prices shall be rounded to the next highest multiple of 0.005 per cent per annum. The ~~arithmetic~~ weighted average of trade prices ~~mean~~ so calculated shall be the Overnight Option Futures Price.

(c) In the event of disagreement on the Overnight Option Futures Price, the ~~Pit~~ Contract Committee shall arbitrate in any Dispute however this will in no way derogate from the powers of the Exchange to make a final decision on Overnight Option Futures Prices.

(d) Subject to By-Law TB.208, the Exchange shall announce the Overnight Option Futures Price by no later than 8.45 am on the same Business Day.

OVERNIGHT OPTIONS RULES FOR THREE YEAR BOND OVERNIGHT OPTIONS

Overnight Option Futures Price

TRB.207 The Overnight Option Futures Price referred to in By-Law TRB.206(b) hereof shall be determined by the following procedure:

(a) ~~For the purposes of this By-Law TRB.207, the quotation times shall be 8.32 am, 8.34 am, 8.36 am, 8.38 am~~The Exchange shall determine the weighted average of trade prices executed in the underlying Three Year Treasury Bond Futures Contract between 8.30am and 8.40 am on each Trading Day of the Three Year Treasury Bond Futures Contract.

The weighted average of trade prices is defined as:

$$WA = \frac{S(price_n \; x \, volume_n)}{V}$$

where n = deal executed between 8.30am and 8.40am

and V = total volume traded between 8.30am and 8.40am

(b) The ~~Exchange shall determine the arithmetic mean of the prevailing Market bid and offer quotations at the quotation times in the underlying Three Year Treasury Bond Futures Contract~~ weighted average of trade prices shall be calculated to three decimal places and rounded to two decimal places. In rounding, the ~~arithmetic mean~~ weighted average of trade prices shall be expressed to the nearest second decimal place on the condition that where the third decimal place is five the ~~arithmetic mean~~ weighted average of trade prices shall be rounded to the next highest second decimal place. The ~~arithmetic mean~~ weighted average of trade prices so calculated shall be the Overnight Option Futures Price.

(c) In the event of disagreement on the Overnight Option Futures Price, the ~~Pit~~ Contract Committee shall arbitrate in any Dispute however this will in no way derogate from the powers of the Exchange to make a final decision on Overnight Option Futures Prices.

(d) Subject to By-Law TRB.208, the Exchange shall announce the Overnight Option Futures Price by no later than 8.45 am on the same Business Day.