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CHANGES TO SPI & SPI 200™ CASH SETTLEMENT PRICE METHODOLOGY

Introduction

Participants may be aware that yesterday, the Australian Securities and Investments Commission (ASIC) issued a media release supporting initiatives by SFE Corporation (SFE) and the Australian Stock Exchange (ASX) to reduce the risk of recurrence of the events surrounding end of second quarter 2001 trading on ASX and its effects on trading in SFE index futures contracts.

This Bulletin describes the methodology and implementation of the SFE initiative to alter the SPI & SPI 200™ Cash Settlement Price mechanism.

Participants should also note that ASIC has mandated changes to the settlement methodology of SPI & SPI 200™ contracts and that in no circumstance would it be acceptable to maintain the current closing price arrangements which, in any event would not be supported by SFE given recent expiry incidents.

Methodology

Further to consultation with ASIC, ASX and a wide range of market users, SFE will sever the linkage between the final Cash Settlement Price of SPI & SPI 200™ contracts and any closing price determined via an ASX closing mechanism after normal trading has ceased.

The disconnection of the SPI & SPI 200™ settlement price calculation from any ASX mechanism to determine a closing price after the close of normal trading will be effected by permanently changing the calculation of the quarterly SPI & SPI 200™ Cash Settlement Price. Going forward, the Cash Settlement Price will be calculated as an arithmetic average of 60 underlying S&P/ASX 200 Index¹ prices, taken at 30 second intervals up to and including the close of normal ASX trading.

On the basis that on 28 September 2001, ASX have decided not to provide a Closing Single Price Auction (CSPA) facility and to extend normal trading by randomly closing their market between 4:00pm and 4:06pm, SFE will continue to take prices, for the purposes of calculating an average, during this period. As an example, if the ASX

¹ "S&P/ASX 200 Index" is a trademark of Standard and Poors and is used under license by the Sydney Futures Exchange.

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market were to close at 4:02pm (or in fact any time between 4:02pm and zero seconds and 4:02pm and 29 seconds), the 60 prices used to calculate the average would be from 3:32pm and 30 seconds to 4:02pm and zero seconds, inclusive.

Implementation

Implementation of the new methodology for determining the Cash Settlement Price will occur via a combination of use of Board powers to deal with anticipated undesirable situations and formal changes to business rules.

Board powers have already been exercised for the September 2001 expiry, with the Board directing that the Cash Settlement Price will be determined by use of an arithmetic average outlined above. The same change will be achieved for the December 2001 and all subsequent expiries by means of rule changes that the Board has also approved – albeit these changes remain subject to regulatory disallowance. The Board of SFE retains the flexibility to change any aspect of the calculation of the arithmetic average methodology further to giving Participants 30 days prior notice.

SFE will monitor the September 2001 expiry and, once ASX has determined the closing price mechanism for December 2001 onward, will review the new methodology and assess whether any minor enhancements to the average price calculation algorithm are appropriate.

No other changes are being made to any aspect of SPI & SPI 200TM contracts, including the last trading day and close of trading.

Further Information

Any comments regarding the ASX random closing mechanism or CSPA should be directed to ASX.

For further information regarding the SPI & SPI 200TM Cash Settlement Price calculation, please contact Martyn Wild in SFE Strategy & Business Development on (02) 9256 0178.



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