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INTRODUCTION OF BLOCK TRADE FACILITY FOR AUD/USD FUTURES CONTRACTS

Introduction

On 4 September 2001, SFE will permit off-market trading in the AUD/USD futures contracts under the existing Block Trade Facility (BTF) rules. In accordance with TR.20.A.1(c) all proposed transactions must be equal to or greater than the prescribed minimum volume threshold for the applicable contract. The minimum volume threshold for AUD/USD futures contracts will be 30 lots. It is believed that this is the most appropriate level and one that complements existing exchange trading mechanisms.

Rationale for Introduction of BTF

SFE is aware that many institutional clients are discouraged from trading the AUD/USD futures contracts because they do not yet offer sufficient liquidity to enable single large orders to be transacted with certainty.

BTFs have been successfully introduced at other exchanges globally and have been found to increase liquidity, improve execution quality and reduce market transaction costs. Similar to the EFP facility, the BTF helps bridge the gap between exchange traded and OTC markets and is consistent with Exchange objectives to service customer needs as they relate to investment and risk management activities.

In response to these observations and in recognition of the varying needs of our customers, SFE is implementing the BTF to enable customers to arrange and execute transactions in accordance with TR.20.A. Block Trading Rules away from the central SYCOM[®] market. SFE therefore expects the BTF to facilitate an expansion in its customers' business opportunities.

Important Information

Participants should note that the prohibitions under Trading Rules TR.17.1(c)(v) (Withholding in Order to Cross), TR.18 (Duty Not to Disclose) and TR.19 (Pre-arrangement) will not apply to transactions executed pursuant to the Trading Rules for Block Trades, TR.20.A.

In accordance with TR.20.A.2(b)(ii), (iii) and (iv) as an off-market facility, the BTF will not interact with the SYCOM[®] market. Participants should therefore note that Block Trades will not affect any open/high/low/close/volume information in the SYCOM[®] market nor will Block Trade prices be used for settlement purposes. However Block Trade volumes will be included in all Exchange market data reporting.

S F E B U L L E T I N C O N T I N U E D

In accordance with TR.20.A.3(a)(ii) all executing Participants must inform the Exchange immediately after agreement of all details of the Block Trade. All Participants to the trade then have a further five minutes from that initial advice to submit a completed official Block Trade form to the Exchange. Participants are advised that in keeping with best practice principles, Participants should inform the Exchange of the Block Trade via the SYCOM® message facility and fax the completed Block Trade form to the Exchange.

Whilst Participants have full discretion to determine the price of a Block Trade, all transaction prices must be 'fair and reasonable'. In accordance with TR.20.A.2(a) it is the Participant's responsibility to be satisfied that the price quoted for the proposed Block Trade is 'fair and reasonable', by taking into account a range of factors including, for example, the current market price, the size of the transaction, the inherent volume/liquidity of the contract in question and market conditions generally. In accordance with TR.20.A.3(f) the Exchange reserves the right to invalidate a Block Trade if it is not executed in accordance with TR.20.A.

No Block Trades will be permitted in the contract month with five business days or less to expiry. Furthermore, Block Trades are not permitted in those expiry month(s) of prescribed Block Trade contract(s) which have never traded.

Implementation and Ongoing Monitoring

SFE will continue to monitor all trading (including Block Trading) to minimise the potential for customers to be unfairly disadvantaged. A regular review of BTF rules and minimum volume thresholds will be undertaken.

Further BTF Information

Appendix One presents key information about the BTF. Appendix Two presents Market Practice Note No. 38 to assist Participants in interpreting the Trading Rules for block trading. Please note that while Market Practice Note No. 38 refers to the BTF for SPI 200 futures contracts and its minimum volume threshold, the rule interpretations are applicable to the BTF for AUD/USD futures contracts. Alternatively, please refer to the web links or key points of contact below.

For all trading related enquiries, please contact:

David Raper - Manager, Trading Operations
Tel: +612 9256 0554
Email: draper@sfe.com.au

Key Information:

http://www.sfe.com.au/index.html?page=/site/html/blocktrading/sfe/currency/bt_keyinfo.htm

Applicable Contracts and Minimum Volume Thresholds:

http://www.sfe.com.au/index.html?page=/site/html/blocktrading/sfe/bt_thresholds.htm

Trading Rules:

http://www.sfe.com.au/index.html?page=/site/html/blocktrading/sfe/bt_rules.pdf

S F E B U L L E T I N C O N T I N U E D

For all surveillance or rule interpretation enquiries, please contact:

Mark Floyd - Acting Manager, Surveillance

Tel: +612 9256 0477

Email: mfloyd@sfe.com.au

Market Practice Note:

http://www.sfe.com.au/index.html?page=/site/html/blocktrading/sfe/bt_practicenote.pdf

For all general currency product enquiries, please contact:

Harry Hull - Manager, Currency Products

Tel: +612 9256 0596

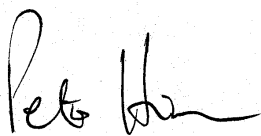
Email: hhull@sfe.com.au

Q&A:

http://www.sfe.com.au/index.html?page=/site/html/blocktrading/sfe/currency/bt_qanda.pdf

General Information:

<http://www.sfe.com.au/index.html?page=/site/html/blocktrading/sfe/currency/intro.asp>



Peter Hiom

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Block Trade Facility **Key Information**

Trading Hours	Block Trades to be organised and reported within normal contract trading hours (including the night session).
Required Information	Participant mnemonic (buyer and seller), contract, contract month(s)/year(s), price (of individual legs), number of lots (each leg), time of trade agreement and name of individual authorised by the Participant(s) to submit Block Trades.
Trade Execution	A Block Trade is executed as a Participant to Participant transaction (or a cross transaction for a single Participant on behalf of clients), submitted to SFE immediately after the agreement of all details of the proposed Block Trade. Participants to the transaction then have 5 minutes to submit a completed official Block Trade Facility Trade Registration Form to SFE. In keeping with best practice principles, Participants should inform the Exchange of the Block Trade via the SYCOM® message facility and fax the completed Block Trade form to the Exchange.
Trade Approval Process	Once receiving the Trade Registration Form, SFE staff will validate the following: 1) the difference between the time of trade agreement (from SYCOM® message) and the time of receipt by SFE (from the Trade Registration Form); 2) whether it is a valid contract; 3) whether the trade meets the minimum size requirements for the contract(s); 4) the trading rights of the Participant(s); 5) whether the price is within any tolerance levels determined by SFE.
Trade Publication	Subject to validation, SFE will disseminate Block Trade information approximately 5 minutes after receiving the Trade Registration Form. Validated Block Trades will therefore be published to the market approximately 10 minutes after the initiating Participant informs SFE of the intended transaction. SFE will disseminate the following information: contract, expiry month(s)/year(s), price, volume, Participant(s) ¹ and time of trade.
Conditions of Trading	Participants may not aggregate separate orders to meet minimum threshold requirements. However, Participants may aggregate any orders greater than or equal to the minimum threshold ² . There are no explicit price limits attached to Block Trades other than that they should be 'fair and reasonable'. SFE reserves the right not to validate a Block Trade if it is deemed to fall outside what is 'fair and reasonable'. This is done by taking into account a range of factors including (but not limited to); the current price and volume on SYCOM® of the same contract at the relevant time; the liquidity of the market; and general market conditions. In accordance with TR.20.A.3(f) the Exchange reserves the right to invalidate a Block Trade if it is not executed in accordance with TR.20.A. For AUD/USD futures contracts, the BTF will only be available for the 'spot' contract. Block Trades will not be permitted in a contract with five business days or less to expiry/delivery. Consequently, upon five days to expiry, the 'spot' contract will become the next expiry month, thereby facilitating continuous use of the facility. Block Trades are only permitted in those expiry month(s) of contract(s) which have previously traded.
Existing Trading Rules	All trades executed pursuant to the Trading Rules for Block Trades will be deemed to have been made in accordance with the standard contractual and clearing structures of the market. However, Participants should note that the prohibitions under Trading Rules TR.17.1(c)(v) (Withholding in Order to Cross), TR.18 (Duty Not to Disclose) and TR.19 (Pre-arrangement), will not apply to transactions executed pursuant to the Trading Rules for Block Trades.
Minimum Thresholds	Minimum volume thresholds will be set on an individual contract basis and monitored with a view to maintaining a desirable balance between Block Trade business and that executed

	through the SYCOM [®] mechanism for any given contract.
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¹ Participant information will only be disseminated to SFE Participants.

² Eg if the minimum threshold is 30 lots, a buy order for 150 lots may be satisfied on the sell side by one 120 lot and one 30 lot order.

PRACTICE NOTE

SUBJECT: Block Trade Facility

RELEVANT BUSINESS RULES: Trading Rule TR.20.A

ISSUED: 24 April 2001

PRACTICE NOTE NO: 38

INTRODUCTION

On 1st May 2001 SFE will introduce a Block Trade Facility (BTF) as an off-market trading mechanism in order to facilitate individually large volume trades. Trading Rule TR.20.A of the Business Rules (Rules) provides details of the functional process to be adopted using the BTF. Block Trades are large volume trades made up of orders greater than or equal to the Minimum Volume Threshold for futures contracts prescribed by the Board, Chief Executive or its delegate. The Board has prescribed that trades executed via the BTF to be orders of 500 lots or more for spot expiry SPI 200™ futures contracts.

For the convenience of Participants, attached as Annexure A are the Rules relating to the Block Trade Facility.

RULES

For the purpose of clarification, and to provide SFE's interpretation of certain Rules, set out below is an expanded explanation of a number of areas:

Block Trade Order versus Block Trade Interest

A Participant must be holding an order that meets the requirements of a Block Trade Order before it can solicit counterparties in accordance Trading Rule TR.20.A.1(h). It is insufficient only to have 'interest' from the originating client before the Participant attempts to determine whether there is opposing interest from other market participants.

Block Trade Order Recording

Although Block Trades are executed off-market they are still subject to the requirement to maintain internal records of instructions received from Clients and trades executed for Clients and the Participant's own orders and trading. Full Participants should refer to General By-Laws G.3.16(n) and (o) and Section 1266(7) of the Corporations Law and Local Participants, General By-Law G.5.18(f).

Only Registered Representatives to Solicit Counterparties to Block Trade Orders

Block Trade Orders are subject to General By-Law G.3.16(z), therefore, only Registered Representatives of Full Participants may 'broke' Block Trades, that is, solicit instructions (orders) from counterparties. Although Local Participants may also execute Block Trade Orders, they may not attempt to obtain counterparties to a Block Trade Order, this can only be done by a Full Participant.

Authorisation by Client to Execute Block Trade Orders - Trading Rule TR.20.A.4

Participants must be authorised in writing by the Client to execute a Block Trade Order on their behalf, either specifically or generally. This may be included in the Client Agreement Form between the Participant and the Client or may be obtained by a separate written authorisation.

Block Trade Fair and Reasonable Pricing - Trading Rule TR.20.A.2

It is the Participant's responsibility to ensure when arranging, organising or executing Block Trade Orders, that the price of any Block Trade Order being quoted, and which may be subsequently executed, is 'fair and reasonable' taking into account, but not limited to, the current price and volume on SYCOM[®] of the same contract at the relevant time, liquidity and general market conditions.

On each occasion when quoting a price for a Block Trade Order, the Participant must explain to the potential counterparty that the price quoted for the Block Trade Order may or may not be the prevailing market price; that the price at which the Block Trade is executed will not be used in establishing settlement prices; and that Block Trades will have no impact on current SYCOM[®] market data.

SFE reserves the right not to validate a Block Trade if it fails to reflect 'fair and reasonable' pricing.

Aggregation of Orders - Trading Rule TR.20.A.1(g)

Participants cannot aggregate smaller orders to make up a Block Trade Order, thereby satisfying the Minimum Volume Threshold. Block Trade Orders may only be aggregated where each individual order meets or exceeds the Minimum Volume Threshold.

Non-Availability of Block Trading - Trading Rule TR.20.A.1(d) & (e)

Block Trades will not be permitted in a contract month where there is five (5) business days or less remaining until expiry/delivery. The rationale for this is that market participants rely on open positions and daily traded volumes when either rolling or exiting contracts close to expiry. The integrity of the market may be compromised by allowing Block Trades to be executed within this period as a Block Trade may have a significant impact on the open interest, but because the SYCOM[®] volume is not updated, the market will be unaware of the potential effect on the open interest.

Block Trades are also not permitted in those delivery or expiry months of a Contract which have never traded.

Spread Trading

The Board has prescribed that only the spot expiry of the SPI 200[™] contract may be executed through the BTF, therefore, Participants will be unable to execute orders for intra-commodity spreads through the Block Trade Facility.

Participants should note however that as Trading Rule TR.20.A.1(e) provides for the inability to trade the spot contract when there is only 5 business days remaining to expiry, on the fifth business day out from expiry, the next delivery month effectively becomes the 'spot' month.

Sequencing

Block Trade Orders are subject to the sequencing provisions, that is, orders must be executed and trades allocated in the sequence in which they are received and recorded. It is not appropriate to 'pro-rata' volumes executed amongst clients. Participants should refer to General By-Law G.26(c) and Sections 1266(5) and 1266(6) of the Corporations Law for the sequencing provisions.

Procedures upon Execution of a Block Trade - Trading Rule TR.20.A.3

Where a Block Trade Order is to be crossed, a SYCOM[®] Trader of the executing Participant must send a text message to SYCOM[®] Operations briefly outlining the details of the Block Trade via the message facility immediately upon agreement of the details of the Block Trade. The time on this message will be the official time stamp used by SFE for the purpose of this Trading Rule.

Where two or more Participants are involved in a Block Trade, a SYCOM[®] Trader of the initiating Participant must send the text message to SYCOM[®] Operations immediately upon agreement of all details of the Block Trade. The SYCOM[®] Trader of the initiating Participant must also include details of the counterparty(s). Again, the time stamp on the message will be the official time stamp used by SFE.

Once the text message has been sent to SYCOM[®] Operations, each Participant involved must complete and send the BTF Trade Registration Form to SYCOM[®] Operations via facsimile within five (5) minutes of the text message, ensuring all relevant details have been filled out correctly and legibly. Each Participant must fill out their side of all trades and SFE will match opposing sides once received.

Execution of Unsuccessful Block Trades on SYCOM[®]

Where a Participant is unsuccessful in obtaining counterparties to a Block Trade Order i.e., the Minimum Volume Threshold cannot be met, however counterparties wish to execute a trade for a lesser volume, a SYCOM[®] Trader of the Participant may take the orders to SYCOM[®] for execution. However, as the trade would essentially have been 'prearranged' the Participant must not attempt to execute a cross trade unless a period of sixty (60) seconds has elapsed from the entry of the originating Client order. This will enable other Participants, and therefore their clients, to enter opposing orders into SYCOM[®].

Note: The above information is for the guidance of Participants and does not purport to be legal advice. The note should be read in conjunction with the legislation and any ASIC practice notes. Where appropriate, legal or other professional advice should be sought.

New definitions have been added to TR.1.1 as follows:**TR.1.1. DEFINITIONS**

“Block Trade”	Any trade which is executed via the Block Trade Facility.
“Block Trade Order”	An order in a class of Futures Contract or Options Contract prescribed by the Board or the Chief Executive or his Delegate which must be executed via the Block Trade Facility.
“Block Trade Facility”	The facility described in TR.20.A. whereby Block Trades are executed.
“Minimum Volume Threshold”	The thresholds determined by the Board or its Chief Executive or his Delegate from time to time being the minimum number of lots in respect of each Block Trade.

New TR.20.A reads as follows:**TR.20.A BLOCK TRADING RULES****TR.20.A1 Block Trade Facility**

- (a) The Exchange shall establish a Block Trade Facility and subject to these Trading Rules, and the Business Rules, a Block Trade Order must be executed pursuant to this TR.20.A;
- (b) The Board or the Chief Executive or his Delegate may prescribe contracts which may be traded using the Block Trade Facility;
- (c) A Minimum Volume Threshold shall apply to those contracts referred to in TR 20.A1(b) and shall be prescribed by the Board or the Chief Executive or his Delegate;
- (d) Block Trades are only permitted in a delivery/expiry month and/or exercise price of a prescribed contract which has previously traded;
- (e) The Block Trade Facility can only be used where more than five business days remain to delivery/expiry of the contract;
- (f) Where a Block Trade strategy involves:
 - (i) trading two or more different contracts, the smaller of the Minimum Volume Thresholds of the contracts which comprise the Block Trade will apply to each of these contracts;
 - (ii) trading two or more different delivery/expiry months and/or exercise prices of the same contract, the Minimum Volume Threshold will apply to the lot size of each leg of the trade,
- (g) Participants cannot:
 - (i) aggregate separate orders in order to meet Minimum Volume Thresholds; or
 - (ii) allot each individual leg of a Block Trade to different accounts.
- (h) Where a Participant receives a Block Trade Order from a Client, the Participant may:
 - (i) solicit counterparties to the Block Trade Order amongst other Participants;
 - (ii) withhold transmission of the Block Trade Order in order to solicit those counterparties;
 - (iii) disclose those details of the Block Trade Order as authorised by the Clients; and
 - (iv) aggregate orders where each order is greater than or equal to the Minimum Volume Threshold for that contract.

TR.20.A.2 Fair and Reasonable Price

- (a) Participants must satisfy themselves when arranging, organising or executing Block Trade Orders, that the price of any Block Trade Order being quoted is fair and reasonable taking into account, but not limited to, the current bid/offer, previous traded prices and volume on SYCOM® of the same contract at the relevant time, the depth, volatility and liquidity of the SYCOM® market, the size of the Block Trade Order and general market conditions.
- (b) On each occasion when quoting a price for a Block Trade Order, the Participant must make it clear at that time to the counterparty that -:
 - (i) the price quoted for the Block Trade Order may or may not be the prevailing market price;
 - (ii) the price at which the Block Trade is executed will not be used in establishing settlement prices;
 - (iii) Block Trades shall have no impact on SYCOM® market data; and
 - (iv) Block Trades will be separately reported to the market.

TR.20.A.3 Block Trade Execution

- (a) Participants to a Block Trade-:
 - (i) shall each execute a Block Trade Order in accordance with this TR.20.A. ;
 - (ii) shall communicate the agreed terms of the Block Trade Order immediately to the Exchange;
 - (iii) must each complete a Block Trade Facility Registration Form and submit the form to the Exchange for validation.
- (b) A completed Block Trade Facility Registration Form must be submitted to the Exchange for validation by each Participant within five (5) minutes of the time at which the Block Trade Order was agreed. The time limit for the submission of the Block Trade Facility Registration Form to the Exchange commences as soon as the agreed terms of the Block Trade Order are communicated to the Exchange pursuant to TR20.A.3(a)(ii).
- (c) An Exchange Official may grant an extension of time of the five (5) minute period referred to in TR 20.A.3 (b) but Exchange Officials are under no obligation to grant such an extension.
- (d) An Exchange Official will assess the validity of the details recorded on the Block Trade Facility Registration Form. When the Exchange Official is satisfied that the details recorded are valid and complete, then the Exchange Official will confirm the execution of the Block Trade.
- (e) Exchange Officials are under no obligation to accept record details in accordance with TR.20.A 3(a)(iii) where the information cannot be readily and properly validated.
- (f) Subject to TR.20.A.3(c) any Block Trade which is not executed in accordance with TR.20.A shall be invalid. The decision of the Exchange Official as to the invalidity of a Block Trade shall be final. The Exchange Official shall notify the effected Participants of that decision and send a message to the market identifying the Block Trade concerned.
- (g) Details of all Block Trades validated and confirmed by an Exchange Official shall be published by the Exchange to Participants. The details published to Participants will include the commodity, quantity, time, expiry month(s) and price of each Block Trade and the identity of the Participants who conducted the trade.
- (h) The original completed Block Trade Facility Registration Form (s) will be retained by the Participant (s) to a Block Trade Order and a copy of the completed, validated and confirmed Block Trade Facility Registration Form will be retained by the Exchange.
- (i) Confirmation by an Exchange Official execution of a Block Trade does not preclude the Exchange from taking disciplinary action in the event that the Block Trade is found to be other than in compliance with the Business Rules.
- (j) Where counterparties have been solicited pursuant to TR20.A1 and the Block Trade Order remains unfilled, then the Block Trade Order may revert to a permitted order (“the order”) as described in TR.12 and can be executed by the Participant on SYCOM® in accordance with the Client’s instructions. No Participant or SYCOM® Trader may attempt to execute a cross where that order is subsequently entered into SYCOM® unless a period of sixty (60) seconds has elapsed from the entry of the originating Client order.

TR.20.A.4 Fair and Reasonable Price (continued)

For the purpose of TR.20.A “a client” of a Participant which is a corporation shall include a related corporation as defined by the Corporations Law or a division of the Participant which is separate from that Participant’s futures division.

TR.20.A.5 Authorisation to Execute Block Trades

Before executing a Block Trade Order on behalf of a Client pursuant to TR.20.A a Participant must be authorised in writing by the Client to do so either specifically or generally.

Business Rules are available from the SFE website www.sfe.com.au under Market Operations->Business Rules.