

SFE Bulletin No: 116/01

From: SFE Corporation Limited ABN 74 000 299 392

Date of Issue: 22 Nov 2001

Effective Date: 1 October 2002

REGULATION OF ASSOCIATE PARTICIPANTS

This bulletin summarises the election that will need to be made by Associate Participants before 1 October 2002 as to whether or not they continue as an SFE Participant. This election is not about whether to continue using SFE's markets. It is about which organisation(s) will regulate such users.

Organisations that are, or have become, Associate Participants before 1 October 2002 will be able to continue submitting orders into SFE's markets – either on their own account or on behalf of clients/funds – through Full Participants. This bulletin covers Associate Participants that will continue to conduct activities after 11 March 2002 that necessitate them obtaining a financial service provider's licence from ASIC pursuant to the Financial Services Reform legislation that comes into operation on that day. It deals with whether these Associate Participants will continue to be regulated by SFE after they acquire a new licence under that legislation or whether they will be regulated solely by the Australian Securities & Investments Commission ("ASIC").

The combined effect of that legislation and SFE's response to it is that Associate Participants who wish to continue using SFE's markets after 1 October 2002 will need – before 1 October 2002 – to have either:

- become a Full Participant of SFE;
- Or*
- obtained a financial service providers licence from ASIC, enabling them to cease being a participant of SFE, i.e. cease being regulated directly by SFE.

Key features of the two options are:

- Option 1 – Becoming a Full Participant involves:
 - acquiring the capacity to submit orders directly into SFE's markets (and the scope to provide an interface through which its own customers achieve similar connectivity);
 - being required to meet unchanged Full Participant admission criteria, including having net tangible assets of \$1m;

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- being required to pay unchanged Full Participant annual fees (i.e. \$10,000 per year, with pro rata amount payable from 1 October 2002);
 - being required to convert existing ASIC licence (futures brokers licence) into the new ASIC licence (financial service providers' licence) before 11 March 2004 (i.e. end of two year transitional period under FSR legislation).
- Option 2 – Obtaining a financial service providers licence before 1 October 2002 involves:
 - no direct regulation by SFE;
 - direct regulation instead by ASIC, pursuant to new licence;

SFE will continue to have obligations to supervise various aspects of the relationship between those with direct access to SFE's markets (Full Participants) and their customers (including those customers that are currently Associate Participants). However, SFE will exercise these responsibilities without imposing regulatory requirements directly on those customers of Full Participants. Those customers will – after they've had their existing futures brokers licence converted into the new financial service provider's licence – no longer have a need for SFE to regulate them in order to maintain their eligibility for an ASIC licence.

To give these customers of Full Participants sufficient time to convert over their existing licences, SFE will be allowing a six month transitional period after the commencement of the FSR legislation before SFE ceases to admit new Associate Participants. The Associate Participant rules will be deleted, with effect from 1 October 2002.

For further information about:

- The changes to SFE's participant classes:

Ms Jennifer Fletcher
Phone: 02 9256 0564
Email: jfletcher@sfe.com.au
- The impact of the FSR legislation on futures brokers:

Ms Patricia Gilligan
Phone: 02 9256 0661
Email: pgilligan@sfe.com.au



Malcolm Starr
General Counsel

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