



SFE Bulletin No: 54/02

From: SFE Corporation Limited ABN 74 000 299 392

Date of Issue: 4 June 2002

Effective Date: 1 July 2002

SFE ANNOUNCES A SERIES OF INITIATIVES TO DEVELOP LIQUIDITY IN SFE OPTION PRODUCTS

As part of a business-wide initiative to improve volumes and market structure, a series of initiatives designed to enhance SFE's option market are to be introduced with effect from trade date 1 July 2002. These initiatives are designed to provide improved liquidity, price transparency and certainty of execution in SFE's option products.

Summary of Initiatives

Subject to receipt of regulatory approval, SFE will implement the following initiatives.

Initiative	Implementation Date	Interest Rate Options	Equity Options	Wool Options
Introduction of Pre-negotiated Business Rules	Trade Date 1 July 2002	✓	N/A	N/A
Switch off the SYCOM® Crossing Mechanism	Trade Date 1 July 2002	✓	✓	✓

These initiatives align SFE Business Rules with the market practices of overseas electronic exchanges and seek to stimulate screen based trading of options by encouraging on-screen price visibility and more efficient trade execution.

Introduction of Pre-negotiated Business Rules

SFE proposes to introduce new rules to allow pre-negotiated business to be executed on the Exchange, with effect from trade date 1 July 2002 (5:10pm, 28 June 2002). The rules, initially applied only to SFE interest rate options, will increase the flexibility for Participants to facilitate options business while maintaining price transparency and discovery.

The Pre-negotiated Business rules, to be introduced on a trial basis, will initially apply to quarterly and serial interest rate options (that is, 90 Day Bank Bill Options, 3 Year and 10 Year Treasury Bond Options) executed in the outright market, custom market (including transactions with a futures component) and under the off-market option strategy rules.

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The Pre-negotiated Business rules provide Participants with the opportunity to facilitate client business in order to obtain the best price for that business at that time. These rules permit Participants to withhold orders (subject to client consent) and pre-negotiate trades before bringing the business to SFE for crossing on SYCOM®. Participants will be required to enter the cross trade as separate buy and sell orders for matching within SYCOM®.

Before a Participant is permitted to cross a pre-negotiated trade they must issue a Request for Quote to the market. The buy and sell orders of the pre-negotiated business can then only be entered into SYCOM® after a prescribed period of time has passed from the moment the Request for Quote is made. The prescribed periods are:

Trade Type	Prescribed Period
Outright Options	10 seconds
Custom Market Options	30 seconds
Off-Market Option Strategies	30 seconds

Following consultation with its Participants and clients, SFE has decided to institute an incremental approach regarding the rule changes applicable to the SFE SPI 200™ Option market. As a consequence, the new Business Rules that sanction pre-negotiation will not be applied to SFE SPI 200™ Options at this time.

Switching Off the SYCOM® Crossing Mechanism

The electronic Crossing Mechanism will be switched off, with effect from trade date 1 July 2002 (5:10pm, 28 June 2002) for all outright option markets and the custom market.

Market consultation indicates that switching off the Crossing Mechanism will provide a level playing field for all users, irrespective of the Participant through which they trade. It is also envisaged that more active participation will be encouraged, resulting in additional trading opportunities.

Participants should note, however, that switching off the electronic Crossing Mechanism does not negate SFE Business Rules relating to cross trades, which will continue to be enforced. With the exception of cross trades executed under the Pre-negotiated Business rules (that is, trades applying to 90 Day Bank Bill Options, 3 Year and 10 Year Treasury Bond Options), cross trades can only be executed when opposing buy and sell orders have been received, as long as one has not been withheld whilst the other is being obtained from a client.

A number of Participants have raised crossing queries in respect to the receipt of opposing buy and sell orders from the same client at the same or similar time. Placing of orders in this manner is perfectly legitimate and the Participant holding the orders may cross or attempt to cross the orders as long as they clarify that the orders are for separate accounts, and also that they advise the client that no guarantees can be made that a cross will be effected, nor that the same price will be achieved.

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Participants are reminded that the cross trade rules specify that Participants should be careful not to exclude or attempt to exclude other Participants whilst executing a cross in the market. Please note that when executing opposing orders in products not subject to the Pre-negotiated Business rules, a trader who receives opposing orders at the same or similar time should, in accordance with current best practice, enter and release the orders via the same SYCOM® Workstation or Order System connected to the SYCOM® Interface.

Participants are referred to Trading Rule TR.17.1(c) for the specific crossing restrictions referred to above.

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