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From: SFE Corporation Limited ABN 74 000 299 392

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DISCUSSION PAPER: PRE-NEGOTIATION RULES FOR SFE SPI 200™ OPTIONS

Introduction

Subject to regulatory approval, SFE will introduce new trading rules to allow pre-negotiated business in SFE SPI 200™ Options with an attached minimum volume threshold on 4 August 2003.

The purpose of this Bulletin is give a broad overview of the proposed pre-negotiated business rules and to solicit market feedback in relation to the application of these rules to SFE SPI 200™ Options. **Submissions must be sent in writing to equities@sfe.com.au no later than 31 July 2003.**

Overview of the pre-negotiation rules

The purpose of the proposed pre-negotiated business rules is to assist market participants in arranging and executing SFE SPI 200™ Option orders, whilst at the same time providing the broader market with an opportunity to participate in the transaction. This will increase the ability of Participants to facilitate business in SFE SPI 200™ Options while maintaining price transparency and discovery in the SYCOM® market.

Pre-negotiated business would be transacted through SYCOM® such that both price and volume are immediately transparent. A condition of using pre-negotiation is the required use of the Request-For-Quote (RFQ) mechanism, with an attached time delay prior to order matching. This is to ensure pre-trade transparency of the best bid and offer in the market, as well as ensuring that the broader market has an opportunity to participate in a pre-negotiated order.

SFE proposes the following parameters for SFE SPI 200™ Options:

Applicable Market:	Custom Market only
Minimum Threshold:	100 SFE SPI 200™ Options (total lots in order), including SFE SPI 200™ futures when part of a Custom Market order
Time between RFQ and order entry:	3 minutes

A copy of the proposed pre-negotiated business rules (TR.20.B) is attached in Appendix One.

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Example of a SFE SPI 200™ Option transaction under the pre-negotiation business rules (TR.20.B)

- Step One:** Broker receives an indication from client looking to trade a straddle totalling 120 SFE SPI 200™ Options e.g. size 60 (1 x 3025 Puts and 1 x 3025 Calls)
- Step Two:** As the potential order is greater than the minimum threshold and cannot be traded in a pre-defined market (is a Custom Market order), the broker is allowed to arrange the transaction under the pre-negotiation rules. This means that the broker may withhold, pre-negotiate and disclose details of that potential order in the process of finding an opposing order; much like it can when arranging a Block Trade.
- Step Three:** Immediately after the broker receives opposing orders, it must send an RFQ to the market using a SFE standardised message. The broker must then wait 3 minutes before entering his orders into the SYCOM® market. This gives the market an opportunity to respond to the RFQ by entering their orders into SYCOM® prior to the broker entering his orders. When entering the orders all standard Custom Market rules must be followed.
- Step Four:** Immediately following the 3 minute prescribed period since the RFQ, the broker must enter the orders into the SYCOM® market. In accordance with the SYCOM® Trading Rules, the broker's orders will trade with other orders already in the market. This ensures that the broader market will participate in the transaction, if they are best price.

For clarity, a summary of the differences between the pre-negotiated business rules and the BTF rules is presented in the following table.

	SFE Pre-negotiated Business Trading Rules	SFE Block Trading Rules
Full participants have maximum flexibility to arrange an order, i.e. the prohibitions under Trading Rules TR.17.1(c)(v) (Withholding in Order to Cross), TR.18 (Disclosure of Information) and TR.19 (Pre-arrangement), do not apply	✓	✓
The market is given an opportunity to participate in a proposed trade prior to trade entry by the originator	✓	X
Trades are ultimately executed in the SYCOM® market	✓	X
Trades to Occur within the prevailing bid/offer spread	✓	X
Immediate transparency	✓	X

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Further Information

Appendix One presents the proposed pre-negotiation rules. Note that changes are only proposed to TR.20B.1. Alternatively, please refer to key points of contact below.

For all business related enquiries, please contact:

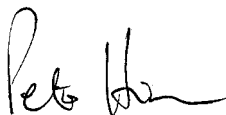
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TR.20.B PRE-NEGOTIATED BUSINESS

TR.20B.1 For the purpose of TR.20B, “pre-negotiated business” refers to orders executed in accordance with this TR.20.B involving classes of contracts which have been prescribed by the Exchange and in numbers of contracts which exceed any minimum volume threshold which has been prescribed by the Exchange in respect of those classes of contracts.

TR.20B.2 Where a Participant or SYCOM® Trader receives an instruction from a Client which can be executed as pre-negotiated business, the Participant or SYCOM® Trader may solicit orders from Clients and other Participants.

TR.20B.3 Where the Participant or SYCOM® Trader solicits counterparties pursuant to TR.20B.2, the Participant or SYCOM® Trader may:

- (a) withhold transmission of the instructions in order to solicit counterparties;
- (b) disclose details of Clients’ instructions;
- (c) aggregate orders received from Clients in satisfaction or part satisfaction of the originating Client order; and
- (d) subject to Tr.17.1(b), execute a cross trade.

TR.20B.4 Transactions negotiated pursuant to TR.20B.3 shall not be in breach of General By-Laws G.26(g), (i), (j), or (n), TR10.2, TR10.3, TR10.5, TR.17.1(c)(v), (vii), or (viii), TR.18 and TR.19.

TR.20B.5 Subject to TR.20B.6, once counterparties have been solicited pursuant to TR.20B.2, the Participant(s) or SYCOM® Trader(s) must enter the orders on SYCOM® for execution.

TR.20B.6 Prior to entering the pre-negotiated orders on SYCOM® for execution in the relevant contract month or strategy, the Participant or SYCOM® Trader holding the originating Client order must make an enquiry via the SYCOM® Message Facility or via the SYCOM® Request For Quote Facility for a market in that contract month or strategy. No pre-negotiated business order shall be entered into SYCOM® unless the prescribed period has elapsed after the entry of the enquiry. For the purposes of this TR.20B.6 the prescribed period is the period prescribed by the Board, the Chief Executive or his Delegate, being not less than 5 seconds.

TR.20B.7 Where a SYCOM® Request for Quote Facility is available all requests for quote must be made via that facility. Where a SYCOM® Request for Quote Facility is not available, all requests for quote must be made via the SYCOM® Message Facility.

TR.20B.8 Following the entry of an enquiry via the SYCOM® Message Facility or SYCOM® Request for Quote Facility the pre-negotiated orders must be entered on SYCOM® for execution immediately after the prescribed period has elapsed pursuant to TR.20B.6.

TR.20B.9 Before entering a pre-negotiated business trade on behalf of a Client pursuant to TR.20B, a Participant or SYCOM® Trader must be authorised In Writing by the Client to do so either specifically or generally.

TR.20B.10 For the purpose of TR.20B, in respect of any Participant that is a corporation, a “Client” shall include a related body corporate as defined by the Corporations Law or a division of the Participant – which is separate from the Participant’s futures division.