

**SFE Bulletin No:** 09/04

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## NEW SFE OPERATING RULES

To coincide with the commencement of full operation of the Financial Services Reform ('FSR') regime on 11 March 2004, significant amendments to the Operating Rules of Sydney Futures Exchange will come into operation on that day.

The amendments (a copy of which can be found at <http://www.sfe.com.au/index.html?content/sfe/intro.htm>) involve repeal of virtually the entire existing Business Rules and replacement with a new set of rules about half the size of the existing ones. Anything in the current rules which is merely descriptive of:

- (a) trading functionality; or
- (b) decisions that have been made by the Exchange under powers conferred by the rules;

is to be re-located to a separate document entitled 'Procedures, Determinations and Practice Notes' (a final version of this document is to be available on [www.sfe.com.au](http://www.sfe.com.au) by no later than commencement of the new rules on 11 March 2004. A draft version is available on the website already. The links in the rules to the procedures document will only be operative when the final version is available).

The purpose of this re-location is to speed up delivery of new product and process efficiency initiatives. Every amendment to SFE's rules has to go through a time-consuming ASIC and Treasury review process. Accordingly, paring the rules down to issues involving imposing obligations and conferring rights on the Exchange and Participants (i.e. things that really are 'rules') involves providing greater flexibility to adjust other procedures more quickly without them being unnecessarily caught up in the rule review process.

This paring back is most evident in the following three areas:

1. *Trading Rules* – descriptions of how to effect different strategy trades (e.g. strip trades, spread trades, option strategy trades) are now to be found in the 'Procedures, Determinations and Practice Notes', so as to facilitate easy addition of new strategies as functionality becomes available, with the Operating Rules being confined to things like imposition of obligations to allocate each leg of a strategy trade to the same account unless the Exchange determines otherwise.

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2. *Contract specifications* – by grouping together those terms which are common to a class of contract (e.g. the rights of buyers and sellers, respectively, that are common to all option contracts), considerable repetition of common terms has been eliminated. Determinations by the Exchange as to things like settlement months, trading times, the manner in which option premiums are quoted, etc are also being removed from the actual rules into ‘Procedures, Determinations and Practice Notes’ so that these can be altered without triggering the rule review process.
3. *Schedules* – all schedules have been deleted, with the core obligations being re-located in the rules (e.g. the obligation to provide a guarantee in the form determined by the Exchange) and aspects involving a recording of decisions taken by the Exchange being re-located to the procedures document.

To facilitate simultaneous consideration of the entire information relevant to a particular issue, the electronic versions of both the operating rules and the procedures documents will contain links to the relevant part of the other document.

Those parts of the current rules that are to continue as rules have been re-organised into seven categories. In addition to changes occasioned by this more logical grouping of subject matter, there have been a number of changes to the content. They generally fall into the following categories:

1. By-products of legislative changes (FSR):
  - deletion of provisions relating to:
    - (a) managed discretionary accounts and discretionary accounts;
    - (b) unsolicited business communications and advertising;
    - (c) contract notes and risk disclosure statements;
    - (d) trading by an employee of another Participant;
    - (e) arbitration of disputes between Participants and clients;
  - reduction in the range of issues which SFE requires Participants to address in their agreements with clients; and
  - incorporation of additional rules, previously found in legislation, relating to client segregated accounts
2. By-products of the decision to cease using NZFOE from 11 March 2004 and instead use Sydney Futures Exchange for the trading of all NZ denominated derivatives. (This will include futures, options on futures and equity operations, with the contract specifications for the new contracts to be listed arising out of SFE’s arrangements with NZX coming into operation on 11 March 2004, but the actual listing not occurring until a later date – in May 2004 – to be advised separately).
3. Removing the scope for disciplinary committees to impose penalties on Participants for breaches of imprecise obligations (e.g. not acting in the best interests of the Exchange; not acting in a proper and efficient manner) and replacing them with more precise obligations (e.g. not to enter orders in the absence of a genuine intent to trade). The scope for disciplinary committees to impose sanctions on employees is also being removed (with all sanctions being imposed directly on Participants) consistent with previously announced policy.

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A much smaller number of amendments to the SFE Clearing Rules will also come into operation on 11 March 2004. They do not involve any re-organisation of content of the type described above in relation to the Exchange rules, i.e. there has not been any paring back and wholesale re-location of material into a separate procedures document. Instead, the changes are consequential on:

- changes to legislation (FSR);
- changes consequential on SFE Clearing of NZ denominated contracts becoming clearing of an additional class of SFE contracts rather than NZFOE contracts; and
- changes to compliance and surveillance provisions consistent with those being made to SFE rules.

Along with the new rules – which have been formally made and are now undergoing the usual rule review process prior to becoming operational on 11 March 2004 – comparative tables to facilitate identification of which new rules correspond to the old rules (and vice versa) can also be found on the website.

A compliance forum has been scheduled for 3 March 2004, to which Participants' compliance personnel have been invited, at which presentations will be made about the rule changes with an opportunity for discussion.

Should you have any queries please contact Catherine Sullivan on 9256-0505 or [csullivan@sfe.com.au](mailto:csullivan@sfe.com.au)



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