



SFE Bulletin No: 76/04

From: Sydney Futures Exchange Limited ABN 83 000 943 377

Date of Issue: 30 November 2004

Effective Date: 13 December 2004

QUARTERLY CONTRACT EXPIRIES AND ENHANCEMENTS TO EXCHANGE FOR PHYSICAL AND BLOCK TRADING RULES

SFE Bulletin 47/04 described the formal guidelines introduced by Sydney Futures Exchange (the Exchange) in relation to expiry concentration position limits applicable at the close of trading on the day prior to contract expiry, and foreshadowed limits which would be effective for the December 2004 bond futures expiries.

Amendments to the Operating Rules which provide for limits to be determined, and which become effective on 13 December 2004 for the December 2004 expiry and all following expiries, are set out in Part 1 of the Annexure. As indicated in Bulletin 47/04, the limits which have been determined are:

	SFE 3-Year Commonwealth Treasury Bond futures contracts	SFE 10-Year Commonwealth Treasury Bond futures contracts
Maximum number of spot month net open position to be held at close of trading on T-1 at a corporate 'group' level	20,000	15,000

As with previous expiries, SFE wishes to remind all market users that there are a number of external factors that may impact upon trading strategies approaching the December 2004 bond futures contracts' expiry. These include the release of significant US economic figures and a meeting of the US FOMC in the days immediately preceding the expiry.

In addition, Participants are reminded of the ongoing regulatory obligations placed on both themselves and their clients to trade in a fair, orderly and transparent manner. Throughout the roll period, Participants are encouraged to roll bond futures positions in a timely and orderly manner and to maintain timely submission of 'Daily Beneficial Ownership Reports' (DBORs) to SFE Surveillance (previously referred to as 'reportable position reports') and timely daily close out procedures.

Amendments have also been made to the Operating Rules dealing with EFPs in relation to cancellation of EFPs. These amendments are mirrored in respect of Block Trades. The amendments appear in Part 2 of the Annexure and provide that:

- EFPs and Block Trades may only be cancelled with counter-party approval;
- EFPs and Block Trades cancelled on the business day after registration must be replaced with an EFP with the correct details;
- The Exchange retains a discretion to not cancel EFPs and Block Trades; and
- EFPs and Block Trades are to be excluded from all existing trade cancellation rules.

In addition, consistent with the policy of facilitating legitimate EFP activity without allowing activity which could easily be effected on-market to be transacted as an EFP, the Exchange considers that all roll trading, especially at expiry, should be performed transparently on the trading platform so as to maintain the integrity of available open interest.

Some additional minor changes have also been made to the Block Trade Operating Rules as set out in Part 2 of the Annexure.

Queries relating to position limits should be referred to Nick Gaut, Market analyst, on (02) 9256 0414 or ngaut@sfe.com.au and to the rule amendments to Catherine Sullivan on (02) 9256 0505 or csullivan@sfe.com.au.

All the Operating Rules (including Individual Contract Specifications and any Determinations which relate to them) of Sydney Futures Exchange Limited are published on SFE's website at <http://www.sfe.com.au/index.html?content/aboutsfe/rules.htm>



Barbara Jones
Senior Legal Counsel

Amend Operating Rule 2.2.13 by the addition of a new clause (d) as follows;**2.2.13 Prudent Risk Management****(a) Client Limits**

A Full Participant must demonstrate prudent risk management procedures, as determined by the Exchange, including, but not limited to:

- (i) set and document appropriate pre-determined order and/or position limits on each of its Client accounts, including a volume per order limit, an aggregate loss limit and an aggregate net session limit, based on the Full Participant's analysis of Clients' financial resources or other relevant factors;
- (ii) set and document maximum price change limits;
- (iii) the limits determined in Rules 2.2.13(a)(i) and (ii) must be input by a Full Participant's risk manager into Trading Platform account maintenance and will be established as preset accounts;
- (iv) limit setting capability must exist in the Participant's Order System which reflects prudent account risk management and the Order System must have order rejection capability where orders are in excess of limit parameters set by the Full Participant;
- (v) the Full Participant may in its absolute discretion amend the pre-determined order and/or position limit;
- (vi) orders in excess of the agreed pre-determined limits must be rejected by the Participant's Order System and may be rejected by the Trading Platform.

(b) Client Connections

- (i) Any Full Participant who has permitted its Client to connect to a Terminal shall be responsible for any orders entered through the Terminal by the Client.
- (ii) The entitlement of Full Participants to connect their Clients to the Terminal is a privilege and not a right.
- (iii) The Exchange may at any time by notice to the Full Participant and/or the Client terminate the entitlement of a Full Participant to provide such connection either generally or in relation to a particular individual, Client, system or device or class of system or device.
- (iv) A Full Participant or Client of a Full Participant shall have no recourse to any appeal, objection, hearing or re-hearing whatsoever in relation to any decision to terminate such entitlement and any such decision shall be final.
- (v) As soon as a Full Participant receives notice of termination of the connection entitlement pursuant to Rule 2.2.13, it shall promptly take all steps necessary to terminate such connection.

(c) Obligations Prior to Client Connection

Prior to permitting any Client to connect to a Terminal the Full Participant shall:

- (i) satisfy itself that the Client has the necessary skills, facilities and procedures to operate such a facility;
- (ii) satisfy itself that the Client understands the risks and obligations attached to the use of such a facility;
- (iii) ensure that each order so placed, and any Order System complies with the Operating Rules;
- (iv) provide appropriate controls on the connection of their Clients and their staff to such systems;
- (v) provide appropriate controls on the access to passwords of their Clients and their staff to such systems; and
- (vi) ensure appropriate controls are implemented for the security of their Clients' premises and physical access of their Clients and their staff to such systems.

(d) Position Limits

- (i) A Full Participant must comply with any determination by the Exchange as to the maximum number of Open Positions which may be held by that Full Participant or by each Full Participant in respect of a nominated Class of Contract at the end of a nominated Trading Day.

- (ii) A determination by the Exchange may express the permitted number of Open Positions which may be held by that Full Participant by reference to the number of Open Positions held as a result of instructions from Clients nominated by the Exchange or by reference to the number of Open Positions held on behalf of the Full Participant and some or all of its Related Bodies Corporate.

Amendments to Exchange for Physical Rule Rules

Amend Operating Rule 3.5 as indicated (additions underlined, deletions ~~struck out~~).

3.5.2 Prohibitions

No Exchange For Physical transaction may be effected ~~where:~~

- (a) where the parties to each side of the physical transaction are the same or are acting on behalf of the same person; ~~or~~
- (b) where both sides of the futures trade are taken out by the same Participant on its own account or are taken out on behalf of the same Client; or
- (c) to execute Roll business.

3.5.3 Exchange for Physical Registration

Where a Participant enters into a Contract in accordance with this Rule 3.5 on behalf of a Clearing Participant and the position is to be registered in the name of the Clearing Participant, the Participant shall send, or cause to be sent by the SFE Clearing, at a time determined by the Exchange, a document in a form determined by the Exchange.

3.5.10 Cancellation on the Day of Registration

- (a) An Exchange For Physical transaction may be submitted for cancellation at any time up to the end of the Business Day on which registration and acceptance of the transaction took place.
- (b) An Exchange For Physical transaction may only be cancelled under this Rule 3.5.10 where both parties to the transaction have approved of the cancellation.
- (c) The Exchange may refuse to cancel an Exchange for Physical in its own discretion even if both parties to the transaction have approved of the cancellation.

3.5.11 Cancellation on Day Two

- (a) Where there has been an error in the details of an Exchange For Physical Transaction submitted for registration, a Participant may submit that transaction for cancellation at any time up to the end of the Business Day after the registration and acceptance of that transaction.
- (b) A Participant may only submit an Exchange For Physical Transaction for cancellation under Rule 3.5.11(a) where it submits at the same time a replacement Exchange For Physical Transaction with the correct details for registration.
- (c) An Exchange For Physical Transaction may only be cancelled and replaced in accordance with this Rule 3.5.11 where both parties to the transaction have approved of the cancellation and replacement.
- (d) The Exchange may refuse to cancel an Exchange for Physical in its own discretion even if both parties to the transaction have approved of the cancellation.

Amendments to Block Trading Rules

Amend Operating Rule 3.4 as indicated (additions underlined, deletions ~~struck out~~).

3.4 TRADING PRINCIPLES FOR BLOCK TRADES

3.4.1 Exchange to Allow Block Trades

The Exchange shall establish a Block Trade Facility and determine procedures for such facility, and a Participant shall execute Block Trades in accordance with this Rule 3.4.

3.4.2 Exchange Prescriptions:

The Exchange may Pprescribe:

- (a) a Class of Contract or one or more delivery/expiry months and/or exercise prices within a Class of Contract ~~contracts~~ which may be traded using the Block Trade Facility;
- (b) the Minimum Volume Threshold for the prescribed eContracts. Where a Block Trade strategy involves:
 - (i) trading two or more different eContracts, the smaller of the Minimum Volume Thresholds of the contracts which comprise the Block Trade will apply to each of these eContracts;
 - (ii) trading two or more different delivery/expiry months and/or exercise prices of the same Class of Ccontract, the Minimum Volume Threshold will apply to the lot size of each leg of the trade;
- (c) the number of days remaining until delivery/expiry of the eContract within which the Block Trade Facility cannot be used.

3.4.3 Participant Entitlements

Where a Participant receives a Block Trade Order from a Client, the Participant may:

- (a) solicit counterparties to the Block Trade Order amongst other Participants;
- (b) withhold transmission of the Block Trade Order in order to solicit those counterparties;
- (c) disclose those details of the Block Trade Order as authorised by the Clients; and
- (d) aggregate orders where each order is greater than or equal to the Minimum Volume Threshold for that eContract.

~~3.4.4 Permitted Block Trades~~

~~Block Trades are permitted in any delivery/expiry month and/or exercise price of a prescribed Contract irrespective of whether that prescribed contract has previously traded.~~

3.4.54 Prohibitions

Participants cannot:

- (a) aggregate separate orders in order to meet Minimum Volume Thresholds; or
- (b) use the Block Trade Facility to execute Roll business.

3.4.5 Unfilled Block Trade Orders

- (a) Subject to 3.4.5(b), where counterparties have been solicited pursuant to Rule 3.4.3(a) and the Block Trade Order remains unfilled, then the Block Trade Order may revert to a Permitted Order (“the order”) as described in Rule 3.1.3 and can be executed by the Participant on the Trading Platform in accordance with the Client’s instructions.
- (b) The orders from counterparties referred to in Rule 3.4.5(a) must not be entered into the Trading Platform unless such period of time as determined by the Exchange has elapsed from the entry of the originating Client order.

3.4.6 Block Trade Communication and Registration

- (a) Where opposing Block Trade Orders have been negotiated, the initiating Participant must advise the Exchange of the agreed terms of the Block Trade Order via the Message Facility, or via such other means as determined by the Exchange, within 5 minutes of the trade, or such other time as determined by the Exchange.
- (b)
 - (i) Once the message referred to in Rules 3.4.6(a) has been sent, each Participant must complete a Block Trade Facility Registration Form, or such other notification as determined by the Exchange, and submit it to the Exchange for validation within 5 minutes, or such other time as determined by the Exchange.
 - (ii) the time limit for the submission of the Block Trade Facility Registration Form, or such other notification as determined by the Exchange, commences as soon the agreed terms of the Block trade Order are communicated to the Exchange pursuant to Rules 3.4.6(a).

3.4.7 Cancellation on the Day of Registration

- (a) A Block Trade may be submitted for cancellation at any time up to the end of the Business Day on which registration and acceptance of the trade took place.
- (b) A Block Trade may only be cancelled where both parties to the trade have approved of the cancellation.
- (c) The Exchange may refuse to cancel a Block Trade in its own discretion even if both parties to the transaction have approved of the cancellation.

3.4.8 Cancellation on Day Two

- (a) Where there has been an error in the details of a Block Trade submitted for registration, a Participant may submit that transaction for cancellation at any time up to the end of the Business Day after the registration and acceptance of that transaction.
- (b) A Participant may only submit a Block Trade for cancellation under Rule 3.4.8(a) where it submits at the same time a replacement Block Trade with the correct details for registration.
- (c) The Exchange may refuse to cancel an Exchange for Physical in its own discretion even if both parties to the transaction have approved of the cancellation.

3.4.79 Client Authorisation

Before executing a Block Trade Order on behalf of a Client a Participant must be authorised in writing by the Client to do so either specifically or generally and such authorisation shall include an acknowledgment by the Client 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 the Trading Platform market data; and

(iv) Block Trades will be separately reported to the market.

3.4.8.2 Definition of Client

For the purpose of this Rule 3.4 “a Client” of a Participant which is a corporation shall include a Related Body Corporate or a division of the Participant which is separate from that Participant’s futures division.

Consequential Amendments

Amend Operating Rule 1.11, 1.12, 1.13 and 3.1.10 as indicated (additions underlined).

1.11 Exchange Right to Cancel orders and Cancel Trades

1.11.5 Block Trades and Exchange for Physical Transactions

This Rule 1.11 does not apply to Block Trades and Exchange For Physical transactions.

1.12 OBJECTIONS DURING TRADING

1.12.8 Block Trades and Exchange for Physical Transactions

This Rule 1.12 does not apply to Block Trades and Exchange For Physical transactions.

1.13 ERRORS DURING TRADING

1.13.15 Block Trades and Exchange for Physical Transactions

This Rule 1.13 does not apply to Block Trades and Exchange For Physical transactions.