

CIRCULAR TO:

CLEARING MEMBERS
BACK OFFICE ACCOUNTING SUPPLIERS
QUOTE VENDORS
FLOOR MEMBERS
NZ AGENTS

No: 62/99

**FOREIGN CURRENCY CONTRACTS &
OPERATIONAL/BANKING IMPACTS**

1.0 INTRODUCTION

The Sydney Futures Exchange intends to list the following new contracts during the first half of 2000:

- Dow Jones Japan AP/ELS
- Dow Jones Hong Kong AP/ELS
- Dow Jones Pan-Pacific AP/ELS

- AUD/USD Cash deliverable¹ – *contract under consideration*
- Dow Jones Global Titans² – *contract under consideration.*

Further details³ regarding these contracts are contained in Appendix I of this document.

This circular sets out the major daily operational changes the SFECH proposes to make in order to process these contracts. Section 2 of this circular outlines these changes and the potential impact to Members. Section 3 outlines the new banking arrangements required for the daily settlement and clearing of the new contracts.

It is expected that the proposed changes will impact both those Members who do not intend to trade/clear the foreign currency contracts and those who do.

All Members are advised to assess the impact on their internal back office systems and operational procedures, and provide the SFECH with feedback as required.

¹ AUD/USD currency contract is currently under consideration by the SFE with further confirmation to be advised. Contract specification is unavailable at this stage.

² DJ Global Titans contract is currently under consideration by the SFE with further confirmation to be advised. Contract specification is unavailable at this stage.

³ Draft contracts specifications are provided for information purposes only and are subject to change.

2.0 OPERATIONAL CHANGES

With the introduction of the new foreign currency contracts, the SFE/SFECH will be required to change some of their existing daily operational procedures. In summary, the proposed changes will be as follows:

- Individual foreign currency contracts will have different trading hours and daily settlement times. The current proposal is as follows ⁴:

Contract	Trading hours	Contract Close & Settle
AUD AP/ELS (existing contract)	17:10 - 16:15	16:15 - 17:00
JPY AP/ELS	17:10 - 16:10	16:10 - 17:10
HKD AP/ELS	18:40 - 18:10	18:10 - 18:40
Pan-Pacific AP/ELS	19:40 - 19:10	19:10 - 19:40

- The closing times for these foreign currency contracts will impact the STACS/Clearing processing day for SFE in the following areas:
 - Current deadline for STACS default processing;
 - Submission times for reported position files for SFE;
 - The number of SPAN / Risk Parameter Files and their distribution times;
 - NZFOE operations;
 - Fees and Commissions; and
 - Margins in foreign currencies to be settled through a Protected Payments System. (Refer to Section 3.0)

These areas are discussed in more detail below.

2.1 STACS Default Processing

- For Members who only trade/clear existing products:
Members are advised to maintain the current intra-day time brackets and end-of-day deadlines for completion of trade allocation and assignment in STACS.
- For Members who intend to trade/clear both existing products and foreign currency contracts:
Members are advised to maintain the current intra-day time brackets and end-of-day deadlines for completion of trade allocation and assignments for existing products.
For trade allocation and assignment of foreign currency contracts, the new deadline⁵ will be 20:30 and 21:00 respectively.
- For Members who only intend to trade/clear foreign currency contracts:
Members are advised the new deadline⁵ for trade allocation and assignment of foreign currency contracts will be 20:30 and 21:00 respectively.

⁴ Proposed trading hours and settlement times are outlined in Australian winter time. Refer to Appendix I – contract specifications for further information on proposed new contracts.

⁵ Deadline for trade allocation and assignment will be subject to changes to By-Laws.

2.2 Reported Position Files

Members who intend to trade/clear these foreign currency contracts should submit their SFE Reported (Long & Short) Position Files by 23:00. Deadline for submission of the NZ file will remain the same.

Members who do not intend to trade or clear these foreign currency contracts should continue to submit their Reported (Long & Short) Position Files as per the current deadline. Normally this means the NZ reported position files should be submitted first (where required) with the SFE files being submitted once they are available and appended to the NZ file.

2.3 SPAN / RPF Files for SFE

Due to the different settlement times, there will be 3 interim SPAN / RPFs produced for the SFE market during the Australian winter time and 4 files produced during the Australian summer time.

The proposed distribution times and content of each file during the Australian winter time will be as follows:

SPAN / RPF	Content of SPAN / RPF file	Settlement Prices⁶	File Available
# 1	- AUD AP/ELS and existing products, JPY AP/ELS	Day T	17:30
	- HKD & Pan-Pacific AP/ELS	Day T-1	
# 2	- AUD AP/ELS and existing products, JPY AP/ELS & HKD AP/ELS	Day T	19:00
	- Pan-Pacific AP/ELS	Day T-1	
# 3	- All products	Day T	20:00

Table I – SPAN / RPF files produced during Australian winter time.

The 1st SPAN / RPF will be suitable for use by Members who intend to trade/clear existing products and/or JPY AP/ELS. This file will contain the current day settlement prices for these products, and the previous day settlement prices for the HKD & Pan-Pacific AP/ELS.

The 2nd SPAN / RPF will be similar to the first file with the exception of the current day settlement prices also shown for HKD AP/ELS. Previous day settlement prices will be shown for Pan-Pacific AP/ELS only.

The 3rd or last SPAN / RPF will contain the current day settlement prices for all of the above contracts.

It is intended that the above files will be clearly identified on the Bulletin Board and the SFE Web site, in order to reduce potential confusion.

During Australian summer time, four (4) SPAN / RPF files will be produced due to the change in daily settlement times for each contract. The distribution times and content of each file will differ as follows:

⁶ Day T: Current trading day. Day T-1: Previous trading day.

SPAN / RPF	Content of SPAN / RPF file	Settlement Prices	File Available
# 1	- AUD AP/ELS and existing products - JPY, HKD & Pan-Pacific AP/ELS	Day T Day T-1	17:30
# 2	- AUD AP/ELS and existing products + JPY AP/ELS - HKD and Pan-Pacific AP/ELS	Day T Day T-1	18:00
# 3	- AUD AP/ELS and existing products + JPY AP/ELS + HKD AP/ELS - Pan-Pacific AP/ELS	Day T Day T-1	20:00
# 4	- All contracts	Day T	21:00

Table II - SPAN / RPF files produced during Australian summer time.

All Members are asked to review the proposed distribution times for possible impact to their internal back-office systems and procedures. Additionally, the SFE/SFECH will be performing systems testing during the months of November and December 1999, with the aim of providing sample test files to assist Members with the review process. Notifications will be sent to Members in due course when the sample files are available.

2.5 NZFOE Operations

For members involved in trading and clearing the NZFOE market, the above changes should not impact the current operations of the NZFOE or current operational deadlines which apply to this market.

2.6 Fees and Commissions

Fees and Commissions for the new foreign currency contracts will be charged in AUD.

3.0 PROTECTED PAYMENTS SYSTEM (PPS) BANKING

In order to ensure irrevocably cleared funds are available in accordance with settlement timeframes, SFECH will be implementing a Protected Payments System (PPS), designed to provide SFECH with certainty of foreign currency settlement under the Australian time zone conditions.

Both Settlement Variation margins and Initial margins in foreign currencies (USD, JPY, HKD) will be settled through the PPS on the next working day (ie. Sydney morning). Under normal banking arrangements SFECH would not be able to confirm receipt of funds until the day after they are paid into an account.

3.1 How Will PPS Banking work?

Firstly, the Clearing Members must have PPS bank accounts setup with one of the participating settlement banks to be able to trade and settle foreign currency contracts. (Refer to section 3.2 for a list of participating banks involved in the PPS).

These accounts will be used for the transfer of foreign currencies and are referred to as the "Members PPS bank account". The SFECH will also have one account per currency at each settlement bank.

After Members have sent through their cash advice forms in the morning, the settlement banks are notified of the amounts SFECH needs to receive/pay from/to the Members PPS bank accounts.

The amounts are checked to ensure availability of funds and a book transfer is effected, (ie. transferring the funds to the SFECH account from the Members PPS bank account or vice versa.) SFECH will hold an authority over the Members PPS bank accounts, allowing the settlement bank to debit the account upon request (subject to the availability of funds) without having to gain authorisation from the Member.

The settlement banks will provide the SFECH with authenticated confirmation of the book transfer effected for that value date.

A Member Authority Form has been prepared which will allow Members to give their settlement banks the authority to debit/credit the prescribed accounts under the instructions from SFECH, and transfer these funds to/from the SFECH account for that currency. A copy of this form will be provided in a future circular.

3.2 Settlement Banks

The SFECH has finalised negotiations with several leading banks to participate in the PPS program. These banks and their currency participation are as follows:

- Bank of New York, New York USD only
- Bank of America, Sydney HKD, JPY, USD
- Commonwealth Bank, Sydney HKD, JPY, USD
- National Australia Bank, Sydney HKD, JPY, USD
- Westpac Banking Corporation, Sydney HKD, JPY, USD

Further banks may be added to this list, depending on Member demand and operational compliance.

To trade foreign currency contracts, accounts for PPS must be opened with one or more settlement bank(s) in the currencies to be traded.

Further information and contact details at the settlement banks will be forwarded in a future circular.

3.3 Timings

SFECH will require notice of cash flow instructions for USD, HKD and JPY by 8:00AM each day.

This allows the Clearing House to request the funds from Members PPS bank accounts and provides the settlement banks with time for processing. The banks will respond to SFECH confirming that either the book transfer has been effected (and the amount transferred to SFECH account) or that there are insufficient funds in the account to process the amount requested.

Members will be required to fund settlement and initial margin shortages in the currency of the contract and the normal default procedures will apply if insufficient funding situations cannot be resolved promptly.

3.4 Holidays

Initially the new products will not be traded on Australian public holidays.

The SFECH/SFE are currently examining processing issues associated with the trading and clearing of the new contracts on an Australian public holiday when the underlying market of the contract is open. Further details of the impact of this initiative will be provided to Members for discussion in a future circular.

In terms of PPS banking, it is anticipated that the settlement banks will be able to provide PPS advices and complete book transfers on all Australian and NSW Public holidays.

In the event of a holiday, the PPS advices are required as per normal, however the book transfers debiting/crediting Members PPS banking accounts will not take place until the following business day (value date) for that particular currency.

3.5 Fees, Charges and Accounts

Each Clearing Member will be responsible for their own fees and charges associated with using the PPS bank account facilities. Clearing Members are required to approach the participating settlement banks and make the necessary arrangements to open their own PPS bank accounts.

4.0 GENERAL

Please direct any queries, or requests for further information, to Paul Williamson (+612 9256 0139) or myself (+612 9256 0492) at SFECH. Feedback can also be sent to the SFECH via our email address:
sfech@sfe.com.au

PETER HICKMOTT
MANAGER - CLEARING PROJECTS

15 OCTOBER 1999

HONG KONG

Contract Name ITC Commodity Code	Dow Jones AP/ELS Hong Kong F, FO & IO Contracts HF		
Contract	Futures (F)	Futures Options (FO)	Index Options (IO)
Option Style		American	European
Underlying Index	Hong Kong Index	Hong Kong Index Futures	Hong Kong Index
Underlying Asset	Index Points * HK100	1 Index Futures Contract	Index Points * HK100
Price/Premium Quotation	Quoted in 1 index point/s	Quoted in 0.1 index point/s	Quoted in 0.1 index point/s
Minimum Price Fluctuation (Tick)	1 index point = HKD \$100	0.1 index point = HKD \$10	0.1 index point = HKD \$10
Contract Cycle	6 contract months of the March, June, September and December cycle, plus 1 or 2 serial months ensuring spot and spot+1 months are active.		
Last Trading Day	The business day immediately preceding the last Business Day of the Contract Month. Trading will terminate at 16:10pm Hong Kong time.		
First Trading Day/Time	Ten minutes before the underlying market open (SEHK) on the first trading day following the last trading day of the previous contract month.		
Strike Prices	Set at intervals of 50 index points apart (~2%). 15 Steps either side of the ATM position are initially created (~30% range up/down). New option exercise prices created automatically as the underlying index moves keeping the range 15 steps above and below the spot price		
Daily Settlement Marked to Market	Mid point between the last futures Bid and Offer is used	Black model for theoretical value is used, using the FUTURES price as the underlying asset. A consensus implied volatility is used for the at the money position, and a SFE volatility skew is used for option positions away from the money.	Black model for theoretical value is used, using the INDEX price as the underlying asset. A consensus implied volatility is used for the at the money position, and a SFE volatility skew is used for option positions away from the money.
Expiry Settlement Price (ESP)	Contracts are cash settled. The expiry settlement price of the futures contract is calculated by taking a simple average of all Dow Jones AP/ELS Hong Kong index values over the final 20 minutes of trade on the Stock Exchange of Hong Kong. Expiry settlement price is calculated to 1 decimal place for futures and options as provided by Dow Jones to the SFE within 10 minutes of the close on the last day of trading.		
	In-the-money options are automatically exercised at expiration, unless specified otherwise by the customer.		
Option Exercise		Option exercise prior to expiry: results in the holder receiving a futures position at the options strike price.	Option cannot be exercised prior to expiry
Margin	Margin information (margin calculation, list of collateral, etc) can be obtained from SFECH Option premiums are margined.		
Trading Hours	HK 19:40pm to 19:10pm trading on SYCOM® IV (Australia summer time) HK 18:40pm to 18:10pm trading on SYCOM® IV (Australia winter time) 23 ½ hours trading session		
Daily Settlement Time	(16:10pm HK time) 19:10pm Australian summer time 18:10pm Australian winter time		

JAPAN

Contract Name	Dow Jones AP/ELS Japan F, FO & IO Contracts		
ITC Commodity Code	JI		
Contract	Futures (F)	Futures Options (FO)	Index Options (IO)
Option Style		American	European
Underlying Index	Japan Index	Japan Index Futures	Japan Index
Underlying Asset	Index Points *JY2,000	1 Index Futures Contract	Index Points *JY2,000
Price/Premium Quotation	Quoted in 1 index point/s	Quoted in 0.1 index point/s	Quoted in 0.1 index point/s
Minimum Price Fluctuation (Tick)	1 index point = JY2,000	0.1 index point = JY200	0.1 index point = JY200
Contract Cycle	6 contract months of the March, June, September and December cycle, plus 1 or 2 serial months ensuring spot and spot+1 months are active.		
Last Trading Day	The business day before the 2nd Friday of each contract month. Trading will terminate at 15:10pm Japan time.		
First Trading Day/Time	Ten minutes before the underlying market open (TSE) on the first trading day following the last trading day of the previous contract month.		
Strike Prices	Set at intervals of 50 index points apart (~2%). 15 Steps either side of the ATM position are initially created (~30% range up/down). New option exercise prices created automatically as the underlying index moves keeping the range 15 steps above and below the spot price		
Daily Settlement Marked to Market	Mid point between the last futures Bid and Offer is used	Black model for theoretical value is used, using the FUTURES price as the underlying asset. A consensus implied volatility is used for the at the money position, and a SFE volatility skew is used for option positions away from the money.	Black model for theoretical value is used, using the INDEX price as the underlying asset. A consensus implied volatility is used for the at the money position, and a SFE volatility skew is used for option positions away from the money.
Expiry Settlement Price (ESP)	Contracts are cash settled. The expiry settlement price of the futures contract is calculated by taking a simple average of all Dow Jones AP/ELS Japan index values over the final 20 minutes of trade on the Tokyo Stock Exchange. Expiry settlement price is calculated to 1 decimal place for futures and options as provided by Dow Jones to the SFE within 10 minutes of the close on the last day of trading.		
	In-the-money options are automatically exercised at expiration, unless specified otherwise by the customer.		
Option Exercise		Option exercise prior to expiry: results in the holder receiving a futures position at the options strike price.	Option can not be exercised prior to expiry
Margin	Margin information (margin calculation, list of collateral, etc) can be obtained from SFECH Option premiums are margined.		
Trading Hours	Japan 17:40pm to 17:10pm trading on SYCOM® IV (Australia summer time) Japan 17:10pm to 16:10pm trading on SYCOM® IV (Australia winter time) 23 ½ hours trading session		
Daily Settlement Time	(15:10pm Japanese time) 17:10pm Australian summer time 16:10pm Australian winter time		

PAN PACIFIC

Contract Name	Dow Jones AP/ELS Pan Pacific F, FO & IO Contracts		
ITC Commodity Code	PP		
Contract	Futures (F)	Futures Options (FO)	Index Options (IO)
Option Style		American	European
Underlying Index	Pan Pacific Index	Pan Pacific Index Futures	Pan Pacific Index
Underlying Asset	Index Points * 20 USD	1 Index Futures Contract	Index Points * 20 USD
Price/Premium Quotation	Quoted in 1 index point/s	Quoted in 0.1 index point/s	Quoted in 0.1 index point/s
Minimum Price Fluctuation (Tick)	1 index point = 20 USD	0.1 index point = 2 USD	0.1 index point = 2 USD
Contract Cycle	6 contract months of the March, June, September and December cycle, plus 1 or 2 serial months ensuring spot and spot +1 months are active.		
Last Trading Day	The business day immediately preceding the last Business Day of the Contract Month. Trading will terminate at 20:10pm Australia summer time.		
First Trading Day/Time	Ten minutes before the first underlying market open (ASX) on the first trading day following the last trading day of the previous contract month.		
Strike Prices	Set at intervals of 50 index points apart (~2%). 15 Steps either side of the ATM position are initially created (~30% range up/down). New option exercise prices created automatically as the underlying index moves keeping the range 15 steps above and below the spot price		
Daily Settlement Marked to Market	Mid point between the last futures Bid and Offer is used	Black model for theoretical value is used, using the FUTURES price as the underlying asset. A consensus implied volatility is used for the at the money position, and a SFE volatility skew is used for option positions away from the money.	Black model for theoretical value is used, using the INDEX price as the underlying asset. A consensus implied volatility is used for the at the money position, and a SFE volatility skew is used for option positions away from the money.
Expiry Settlement Price (ESP)	Contracts are cash settled. The expiry settlement price of the futures contract is equal to the final index value for the AP/ELS Pan-Pacific Index at the close of the last market included in the index. Expiration settlement price is calculated to 1 decimal place for futures and options as provided by Dow Jones to the SFE within 10 minutes of the close on the last day of trading.		
	In-the-money options are automatically exercised at expiration, unless specified otherwise by the customer.		
Option Exercise		Option exercise prior to expiry: results in the holder receiving a futures position at the options strike price.	Option can not be exercised prior to expiry
Margin	Margin information (margin calculation, list of collateral, etc) can be obtained from SFECH. Option premiums are margined.		
Trading Hours	20:40pm to 20:10pm trading on SYCOM® IV (Australian summer time) 19:40pm to 19:10pm trading on SYCOM® IV (Australian winter time) 23 ½ hours trading session		
Daily Settlement Time	20:10pm Australian summer time 19:10pm Australian winter time		

Schedule of Months Quoted for DJ AP/ELS PAN-PACIFIC contracts (F, FO & IO)

During the month of	Current Year												Following Year												Succeeding Year				
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M
JAN	X	X	X			X			X		X			X			X												
FEB		X	X	(X)		X			X		X			X			X												
MAR			X	X	(X)	X			X		X			X			X			(X)									
APRIL				X	X	X			X		X			X			X			X									
MAY					X	X	(X)		X		X			X			X			X									
JUNE						X	X	(X)	X		X			X			X			X			(X)						
JULY							X	X	X		X			X			X			X			X						
AUG								X	X	(X)	X			X			X			X			X						
SEPT									X	X	(X)	X			X			X			X			X			(X)		
OCT										X	X	X			X			X			X			X			X		
NOV											X	X	(X)		X			X			X			X			X		
DEC											X	X	(X)	X			X			X			X			X			(X)

NOTE: In each month in the left hand vertical column of this chart, the officially quoted forward months are those marked “x” in the other columns reading horizontally to the right. From the day following the last day of trading in spot month, those marked “(x)” will commence trading. For example: in June, the officially quoted forward months will be: in the current year, June, July, September and December – in the following year, March, June, September and from the day following the last day of trading in spot month, the current year’s August, plus the following year’s December.