

CIRCULAR TO:

CLEARING MEMBERS

NO: 55/00

Update on PPS Banking Arrangements for AUD/USD Contract Launch

1.0 Introduction

As mentioned in circular 62/99, SFECH is planning to implement a Protected Payment System in order to clear the AUD/USD future contract being listed in July 2000. The Protected Payments System (PPS) is designed to provide SFECH with certainty of foreign currency funds in a more timely manner than conventional banking methods allow.

This circular is designed to assist Members in setting up accounts with participating banks and provide further information on how the PPS Banking Arrangements will function.

2.0 How will PPS Work for Daily Clearing of AUD/USD contract?

Both Settlement Variation margins and Initial margins in USD currency will be settled via PPS using the current Clearing timeframes.

Clearing Members must have a PPS bank account setup with one of the participating settlement banks to be able to trade and settle the USD future contract. (Refer section 5.0 for a list of participating banks involved in the PPS).

SFECH will also have one account at each settlement bank.

Members are required to send through their Daily Cash Settlement forms for USD amounts by 8:00am if they intend to pay or receive any amount **other than** the Shortage/Excess indicated on their Financial Status Advice or Standard Settlement Instructions.

The settlement banks are notified with a Daily PPS Cashflow Advice form by 9:00am of the amounts SFECH needs to receive/pay from/to the Member PPS bank accounts. Members need to ensure funds will be available in their PPS bank accounts that morning.

The settlement banks will provide the SFECH with authenticated confirmation of the book transfer effected for that value date by 10:00am.

3.0 How will PPS work for Currency Delivery of AUD/USD contract?

Clearing Members must lodge with the Clearing House an “Ending Position Confirmation Form” by no later than 2.00 p.m. on the last permitted day of trading.

Members will be faxed the Delivery Notification Advice at 4:00pm on the last trading day and the Clearing Members must provide by fax to SFECH any corrections or adjustments to the Delivery Notification form on an appropriate form no later than 5:00pm. A copy of this form will be forwarded to you at a later date.

The transfer of funds will occur one day after the last trading day for Members who hold open positions at the close of the trading on the last day of trading. (i.e. LTD+1). Members need to ensure funds will be available in Members PPS bank accounts the morning after the last trading day.

A Member with an open long position will pay USD to SFECH and receive AUD on the same day. Conversely, a Member with an open short position will pay AUD to SFECH and receive USD.

SFECH will fax Currency Delivery Advices for USD to settlement banks by 11:00am the next morning. The amounts are checked to ensure availability of funds and a book transfer is effected, (i.e. transferring the funds to the SFECH account from the Members PPS bank account or vice versa. The banks will process the credits first followed by the debits.)

SFECH must receive funds into their account (both AUD and USD) before paying out the opposite currency.

The settlement banks will provide the SFECH with authenticated confirmation of the book transfer of USD effected on the delivery date by 12:00pm

4.0 Bank Member Authority Form

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.

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 the USD amount. A copy of this form is contained in Appendix 2.

5.0 Settlement Banks

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

- Bank of New York, New York
- Bank of America, Sydney
- Commonwealth Bank, Sydney
- Westpac Banking Corporation, Sydney
- National Australia Bank, Sydney

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

Members will be responsible for all fees and charges in relation to these accounts.

As mentioned above, to trade this USD future contract, accounts for PPS must be opened with one or more settlement banks(s) in the USD currency to be traded. Members are encouraged to contact the settlement banks directly to establish these accounts.

Details of the settlement banks are as follows:

Bank: Bank of New York, Melbourne
Address: Level 4, 90 William Street
Melbourne, Victoria 3000
Phone: (03) 9670 0944

Bank: Bank of America, Sydney
Address: Level 63, MLC Centre
19 – 29 Martin Place
Sydney NSW 2000
Phone: (02) 99931 4250

Bank: Commonwealth Bank of Australia, Sydney
Address: Level 5, 48 Martin Place
Sydney NSW 2000
Phone: (02) 9378 3529

Bank: Westpac Banking Corporation
Address: Level 5, 255 Elizabeth Street
Sydney NSW 2000
Phone: (02) 9284 8695

Bank: National Australia Bank
Address: 255 George Street,
Sydney
Phone: (02) 9237 1847

6.0 Timings

Daily:

- SFECH will require notice of cash flow instructions for USD by 8:00AM each day (subject to Section 2.0 above).
- SFECH will provide settlement instructions to settlement bank by 9:00AM each day.
- Settlement needs to be completed by 10:00AM.

Delivery:

- SFECH will require notice of Delivery Notification Advice instructions by 5:00PM on the last trading day.
- SFECH will provide delivery instructions to settlement bank by 11:00AM the next day.
- Currency Delivery needs to occur by 12:00PM the next day.

This will allow the Clearing House time for internal processing and also allows the settlement bank time to process the cashflows. The banks will respond to SFECH confirming that either the book transfer has been effected (and the amount transferred to / from the 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 USD currency of the contract. Similarly Members will be required to fund the USD amounts required for delivery. The normal default procedures will apply if insufficient funding situations cannot be resolved promptly.

7.0 Holidays

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

8.0 Fees, Charges and Accounts

Each Clearing Member will be responsible for their own fees and charges associated with using the PPS bank accounts facilities.

9.0 GENERAL

The SFECH strongly recommends that those members who intend to trade in this product open a PPS account with one or more of the five banks listed above **at least 3 weeks prior to the product launch**. It will not be possible to process daily settlements and delivery amounts in this contract by any other method.

Please direct any queries, or requests for further information to Nick Cluney on (02) 9256 0636 (email ncluney@sfe.com.au) or myself on (02) 9256 0492 (email phickmott@sfe.com.au).

A handwritten signature in black ink that reads "Peter Hickmott". The signature is written in a cursive style with a small horizontal line at the end.

PETER HICKMOTT
MANAGER – CLEARING PROJECTS

