

**SFE Clearing Bulletin No:** 128/01

**From:** SFE Clearing Corporation Pty Ltd ABN 91 050 615 864

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**Effective Date:** 3 December 2001

**Advance Notice of Amendments to the Business Rules of SFE Clearing Corporation Pty Ltd**

Notice is hereby given of amendments to the Business Rules of the SFE Clearing Corporation Pty Ltd, The amendments are:

1. compliance matters requiring Clearing Participants to notify SFE Clearing where they are in breach either of the Business Rules or of a part of the Corporations Act for which the SFE group has a front-line regulator role; and
2. changes to the Business Rules consequential upon SFE Clearing's acquisition of a new clearing and allocation system (for clearing futures and options on SFE) being developed by OM SECUR.

**All changes will come into effect on the day of implementation of the new clearing and allocation system – being 3 December 2001.**

Details and the amendments relating to item 1 is set out in Annexure A and of item 2 in Annexure B.

Should you have any queries please contact Ms Barbara Jones on 9256-0560 or [bjones@sfe.com.au](mailto:bjones@sfe.com.au)



Barbara Jones  
**Company Secretary**

**ANNEXURE A****1. COMPLIANCE MATTERS****Notification of Breaches of Business Rules**

This amendment requires Participants to notify SFE Clearing Corporation where a Participant or a representative of a Participant has breached either the Business Rules or a part of the Corporations Act relating to regulation of market operators or clearing and settlement facilities.

The amendment was recommended by the Business Conduct Committee as a result of experience that some Participants appear to have been knowingly in breach of SFE rules for a lengthy period of time and where the breach only comes to light from SFE's inspection activity, and will enable the Committee to impose sanctions appropriate to the seriousness of the non-disclosure.

The amendment requires an additional clause (f) to Clearing By-Law 4.11, and the renumbering of existing clause (f) as (g):

**4.11 Undertaking to Abide by the By-Laws**

- (a) *Each Clearing Participant agrees to be bound by the By-Laws in its dealings with SFE Clearing and with each other Clearing Participant and each Clearing Participant agrees that the provisions of the By-Laws shall be binding on the Clearing Participant as between the Clearing Participant and SFE Clearing and as between the Clearing Participant and every other Clearing Participant. Each Clearing Participant shall also comply in full with any undertaking given, or condition imposed by the By-Laws.*
- (b) *Clearing Participants shall lodge with SFE Clearing on request from time to time, an undertaking in the form required by SFE Clearing and to the effect set out in By-Law 4.11(a) duly signed by the Clearing Participant.*
- (c) *If SFE Clearing has not received an undertaking as referred to above signed by the Clearing Participant on the due date, the status and rights of the Clearing Participant will be suspended until the signed undertaking is received by SFE Clearing. Should default not be remedied within one (1) month of the due date, the Board may without further notice terminate the status and rights of the Clearing Participant. No such suspension or termination shall release the Clearing Participant from its liability in respect of its Commitment for the full period of its Commitment and no Commitment shall be liable to be returned until the expiry of such Commitment.*
- (d) *A Clearing Participant has the primary responsibility for compliance with the By-Laws and shall ensure that its officers and representatives shall comply with them.*
- (e) *Where any Clearing Participant:*  
*then the Clearing Participant shall thereby have committed a breach of the By-Laws and/or relevant provisions of the By-Laws.*
- ~~(f)~~ *A Clearing Participant shall notify SFE Clearing immediately upon becoming aware that it has breached any provision of the Business Rules or any law relating to the regulation of clearing and settlement facilities operated by SFE Clearing.*
- ~~(f)~~ *Officers or representatives of Clearing Participants shall comply with the By-Laws at all times in respect to:*  
.....

## ANNEXURE B

### 1. CHANCES RELATIONG TO OM SECUR

Changes in processes due to the changed technology of the OM SECUR system requires changes in the Business Rules of SFE Clearing Corporation. One of the major changes is the total replacement of STACS by OM SECUR, requiring a replacement of all references to STACS with references to OM SECUR in the Business Rules. New definitions are also required. Other than this, changes need to be made in respect of:

1. the exercise and abandonment of options and
2. position close-outs.

(Additional amendments to the Business Rules of SFE Corporation are needed in respect of a 10 minute trade buffer period and Mapping of Account Numbers, Client Identifiers and comments between SYCOM® and OM SECUR).

#### 1. Exercise and abandonment of options

Currently, Participants notify SFE Clearing by fax when they want to exercise an option or abandon an option on expiry. This notice will be replaced in OM SECUR with what is known as an “Exercise Request” which can be lodged electronically by the Participants themselves in OM SECUR at any time up to expiry. As with the present processes, under OM SECUR SFE will continue to automatically exercise options that are in the money on expiry as part of the expiry date process.

The changes involve:

- A change in terminology from Notices of Exercise and Abandonment to Exercise Requests and Deny Automatic Exercise Requests with the latter only applying to the denial of the automatic exercise of options on the Declaration Date. New definitions have been added to the SFE and SFE Clearing Rules including the following:

“**Exercise Request**” means the notice to be lodged by the Participants in OM SECUR pursuant to which options in the money are exercised prior to their expiry date.

“**Deny Automatic Exercise Request**” means the notice which may be lodged in OM SECUR by a Participant holding a bought position in OM SECUR pursuant to which the automatic exercise of an option in the money is denied on the Declaration Date.

- An exercise request will be effective as soon as it is lodged electronically into the SFE Clearing and Allocation System and will be assigned at the conclusion of after business processing on the day on which it is lodged, rather than 45 minutes prior to commencement of trading on the next Business Day. On the Declaration Date the request is assigned as soon as it is lodged. The Option By-Laws and market by-laws for each contract have been amended substantially to provide allow for this arrangement.

#### 2. Position Close-Outs

Under OM SECUR, reported longs, which are currently automatically generated and then reported to the Clearing House, will no longer be calculated. This will affect the way close-outs are done and Schedule 6 has been amended to reflect the new arrangements.

### THE AMENDMENTS

#### New Definitions to be adopted in the Clearing By-Laws<sup>1</sup>:

- “**SFE Allocation & Clearing System**” means the computer system known as OM SECUR developed by the Swedish company OM Technology AB, which includes the OMnet Gateway and related systems, and which comprises the central clearing system of the Exchange and all of its related bodies corporate used for the receipt of matched trade records from SYCOM, and the processing of Allocations and Confirmations of each Trade.

<sup>1</sup> These new definitions are identical with those for SFE Corporation

- **“Exercise Request”** means the notice to be lodged by Participants holding a bought option position in the SFE Allocation & Clearing System pursuant to which options (whether or not in the money) are exercised prior to their expiry on the Declaration Date.
- **“Deny Automatic Exercise Request”** means the notice which may be lodged in the SFE Allocation & Clearing System by Participants holding a bought option position in the SFE Allocation & Clearing System pursuant to which the automatic exercise on the Declaration Date of an option in the money is denied.
- **OMnet API** means the software application for use by Participants which allows the Participants to have direct interaction with the SFE Allocation & Clearing System.
- **OMnet Gateway** means the network comprising of a set of components for handling communications between Participant’s applications and OM SECUR Back Office Software.
- **OM SECUR Back Office Software** means the set of software components including the OM SECUR BOPC and OM SECUR BOC, supplied by the Exchange that handles the interaction between Participant and the SFE Allocation & Clearing System and the downloading of clearing information.
- **OM SECUR BOC** means back office client being the SFE Allocation & Clearing System users program which connects with the BOS and resides on the OM SECUR BOPC.
- **OM SECUR BOPC** means the physical workstation where back office applications are executed.
- **API** means Applications Programming Interface.
- **BOS** means Back Office Server which connects to the OM SECUR BOC.

**Amendments to Schedule 6 to provide for the new arrangements for Position Close Outs**

**SCHEDULE 6**

**CLOSE OUT, SETTLEMENT AND DELIVERY**

**1 DAILY CLOSE OUT OF MATCHED POSITIONS**

- 1.1 For the purposes of By-Law 46.1 advice to SFE Clearing of ~~Open Positions-net position close-outs~~ shall be effected by the delivery to SFE Clearing by no later than 87 pm (Sydney time) or other Prescribed time on a Business Day of the Relevant Exchange or such later time as may be authorised by SFE Clearing of a form of advice required by SFE Clearing from time to time stating the total number of bought ~~positions and sold~~ ~~Open Positions (the reported Long and Short Position) to remain Open to net down~~ in respect of each of the Client Clearing Accounts and House Clearing Accounts of the Clearing Participant. Participants should calculate the ~~net down amount~~ ~~Reported Long and Short~~ according to such instructions notified by the Exchange and Clearing House from time to time and should make the details available by such electronic method(s) as may be approved from time to time by SFE Clearing (or any other procedure which may be agreed by SFE Clearing).
- 1.2 ~~The Clearing House shall give effect to s~~ Such advice ~~will be given effect either by the Participant submitting position close outs directly into the SFE Allocation & Clearing System via the OMnet API using a third party system or the OM SECUR BOPC or by such other means as~~ SFE Clearing ~~may determine from time to time by closing out sufficient Open Contracts so as to leave the number of Open Positions as notified.~~
- 1.3 ~~Before giving effect to the advice in accordance with clause 1.2 the Clearing House shall first verify that such~~ ~~Advice is provided in accordance with clause 1.2 must be~~ consistent with the Open Position of the Clearing Participant following the previous advice and Open Positions to which the Clearing Participant has become entitled since that advice. In the event of such inconsistency SFE Clearing shall only Close Out such Open Contracts as will not result in such an inconsistency.

**Amendments to Clearing By-Law 51 to provide for exercising and abandonment of options**

51 **OBLIGATIONS OF SFE CLEARING REGARDING OPTIONS**

51.1 SFE Clearing shall give effect to the exercise of Open Positions which are Option Contracts, in accordance with Exchange Rules and the Clearing By-Laws.

52 **EXERCISE AND ABANDONMENT OF OPTIONS**

52.1 SFE Clearing shall act on ~~a Notice of Exercise or Abandonment~~ an Exercise Request and/or Deny Automatic Exercise Request with respect to an Option Contract in accordance with the terms of Open Contracts and the Exchange Rules.

52.2 Subject to any provisions in the Exchange Rules relating to the Exercise of Options, a Clearing Participant ~~that has not previously lodged an Exercise Request and/or Deny Automatic Exercise Request in accordance with By-Law 52, shall will~~ at the last time for exercise of an Option Contract be deemed to have exercised an Option Contract ~~notice of the Exercise or Abandonment of which has not previously been received by the Clearing House:~~

- (a) where in the case of a Futures Option Contract upon the exercise of which the Futures Contract which vests in the holder of the Option Contract would result in an obligation of SFE Clearing to pay a Mandatory Settlement Amount to the holder, (an “in the money option”);
- (b) in the case of a Physical Option Contract, in the prescribed circumstances,

and shall be deemed to have abandoned all other Option Contracts.

52.3 ~~Notices of Exercise or Abandonment Exercises Requests and/or Deny Automatic Exercise Requests shall must be lodged in the SFE Allocation & Clearing System~~ in the Prescribed form and any exercise ~~or abandonment~~ made pursuant to such ~~notice requests~~ shall be final and may not be withdrawn. SFE Clearing may act upon any such ~~Exercise Request and/or Deny Automatic Exercise Requests Notice of Exercise or Abandonment~~ and is under no obligation to check the accuracy or validity of any ~~Exercise Request and/or Deny Automatic Exercise Requests lodged in the SFE Allocation & Clearing System notice of Exercise or Abandonment received~~ but may reject such ~~Exercise or denial or Abandonment~~ if it believes it to be made contrary to the Exchange Rules or the By-Laws.

52.4 SFE Clearing may Exercise or Abandon Option Contracts in accordance with Part 7 or Part 8 of the By-Laws.

**Amendments to General By-Law 31 relating to the new terminology, and consequential change to prescription 10 as recorded in the Schedule entitled ‘Additional Prescriptions’:**

31 **REGISTRATION**

- 31.1 (a) A Market Contract Recorded by the Exchange in the manner Prescribed in the Schedules shall be deemed to have been presented to SFE Clearing by the Buyer and Seller and shall be deemed to be registered with SFE Clearing at the time Prescribed in the Schedules. Only Clearing Participants shall be entitled to have Market Contracts registered in their name.
- (b) Where a Market Contract is Recorded by the Exchange incorrectly, upon correction of any such Recording in accordance with the Exchange Rules the Market Contract registered shall also be deemed to be corrected and the By-Laws shall be read as if such Market Contract had originally been registered as corrected. SFE Clearing shall not be liable to any party as a result of any correction so made.
- (c) Where a Market Contract is allocated and such allocation confirmed in accordance with Exchange Rules prior to registration that Market Contract shall for the purposes of this By-Law be deemed to be Recorded by the Exchange as so allocated and confirmed.
- (d) Particulars of a Market Contract not Recorded by the Exchange (through failure of the parties to advise particulars of that Contract to the Exchange or otherwise) may subsequently be presented for registration in the Prescribed manner and confirmed to SFE Clearing by both parties to the Market Contract if they are Clearing Participants, or if not, their Guarantor Clearing Participant or Guarantor Clearing Participants and upon the acceptance of such particulars by SFE Clearing with the approval of the Relevant Exchange the Market Contract shall be registered with SFE Clearing and these By-Laws shall apply accordingly.
- (e) Where on the application of a Clearing Participant SFE Clearing is satisfied that a Market Contract which has been registered by SFE Clearing has been inadvertently Recorded by the Exchange incorrectly it may in its absolute discretion with the agreement of all parties, being the Buyer and Seller of the Market Contract and any

Buyer and Seller of an Open Contract arising from the registration of such contract, correct the registration of such Market Contract so that such Market Contract shall be deemed to be registered as so corrected and the By-Laws shall apply accordingly. Any such correction may be made subject to any conditions imposed by SFE Clearing, including the payment of Margin.

(f) Misallocation

~~Subject always to any objection made by the Exchange and/or SFE Clearing. Where on the application of a Clearing Participant the Clearing House is satisfied that~~ an Open Contract has been incorrectly allocated by reason of inadvertence, then the Clearing House Participant may, with the consent of:

~~the Relevant Exchange;~~

~~(iii)(i)~~ the holder of the Open Contract; and

~~(iv)(ii)~~ the proposed holder of the Open Contract (the new holder),

correct such allocation within the SFE Allocation & Clearing System, and such Open Contract shall be deemed to be held by the new holder of the open position as if the Open Contract had been allocated to the new holder of the Open Contract on the day of the trade, and the By-Laws shall be deemed to apply to such Open Contract as if such allocation had occurred in accordance with the Rules of the Relevant Exchange. Amounts held in the relevant Clearing Account shall be adjusted accordingly.

### **ADDITIONAL PRESCRIPTIONS**

- A1 For the purposes of By-Law 6.1 the commitment to be provided by a Clearing Participant is prescribed to be for that period of not less than eighteen months and not more than 30 months and 14 days which will result in the date for making the election not to renew under By-Law 6.2(a) falling on 1 December in each year.
- 1 For the purposes of By-Law 6.2(a) the prescribed form of notice of election is as set out in Form 1 attached.
- 2 For the purposes of By-Law 8.4 the prescribed date for lodgement of the statement of financial position is no later than one calendar month after the end of each month.
- 3 For the purposes of By-Law 9.1(b) (Position Limits) the prescribed limit is a limit of Initial Margin liability of no more than 300% of the Net Tangible Assets of a Clearing Participant.
- 4 For the purposes of By-Law 31.1(d) the manner of presentation shall be the lodgement with the Relevant Exchange for presentation to SFE Clearing of a form (signed by the relevant parties) as determined by the Relevant Exchange and Clearing House from time to time.
- 5 For the purposes of By-Law 44.1 the Prescribed time prior to which the relevant market contracts are traded is the close of trading on a Business Day of the Relevant Exchange. No additional time for Daily Settlements is Prescribed.
- 6 For the purposes of By-Law 44.4 and 44.8 the prescribed time is 10.30 am on a Business Day of the Relevant Exchange or as otherwise demanded by SFE Clearing.
- 7 No prescriptions are made for the purposes of By-Law 45.1 (intra-day margins).
- 8 No prescriptions are made for the purposes of By-Law 52.2 and 54.1 (Physical Option Contracts).
- 9 For the purposes of By-Law 52.2(b) the prescribed circumstances are those circumstances specified in the Exchange Rules.
- 10 For the purposes of By-Law 52.3 the Prescribed Form of Exercise is by electronic lodgment in the SFE Allocation & Clearing System or such other form as determined by SFE Clearing from time to time including, without limitation, as set out in Form 2 attached.
- 11 For the purpose of By-Law 63.7 (SFE Clearing invoice) the prescribed time is 9.00 am on settlement day. In this prescription 9.00 am shall refer to Sydney time in the case of the SFE and Auckland time in the case of the NZFOE.
- 12 The form of application for a Clearing Participant has been separately prescribed and may be obtained from the Secretary.
- 13 The Prescribed form of financial statements is the same as has been prescribed by the SFE and set out in its Compliance Manual and may be obtained from the Secretary.