



SFE NOTICE NO.

93/07

Date of Issue:

25 July 2007

SFE Market Trading Incident and Subsequent Cancellations

This Notice is issued to update the market on the incident that occurred earlier today resulting in deal cancellations in the Three Year Bond and Bank Bill Futures contracts.

Shortly after 11.30am (and immediately following the CPI announcement) a trading participant entered a number of orders that resulted in erroneous price discovery occurring. SFE then implemented its Error Resolution Policy (ERP).

The ERP is designed to preserve the integrity of SFE markets by implementing a transparent, consistent and timely approach to the resolution of erroneous price discovery, while maintaining trade certainty. The policy provides a mechanism to promptly address transactions that are executed at obviously erroneous prices and that are substantially inconsistent with an Exchange determination of the contract's Fair Price Valuation (FPV).

The ERP has been in operation for over 12 months.

Consistent with the ERP, SFE took the following steps:

- informed users at 11.38am that all deals between 11.30am and 11.33am would be investigated;
- determined a FPV in all disputed contracts utilising traded prices and spread differentials. This was done after the order-book had stabilised from the original erroneous price discovery event;
- began publishing contract prices at 11.50am above and below which deals would be cancelled as a result of breaching the Market Integrity Range (MIR);
- began publishing the actual deal numbers of the cancelled trades at 11.56am; and
- contacted all Participants by telephone to confirm all cancellations.

A total of 337 deals were cancelled due to the price of deals exceeding the MIR as determined by the FPV.

The implementation of the ERP allowed SFE to address this incident without halting the market.

The ERP has been operational since July 2006 and consistently applied since. All Participants have a responsibility to be aware of its provisions as detailed in the link below.

http://www.asx.com.au/supervision/pdf/sfe_operating_rules/sfe_operational_policies.pdf

The circumstances of the trigger event are the subject of investigation.

A handwritten signature in black ink that reads 'David Raper'.

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