



SFE NOTICE NO.

97/07

Date of Issue:

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## SFE Trade Cancellations on 25 July – Update #3

This Notice provides further background on ASX's response to the trading incident, including the subsequent cancellations in the Three Year Bond and 90 Day Bank Bill Futures contracts, which occurred on 25 July 2007. ASX acknowledges the demand from Market Participants and AFMA for more transparency about the decisions taken as announced via SYCOM Market Messages on the day.

ASX's provision of additional information is informed by the interplay of the following separate but related processes:

1. **Internal investigation** - as previously advised, the circumstances surrounding the incident and subsequent cancellations are the subjects of an investigation. This process is complex and ongoing. It involves the receipt and analysis of information from a number of parties (domestic and international) and is being thoroughly pursued. The scope of the investigation covers:
  - **the circumstances that gave rise to the incident;** in particular the trading activity just prior to the release of quarterly CPI data and between 11.30 am and 11.33 am when erratic and contradictory price movements triggered the Exchange's Error Resolution Policy (ERP) (which was based on Market Integrity Range breaches and not on an error claim from a Market Participant).
  - **the actions of Participants throughout the incident;** and the trading rationale behind the orders entered during the incident. There is no indication to date that supports market speculation of an input error relating to a spread order to buy Bank Bill contracts and sell Three Year Bond contracts.
  - **the actions taken by ASX;** in particular, the application of the ERP will be examined. The ERP provides for the creation of a No Cancellation Range (NCR), a Qualifying Error Range (QER) and a Market Integrity Range (MIR). The building block for all ranges is the determination of the Fair Price Valuation (FPV). Clear guidance is provided in the ERP documentation, which was provided to all Trading Participants at the time of its implementation and which is available on ASX's website, of the potential factors that will be taken into account in calculating the FPV. The ERP requires the Exchange to determine the FPV for individual contracts using any, or a combination of a, number of stated criteria.

The ERP was developed over an extensive period and involved consultation with Market Participants and ASIC before its implementation in July 2006. The ERP is generally consistent with similar policies used elsewhere in international futures markets and builds on the principles outlined by the International Organization of Securities Commissions (IOSCO) in its 2005 "Policies on Error Trades" report. The principles underpinning ERP are 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. It has been applied on over 70 occasions since its implementation.

2. **Disciplinary process** – although implications for Participants will not be known until the investigation concludes, there is a possibility that ASX will need to investigate Rule breaches by one or more Participants via its disciplinary process. This will inevitably limit the Exchange's ability to provide certain information.
3. **ASIC involvement** - in addition to the above processes, ASX is also responding to lines of enquiry from ASIC on all aspects of the incident.



4. **Market consultation** - in the event of any findings from the above giving rise to the need for refinements to existing policy, the Exchange will work with the relevant stakeholder groups, including ASIC, AFMA and Participants, in an appropriate consultative process to ensure the ERP remains relevant and continues to meet its objectives.

Given the interplay of these processes, it is neither practically possible nor appropriate for ASX to provide further information through any mechanism other than those described in this Notice.

The Exchange reiterates its commitment to completing the processes outlined thoroughly and taking appropriate steps to address any issues identified.

A handwritten signature in black ink, appearing to read 'Colin R. Scully', is positioned above the printed name and title.

Colin R. Scully  
**Group Executive, Operations**

ASX Limited  
20 Bridge Street  
Sydney NSW 200