



SFE NOTICE NO.

118/07

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SFE Trade Cancellations on 25 July 2007 – Update # 4 – Conclusion of Review

The Australian Securities Exchange (ASX) has now completed its review of the circumstances surrounding the events of 25 July 2007 and has advised ASIC of the results.

The review concluded that the Error Resolution Policy (ERP) was correctly applied in accordance with its published terms and the Exchange's Operating Rules. Market speculation that the trigger for the incident was an input error relating to a spread order to buy Bank Bill contracts and sell Three Year Bond contracts is not supported by the facts. A thorough analysis of the events confirmed erroneous/aberrant price discovery (or price movement) well outside ERP-determined Market Integrity Range (MIR) thresholds. The cancelled trades were the result of interaction of the existing orders in the central market and the subsequent entry of Participant stop-loss orders.

ASX has engaged with AFMA and ASIC in a Working Group to consider the policy implications of potential enhancements to the ERP so that it remains relevant to, and is well understood by, all stakeholder groups. Two meetings of the Working Group have been held, providing valuable input to the preparation of a Discussion Paper for circulation as part of a broader stakeholder consultation process over coming weeks. ASX encourages all stakeholders to participate in this process.

These meetings have also clarified that despite the fact that the policy had been developed over an extensive period, with input from Participants and ASIC, not all stakeholders fully understood the implications of the ERP or the potential for trade cancellations to result from its implementation during complex, market-wide events, such as experienced on 25 July. ASX acknowledges the desirability of improving communication with Participants who, in turn, can enhance their communication with end-users/clients of Participants on the application of the policy at both an operational and general education level.

The Working Group has agreed that ongoing education to deepen stakeholder understanding will be an important component of any policy refinement. This includes explaining the implications and workings of spread orders and their resulting trades - specifically, that trades resulting from a spread order are individual (outright) trades and rarely involve matching with another spread order. Trade cancellations resulting from the application of the ERP are determined on price alone without differentiating spread or outright order generated trades. The issues presented by spread orders are already the subject of discussion by the Working Group.

In the meantime, given general market volatility attributable to contagion effects of the US sub-prime mortgage sector, ASX will raise the threshold points at which the MIR starts for the interest rate futures contracts, by increasing the Qualifying Error Range (QER). There are no changes to the criteria for cancellation within the QER or to the tick ranges of the No Cancellation Range (NCR). This change, detailed below, has immediate effect and is put in place as an interim measure whilst the consultation process referred to above is undertaken over coming weeks.



Futures Contracts	NCR	QER (Lower Limit)	QER (Upper Limit)	Start of MIR
Australian 30 Day Inter Bank	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
Australian 90 Day Bank Bills	5.0 Basis Points	6.0 Basis Points	49.0 Basis Points	50.0 Basis Points
Australian 3 Year Treasury Bond	2.5 Basis Points	3.0 Basis Points	24.5 Basis Points	25.0 Basis Points
Australian 10 Year Treasury Bond	2.5 Basis Points	3.0 Basis Points	24.5 Basis Points	25.0 Basis Points

The increases to the QER for interest rate futures contracts are reflected in the latest version of the ERP, which is available using the link below. The thresholds for all other SFE futures contracts remain the same, and are detailed in the ERP.

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

All Participants and users are encouraged to review the ERP.

A handwritten signature in black ink, appearing to read 'Colin R Scully', is written over a light blue horizontal line.

Colin R Scully
Group Executive, Operations

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