



SFE NOTICE NO. 051/08

Date of Issue: 11 April 2008

Effective Date: 1 July 2008

New self-certification requirements for Full Participants accessing SFE Markets

As advised in SFE Notice 010/08 and 020/08, all MFWS Trading Applications will have trading rights removed from 1 July. Additionally, Full Trading Participants will be required to undertake a self certification process and this Notice has been issued to provide you with further information on the new self certification requirements.

ASX will be publishing an updated Procedures Determinations and Practice Notes (PDP) document relating to the operating rules of Sydney Futures Exchange. The purpose of the PDP is to elaborate ASX's expectations in relation to Participants' compliance with Automated Order Processing (AOP) requirements, specifically in relation to the general responsibilities and Operational requirements to be considered by Participants who use AOP.

The certification is required to provide Participants with maximum flexibility in the way that they structure their systems while at the same time providing ASX with comfort that compliance issues have been addressed. AOP systems can enhance the ability of Participants to route and execute orders. However, their use can also result in increased market volatility, financial risk and regulatory risk to those Participants.

Accordingly, all Participants using AOP systems should have written and implemented internal control and supervisory procedures, regardless of whether the Participant is utilising its own proprietary system or that of an outside vendor.

ASX recognises that some AOP systems are developed internally by Participants and others are developed by independent service providers. In many cases, one or more Participants use an AOP system provided by a common independent service provider. Many elements of a system will be common to all its users and many will be unique to the environment in which it is implemented. The fact that one Participant has certified a third party provided AOP system does not imply that other Participants using that third party provider's system are not required to certify that system. However, documentation and other materials provided by that third party provider to a number of Participants may assist each one to certify their systems.

The PDP will require all Participants to undertake a self certification process prior to 1 July. This ultimately means that all Participants will need to confirm they have reviewed their obligations under the relevant Operating Rules of SFE (including those relating to Automated Order Processing and related Principles, Determinations and Guidance Notes).

The Operating Rules require that a Participant which uses its system for AOP must at all times comply with the Operational Requirements, including having appropriate automated filters. The Operational Requirements include:

- organisational and technical resources;
- trading management arrangements; and
- security arrangements.

Full Trading Participants will need to review the updated Operating Rules and PDP when published and complete the appropriate forms before submitting to ASX (before 1 July). Provided below is a summary of some of the requirements to be published in the PDP;

- Market Integrity - The primary obligation of Participants, whether processing orders manually or pursuant to AOP, is to not interfere with the conduct of an orderly market and to not assist or facilitate manipulative trading.
- Participant to determine and manage its risk - Participants are responsible for all trading messages submitted into the Trading Platform via their respective Open Interface Devices. It is the obligation of each Participant to identify and implement controls (including appropriate filters) to manage their regulatory risk (including the risk to its ability to satisfy its primary market integrity obligations), satisfy the Operational Requirements and comply with the other Operating Rules. As such, each Participant must have in place effective mechanisms to detect potential or actual manipulative activity and, where discovered, to then have available the means to take appropriate action.
- All Participants should maintain capability to interact and display the SYCOM[®] Message Facility and utilise the RFQ (Request For Quote) facility.
- Confirm if the AOP system does or does not permit Automated Client Order Processing (ACOP).
- Confirm if the AOP system has in existence organisational and technical resources - including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters – considered by us to be necessary to enable trading messages to be submitted into the Trading Platform without interfering with the efficiency and integrity of markets provided by SFE or the proper functioning of the Trading Platform;
- The AOP system has in existence security arrangements considered by us to be necessary to monitor for and prevent unauthorised persons having access to a Gateway or an OI Device or to a computer or other device connected to an OI Device, and to ensure that the AOP system does not interfere with the efficiency and integrity of markets provided by SFE or the proper functioning of the Trading Platform;
- Nothing has come to our attention during the course of our review which would indicate that we are unable to comply with the SFE Operating Rule 2.2 13.
- A Participant must maintain and enforce at all times appropriate security arrangements which are designed to prevent unauthorised entry of trading messages.

To continue access from 1 July, this certification will need to be completed prior to 1 July, 2008.

The anticipated release for the updated PDP and Operating Rules is currently May, 2008.



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