SFE NOTICE NO. 214/09

Date of Issue: 21 December 2009
Effective Date: 1 and 4 January 2010

Changes to Default Insurance Component of SFECC Financial Resources and Impact upon STELs

In an earlier notice in June 2009, SFECC advised Clearing Participants of the steps it had determined to take in relation to its default insurance.

Since then, following a review by Standard and Poor's in November 2009, the rating of Radian Asset Assurance Inc ("Radian"), the provider of SFECC's default insurance, has been downgraded from BBB- to BB (i.e. below investment grade).

Accordingly, SFECC has accelerated the replacement of the default insurance with a subordinated loan facility provided by an Australian ADI bank. The loan facility will be fully drawn and the proceeds invested. This will offer advantages in terms of liquidity and availability not offered by default insurance, albeit at a materially increased cost.

Since 1 July 2009, SFECC has reduced the Stress Test Exposure Limits (STELs) allocated to Clearing Participants in order to exclude default insurance. This has ensured that no day-to-day reliance was placed on the insurance layer of financial resources and instead peaks in stress test exposures have been collateralised via Additional Initial Margins (AIMs). Effective for AIMs calls on 4 January 2010, SFECC will increase the STELs allocated to Clearing Participants in order to include the new loan facility. Affected Clearing Participants will be notified individually of their new higher STEL by Clearing Risk Operations ahead of this date.

As with the equivalent facility on ACH, the maintenance of the financial resources available to SFECC comes at a materially increased cost, given the impact of the Global Financial Crisis on credit spreads. Notwithstanding that increased cost, the interest paid (accommodation fee) to Clearing Participants on their first level commitments will not be reduced. Instead, consistent with the ACH facility, SFECC will recoup a portion of this cost by amending the spread fee applicable to initial margins. The revised spread fees are as follows:

- In respect of House account cash margins, the spread fee will increase from 10 basis points to 15 basis points; and
- In respect of Client account cash margins, the spread fee will increase from 50 basis points to 65 basis points.

Similarly, the fee on non-cash collateral will be adjusted from 10 basis points to 15 basis points on House account and from 50 basis points to 65 basis points on Client account.

The spread fees will continue to be deducted from the SFECC cash rate to calculate the rate payable to participants.

Interest paid on excess cash and Additional Initial Margins will remain unchanged at the SFECC cash rate.

The revised spread fees will apply from 1 January 2010.

Please contact Rohan Delilkhan on (02) 9227 0115 with regard to any of the above.

Alan Bardwell
Chief Financial Officer