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NZFOE BULLETIN No: 003/03

From: New Zealand Futures & Options Exchange Limited

Date of Issue: 17 December 2003

INTEGRATION OF NZFOE AND SFE

Dealers will be aware from communications by SFE Corporation Limited over the past months, of changes to the NZFOE facility for trading futures and options over New Zealand products. The purpose of this notice is to provide Dealers with more details of the changes and to advise them of how the changes will affect them and, in the case of New Zealand based Public Brokers and Principal Traders, the steps which they may wish to take to retain access to existing NZFOE products.

1. Integration of NZFOE and SFE Markets

Existing Contracts

SFE will integrate the futures markets operated by NZFOE and by Sydney Futures Exchange on 11 March 2004 by converting all open positions in NZFOE contracts to open positions in SFE contracts, and by listing new contracts with the same contract specifications on SFE.

At midnight Australian Eastern summer time (AEST) on 10 March 2004, (ie 2.00 am New Zealand summer time on 11 March 2004), all open positions in NZFOE futures and options contracts over 90 Day Bank Bills, Three Year Government Stock and Ten Year Government Stock will cease to be NZFOE contracts and will become SFE contracts. Subject to the comments in Item 3 below, positions which were open positions on NZFOE at midnight AEST on the Changeover Day will immediately become open positions on SFE; after the Changeover Day no new contracts will be able to be opened on NZFOE but they will be able to be opened on SFE.

Trading in NZ contracts on NZFOE will cease at the normal time on 10 March 2004 and will recommence on SFE at the beginning of the morning session on 11 March 2004 – ie there will be no trading after the end of the trade date 10 March until the commencement of the morning session the following day.

Contract specifications will remain the same, there will be no change to the manner in which margins are payable, transaction fees will continue to be priced in \$NZ and trading hours and public holidays will not change. All contracts will continue to be cleared by SFE Clearing Corporation Pty Ltd, as is currently the case, and the trading and clearing infrastructure will remain unchanged. There will continue to be separate reporting for Australian and NZ contracts.



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Open positions which are not to be converted to open positions on SFE will need to be closed out on the market in the normal way on or before trading ceases on the Changeover Day.

Access to the market for non-SFE Full Participants will be different after the Changeover Day and Item 4 below describes how New Zealand based Public Brokers and Principal Traders can ensure their continued access.

New contracts

SFE will continue to develop and list other New Zealand based derivative products and list them on SFE.

In addition, SFE and the New Zealand Exchange (NZX) have recently entered into an agreement which provides for SFE to list new derivatives contracts for NZX. The first tranche of such contracts will be based on securities quoted on NZX and on an index based on those underlying securities. Further details of these contracts and their proposed launch date will be published in early 2004.

2. Effect of Integration on regulation of NZFOE Dealers to carry on the business of dealing in futures contracts

Dealers who deal in futures contracts on behalf of clients in New Zealand must be authorised to do so by the New Zealand Securities Commission. Authorisation is not required for proprietary trading.

The legislation in New Zealand provides that no person may carry on the business of dealing in futures contracts unless that person is authorised to do so by the Securities Commission. To date many authorisations have been based on a dealer being an Introducing Broker or a Public Broker of NZFOE. However, the integration of NZFOE with SFE means a change of approach to authorisation by the Commission.

An alternative regulatory regime is being prepared to take the place of that currently provided by NZFOE for New Zealand based Dealers. NZX is drafting rules, compliance with which will provide continuing accreditation as a futures dealer for those NZFOE Dealers who are not licensed Full Participants of SFE. This accreditation is proposed to come into effect on 1 April 2004; until then NZFOE will continue to provide the regulation - whilst NZFOE will no longer operate a market, Dealers will continue to be subject to NZFOE's Rules on reporting to clients, disciplinary matters etc, up to and including 31 March 2004.

Public Brokers who are Full Participants of SFE

Public Brokers who are Full Participants of SFE and who have an Australian Financial Services licence on and after 11 March 2004 will not be affected by the change of regulation and will continue to be able to act for clients in New Zealand in respect of the New Zealand products listed on SFE. Their authorisation as a Public Broker will continue by virtue of their status as an SFE Full Participant. They will however need to obtain additional authorisation from the New Zealand Securities Commission if they wish to deal in products which are not subject to SFE oversight.

Public Brokers and Introducing Brokers who are not Full Participants of SFE

Public Brokers and Introducing Brokers who are not licensed Full Participants of SFE on 1 April 2004 and thereafter will, as of that date, need be in full compliance with the new NZX arrangements approved by the New Zealand Securities Commission for continuing authorisation to act for clients. They should contact the Commission well before that date for details of what is required. Contact details of Commission officers appear at the end of this Bulletin.

Public Brokers and Introducing Brokers who intend to discontinue their authorisation to act for clients

Public Brokers and Introducing Brokers who intend to give up their authorisation will need to make arrangements with their clients for their positions to be transferred to a broker who continues to be authorised to act for clients on and after 1 April 2004.

Reimbursement of annual fees paid to NZFOE

2004 fees which are payable to NZFOE will be refunded on a pro rata basis, effective 31 March 2004.

Proceedings which commence prior to 1 April 2004

Where proceedings such as investigations, disciplinary hearings, etc, have commenced under the existing rules of NZFOE, they will continue under those rules notwithstanding the transfer of NZFOE contracts to SFE and notwithstanding the transfer of regulation to NZX. An amendment to the existing rules will make this possible.

3. What will happen to existing NZFOE contracts?

Open positions in contracts which are currently listed on NZFOE – ie futures contracts and options over futures contracts in respect of 90 Day Bank Bills, Three Year Government Stock and Ten Year Government Stock - will become SFE contracts. As mentioned above, the contract specifications and technical infrastructure currently in place for these products will not change.

Any open positions which exist on NZFOE after close of trading on NZFOE on the Changeover Day, at the option of the Dealer and subject to compliance with certain conditions which are discussed in Items 5 and 6, will be converted to SFE contracts (and will be treated as though they had been opened on SFE). Rule changes are being made to provide that:

- if the contracts were executed on NZFOE by Public Brokers who are Full Participants of SFE, they will be deemed to have been executed on SFE by the Full Participants;
- if the contracts were executed by Public Brokers who are not Full Participants of SFE, they will normally be deemed to have been executed on SFE by the Clearing Participant in whose name the contracts are registered at SFE Clearing, in its capacity as a Full Participant; (if that Clearing Participant is not also a Full Participant alternative arrangements will be necessary and SFE will discuss those arrangements with any affected Dealer(s) closer to the Changeover Day).

4. Access to NZ products when they are listed on SFE*Public Brokers who are Full Participants of SFE*

Public Brokers who are Full Participants of SFE will continue to have access to NZ products on SYCOM (as well as to all other products listed on SFE).

Public Brokers who are not Full Participants of SFE and Principal Traders

Public Brokers and Principal Traders who in either case are not Full Participants of SFE, will be able to continue to access NZ products on SYCOM either:

- by becoming a client of a Full Participant of SFE and utilising the direct SYCOM access provision for preferred clients of SFE Full Participants; or
- by becoming a Full Participant of SFE.

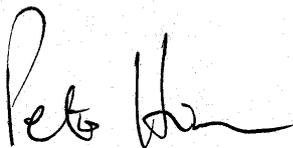
In the first instance Public Brokers and Principal Traders may prefer to become clients of SFE Full Participants.

Further information about becoming a client of a Full Participant and about becoming a Full Participant appears in Annexure A.

5. What do Dealers need to do?

- 5.1 If Public Brokers wish to maintain the status quo (ie to continue to deal in the contracts which are currently listed on NZFOE on behalf of clients):
- (a) Public Brokers who are SFE Full Participants need to:
 - (i) obtain their clients' written instructions about how any NZFOE Open Contracts are to be dealt with;
 - (ii) review their client agreement forms, amend if necessary and have the client agree in writing to the changes. (Changes will be necessary to remove any references to the contracts being subject to the NZFOE rules and the laws of New Zealand and (as from 1 April 2004) to remove references to Dealers being regulated in the conduct of their futures and options business by NZFOE);
 - (iii) if they are Full Participants of SFE but not Clearing Participants, and if any NZFOE contracts are to be converted to SFE contracts, obtain a new guarantee from their Clearing Participant in the form to be prescribed. (A rule amendment will be necessary for the new form and the form will be published at a later date).
 - (b) Public Brokers who are not SFE Full Participants will, in addition to the above, need to make arrangements for:
 - (i) their access rights to SFE to continue (whether by becoming an SFE Full Participant or a client of an SFE Full Participant); and
 - (ii) their authorisation to continue to be a Public Broker after 31 March 2004. Enquiries about continuing authorisation should be directed to Liam Mason or Edwin Budding at the New Zealand Securities Commission, Tel (644) 472 9830 or email to seccom@sec-com.govt.nz
- 5.2 If Dealers are not able to comply with such of items (a)(i)-(iii) and/or (b)(i) as are relevant prior to a day to be determined by NZFOE (which will be a few days before the Changeover Day) Dealers should close out any open positions prior to the Changeover Day.
- 5.3 If Public Brokers do not wish to continue to act for clients they will need to arrange for their client positions to be closed out before 10 March 2004, or transferred to another Broker.
- 5.4 If Introducing Brokers wish to continue to act for clients in New Zealand they will need to ensure that they remain authorised to do so after 31 March 2004..

Any queries should be directed to one of the contact persons named on the next page.



Peter Hiom
General Manager, Exchange Business Development

Contacts:

- Dealers based in New Zealand should refer any general queries to Greg Boland Tel (649) 413 6990, email gboland@sfe.com.au
- Public Brokers and Introducing Brokers based in New Zealand who wish to continue their authorisation as dealers (ie to act for clients) should contact Liam Mason or Edwin Budding at the New Zealand Securities Commission, Tel (644) 472 9830 or email to seccom@sec-com.govt.nz
- Queries on legal issues relating to the changes should be referred to Barbara Jones Tel (612) 9256 0560, [email bjones@sfe.com.au](mailto:bjones@sfe.com.au)
- Queries on business issues about trading or clearing should be referred to Maurice Farhart, Tel (612) 9256 0183, email mfarhart@sfe.com.au or David Raper Tel (612) 9256 0554, email draper@sfe.com.au.

ANNEXURE A**Becoming a client of an SFE Full Participant:**

- Clients can be connected by using either a third party trading front-end located at their office or an SFE SYCOM® Workstation located at their office.
- The cost of becoming a client of a Full Participant and any restrictions or conditions which the Full Participant may impose on the client's trading is a matter to be negotiated between the parties. Neither NZFOE nor SFE are involved.
- Margins are payable by the client to the Full Participant. A Public Broker who becomes a client of an SFE Full Participant for the purposes of obtaining access to SFE will be required to pay the margins called by the Full Participant for its proprietary business. It will be a matter of agreement between the Broker and the Full Participant whether the Broker calls margins from its clients or whether the Full Participant calls the margins directly from the Broker's clients.
- If NZ users want a client access solution available from 11 March 2004 then full instructions should be sent to SFE by no later than 16 February 2004. (Contact Karen Ireland at SFE (email kireland@sfe.com.au).

Becoming a Full Participant of SFE

- Full Participants have direct access to all SFE's products and will not be limited to New Zealand products; access is via SYCOM® IV.
- Full Participants may also place SYCOM® Workstations or Interfaces in the office of clients.
- Full Participants are responsible for their own trading and call margins from their clients.
- Full Participants who are not Clearing Participants must obtain a guarantee from a Clearing Participant.
- Full Participants who deal for clients are required to keep a minimum of A\$1 million in net financial assets at all times, and to lodge quarterly financial reports with SFE.

Further details of how to access SFE as a Full Participant can be obtained from Ms Jennifer Fletcher, Manager, Participant and Client Services ([email jfletcher@sfe.com.au](mailto:jfletcher@sfe.com.au)).