

CIRCULAR TO: FULL PARTICIPANTS

NO: 235/00

HOUSE TRADE DEFINITION
ADMINISTRATION OF REDUCED FEES
EFFECTIVE 1 JANUARY 2001

BACKGROUND

SFE's Demutualisation Information Memorandum and a subsequent Circular No 190/00 (October 2000) outlined a revised fee structure to apply from 1 January 2001 to 31 December 2001. Included in the revised fee structure is a large volume discount rate of \$0.65 per side plus GST for Full Participant's house business, where an annual volume of more than 960,000 sides is achieved.

The definition of house business is addressed and defined below, along with the process of administering the reduced fee where applicable. This definition of House Trades is for the purposes of administering the Exchange's fee policy and is not intended to replace the definition for Reportable Positions or other Business Rules (e.g. G.28).

HOUSE TRADES

To date house trades have been defined as any trade other than a client trade, where client trades were defined to be those undertaken by a Participant on behalf of a client.

House trades are now defined as a trade undertaken by a Full Participant, other than client trades and will include the following scenarios:

- A Full Participant may undertake house trades in any legal entity, provided it is a subsidiary of the Participant company or a related entity e.g. parent entity. Trades booked through offshore parent companies etc may therefore be house business (provided they are not transacted on behalf of clients). Generally entities with less than a 50% shareholding would not qualify for house trades.
- It is irrespective which desk (e.g. future's desk, proprietary trading desk etc) of the full participant transacts the deal as all may be treated as house trades (provided they are not transacted on behalf of clients).

- Trades may qualify as house trades even where they are executed by a broker other than the entity's house broker. For example a Full Participant may trade a deal on their house account but this may be transacted through another Participant. Even though the broker would treat these as client deals the Full Participant would be entitled to include these trades as house trades because they should not be limited to only dealing through their own entity. An analogy to this is Local Participants who choose to transact through a number of brokers yet are able to receive the lower volume thresholds on all trades, irrespective of broker.

In deciding whether a trade qualifies as a house trade beneficial ownership should be considered, and thus Fund Managers would not qualify as house trades. This is because fund managers transact on behalf of the fund who are by definition clients of the Full Participant.

ADMINISTRATION OF REDUCED FEE ON HOUSE TRADES

As advised in circular No 190/00, the reduced fee to large volume clients applies to any participant who transacts over 960,000 sides per annum (of house trades in the case of Full Participants).

The monthly volume will be irrelevant provided the annual volumes exceed 960,000 sides. The period covered is from 1 January 2001 to 31 December 2001.

All participants will continue to be charged the standard fee of \$0.90 plus GST on a monthly basis, with the exception of commodity contracts that have a new fee schedule from 1 January 2001 (refer to Circular 211/00 issued on 28/11/00). Any participant who transacts over 960,000 sides for the twelve-month period would receive a refund in January of 2002. Full Participants will be requested to provide quarterly volume reports to the Exchange of their House business. This information will be verified to House business volumes based on the classification entered by the Full Participant into the STACS system. It is therefore imperative that the correct allocation between House and Client occurs by Participants.

Where Full Participants transact House trades through other Participants and have these cleared by other Clearers then the Exchange will not have these recorded as House business as the STACS classification will be Client. These should however be included in the quarterly volume reports submitted by Full Participants.

Local participants would continue to receive their reduced fees by way of monthly refunds, as is currently the case, with the exception of the change in the fee structure for commodity products.

The refund of exchange fees to eligible Full Participants, (difference between \$0.90 and \$0.65 plus GST) will be treated as an adjustment event for GST. Tax adjustment notes would therefore be issued to Clearing Participants as they were originally billed.

Adjustment notes would be prepared by SFE on behalf of Clearing Participants to allow them to refund other Participants. The GST impact would be included in these adjustment notes.

The House Trades volumes (for the purposes of the reduced fee) exclude any trades which are eligible for other schemes and therefore are subject to other forms of concessions. As an example volumes transacted as House for the market-making scheme recently announced for the AUD/USD contract are not to be included.

ADMINISTRATION OF REDUCED FEE FOR LARGE CLIENTS

Clients who undertake more than 960,000 sides per annum are also eligible for the \$0.65 plus GST volume discount from 1 January 2001 for twelve months.

Again these Participants will be charged the standard \$0.90 plus GST each month, with the exception of the change in the fee structure for commodity products, with an annual refund representing the reduced fee.

Large volume Participants will be requested to provide quarterly volume reports to the Exchange. This will include nominating the accounts with each Full Participant that the trade has been entered with. The Exchange will verify this information with its own system. The Exchange will consolidate these and eligible Participants will receive a refund in January 2002.

The refund of exchange fees to eligible large volume Participants, (difference between \$0.90 and \$0.65 plus GST) will be treated as an adjustment event for GST. Tax adjustment notes would therefore be issued to Clearing Participants as they were originally billed.

Adjustment notes would be prepared by SFE on behalf of Clearing Participants to allow them to refund other Participants. The GST impact would be included in these adjustment notes.

The reduced fee of \$0.65 plus GST per side therefore applies to any Participant as it is expected that Full Participants will pass on the reduction to large volume clients (including large volume fund managers). Full participants claiming the rebate however cannot include client volumes, (including fund managers), as part of their House business. In essence any Participants own business may qualify for the reduced fee provided the volume threshold is met.

Full Participants are requested to advise the Exchange of any clients which are likely to benefit from the reduced large client fee so that they may be advised of this procedure.

NEW ZEALAND VOLUMES

For the purposes of the above volume discounts, Full Participants in New Zealand who transact deals on the SFE can include these volumes in the 960,000 sides threshold. This includes deals transacted by related entities in New Zealand to Full Participants located in Australia.

Volumes transacted on the New Zealand Futures and Options Exchange are not included in the calculation of the 960,000 threshold, as New Zealand trades are subject to a different fee structure.

Please contact either Ramy Aziz (Ph 02 9256 0657) or Derek Condell (02 9256 0504) if any clarification is required.

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