

SFE Bulletin No: 06/02

From: SFE Corporation Limited ABN 74 000 299 392

Date of Issue: 23 January 2002

INITIAL AND VARIATION MARGINS

Participants are referred to SFE Bulletin 03/02 which advised of amendments to the Business Rules and more specifically, amendments to the General By-Laws to ensure that margin calls are made as soon as possible. Participants will note that this amendment formalises the procedure followed by most Participants in practice.

As the liability of the client for initial margins arises upon execution of the instructions given by the client, it is important that Participants make the call to clients as soon as possible after the execution of the clients' instructions.

Participants are also reminded of the SFE's requirements to ensure that margins are satisfied by payment or cover within twenty-four (24) hours for domestic clients and forty-eight (48) hours for overseas clients of the request or the call.

The Business Conduct Committee has recently considered a number of cases relating to the failure of Participants to ensure that all margins are satisfied by payment or cover within twenty-four (24) hours as required by the SFE Rules. The Committee has imposed financial penalties upon these Participants for their failure to comply with the SFE's Rules. In some of these cases, the failures to comply were as a result of an inability to contact clients or clients failing to satisfy the margin calls within the specified time.

Participants should note that General By-Law G.21 of the SFE's Rules gives the Participant the right to close out all or any existing futures positions in any market held by the Participant on account of a client or Local Participant without further notice if the client is in default by failing to pay a call.

Further, prescribed clause 1.5(b) of the First Schedule of the SFE's Rules (which must be contained in the Participant's Client Agreement Form with each client) gives Participants the right but not the obligation to close a client's position if the client fails to meet a call.

The Committee has noted that a number of Participants have failed to exercise this right and have chosen to be in breach of the SFE's Rules in relation to the receipt of margins from clients.

The Committee has directed that it will continue to impose financial penalties upon Participants who are unable to ensure that margin calls are satisfied within twenty-four (24) hours for domestic clients and forty-eight (48) hours for overseas clients. The Committee expects Participants to exercise their right to close out the positions held by clients if they fail to meet a margin call.

Should you have any queries please contact Michelle Wagner at mwagner@sfe.com.au or on (02) 9256 0580.



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