

# CIRCULAR



30 - 32 Grosvenor Street

Sydney NSW 2000

Australia

Telephone (02) 9256  
0555

Facsimile (02) 9256  
0426

**To: Clearing Members  
Back Office Providers**

**78/98**

**No:**

## **US Treasury Bills Australian and New Zealand Equities as Collateral for Initial Margins**

SFECH will expand the range of collateral it accepts for initial margins to include US Treasury Bills and equities during the first quarter of 1999. This is being done to provide Members with greater choice in tailoring their collateral usage to suit both their own and client needs. It will also bring SFECH further into line with international standards in relation to acceptable types of collateral for initial margins.

Subject to system testing schedules, it is envisaged that this new facility will be implemented around February 1999.

The purpose of this circular is to provide Members with advanced notice of how these expanded collateral facilities will operate.

### **What Are Acceptable US Treasury Bills ?**

Only US Treasury Bills with the following characteristics will be accepted by SFECH for both SFE and NZFOE markets:

- maturities greater than two weeks.
- minimum holding per clearing account will be US \$100,000.
- minimum transaction size per clearing account will be US \$100,000.
- valuation haircut of 10% will apply.

Besides the above SFECH has internal limits as to the total amount of US Treasury Bills that will be acceptable.

### **What Are Acceptable Equities ?**

Australian and New Zealand equities with the following characteristics will be accepted by SFECH:

- Initially, acceptable equities will be limited to those underlying SFE share futures or NZFOE equity options, where relevant stamp duty exemptions have been obtained. This list of equities will be revised subject to member feedback before implementation.
- a minimum holding of \$10,000 per Clearing Member account will apply.
- the minimum transaction size will be \$10,000.

- a valuation haircut of 30% will be applied.

### **Lodgement of US Treasury Bills**

The Bank Of New York (BNY) will assist SFECH to administer the transfer/acceptance of treasury securities, using BNY's "on line" system.

### **Custodian Arrangements for Equities**

Commonwealth Custodian Services Limited will provide custodian facilities for Equities lodged as margin collateral. In relation to equities the custodian will assist with:

- processing CHESST transactions involved in the transfer of equity collateral from the Clearing Member to the Clearing House for SFE initial margins.
- processing all NZ Austraclear transactions involved in the transfer of equity collateral from the Clearing Member to the Clearing House for NZFOE initial margins.
- Monitor and assist with the administration associated with corporate actions such as bonus issues, rights issues, dividends etc.

### **Legal Arrangements**

As with the existing facility for Australian Government Bonds, legal ownership of securities will be transferred to SFECH.

To use the new facility, Clearing Members will be required to sign a security agreement which indicates that the Clearing Member or its Client(s) have legal ownership (unencumbered) to the securities being lodged. The lodgment of securities to cover client initial margins must be accompanied by a client consent form for each lodgment.

### **Fees**

All fees will be met by the clearing member but will be subject to review after implementation. The SFECH will continue to charge a ½% collateral management fee on a member initial margin balance irrespective of what forms of margin collateral are lodged.

### **Enquiries**

More detailed information will be provided prior to acceptance. Specific details of any lodgment, withdrawal or custodian fees will be announced closer to the date of implementation.

Please contact Mark Tooher on tel. (02) 9256 0553 or fax. (02) 9256 0426 or Katrina Maunder on tel. (02) 9256 0636 or fax. (02) 9256 0426 if you have any questions on the above.

**Ric Spooner**  
**Managing Director of SFECH**

**26/11/98**

**SYDNEY FUTURES EXCHANGE CLEARING HOUSE PTY LIMITED**  
**ACN 050 615 864**

**A wholly owned subsidiary of Sydney Futures Exchange Limited**  
**Address all correspondence to PO Box N680 Grosvenor Place Sydney NSW 2000 Australia**