

CIRCULAR



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To: Associate Members
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NZ Clearing Members
NZFOE Permit Holders

No: 63/99

SFECH Initial Margin Risk Policies for Y2K

The SFECH Board at the October 1999 meeting, discussed in detail issues surrounding the Y2K and end of year initial margin policies. The Board assessed the various possible market conditions during this period and focussed on adopting prudent and proactive steps to minimise risk, while acting responsibly to contribute to the orderly operation of the markets. Taking into consideration the potential volatility, liquidity and trading activity levels, the Board concluded the following risk management policies should be adopted:

- 1. Initial margins will be increased by 50% for all contracts executed in the SFE and NZFOE markets. To cover potential volatility in the lead up to the end of year and movements in markets that are open while SFE and NZFOE are closed, the period for this increased margin requirement will be 17 December 1999 through to 7 January 2000.**
- 2. Collateral will be accepted and transacted during the 17 December 1999 and 7 January 2000 period. Given the uncertainty of market conditions equities will not be included as acceptable collateral during this period.**

It is envisaged the above action will be sufficient to cover possible market movements and increased exposures whilst not adding to any potential liquidity constraints or systemic risk. In addition to this and as is the current practice, any significant market movements or increases in exposure may result in intraday margins being called. Clearing Members are advised to consider their underlying risk profiles and take any additional action they deem appropriate.

If there are any queries relating to implementation of these policies, please do not hesitate to contact the undersigned on (02) 9256 0618 or Mark Tooher, Manager, Risk Operations on (02) 9256 0553.

A handwritten signature in black ink, appearing to be 'Mark Tooher', is written over a horizontal line.

Martin Stockley-Smith
GM; Clearing House

21/10/99

SYDNEY FUTURES EXCHANGE CLEARING HOUSE PTY LIMITED
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