

# CIRCULAR



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**To: All Members**

**136/98**

**No:**

## **Amendments to the Business Rules**

Members are advised of various amendments which have been made to the Business Rules of Sydney Futures Exchange Limited and which were approved by Floor Members at an Annual General Meeting on 30 April 1998. The amendments are subject to regulatory disallowance, but come into effect immediately. Brief details of the amendments are as follows:

### **1 Treatment of Public Dealer Associate Members and Full Associate Members**

At the time of introducing the new class of Public Dealer Associate Membership it was intended that Public Dealer Associate Members should have entitlements equivalent to Full Associate Members, other than the right to transfer their membership. Articles 4.1(e) and 4.6(4)(b)(ii) were not amended at the same time and the amendment now rectifies the omission.

### **2 Criteria for Consideration by Membership Admission Committee**

Article 37.2A(c) and (d) has been amended to expand the criteria for experience and expertise that may be considered by the Membership Admission Committee for Registered Representative (Managed Discretionary Accounts) applicants (detailed in Article 37.2A(c)), to include managing of funds in a capacity as a proprietary trader and also personal account trading. Such an amendment more accurately reflects the current approach adopted by the Membership Admission Committee.

### **3 Third, Fifth and Seventh Schedules**

Some minor housekeeping changes have been made to the Third Schedule, Part G, Fifth Schedule, Parts D and F and Seventh Schedule, Part A to more accurately reflect the content of the Schedules.

### **4 Eleventh Schedule, Part A - List of Minor Breaches**

The Eleventh Schedule, Part A (schedule of minor breaches designated pursuant to General By-Law G.14) has been extended to ensure comprehensive coverage of all deliverable contract by-laws which contain buyer and seller obligations and to ensure that a breach of any obligation is recognised as a minor breach in the Eleventh Schedule, Part A.

### **5 Topping Up Clients' Segregated Accounts**

Article 43.2 has been amended to make it clear that a Member must ensure that when an individual Client fails to meet its obligations, the balance of the Clients' Segregated Account is not used to satisfy a realised loss, but rather the Member ensures that the individual liabilities to Clients are grossed up to ensure that all Clients with funds in the Clients' Segregated Account are able to withdraw the amounts they deposited (together with their subsequent trading results) at any point in time. The Member must therefore "top up" the Clients' Segregated Account where a realised loss has been incurred by a Client.

5 **Clarification of Requirement to Maintain Records**

Article 4.6(4)(g)(i) and General By-Law G.45 have been amended to ensure consistency between the requirement to retain records prescribed by Sub-Section 1266(7) of the Corporations Law and the requirements to maintain records in the SFE Business Rules.

The full text of the amendments is set out Annexure A.

## ANNEXURE A

1. Amendments to Articles 4.1(e) and 4.6(b)(ii) to ensure consistency in the treatment of Public Dealer Associate Members and Full Associate Members

Amendments to Article 4.1(e) are:

- (e) *Subject to these Articles and the Futures Law, a Full Associate Members which has made an appropriate declaration pursuant to Article 4.6(4), and an Introducing Broker Associate Member, Public Dealer Associate Member and Commodity Trading Adviser shall be entitled to deal in Futures and Options Contracts on behalf of Clients”*

Amendments to the proviso in Article 4.6(4)(b)(ii) are:

- (b) *PROVIDED THAT a Full Associate Member or Public Dealer Associate Member which has declared to the Exchange that it will comply with the provisions of paragraph ⑥ hereof shall be bound by clause ⑥ and the other provisions of these Articles (including this paragraph (b)) as if it was an Introducing Broker Associate Member and such Full Associate Member or Public Dealer Associate Member need only, and shall, comply with the requirements applicable to Introducing Broker Associate Members. A Full Associate Member or Public Dealer Associate Member which has made the declaration referred to in this paragraph (b) may revoke that declaration in which case it will be required to comply with the Net Tangible Asset requirement for Full Associate Members or Public Dealer Associate Members (and such revocation shall not be effective unless it can so comply) but the provisions of paragraph ⑥ hereof shall cease to apply to that Member.*

2. Amendments to Article 37.2A(c) and (d) to expand the criteria relating to experience and expertise that may be considered by the Membership Admission Committee for approval of Registered Representative (MDA) applicants, as follows: (additions underlined, deletions struck through):

- (c) *The application shall be accompanied by all relevant information and evidence necessary to establish, to the Committee’s satisfaction, the experience and expertise of the person seeking registration to demonstrate the person’s ability to in the manage ing of funds on behalf of others and an appropriate awareness of the responsibilities arising therefrom. The Committee may call for any such further information and evidence as it considers necessary to establish the financial experience and probity, trading experience (including information regarding the person’s ability to manage funds for clients, for their own account or for a proprietary account), business integrity and character of the person seeking registration.*

- (d) *In considering the application for registration, the Committee shall have particular regard to the level of experience and expertise of the person seeking registration, in the managing of funds ~~on behalf of others~~, and their awareness of the responsibilities arising from managing funds on behalf of others ~~therefrom~~. If the person seeking registration is unable to establish to the Committee’s satisfaction that he or she has the required level of experience or expertise and the appropriate understanding of those responsibilities ~~arising therefrom~~, the Committee shall reject the application.*

3. Minor Amendments to the Third Schedule, Part G, Fifth Schedule, Parts D and F, Seventh Schedule, Part A and Third Schedule, Part G to more accurately reflect the content of that Schedule, as follows:

*Third Schedule, Part G and Fifth Schedule, Part F - amend name from “Tender Time Schedule” to “Documentation Lodgement Schedule” to more accurately reflect the content of that*

Schedule.

Fifth Schedule, Part D - delete the reference to "Summary" in (i) "Delivery Notification Summary".

Seventh Schedule, Part A - the time for the purpose of DSF.2(b) is 4.15pm (Final Close Day).

4. Amendments to Eleventh Schedule, Part A (Schedule of Minor breaches designated pursuant to G.14) to ensure comprehensive coverage of all deliverable contract by-laws which contain buyer and seller obligations and to ensure that a breach of any obligation is recognised as a minor breach in the Eleventh Schedule, Part A. The amendments as follows (additions underlined, deletions struck through):

|     | <b>By-Law</b>    | <b>Nature of Breach</b>  |
|-----|------------------|--|
| (e) | <u>BAB.16(c)</u> | <u>Failure of buyer to confirm immediate settlement within time stipulated;</u>  |
|     | <u>BAB.16(d)</u> | <u>Failure of buyer to advise SFECH of non-conformity within time stipulated;</u>  |
|     | <u>BAB.16(e)</u> | <u>Failure by seller to advise SFECH of non receipt of funds via Austraclear within time stipulated.</u>   |
| (f) | <u>GW.14(a)</u>  | <u>Failure to provide tender document <u>and position documentation</u> in the format approved by the Board.</u>   |
|     | <u>GW.15(a)</u>  | <u>Failure to lodge tender documentation within the Delivery Period by the time stipulated in the By-Laws;</u>   |
|     | <u>GW.15(b)</u>  | <u>Failure to lodge <del>position tender</del> documentation within the Delivery Period <del>on the final day of trading</del> by the time stipulated in the By-Laws;</u>  |
|     | <u>GW.15(c)</u>  | <u>Failure to lodge tender documentation on the final day of trading by the time stipulated in the By-Laws:-</u>   |
|     | <u>GW.15(d)</u>  | <u>Failure to lodge position documentation on the final day of trading by the time stipulated in the By-Laws</u>   |
|     | <u>GW.232(c)</u> | <u>Failure of Buyer to pay by the time stipulated in the By-Laws.</u>  |
| (g) | <u>WF.f</u>      | <u>Failure to provide tender documentation <u>and buyer documentation</u> in the format approved by the Board.</u>   |
|     | <u>WF.6(a)</u>   | <u>Failure to lodge tender document on <u>any Notice Day</u> within the Delivery Period <del>the final day of trading</del> by the time <del>as sti</del> the By-Laws;</u> |
|     | <u>WF.6(c)</u>   | <u>Failure to lodge buyer documentation by the time stipulated <del>n</del> the By-Laws;</u>   |
|     | <u>WF.6(d)</u>   | <u>Failure to lodge tender documentation on the final day of trading by the time stipulated in the By-Laws.</u>  |

5. Amendments to Article 43.2 to make it clear that the requirement in Article 43.2 extends to

require a Member to deposit additional monies in a Clients' Segregated Account to cover initial and variation margin liabilities within five days of them occurring. The following sentence has been inserted at the end of Article 43.2:

*"The Member is furthermore obligated to pay into the Clients' Segregated Account after five clear business days, any amount (which has not been met by the Client), which arises as a result of debit balances of a Client resulting from realised losses or otherwise."*

6. Amendments to Article 4.6(4)(g)(i) and General By-Law G.45 to ensure consistency between the requirement to retain records prescribed by Sub-Section 1266(7) of the Corporations Law and the requirements to maintain records in the SFE Business Rules.

Article 4.6(4)(g)(i)

*To maintain internal records showing the time, date and nature of instructions received from and trades executed for Clients and to maintain separate internal records showing the time, date and nature of its own orders and trading and the source of funds used for that trading. Such records are to be maintained for a period of not less than ~~seven~~ ~~five~~ (7) years from the date of a trade*

G.45(b)(ii)

*maintain a full and complete record of each exercise of the discretionary authority showing the name of the Client, the details of the Futures Contract, the date and time of the transaction being effected and the name of the Registered Representative placing the order. Such records are to be maintained for a period not less than seven (7) years from the date of exercising the discretionary authority.*

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