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No: **153/98**

Further Explanation - Amendments to ISC Regulations

As you would be aware, the Insurance and Superannuation Commission (ISC) has traditionally viewed cash or other security lodged with SFECH for initial and variation margin calls to represent a "charge". Until 1997 trustees of regulated superannuation funds and Approved Deposit Funds were prohibited from giving a "charge" over the assets of the funds. This resulted in an unnecessary restriction on funds who use derivatives for their ongoing hedging activities.

In 1997 this prohibition was temporarily lifted by the Insurance and Superannuation Commissioner for funds who lodge assets with futures exchanges, stock exchanges and clearing houses.

Last month the Government moved to permanently allow funds to use their assets to enter into derivative contracts (ie via initial and variation margins) provided that the fund holds a risk management statement and it undertakes the necessary internal controls outlined in the regulations.

The Government has also relaxed the prior restriction which included cash in the 5% derivative charge ratio. Previously when charges exceeded a derivative charge ratio of 5% this had to be reported to the ISC. Under the new regulations, cash held with SFECH and other approved organisations no longer attract a reporting obligation as part of the derivative charge ratio.

These changes in the law have been welcomed by the SFE, ASX and the Investment and Financial Services Association (IFSA), all of whom see it removing an unnecessary impediment to funds from using derivatives for appropriate hedging purposes.

Paul Ritchie
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