S F E   B U L L E T I N

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ENHANCEMENTS TO THE BLOCK TRADE FACILITY

Introduction

Since May 2001, SFE Corporation has offered a Block Trade Facility (BTF) for selected SFE contracts. To keep SFE trading mechanisms relevant and reflective of market needs, SFE plans to make a number of enhancements to the BTF.

The purpose of this Bulletin is to outline the proposed BTF enhancements. **Subject to regulatory disallowance, the enhancements will become effective on Friday, 30 August 2002.**

Summary of enhancements to the BTF

Market research continues to indicate that the provision of a large order execution facility attracts new customers and additional volume to exchange products and is complementary to the central SYCOM® market. Furthermore, that the SFE BTF should offer comparable functionality to large order execution facilities available in the underlying cash market and at overseas exchanges.

Accordingly, the SFE BTF will be enhanced as follows:

- **Increased price flexibility** – Block Trades may be transacted at any price agreed between counterparties[1]. Block Trades may therefore legitimately occur at prices different to the prevailing price of a contract in SYCOM® at the time the Block Trade is arranged. Volume-Weighted-Average-Price (VWAP) trading will therefore be permitted via the BTF.

- **Extended disclosure period** – All Block Trades validated by SFE will be disclosed to the market from 9:30am on the following business morning. This includes Block Trades executed during the night session (5:10pm –

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[1] SFE reserves the right to not approve a proposed Block Trade if the proposed price of the Block Trade varies significantly, as assessed by the Exchange, from the price at which trades are being effected on SYCOM® at the time that the record details are lodged. As to how the Exchange interprets what is a 'significant' variation, written procedures/guidance will be circulated to the market before the amended Block Trade rules come into operation (in the form of amendments to the existing Block Trade Market Practice Note).

7:00am[2]). This provision will enable clients executing Block Trades to unwind their risk prior to the market reacting to the large trade.

- **Extended trading hours** – Block Trades may be transacted up to ten minutes after the SYCOM® market is closed[3]. This is a practical consideration to allow Block Trades to occur that are conditional upon a closing futures price; for example, a market-on-close order.

- **Use of the BTF for roll business** – To continue to support the liquid quarterly roll market on SYCOM®, use of the BTF to execute roll business in whatever form, be it partially or wholly, will be specifically prohibited.

A full list of changes to the business rules for Block Trades can be found in Appendix One. All other BTF business rules will remain unchanged.

Specific Product Enhancements

SFE SPI 200™ Futures Products

- **Increased price flexibility** – SFE SPI 200™ futures Block Trades may be executed to 1/10th of an index point, e.g. 3450.4. However, the minimum price increment for SFE SPI 200™ futures trades in the SYCOM® market will remain at 1 index point.

- **Reduction in the minimum threshold for SFE SPI 200™ futures** – The minimum threshold for SFE SPI 200™ futures contracts will be changed from 500 lots and become 300 lots. Amalgamation of any individual orders less than the stated contract minimum threshold will continue to be prohibited.

d-cypha SFE Australian Electricity Futures Products

New electricity futures products will be listed on Tuesday, 3 September 2002. The BTF will be available for all contract quarters of the d-cypha SFE Australian Electricity Futures products.

- It has been prescribed that Block Trades in electricity futures contracts may be executed up to and including the Last Trading Day

- The minimum threshold for an electricity futures Block Trade is 50 lots (this applies to each leg of a trade).

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[2] 8am outside US daylight saving time
[3] Market close refers to that of the individual product

Overview of the BTF

The BTF is an 'off-market' trading mechanism available for selected SFE products and offers much of the flexibility and certainty of an over-the-counter (OTC) market, plus the counterparty guarantee and integrity of an exchange market. Like SFE's Exchange-For-Physical facility (EFP), the BTF is an OTC-style trading mechanism and for large orders only, an alternative to SFE's electronic exchange market (SYCOM®).

The BTF enables professional market users to arrange and transact orders of significant size, tailored to their individual needs. The BTF gives users pre-trade certainty of both price and execution, thereby minimising the price impact and time delays that may occur when transacting orders of large size in the SYCOM® market.

The BTF is ideal for OTC participants, fund managers, arbitrageurs and other users who wish to make large, single transactions in the course of their business. SFE aims to encourage large business to be transacted that may have ordinarily resulted in significant price impact or otherwise not have occurred in the SYCOM® market.

In order to prevent any overlap between the BTF and SYCOM® markets, minimum volume thresholds are applied to ensure that the BTF is only used for genuinely large orders and not to deliberately circumvent the SYCOM® market. Thresholds are set on an individual contract basis and may be changed from time to time by SFE in order to maintain a desirable balance between the business transacted through SYCOM® and the BTF. Amalgamation of smaller orders to meet minimum thresholds is therefore prohibited.

Clearing and Settlement of Block Trades

SFE Clearing handles Block Trades in an identical manner to contracts transacted via SYCOM®. SFE Clearing interposes itself between the buyer and seller, becoming the central counterparty to all trades and hence guaranteeing the integrity of all transactions. Therefore, margin offsets and all other aspects of clearing and settling trades executed via SYCOM® are equally applicable to transactions executed via the BTF.

On-going Monitoring and Surveillance

As part of its on-going responsibilities, SFE will continue to monitor all trading (including Block Trading) to minimise the potential for customers to be unfairly disadvantaged. However, it is a condition of use that clients formally authorise, in writing, a Participant to transact Block Trades on their behalf.

In addition, SFE will continue to regularly review minimum thresholds to ensure that the BTF does not diminish the role of the existing SYCOM® market, which will continue to be the primary method for trading the Exchange's products.

Further Information

Appendix One presents amendments to BTF rules. Alternatively, please refer to the web links or key points of contact below.

For all surveillance or rule interpretation enquiries, please contact:

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For general information, please contact:

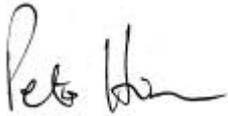|	
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Web links

General Information:
http://www.sfe.com.au/index.asp?dispage=/site/html/trading/tools/btf/intro.asp

Market Practice Note:
http://www.sfe.com.au/index.asp?dispage=/content/trading/whatsnew/btf/sfe/equity/bt_practicenote.pdf

Applicable contracts and Minimum thresholds
http://www.sfe.com.au/index.asp?dispage=/content/trading/whatsnew/btf/sfe/equity/bt_thresholds.htm

Peter Hiom
General Manager, Strategy and Business Development

TR.1.1 **Definitions**

Roll " trading a position from the nearest delivery month to an equivalent position in a different delivery month"

TR.20.A **BLOCK TRADING RULES**

Block Trade Facility

TR.20.A.1 (a) The Exchange shall establish a Block Trade Facility and subject to these Trading Rules, and the Business Rules, a Block Trade Order must be executed pursuant to this TR.20.A;

(b) The Board or the Chief Executive or his Delegate may prescribe contracts which may be traded using the Block Trade Facility;

(c) A Minimum Volume Threshold shall apply to those contracts referred to in TR 20.A1(b) and shall be prescribed by the Board or the Chief Executive or his Delegate;

(d) Block Trades are ~~only~~ permitted in ~~a~~ any delivery/expiry month and/or exercise price of a prescribed contract ~~which~~ irrespective of whether that prescribed contract has previously traded;

(e) ~~The Block Trade Facility can only be used where more than five business days remain to delivery/expiry of the contrac~~t; The Board or the Chief Executive or his Delegate may prescribe the number of days remaining until delivery/expiry of the contract within which the Block Trade Facility cannot be used;

(f) Where a Block Trade strategy involves:
   (i) trading two or more different contracts, the smaller of the Minimum Volume Thresholds of the contracts which comprise the Block Trade will apply to each of these contracts;
   (ii) trading two or more different delivery/expiry months and/or exercise prices of the same contract, the Minimum Volume Threshold will apply to the lot size of each leg of the trade,

(g) Participants cannot~~:~~
   (i) aggregate separate orders in order to meet Minimum Volume Thresholds~~; or~~
   ~~(ii) allot each individual leg of a Block Trade to different accounts.~~
   (ii) use the Block Trade Facility to execute Roll business.

(h) Where a Participant receives a Block Trade Order from a Client, the Participant may:
   (i) solicit counterparties to the Block Trade Order amongst other Participants;
   (ii) withhold transmission of the Block Trade Order in order to solicit those counterparties;
   (iii) disclose those details of the Block Trade Order as authorised by the Clients; and
   (iv) aggregate orders where each order is greater than or equal to the Minimum Volume Threshold for that contract.

~~**Fair and Reasonable Price**~~

TR.20.A.2 ~~(a) Participants must satisfy themselves when arranging, organising or executing Block Trade Orders, that the price of any Block Trade Order being quoted is fair and reasonable taking into account, but not limited to, the current bid/offer, previous traded prices and volume on SYCOM® of the same contract at the relevant time, the depth, volatility and liquidity of the SYCOM® market, the size of the Block Trade Order and general market conditions.~~

Before executing a Block Trade Order on behalf of a Client pursuant to TR.20.A a Participant must be authorised In Writing by the Client to do so either specifically or generally and such authorisation shall include an acknowledgment by the Client that

~~On each occasion when quoting a price for a Block Trade Order, the Participant must make it clear at that time to the counterparty that~~ :

(i)   the price quoted for the Block Trade Order may or may not be the prevailing market price;

(ii)   the price at which the Block Trade is executed will not be used in establishing settlement prices;

(iii)   Block Trades shall have no impact on SYCOM® market data; and

(iv)   Block Trades will be separately reported to the market.

Block Trade Execution

TR.20.A.3   (a)   Participants to a Block Trade-:

(i)   shall each execute a Block Trade Order in accordance with this TR.20.A. ;

(ii)   shall communicate the agreed terms of the Block Trade Order immediately to the Exchange;

(iii)   must each complete a Block Trade Facility Registration Form and submit the form to the Exchange for validation.

(b)   A completed Block Trade Facility Registration Form or such other notification as prescribed by the Exchange must be submitted to the Exchange for validation by each Participant within five (5) minutes of the time at which the Block Trade Order was agreed. The time limit for the submission of the Block Trade Facility Registration Form or such other notification to the Exchange commences as soon as the agreed terms of the Block Trade Order are communicated to the Exchange pursuant to TR20.A.3(a)(ii).

(c)   ~~An~~ The Exchange ~~Official~~ may grant an extension of time of the five (5) minute period referred to in TR 20.A.3 (b) but the Exchange ~~Officials are~~ is under no obligation to grant such an extension.

(d)   ~~An~~ The Exchange ~~Official~~ will assess the validity of the details recorded on the Block Trade Facility Registration Form or such other notification as prescribed by the Exchange. When the Exchange ~~Official~~ is satisfied that the details recorded are valid and complete, then the Exchange ~~Official~~ will confirm the execution of the Block Trade.

(e)   The Exchange ~~Officials are~~ is under no obligation to accept record details in accordance with TR.20.A 3(a)(iii) where:

(i)   the information cannot be readily and properly validated, and

(ii)   the proposed price of the Block Trade varies significantly, as assessed by the Exchange, from the price at which trades are being effected on SYCOM at the time that the record details are lodged.

(f)   Subject to TR.20.A.3(c) any Block Trade which is not executed in accordance with TR.20.A shall be invalid. The decision of the Exchange ~~Official~~ as to the invalidity of a Block Trade shall be final. The Exchange ~~Official~~ shall notify the effected Participants of that decision and send a message to the market identifying the Block Trade concerned.

(g)   Details of all Block Trades validated and confirmed by ~~an~~ the Exchange ~~Official~~ shall be published by the Exchange to Participants. The details published to Participants will include the commodity, quantity, time, expiry month(s) and price of each Block Trade and the identity of the Participants who conducted the trade.

(h) The original completed Block Trade Facility Registration Form (s) <u>or such other notification as prescribed by the Exchange </u>will be retained by the Participant (s) to a Block Trade Order and a copy of the completed, validated and confirmed Block Trade Facility Registration Form <u>or such other notification as prescribed by the Exchange </u>will be retained by the Exchange.

(i) Confirmation by ~~an~~ <u>the</u> Exchange ~~Official~~ of execution of a Block Trade does not preclude the Exchange from taking disciplinary action in the event that the Block Trade is found to be other than in compliance with the Business Rules.

(j) Where counterparties have been solicited pursuant to TR20.A1 and the Block Trade Order remains unfilled, then the Block Trade Order may revert to a permitted order ("the order") as described in TR.12 and can be executed by the Participant on SYCOM® in accordance with the Client's instructions. No Participant or SYCOM® Trader may attempt to execute a cross where that order is subsequently entered into SYCOM® unless a period of sixty (60) seconds has elapsed from the entry of the originating Client order.

~~Fair and Reasonable Price~~

TR.20.A.4 For the purpose of TR.20.A "a client" of a Participant which is a corporation shall include a related corporation as defined by the Corporations Law or a division of the Participant which is separate from that Participant's futures division.

~~Authorisation to Execute Block Trades~~

~~TR.20.A.5 Before executing a Block Trade Order on behalf of a Client pursuant to TR.20.A a Participant must be authorised in writing by the Client to do so either specifically or generally.~~