

www.sfe.com.au

30 Grosvenor Street
Sydney NSW 2000 Australia
Telephone 61 2 9256 0555
Facsimile 61 2 9256 0666

PO Box N680
Grosvenor Place
NSW 1220 Australia

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EXECUTION AND ALLOCATION OF PRE-NEGOTIATED BUSINESS ORDERS

Information Required for Messages Sent Regarding Pre-Negotiated Business Orders

It has come to the Exchange's attention that the information required for messages sent in accordance with Pre-Negotiated Business Orders has been interpreted in differing ways by various Participants. Therefore, the Exchange considers it appropriate to clarify the type and level of detail of information that must be included in the mandatory request for quote preceding the execution of Pre-Negotiated orders.

The request for quote needs to specify all information that is material to the pricing and trading of the orders to be executed. This is to ensure that market users are fully informed and able to assess and respond to requests for markets. The request for quote should, where applicable, include the following:

- a description of the contract and/or class and series of the option(s) that will form the trade;
- a description of the intended trade using common market terminology for example spread, straddle, strangle etc...to indicate the relationship of each leg of the trade; and
- if the trade involves a ratio of futures or options and/or a delta hedge, information that explicitly specifies the ratio and/or delta and the price basis for the hedge in the underlying commodity.

For example:

RFQ- -> IRM4 9400/9350 1x2 ratio put spread basis 9434, delta 5%

In addition it should be noted that when trading in the Custom Market, any modifications to order parameters that may affect the pricing or trading of the particular order should be broadcast to the market via the message facility with the change explicitly noted e.g. a change in the delta of a futures/options order should specify the new delta, not merely state that a change had been made to the delta.

S F E B U L L E T I N C O N T I N U E D

Allocating Trades Executed Under Pre-Negotiated Business

Operating Rule 3.1.19 states that trades must be allocated according to the sequence of order receipt unless it is determined by the Exchange to be 'fair and equitable' to allocate otherwise. In this regard, the Exchange has previously determined that aggregated orders that conform to the following scenarios may be allocated other than in sequence of order receipt:

- All Futures or Options orders received when the market is neither open, nor in pre-open;
- Spread or Custom Market orders received during the pre-open phase of the market;
- All Futures or Options orders received and recorded at exactly the same time; and
- Orders that, by definition, cannot be entered upon receipt, for example Market On Open or Market On Close.

It has come to the Exchange's attention that the inability to allocate aggregated Pre-Negotiated orders other than in the sequence of order receipt may in some instances result in trade allocations that might not be viewed as 'fair and equitable'. Recognising this, the Exchange has now determined that aggregated orders negotiated under Pre-Negotiated Business Orders Operating Rules be added to the above scenarios. Accordingly, on the basis of allowing 'fair and equitable' allocations, such orders may be allocated other than in the sequence of order receipt.

It should be noted that the Participant must maintain the same allocation policy with regard to aggregated orders, as already provided to the Exchange and used across its futures business. Additionally, Participants should advise where they intend to allocate other than in strict sequence of order receipt and must document and communicate to clients their commercial policy in respect of pro-rata allocations.

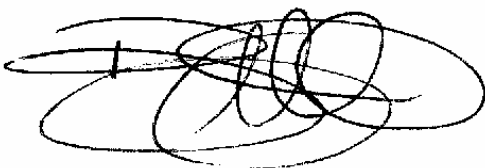
For clarity, the relevant component of Operating Rule 3.1.19 follows:

Operating Rule 3.1.19 Trades to be Allocated in Sequence of Order Receipt

States in part that:

A Full Participant and its Representative shall allocate trades to Clients in the sequence in which the orders are received unless it would be fair and equitable, as determined by the Exchange, to allocate out of sequence.

Should you have any queries please contact Andrew Farquhar on 9256 0498 or afarquhar@sfe.com.au or the undersigned on 9256-0699 or bhill@sfe.com.au



BRONWYN HILL
MANAGER, COMPLIANCE & SURVEILLANCE