



SFE NOTICE NO.

23/07

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INTERNAL TRANSFERS – BEST PRACTICE

The Exchange has recently conducted a Self Assessment to establish the types of internal transfers Participants execute on behalf of their clients, how these internal transfers are reported to the Exchange and in what format the resultant positions are represented to their clients.

Following the completion of the Self Assessment the Exchange has analysed Participants' policies and procedures regarding internal transfers and has compared market wide practices to gauge whether they appear to be appropriate and adequate.

As a result of the analysis, the Exchange advises the following is deemed to be 'Best Practice' with regards to Internal Transfers:

Internal Transfers of Exchange Traded Contracts

Authorisation

It is recommended that all Internal Transfers of Exchange Traded Contracts are authorised by the client in writing. At no time should the Participants' Operations Department facilitate internal transfers without written authorisation from their client. Participants should ensure that internal transfers are only facilitated for the same beneficial owner.

Accounting Procedures

Due to the diversity of accounting processes employed by Participants, the Exchange does not recommend a "Best Practice". However, procedures should be in writing and reviewed from time to time for appropriateness.

Daily Beneficial Ownership Reporting (DBOR)

Open positions should be reported in the DBORs in the account to which they have been transferred and not in the account to which they were originally allocated.

Tracking Internal Transfers

Internal transfers should be tracked by Participants internal accounting system and reviewed prior to producing clients' statements. Written requests for internal transfers should be retained as part of the clients' order instructions.

Internal Transfers of Over the Counter (OTC) Created Positions

Authorisation

It is recommended that Participants that execute OTC created positions have authorisation to do so in writing from their clients. However, please note that as OTC created positions are not Exchange contracts, there are no Operating Rules pertaining to them.

Accounting Procedures

It is recommended that procedures regarding accounting processes for OTC created positions are in writing and reviewed from time to time for appropriateness. However, please note that as OTC created contracts are not Exchange contracts, there are no Operating Rules pertaining to them.



Daily Beneficial Ownership Reporting (DBOR)

The Exchange requires that each day a DBOR shall be submitted containing the name and address of clients accounts that hold a bought or a sold position resulting in there being an Open Position in SFE Futures and Options Contracts. Contracts to be reported include Exchange Traded SFE futures and options contracts and SFE contracts which have been traded off market i.e. via an EFP or Block Trade.

Participants should not include OTC created positions in their DBORs.

Differentiating OTC Created Positions from Exchange Traded Contracts

OTC created positions should not be represented as SFE (Exchange) contracts in client's statements. OTC created positions should not be named SFE contracts and should not include the mnemonic "SFE" as part of their description. The inclusion of a designation on the client's statement eg by including a "X" or "TRF" to identify an OTC created position, with or without an explanation of the designation, is not deemed by the Exchange to be sufficient to differentiate them from genuine Exchange Traded futures or options contracts.

Tracking Internal OTC Created Transfers

It is recommended that internal transfers are tracked by Participants' internal accounting systems and reviewed prior to producing clients' statements and that written requests for internal transfers be kept as part of the clients' order instructions. However, please note that as OTC created positions are not Exchange products, there are no Operating Rules pertaining to them.

COMPLIANCE AND SUPERVISION

Supervision of Internal Transfers

It is recommended that internal transfers are supervised by the Operations or Clearing Manager and reviewed as part of daily reconciliations. It is further recommended that procedures for internal transfers are documented in writing.

Audits

It is recommended that Participants include a review of the internal transfers process as part of their internal audit and that Participants' Compliance Departments independently review the process.

Training

It is recommended that full training be given to staff who are involved in the internal transfers process and that roles are rotated to ensure more than one person is familiar with the process.

Should you have any queries regarding the above please contact Robert Coaldrake on 02) 9227 0223 or at robert.coaldrake@asx.com.au or you may contact Janice Coles on 02) 9227 0224 or at janice.coles@asx.com.au.

A handwritten signature in black ink, appearing to read 'R. Coaldrake', written in a cursive style.

Robert Coaldrake
Senior Manager, Futures Compliance & Surveillance

ASX Limited
20 Bridge Street
Sydney NSW 2000
Australia