



SFE NOTICE NO.

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Commonwealth Government Bond Futures Contract Expiries – Market Information Update

As market users will be aware, the December 2008 expiry of the Ten-Year and Three-Year Commonwealth Government Bond Futures contracts take place on Monday, 15 December 2008 at 12:00 noon. The settlement price for these contracts are drawn from quotes provided by physical bond traders over the morning of the Last Trading Day.

In light of current futures holdings, discussions with traders and likely strategies surrounding expiry, SFE wishes to ensure market awareness of the following factors.

As part of its market operator licence which imposes front-line market supervisory authority and obligations to ensure that its markets are fair, orderly and transparent, Exchange Surveillance personnel monitor trading activity and holdings approaching expiry, and initiate contact with relevant parties to gain adequate assurance as to traders' intentions and understanding of their obligation to trade in a manner consistent with the fair, orderly and transparent operation of SFE's markets. As a result of a number of such discussions in recent days, the Exchange has gained the necessary assurances regarding traders' intentions and strategies in meeting these obligations.

SFE recognises, however, that circumstances in debt markets throughout the yield curve have led to large futures positions being accumulated. Traders have advised the Exchange that they may seek to reduce their exposures by permitting futures positions to expire and by trading out of physical bond positions during the expiry period. As a result, SFE wishes to advise traders that the aforementioned market operations have the potential to lead to a much larger level of liquidity being provided in physical and synthetic bond transactions during the expiry period than is usually the case. This could lead to unexpected levels of price volatility – traders who are unwilling to accept this price risk may look to exit positions before this.

SFE wishes to remind all traders that position limits in both December 2008 bond contracts come into effect at the close of trading today, and will remain in effect until the contracts' expiries. These limits apply at a corporate group level to all traders regardless of whether a single Participant or multiple Participants are used to clear contracts, nor whether some holdings are carried through intermediate entities.

Should you have any queries in relation to the above, please contact Nick Gaut, Senior Market Analyst, Futures Supervision, on (02) 9227-0226 or at nick.gaut@asx.com.au

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

Robert Coaldrake
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