



MEDIA RELEASE

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Designated Price Makers appointed for Exchange Traded CFDs

Designated Price Makers (DPMs) have been appointed for the world's first Exchange Traded CFDs, to be available for trade on the Sydney Futures Exchange (SFE) in the second quarter of 2007.

Commonwealth Bank of Australia, Credit Suisse, IMC Pacific, Optiver Australia Pty Ltd, Susquehanna Pacific Pty Ltd, UBS Australia, Merrill Lynch Australia and Timber Hill Australia Pty Ltd have now signed to be DPMs for the Exchange Traded CFDs to be listed on SFE.

While CFDs have been one of the fastest growing product sectors in financial markets in recent years, the Exchange Traded CFDs to be listed on SFE will become the first to offer all the benefits of central counterparty clearing, front-line regulation, liquidity provision and multi-broker access.

Exchange Traded CFDs are proposed to be listed across a broad range of assets including key global equity indices, the top 50 Australian listed stocks, foreign exchange crosses and key commodities, including gold and oil.

A PDF document titled 'Exchange Traded CFDs – An Introduction' is attached. For further updates on the establishment of the Exchange Traded CFD market, register interest on www.sfe.com.au/cfd.

In July 2006, the Australian Stock Exchange (ASX) and SFE Corporation (SFE) merged to create the ninth largest listed exchange group in the world (ASX). The Exchange Traded CFDs will be listed on the SFE trading platform, SYCOM® and be subject to SFE's operating rules.

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Exchange Traded CFDs

An Introduction

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What is a CFD?

A CFD (Contract for Difference) is an agreement between a buyer and a seller to exchange the difference in value of a particular instrument between when the contract is opened and when it is closed. The difference is determined by reference to an 'underlying' – a stock, Index, FX rate or commodity.

CFDs allow an investor to participate in the performance of the underlying instruments without actually owning them.

What is an Exchange Traded CFD?

CFDs have been used by professional traders for over twenty years. In the last few years they have been available to individual investors through brokers, initially in the United Kingdom and recently in Australia. CFD related trading and hedging has been one of the fastest growing areas in the Australian and European derivatives markets.

Until now CFDs were only offered in the over-the-counter (OTC) market. There are two main OTC pricing models for CFDs:

- Market Maker (MM) model – where the CFD provider acts as principal, providing a two-way spread based on the market price, and clients trade directly with the CFD provider.
- Direct Market Access (DMA) model – where the CFD order is replicated by the provider placing a corresponding stock order in the underlying market.

Exchange Traded CFDs incorporate many of the positive attributes of Over-the-Counter CFDs, such as leverage and flexibility, and enhance these with the risk management, regulatory and supervisory characteristics of exchange traded products. The result is a new generation of leveraged tradeable products with competitive, transparent pricing and the security of contract performance typically associated with exchange traded products.

Exchange Traded CFDs listed on the Sydney Futures Exchange (SFE)

In July, 2006, SFE Corporation and the Australian Stock Exchange (ASX) merged to create the ninth largest listed exchange group in the world. In the 2nd quarter of 2007, Exchange Traded CFDs will be listed on the SFE trading platform, SYCOM®. The proposed suite of Exchange Traded CFDs includes CFDs on Australia's Top 50 individual equities, major global equity indices, key FX crosses and selected commodities.

Features of Exchange Traded CFDs

Two main features have driven the popularity of CFDs:

- 1. Leverage:** Exchange Traded CFDs require only a small initial margin to secure a trade. This enables the trader to obtain full exposure to a stock or commodity for a fraction of the price of buying the underlying.
- 2. The ability to go 'short':** CFDs allow investors to sell stock or commodities they don't already own, ie, to go short. This enables an investor to make money even when a market is going down.

Exchange Traded CFDs have taken the best features of over-the-counter CFDs and added to these the positive attributes of Exchange Traded Markets, with the following results.

Reduced Transaction Costs	With multiple Market Makers operating in the Exchange Traded CFD market, traders won't have to accept the prices of a single market maker. Multiple Market Makers will result in improved liquidity and a much tighter bid/offer spread. As the bid/offer spread typically represents the largest part of transaction costs, Exchange Traded CFDs will be significantly cheaper to trade than comparative OTC products.
Reduced cost of 'carry'	The other major cost incurred by traders of CFD products is the cost of holding a position. Holders of Exchange Traded CFDs will pay significantly lower 'carry' charges compared to alternative leveraged retail products such as margin lending facilities and OTC CFDs. This is made possible by the Central Counterparty Clearing model negating the need for financing. The savings from this financing charge are then passed onto the trader.
Franking Credit Cashflow	In addition to the Dividend/Yield cash flow, Exchange Traded Equity CFDs include a cashflow which represents the value of any applicable franking credit. Holders of short positions pay the Franking Credit Cashflow. Holders of long positions receive the Franking Credit Cashflow discounted by the percentage of open short positions held by the Designated Price Makers (DPMs).
Reduced exposure to broker failure	SFE Clearing Corporation (SFECC) will provide a central counter-party clearing service for all Exchange Traded CFDs. Central counter-party clearing means that all trades undertaken in the Exchange Traded Market are 'novated', i.e. they are carried out with SFECC and not with the original party to the trade. SFECC manages these positions via the established margining systems currently used by the global futures markets. These trades are then backed by the Exchange Clearing Guarantee Fund. This means traders and brokers of Exchange Traded CFDs have significantly less exposure to the creditworthiness of their bi-lateral counterparty than do non-exchange CFD traders and brokers.
Strong Market Regulation	ASX's established and experienced front-line regulation teams will monitor price discrepancies and any unusual activity that may indicate unfair trading conditions for Exchange Traded CFDs. This will safeguard the interests of all market participants. The Australian regulator, ASIC, will then oversee the activities of the entire market.
Broker Accreditation	Only Accredited Brokers will be able to offer Exchange Traded CFDs. This ensures that end customers can use the services of accredited brokers with confidence.
Standardisation and Consistency	Exchange Traded CFDs have standardised contract specifications, a transparent, consistent operating model and are subject to SFE operating rules. Those trading Exchange Traded CFDs will benefit from full anonymity of position and trades.



How do Exchange Traded CFDs differ from Futures?

There are a number of key differences between Exchange Traded CFDs and Futures contracts, as summarised below.

Characteristics	Futures	Exchange Traded CFDs
Price	A Futures contract has incorporated into its price a premium or discount determined by the cost of carry. The cost of carry reflects the cost of holding the underlying over the life of the futures contract, less the amount the holder would receive in dividends or yields during that time.	Exchange Traded CFD prices imitate the spot price of the underlying, with no forward carry cost implied. The cost of carry is not factored into the price as it is paid on a daily basis. Dividends and other adjustments are paid when they fall due.
Cashflows	Cashflows such as carry costs and dividends are reflected in the price of the futures contract, resulting in either a premium or discount to the underlying security.	Exchange Traded CFDs are margined in the same way as futures. There are, however, a number of additional cashflows associated with the product. These cashflows are listed below. <ol style="list-style-type: none"> 1. Contract Interest – calculated daily on all open positions held at the close of trade; paid and received daily. 2. Open Interest Charge – calculated daily on all open positions held at the close of trade; paid and received daily . 3. Dividend / Yield Cashflow – The dividend or yield of the underlying instrument, paid and received when they fall due. 4. Franking Credit Cashflow – (For equity CFDs only) representing the monetary value of the franking credit where declared.
Expiry/Maturity	Futures contracts have a pre-determined expiry date. At expiry, the contract either gives rise to a physical delivery or cash settlement. To create a perpetual position, the contract must be rolled (ie the contract must be closed out and a similar position established in the next expiry).	Exchange Traded CFDs do not expire. They are perpetual in nature. There is no need to 'roll' a position. The only way to close a position is to trade the opposite side of the contract.
Notional value of Contract	Represented as a multiple of the underlying asset price. For SFE SPI 200™ Index Futures, the notional value is the index value times a multiplier of \$25, often referred to as the tick value.	1 unit of the underlying contract. For example: <ul style="list-style-type: none"> • 1 BHP Exchange Traded CFD has the same value as the underlying BHP stock price. • S&P/ASX 200 Exchange Traded CFD has a value equal to the Index value in local currency i.e. AUD \$5000.



Further Information

Interested parties can receive more information on Exchange Traded CFDs by registering on www.sfe.com.au/cfd

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