ASIC

Australian Securities & Investments Commission

ASIC Market Integrity Rules (ASX Market) 2010

Volume 1

This compilation was prepared on 12 September 2013 taking into account amendments up to *ASIC Market Integrity Rules (ASX Market) Amendment 2013 (No.2)*, which commenced on 10 August 2013. See the Notes at the end of these Rules. The text of any of those amendments not in force on that date is appended in the Notes section.

Volume 1 contains Chapters 1 to 10, Schedules 1A, 1B and the Annexures to Schedule 1A.

Volume 2 contains:

- Schedule 1C Form 1 Part 1;
- Schedule 1C Form 2 Parts 1 and 2;
- Schedule 1C Form 3A Parts 1 and 2;
- Schedule 1C Form 3B Parts 1 and 2;

Volume 3 contains:

- Schedule 1C Form 4A Parts 1 and 2;
- Schedule 1C Form 4B Parts 1 and 2;
- Schedule 1C Form 5;
- Schedule 1C Form 6;
- Schedule 1C Form 7;
- Schedule 1C Form 8 Parts 1 and 2;

- Schedule 1C Form 9 Parts 1 and 2;
- Schedule 1C Form 10 Parts 1 and 2;
- Schedule 1C Form 11 Parts 1 and 2;

Volume 4 contains:

- the Notes.

Contents

Chapter 1: Introduction

Part 1.1 Preliminary

1.1.1 Enabling legislation

ASIC makes this instrument under subsection 798G(1) of the Corporations Act.

1.1.2 Title

This instrument is *ASIC Market Integrity Rules (ASX Market) 2010*.

1.1.3 Commencement

This instrument commences on the later of:

(a) the day the instrument is registered under the *Legislative Instruments Act 2003*; and

(b) the commencement of Schedule 1 to the *Corporations Amendment (Financial Market Supervision) Act 2010*.

Note: An instrument is registered when it is recorded on the Federal Register of Legislative Instruments (FRLI) in electronic form: see Legislative Instruments Act 2003, s 4 (definition of register). The FRLI may be accessed at http://www.frli.gov.au/.

1.1.4 Scope of these Rules

These Rules apply to:

(a) the activities or conduct of the Market;

(b) the activities or conduct of persons in relation to the Market;

(c) the activities or conduct of persons in relation to Financial Products traded on the Market.

Note: There is no penalty for this Rule.

1.1.5 Entities that must comply with these Rules

The following entities must comply with these Rules:

(a) the Market Operator;

(b) Market Participants; and

(c) Other Regulated Entities;

as specified in each Rule.

Note: There is no penalty for this Rule.

1.1.6 Conduct by officers, Employees or agents

In these Rules, conduct engaged in on behalf of a person:

(a) by an officer, Employee, or other agent of the person, and whether or not within the scope of the actual or apparent authority of the officer, Employee, or other agent; or

(b) by any other person at the direction or with the consent or agreement (whether express or implied) of an officer, Employee, or other agent of the person, and whether or not the giving of the direction, consent or agreement is within the scope of the actual or apparent authority of the officer, Employee, or other agent,

is deemed to have been engaged in by the person.

Note: There is no penalty for this Rule.

1.1.7 State of mind of a person

(1) If for the purposes of these Rules in respect of conduct engaged in by a person, it is necessary to establish the state of mind of the person, it is sufficient to show that an officer, Employee, or other agent of the person, being an officer, Employee, or other agent by whom the conduct was engaged in and whether or not the conduct was within the scope of the actual or apparent authority of that officer, Employee, or other agent, had that state of mind.

(2) In subrule (1), a reference to the state of mind of a person includes a reference to the knowledge, intention, opinion, belief or purpose of the person and the person's reasons for the person's intention, opinion, belief or purpose.

Note: There is no penalty for this Rule.

Part 1.2 Waiver

1.2.1 Waiver of Rules

(1) Subject to Rule 1.2.3, ASIC may relieve any person or class of persons from the obligation to comply with a provision of these Rules, either generally or in a particular case or category, and either unconditionally or subject to such conditions as ASIC thinks fit.

(2) If any conditions on a waiver given under subrule (1) are imposed, all of the conditions must be complied with for the waiver to be effective.

(3) ASIC may withdraw, in writing, a waiver given under subrule (1) at any time.

(4) Any request by a person for a waiver under subrule (1) must be in writing.

(5) Any waiver given under subrule (1), and any conditions imposed on that waiver, must be in writing.

(6) ASIC may publish notice of a waiver given under subrule (1).

Note: There is no penalty for this Rule.

1.2.2 Compliance with conditions

Failure to comply with a condition imposed under Rule 1.2.1 is a contravention of this Rule.

Maximum penalty: $1,000,000

1.2.3 Period during which relief applies

ASIC may specify the period or specific event during which any relief from an obligation to comply with a provision of these Rules may apply.

Note: There is no penalty for this Rule.

1.2.4 Register

(1) ASIC may establish and maintain a register for recording details of relief granted under Rule 1.2.1 and may enter the following details in the register:

(a) the date that the relief takes effect;

(b) the person or class of persons relieved from the obligation;

(c) the provision to which the relief applies;

(d) brief reasons for the relief; and

(e) any conditions that apply to the relief.

(2) ASIC may publish the register referred to in subrule (1).

Note: There is no penalty for this Rule.

Part 1.3 Notice, notification and service of documents

1.3.1 Market Participant to have email

A Market Participant must acquire and maintain an operating email system for the purposes of receiving notices under these Rules.

Note: There is no penalty for this Rule.

1.3.2 Methods of giving notice in writing

Unless otherwise specified in a Rule, ASIC may give a notice under these Rules by any of the following methods:

(a) delivering it to the recipient personally;

(b) leaving it at or by sending it by courier or post to the address of the recipient last notified to ASIC;

(c) sending it by facsimile to the recipient's facsimile number last notified to ASIC;

(d) a circular or bulletin addressed to a class of persons and delivered or communicated by any means permitted under this Rule;

(e) specific email by any method which identifies a person or person's title as addressee and no notice of non-delivery has been received;

(f) broadcast email by any method which identifies the addressee and which, having regard to all the relevant circumstances at the time, was as reliable as appropriate for the purposes for which the information was communicated.

Note: There is no penalty for this Rule.

Part 1.4 Interpretation

1.4.1 References to time

In these Rules a reference to time is to the time in Sydney, Australia.

Note: There is no penalty for this Rule.

1.4.2 Words and expressions defined in the Corporations Act

Words and expressions defined in the Corporations Act will unless otherwise defined or specified in these Rules or the contrary intention appears, have the same meaning in these Rules.

Note: There is no penalty for this Rule.

1.4.3 Definitions

"**Accreditation Examination**" means an examination approved by ASIC in accordance with subrule 2.4.7(4) or 2.4.8(4).

"**Accredited Adviser**" means:

(a) a Level One Accredited Derivatives Adviser;

(b) a Level Two Accredited Derivatives Adviser; or

(c) an Accredited Futures Adviser.

"**Accredited Futures Adviser**" means a person who has been accredited under Rule 2.4.6 and whose accreditation is current.

"**AFSL**" means an Australian financial services licence granted under section 913B of the Corporations Act.

"**Approved Ratings Agency**" means a credit rating agency holding an AFSL authorising it to give general advice by issuing a credit rating.

"**AQUA Product**" means a Financial Product which is:

(a) a Managed Fund Product;

(b) an ETF Security; or

(c) a Structured Product;

which is admitted to Trading Status as an AQUA Product or to the AQUA Quote Display Board.

"**AQUA Product Issuer**" means an entity which issues, distributes or makes available AQUA Products and which has been admitted as an AQUA Product Issuer.

"**AQUA Quote Display Board**" means the facility provided by the Market Operator for AQUA Product Issuers and Trading Participants to advertise their interest in acquiring or disposing of AQUA Products.

"**ASIC**" means the Australian Securities and Investments Commission.

"**ASIC Act**" means the *Australian Securities and Investments Commission Act 2001* as amended from time to time.

"**ASX**" means ASX Limited (ACN 008 624 691).

"**Auction**" means an auction conducted in a Trading Platform in respect of Qualifying Bids or Offers pursuant to the following process:

(a) the highest ranked Bid In Price/Time Priority is paired with the highest ranked Offer In Price/Time Priority so that either the Bid or the Offer is fully satisfied;

(b) a new priority of Bids and Offers is established after deducting the quantity of Products paired under paragraph (a);

(c) the pairing and re-establishment of priority set out in paragraphs (a) and (b) is repeated until the highest ranked Bid In Price/Time Priority is below the highest ranked Offer In Price/Time Priority;

(d) all paired Bids and Offers are then matched at the Equilibrium Price;

(e) where the highest Bid and lowest Offer prices respectively do not match or overlap, such Bids and Offers will not participate in the process outlined in paragraph (b);

(f) any Bids or Offers which have not been matched at the completion of the process described in paragraph (b) will be carried through to the next session.

"**Australian ADI**" has the meaning given by section 9 of the Corporations Act.

"**Authorised Person**" means a person who:

(a) is either:

(i) a client of a Trading Participant; or

(ii) an agent of a client of a Trading Participant; and

(b) is permitted by a Trading Participant to submit orders into the Trading Participant's system.

"**Automated Client Order Processing**" is the Automated Order Processing of an order submitted by an Authorised Person into a Trading Participant's system.

"**Automated Order Processing**" means the process by which orders are registered in a Trading Participant's system and, if accepted for submission into a Trading Platform by the Trading Participant, submitted as corresponding Trading Messages without being keyed or rekeyed by a DTR.

"**Automated Order Processing Requirements**" means the requirements of Part 5.6.

"**Bid**" means:

(a) in relation to a Cash Market Product, a price and quantity of the Cash Market Product to be purchased;

(b) in relation to a Derivatives Market Contract, an offer to enter into a Derivatives Market Transaction in respect of the relevant Derivatives Market Contract as Buyer; and

(c) in relation to a Combination, a price and quantity of the Combination.

"**Bid Class**" means, in relation to a Takeover Bid, the class of Financial Products included in the bid class of Financial Products under the Corporations Act.

"**Bid Period**":

(a) for an Off-Market Bid, means the period that commences when the Bidder's statement is given to the Target and ends:

(i) 1 month later if no offers are made under the bid; or

(ii) at the end of the Offer Period;

(b) for a Market Bid, starts when the bid is announced to the Market by the Market Participant acting on behalf of the Bidder and ends at the end of the Offer Period; and

(c) for a Scheme, starts when the announcement of intention to propose a Scheme is first received by the Market until the date on which the Scheme is effected.

"**Bidder**" means:

(a) in relation to an Off-Market Bid or Market Bid, a bidder within the meaning of the Corporations Act and, in respect of an Issuer incorporated or established outside Australia, the equivalent entity; and

(b) in relation to a Scheme, the entity or entities in a similar position to a bidder.

"**Business Day**" means a day other than a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day or Boxing Day.

"**Buyer**" means, in relation to a Derivatives Market Transaction, the Trading Participant whose purchase, bid or buy instruction, order or other Trading Message has resulted in the Derivatives Market Transaction being entered into, whether or not in connection with any

Crossing, other Derivatives Market Transaction or any transaction in any Cash Market Product or Non-ASX Contract and includes the taker of an Options Market Contract.

"**Cash Market Product**" means a Quoted Product, a Warrant admitted to Trading Status, an AQUA Product admitted to Trading Status or to the AQUA Quote Display Board, a CGS Depository Interest admitted to Trading Status and any other product that the Market Operator authorises for trading on a Trading Platform as a Cash Market Product.

"**Cash Market Transaction**" means a transaction between Trading Participants for one or more Cash Market Products.

"**Cash Only Combination**" means a transaction consisting of two or more component Cash Market Transactions, in a specific ratio, in respect of which:

(a) entry into each component Cash Market Transaction is contingent on entry into each of the other component Cash Market Transactions;

(b) the combined transaction has a net price; and

(c) each transaction is for the same client.

"**Central Orderbook**" means a part of a Trading Platform which is a facility for submitting Trading Messages and entering into transactions in respect of:

(a) Derivatives Market Contracts;

(b) Cash Market Products;

(c) Tailor-Made Combinations;

(d) Standard Combinations.

"**CGS Depository Interest**" has the meaning given by section 761A of the Corporations Act.

"**CHESS Depository Interest**" has the meaning given to the term "CDI" by Rule 2.13.1 of the Operating Rules of ASX Settlement Pty Limited (ACN 008 504 532).

"**Class**" means, in relation to Derivatives Market Contracts, all Contract Series with the same Underlying Index, Underlying Commodity, Underlying Financial Product or Underlying Instrument, as applicable.

"Clearing Facility" means, in relation to a Market Transaction, the clearing and settlement facility, within the meaning of section 761A of the Corporations Act, through which the Market Transaction has been or will be cleared.

"**Clearing Obligation**" means an obligation imposed on a Clearing Participant under the Clearing Rules.

"**Clearing Participant**" means a person admitted as a participant under the Clearing Rules.

"**Clearing Rules**" means:

(a) in relation to a particular Clearing Facility, the operating rules, procedures, practices, directions, decisions and requirements of that Clearing Facility;

(b) in relation to a particular Clearing Participant, the rules of the Clearing Facility to which that Clearing Participant is subject.

"**Client Agreement**" means an agreement between the Trading Participant and its client, entered into under Rule 3.1.6, 3.1.7, 3.1.8 or 3.1.9.

"**Combination**" means a Cash Only Combination or a Derivatives Combination.

"**Commencement Date**" means the date this instrument commences, as set out in Rule 1.1.3.

"**Company Announcements Office**" means the office of the Market Operator that processes announcements regarding Listed Entities for release to the Market.

"**Competition Market Integrity Rules**" means the *ASIC Market Integrity Rules (Competition in Exchange Markets) 2011* as amended from time to time.

"**Compliance Education**" means education or professional development directly related to compliance obligations, policies, procedures and ethics with specific relevance to the obligations of the Market Participant and the Responsible Executive under these Rules, the Market Operating Rules, the Clearing Rules and the Settlement Rules.

"**Compliance Education Requirements**" means the successful completion of 8 hours of Compliance Education during the period from 1 July each year to 30 June in the following year.

"**Compliance Manager**" means a person who has responsibility for all or part of the compliance function in the business of the Market Participant in connection with the Market.

"**Conditional Sale**" means a sale which is subject to fulfilment of conditions and made on a market declared by the Market Operator to be a conditional market.

"**Continuing Professional Education Requirements**" means the requirements of Rule 2.4.21.

"**Contract Series**" means a Futures Series or an Option Series.

"**Controlled Trust**" means a trust in relation to which an Employee, Immediate Family of an Employee or a company controlled by an Employee:

(a) is a trustee;

(b) holds more than 50% of the whole beneficial interest; or

(c) controls the trust.

"**Controller**" means:

(a) a person holding 20% or more of the total votes attached to voting shares of a Market Participant or a person who, together with Related Parties, holds 20% or more of such votes; or

(b) a person who has the power to control the Market Participant, whether that power is direct or indirect or is, or can be, exercised as a result of, by means of, in breach of, or by revocation of, trusts, relevant agreements and practices, or any of them, and whether or not they are enforceable,

but for the purposes of Part 5.2 does not include an entity if the entity, a holding company of the entity, or a subsidiary of the entity through which the entity has an interest in the Market Participant is an entity listed on the Market or with any other Australian market licensee or a Recognised Overseas Stock Exchange.

"**Corporations Act**" means the *Corporations Act 2001* (Cth).

"**Cross**" or "**Crossing**", means a transaction in respect of which a Trading Participant acts:

(a) on behalf of both buying and selling clients to that transaction; or

(b) on behalf of a buying or selling client on one side of that transaction and as Principal on the other side.

"**Crossing System**" means any automated service provided by a Market Participant which matches or executes client Orders with Orders of:

(a) the Market Participant;

(b) other clients of the Market Participant; or

(c) any other person whose Orders access the automated service;

otherwise than on an Order Book.

"**Cross-Market Combination**" means a transaction consisting of one or more component Market Transactions and one or more transactions in Non-ASX Contracts, in a specific ratio, in respect of which:

(a) entry into each component Market Transaction and each component transaction in a Non-ASX Contract is contingent on entry into each of the other component Market Transactions and transactions in Non-ASX Contracts;

(b) the combined transaction has a net price; and

(c) each transaction is for the same client.

"**CSPA Session State**" means the session on the Trading Platform, known as the Closing Single Price Auction, during which the following parameters apply:

(a) an Auction is conducted on commencement of the session;

(b) no Bids and Offers may be entered, amended or cancelled in the Trading Platform;

(c) Qualifying Bids and Offers that have not been matched in the Auction will be carried through to the next session In Price/Time Priority; and

(d) no trades may be reported.

"**Dealing Rules**" means the Rules and the Market Operating Rules that govern the submission of orders and the execution and reporting of Market Transactions on a Trading Platform.

"**Derivative**" has the meaning given by section 761D of the Corporations Act.

"**Derivative/Cash Combination**" means a transaction consisting of one or more component Cash Market Transactions and one or more component Derivatives Market Transactions, in a specific ratio, in respect of which:

(a) entry into each component Cash Market Transaction and each component Derivatives Market Transaction is contingent on entry into each other component Cash Market Transaction and Derivatives Market Transaction;

(b) the combined transaction has a net price; and

(c) each transaction is for the same client.

"**Derivatives Combination**" means a Derivatives Only Combination, a Derivative/Cash Combination or a Cross-Market Combination.

"**Derivatives Market Contract**" means a Futures Market Contract, an Options Market Contract and any other contract that the Market Operator authorises for trading on a Trading Platform as a Derivatives Market Contract.

"**Derivatives Market Transaction**" means a transaction between Trading Participants for one or more Derivatives Market Contracts.

"**Derivatives Only Combination**" means a transaction which comprises at least two component Derivatives Market Transactions, in a specific ratio, in respect of which:

(a) entry into each component Derivatives Market Transaction is contingent on entry into each of the other component Derivatives Market Transactions;

(b) the combined transaction has a net price; and

(c) each transaction is for the same client.

"**DTR**" means a Representative of the Trading Participant who has been authorised by the Trading Participant to submit Trading Messages to the Trading Platform on behalf of the Trading Participant.

"**DTR identifier**" means a unique code, allocated by the Trading Participant under Rule 2.5.6, that identifies a DTR.

"**Employee**" in relation to a Market Participant includes a director, employee, officer, agent, representative, consultant or adviser of that Market Participant, or an independent contractor who acts for or by arrangement with a Market Participant.

"**ETF**" means a Managed Fund:

(a) which is listed on the Market or admitted to Trading Status as an AQUA Product or to the AQUA Quote Display Board;

(b) with power and approval to continuously issue and have quoted on the Market, Equity Securities in the Managed Fund;

(c) which provides for the issue of new Equity Securities in return for the subscriber transferring to the Managed Fund a portfolio of Securities; and

(d) for which the price of the Underlying Instrument is continuously disclosed or can be immediately ascertained.

"**ETF Security**" means a Financial Product issued by or provided pursuant to an ETF.

"**Equilibrium Price**" means, in relation to a Product, the price calculated by applying the principles below (to each Product) in the following order until a single price results:

(a) maximum executable volume—this principle determines the price (or prices) at which the largest possible executable volume is achieved;

(b) minimum surplus—this principle ascertains the price (or prices) at which the unfilled or unmatched quantity is at a minimum;

(c) market pressure—this principle ascertains whether the result achieved under the previous principle exists on the buy or sell side of the market; and

(d) reference price—this principle narrows the potential prices as calculated above and confirms one of the potential prices;

(e) confirmation occurs by using either:

(i) the price of the last on-market trade for that day; or

(ii) if no on-market trades have occurred on the Trading Day, the official closing price from the previous Trading Day;

(f) where a confirmation cannot be achieved (as no on-market trades have ever occurred) the lowest of the narrowed potential prices will become the relevant price.

"**Equity Market**" means a Financial Market, on or through which offers to acquire or dispose of Equity Market Products are made or accepted, the operator of which is licensed under subsection 795B(1) of the Corporations Act.

"**Equity Market Operator**" means an entity that is licensed under subsection 795B(1) of the Corporations Act to operate an Equity Market.

"**Equity Market Product**" means:

(a) a share in a body;

(b) a financial product referred to in subparagraph 764A(1)(b)(i) or subparagraph 764A(1)(ba)(i) of the Corporations Act; or

(c) a right (whether existing or future and whether contingent or not) to acquire, by way of issue, the following under a rights issue:

(i) a share covered by paragraph (a); or

(ii) a financial product covered by paragraph (b); or

(d) a CHESS Depository Interest,

admitted to quotation on ASX.

"**Equity Securities**" means:

(a) shares in a body corporate or an unincorporated body other than redeemable preference shares which are Loan Securities in accordance with paragraph (c) of the definition of Loan Securities; or

(b) interests in a managed investment scheme, except those referred to in paragraph (d) of the definition of Loan Securities; or

(c) renounceable and non-renounceable rights to subscribe for Securities other than Loan Securities; or

(d) options over unissued Securities other than Loan Securities; or

(e) convertible notes; or

(f) any Securities which are determined by the Market Operator to be Equity Securities,

but does not include Options Market Contracts, or Securities determined to be Loan Securities by the Market Operator.

"**Family Company**" means a corporation:

(a) controlled by the person or the Immediate Family of the person; or

(b) in respect of which the person is beneficially entitled to more than 50% of the issued capital.

"**Family Trust**" means a trust in which:

(a) the person or the Immediate Family of the person is the sole or majority beneficiary; or

(b) the person has the ability to remove the trustee of the trust and replace that trustee with his or her own nominee.

"**Financial Market**" has the meaning given by section 767A of the Corporations Act.

"**Financial Product**" has the meaning given by Division 3 of Part 7.1 of the Corporations Act.

"**Financial Product Advice**" has the meaning given by section 766B of the Corporations Act.

"**Futures Market Contract**" means a contract on the terms of a Futures Series.

"**Futures Market Transaction**" means a Market Transaction for one or more Futures Market Contracts.

"**Futures Option**" means an Options Market Contract in respect of which the Underlying Financial Product is a Futures Market Contract.

"**Futures Series**" means a set of contractual terms on which futures contracts are authorised for trading by the Market Operator.

"**Immediate Family**" in relation to a person, means that person's spouse and any non-adult children.

"**In Price/Time Priority**" means, in respect of Bids and Offers, in accordance with the following order:

(a) Bids entered into a Trading Platform are ranked from highest to lowest priced and Offers are ranked from lowest to highest priced;

(b) Bids entered into a Trading Platform are ranked above Bids entered later at the same price and Offers entered into a Trading Platform are ranked above Offers entered later at the same price; and

(c) an Order withdrawn from a Trading Platform loses its priority under (a) and (b) and, if re-entered, will be treated as a new Order.

"**Initial Margin**" means, in relation to an Open Contract, an amount of money determined by a Clearing Facility as the initial margin for the Open Contract, in accordance with the Clearing Rules.

"**Issuer**" means, in relation to a Cash Market Product, the legal entity which issues the Cash Market Product.

"**Late Trading Session State**" means the session on the Trading Platform, during which the following parameters apply:

(a) no Bids and Offers may be entered or amended;

(b) Bids and Offers remaining from the previous session may be cancelled;

(c) no Bids or Offers will be automatically matched;

(d) manual procedures for matching In Price/Time Priority apply;

(e) allowable trades may be reported.

"**LEPOs**", or Low Exercise Price Options, means options to:

(a) buy an agreed number of shares at a specified future date at an exercise price of 1 cent;

(b) notionally buy an Underlying Index at a specified future date at a strike price of 1 point.

"**Level One Accredited Derivatives Adviser**" means a person who has been accredited under Rule 2.4.7 and whose accreditation is current.

"**Level Two Accredited Derivatives Adviser**" means a person who has been accredited under Rule 2.4.8 and whose accreditation is current.

"**Listed Entity**" means an entity included in the Official List.

"**Listing Rules**" has the meaning given by section 761A of the Corporations Act.

"**Loan Securities**" means:

(a) debentures, stocks or bonds issued or proposed to be issued by a government; or

(b) debentures of a body corporate or an unincorporated body; or

(c) redeemable preference shares which have a fixed and certain date for redemption, other than shares having a participating entitlement to rights or options referred to in paragraphs (c) and (d) of the definition of Equity Securities; or

(d) interests in a managed investment scheme, relating to a financial or business undertaking or scheme, common enterprise or investment contract, the trustee or representative or responsible entity of which only invests in or acquires one or more of Loan Securities, mortgages and cash; or

(e) any Securities which are determined by the Market Operator to be Loan Securities,

but does not include Options Market Contracts, or Securities determined to be Equity Securities by the Market Operator.

"**Managed Discretionary Account**" means a service with the following features:

(a) a person makes client contributions;

(b) the client agrees with the Market Participant that the client's portfolio assets will:

(i) be managed by the Market Participant at its discretion, subject to any limitation that may be agreed, for purposes that include investment;

(ii) not be pooled with property that is not the client's portfolio assets to enable an investment to be made or made on more favourable terms; and

(iii) be held by the client unless a beneficial interest but not a legal interest in them will be held by the client; and

(c) the client and the Market Participant intend that the Market Participant will use client contributions of the client to generate a financial return or other benefit from the Market Participant's investment expertise.

"**Managed Fund Product**" means a Financial Product issued by or provided pursuant to a Managed Fund.

"**Managed Fund**" means a managed investment scheme which is a registered managed investment scheme pursuant to section 601EB of the Corporations Act or a managed investment scheme which ASIC has exempted from those registration requirements.

"**Market**" means the market operated by the Market Operator under Australian Market Licence (Australian Stock Exchange Limited) 2002.

"**Market Bid**" means a market bid within the meaning of the Corporations Act and, in respect of an Issuer incorporated or established outside Australia, any similar form of bid.

"**Market Listing Rules**" means the Listing Rules of the Market.

"**Market Maker**" means a Trading Participant registered by the Market Operator as a market maker, which has an obligation to make a market in assigned Classes of Derivatives Market Contracts.

"Market Operating Rules" means the Operating Rules of the Market, other than the Market Listing Rules.

"**Market Operator**" means ASX.

"**Market Participant**" means a participant in the Market admitted under the Market Operating Rules.

"**Market Transaction**" means a transaction for one or more Products, entered into on a Trading Platform or reported to the Market Operator under the Market Operating Rules.

"**National Voiceline System**" means a dedicated communications service supplied to subscribers by the Market Operator which provides access to voice announcements originating from the Market Operator.

"**NGF**" has the meaning given by section 880B of the Corporations Act.

"**Non-ASX Contract**" means a contract, Underlying Commodity, Underlying Instrument or Underlying Financial Product that is available for trading on a Non-ASX Market.

"**Non-ASX Market**" means a market operated by a person other than ASX.

"**Off-Market Bid**" means an off-market bid within the meaning of the Corporations Act and in respect of an Issuer incorporated or established outside Australia, any similar form of bid.

"**Offer**" means:

(a) in relation to a Cash Market Product, a price and quantity of the Cash Market Products to be sold; and

(b) in relation to a Derivatives Market Contract, means an offer to enter into a Derivatives Market Contract in respect of the relevant Contract Series as Seller.

"**Offer Period**" means:

(a) in relation to a Takeover Bid, the period for which offers under the bid remain open; or

(b) in relation to a Scheme, the period from the date an announcement of intention to propose a Scheme is first received by the Market until the date on which the Scheme is effected.

"**Official List**" means the official list of the Market.

"**Official Quotation**", in relation to Financial Products, means admitted to quotation by the Market Operator under the Market Listing Rules.

"**On-Market**", in relation to a transaction for the purpose of Chapter 6 of the Corporations Act, means a transaction by a Trading Participant for the acquisition of Cash Market Products which is:

(a) effected during Trading Hours by matching of Trading Messages on a Trading Platform (other than a Crossing) in accordance with the Market Operating Rules; or

(b) a Crossing effected during Trading Hours (excluding a time during which an auction is conducted on the Market) in accordance with the Market Operating Rules if:

(i) the Crossing is arranged solely by a Trading Participant and is not prearranged between the principals to the transaction; and

(ii) each principal is indifferent as to the identity of the other,

where:

(iii) the expression "principal" includes the principal's associates, advisers and advisers' associates; and

(iv) the expression "adviser" does not include a person only providing services to the principal as a broker,

but does not include:

(c) Special Crossings; and

(d) Crossings (other than Special Crossings) that are effected outside of Trading Hours.

"**Open Contract**" means a contract, on the terms of a Contract Series, which is registered with a Clearing Facility under the Clearing Rules and any contract which replaces that contract through the transfer, adjustment or settlement to market of that contract under the Clearing Rules.

"**Operating Rules**" has the meaning given by section 761A of the Corporations Act.

"**Open Interface**" means the electronic protocol and message structure used to provide a mechanism for Trading Participants to access a Trading Platform which enables a Trading Participant to submit Trading Messages.

"**Open Interface Device**" means a logical connection or session with the gateway using the Open Interface, and includes a session maintained by a Trader Workstation.

"**Open Session State**" means the session on the Trading Platform during which the following parameters apply:

(a) an Auction is conducted on commencement of the session;

(b) Qualifying Bids and Offers that have not been matched in the Auction on transition to the session retain their ranking In Price/Time Priority;

(c) Bids and Offers may be entered, amended or cancelled in the Trading Platform;

(d) Bids and Offers are matched In Price/Time Priority on a continuous basis; and

(e) allowable trades may be reported.

"**Options Market Contract**" means a contract on the terms of an Option Series.

"**Options Market Transaction**" means a Market Transaction for one or more Options Market Contracts.

"**Option Series**" means a set of contractual terms on which options are authorised for trading by the Market Operator.

"**Order**" means:

(a) in relation to Cash Market Products, an instruction to purchase or sell Cash Market Products, or an instruction to amend or cancel a prior instruction to purchase or sell Cash Market Products; and

(b) in relation to Derivatives Market Contracts, an instruction to enter into a Derivatives Market Transaction, or an instruction to amend or cancel a prior instruction to enter into a Derivatives Market Transaction.

"**Order Book**" means an electronic list of Orders, maintained by or on behalf of an Equity Market Operator, on which those Orders are matched with other Orders in the same list.

"**Own Account**" has the meaning given by Rule 5.1.1.

"**Other Regulated Entities**" means entities prescribed by regulations made for the purposes of paragraph 798H(1)(c) of the Corporations Act, that must comply with these Rules.

"**Overseas Broker**" means a broker whose principal place of business is located outside Australia.

"**Partly Paid Security**" means a Quoted Product for which the holder may be liable to pay a call or instalment in accordance with the terms of issue and for which an amount remains unpaid, but does not include a Quoted Product issued by a no liability company.

"**Prescribed Person**" means, in relation to a Market Participant:

(a) an Employee, a director, a partner, or Responsible Executive of the Market Participant;

(b) a Controller of the Market Participant or a Related Body Corporate of that Controller;

(c) the Immediate Family of a person referred to in paragraphs (a) or (b);

(d) a Family Company and a Family Trust of a person referred to in paragraphs (a) to (c); and

(e) where a Market Participant or a person referred to in paragraphs (a) to (d) is a body corporate, any body corporate or other entity controlled by that body corporate.

"**Principal**", in the context of "as Principal" has the meaning given to that term in Rule 3.2.5.

"**Principal Trader**" means a Market Participant with Trading Permission for one or more Products which limits it to trading on its own behalf.

"**Product**" means a Cash Market Product or a Derivatives Market Contract, as applicable.

"**Qualifying Bid or Offer**" means, in relation to an Auction, a Bid or Offer in the Trading Platform at the commencement of the Auction.

"**Quoted Product**" means a Financial Product that has been granted Official Quotation.

"**Recognised Overseas Stock Exchange**" means a Recognised Stock Exchange whose principal place of business is located outside Australia.

"**Recognised Stock Exchange**" has the meaning given by the Market Operating Rules.

"**Related Body Corporate**" has the meaning given by section 50 of the Corporations Act.

"**Related Party**":

(a) in relation to a body corporate:

  (i) has the meaning given by section 228 of the Corporations Act; or

  (ii) means a Substantial Holder of the body corporate;

(b) in relation to a trust, which is not a registered management investment scheme, means the management company, trustee and their related parties within the meaning of section 228 of the Corporations Act;

(c) in relation to a trust which is a registered managed investment scheme, means the responsible entity and a related party of the responsible entity under section 228 of the Corporations Act, as modified by section 601LA of the Corporations Act;

(d) in relation to a person, means:

  (i) his or her spouse, de facto spouse, parent, son, or daughter, or a spouse or de facto spouse of that person;

  (ii) an entity over which one or more of the persons referred to in subparagraph (i) has control;

  (iii) an entity that he or she controls, or its holding company or which is controlled by the holding company;

  (iv) a person who acts, or proposes to act, in concert with anyone referred to above;

  (v) a person who was a related party in the previous 6 months, or who would be a related party in the future, under the tests in section 228 of the Corporations Act (applied with any necessary adaptation).

"**Relative**", in relation to a person, means the spouse, parent or remoter lineal ancestor, son or daughter or remoter issue, or brother or sister of that person.

"**Relevant Activities**" means, in relation to a particular Responsible Executive, the operations and processes of that part of the Market Participant's business which the document given to ASIC under subrule 2.1.2(1) or (2), or notification given to ASIC under subrule 2.1.2(3), identifies as being under the supervision of that Responsible Executive, while that Responsible Executive remains responsible in respect of that part of the business.

"**Relevant Clearing Participant**" means, in relation to a Trading Participant:

(a) where the Trading Participant is not itself a Clearing Participant and has a third party clearing arrangement with only one Clearing Participant to clear all of its Market Transactions in a class of Product, that Clearing Participant; and

(b) where the Trading Participant is itself a Clearing Participant and clears all of its Market Transactions in a class of Products, itself; and

(c) where the Trading Participant has third party clearing arrangements with more than one Clearing Participant, or is itself a Clearing Participant and has third party clearing arrangements with other Clearing Participants to clear its Market Transactions in a class

of Product, the Clearing Participant which it has identified through the Open Interface Device in respect of the Market Transaction.

"**Renewal Date**" means the date notified by ASIC to the Market Participant under paragraph 2.4.9(2)(b), subrule 2.4.14(2) or paragraph 2.4.20(5)(b), as the date on which a person will cease to be an Accredited Adviser, unless their accreditation is renewed before that date under subrule 2.4.14(2) or 2.4.15(3).

"**Renewal Period**" means the period that commences 60 days prior to the Renewal Date and ends 7 days prior to the Renewal Date.

"**Reportable Short Sale Order**" means an Order to sell Section 1020B Products which, if executed, would result in a Reportable Short Sale Transaction.

"**Reportable Short Sale Transaction**" means a transaction for the sale of Section 1020B Products for which the seller is required to comply with subsection 1020AB(3) of the Corporations Act.

"**Representative**" has the meaning given by section 910A of the Corporations Act.

"**Responsible Executive**" means at any time, in relation to a Market Participant, an individual who is shown as having executive responsibility for the supervision and control of all or part of the business of that Market Participant in the document provided to ASIC under subrule 2.1.2(1) or (2) or the notification provided to ASIC under subrule 2.1.2(3).

"**Retail Client**" has the meaning given by section 761G of the Corporations Act.

"**Rules**" means these market integrity rules.

"**Scheme**" means:

(a) a compromise or arrangement within the meaning of section 411 of the Corporations Act; and

(b) in respect of an Issuer incorporated or established outside Australia, any similar form of compromise or arrangement under the law of the jurisdiction of incorporation or establishment,

which has a similar result to an Off-Market Bid or Market Bid.

"**Section 1020B Products**" has the meaning given by subsection 1020B(1) of the Corporations Act.

"**Securities Lending Arrangement**" has the meaning given by subsection 1020AA(1) of the Corporations Act.

"**Security**" or "**security**" means:

(a) a "security" within the meaning of section 761A of the Corporations Act; or

(b) a managed investment product.

"**Seller**" means, in relation to a Derivatives Market Transaction, the Trading Participant whose sell or offer instruction, order or other Trading Message has resulted in the Derivatives Market Transaction being entered into, whether or not in connection with any other Crossing, Derivatives Market Transaction or any transaction in any Cash Market Product or Non-ASX Contract and includes the writer of an Options Market Contract.

"**Settlement Facility**" means, in relation to a Market Transaction, the clearing and settlement facility, within the meaning of section 761A of the Corporations Act, through which the Market Transaction has been or will be settled.

"**Settlement Participant**" means a person admitted as a participant under the Settlement Rules.

"**Settlement Rules**" means the operating rules, procedures, practices, directions, decisions and requirements of a Settlement Facility.

"**Special Crossing**":

(a) in relation to an Equity Market Product, means a block trade or a large portfolio trade, within the meaning of the Competition Market Integrity Rules, entered into other than by matching of Orders on an Order Book of an Equity Market; and

(b) in relation to a Product other than an Equity Market Product, has the meaning given by the Market Operating Rules.

"**Standard Combination**" has the meaning given by the Market Operating Rules.

"Structured Product" means a Security or Derivative:

(a) which gives the holder financial exposure to the performance of one or more Underlying Instruments;

(b) the value of which is linked to the performance of those Underlying Instruments; and

(c) whereby investors do not have day to day control over the operation of the entity which issues or provides the Security or Derivative.

"**Substantial Holder**":

(a) for the purposes of Rule 3.2.5, when used to refer to a Substantial Holder in a corporation, means a person who has or would have a substantial holding if Part 6C of the Corporations Act applied to that corporation; and

(b) for the purposes of any other Rule includes a reference to:

  (i) a person who has a relevant interest in not less than 5% of a class of non-voting shares of the relevant company or its holding company; and

  (ii) each person who has a relevant interest in voting shares and non-voting shares of the relevant company or its holding company and whose aggregate holdings exceed 5% in number of the voting shares on issue of the relevant company or its holding company.

"**Tailor-Made Combination**" has the meaning given by the Market Operating Rules.

"**Takeover Bid**" means an Off-Market Bid or Market Bid.

"**Takeover Offer**" means:

(a) an offer under a Takeover Bid and, in respect of an Issuer incorporated or established outside Australia, any similar form of offer; and

(b) a Scheme.

"**Target**" means:

(a) in relation to an Off-Market Bid or Market Bid, a target within the meaning of the Corporations Act and, in respect of an Issuer incorporated or established outside Australia, the equivalent entity; and

(b) in relation to a Scheme, the entity or entities in a similar position to a target.

"**Terms of Issue**" means, in relation to Warrants, rights, conditions and obligations of the Warrant-Issuer and the holder of the Warrant.

"**Trader Workstation**" means a personal computer with Trader Workstation Software installed.

"**Trader Workstation Software**" means the software product provided by the Market Operator or a subsidiary for use by Trading Participants which provides a Trader Workstation with the functionality necessary to use the Open Interface for trading on a Trading Platform.

"**Trading Day**" means a day on which Market Transactions may be entered into by Trading Participants on a Trading Platform.

"**Trading Hours**", in relation to the Market, means the times during which:

(a) Orders may be entered, amended or cancelled on the Order Books of the Market; and

(b) Orders are matched and transactions are executed on a continuous basis on the Market,

and includes a time during which an auction is conducted on the Market.

"**Trading Messages**" means those messages submitted into a Trading Platform relating to trading functions, such as Orders, amendment or cancellation of Orders and the reporting or cancellation of Market Transactions on the Trading Platform.

"**Trading Participant**" means a Market Participant which has Trading Permission in respect of one or more Products.

"**Trading Permission**" means the right to submit Trading Messages in a Trading Platform.

"**Trading Platform**" means a facility made available by the Market Operator to Trading Participants for the entry of Trading Messages, the matching of Orders, the advertisement of invitations to trade and the reporting of transactions.

"**Trading Status**" means authorisation by the Market Operator for a CGS Depository Interest, a Warrant or AQUA Product to be traded on the Market.

"**Trading Suspension**" means a halt or suspension in trading on an Equity Market pursuant to the exercise of a power by an Equity Market Operator under the Operating Rules of the Equity Market, during which Orders may not be matched or executed on the relevant Equity Market, but does not include a halt or suspension caused by a technical problem (including a power outage) affecting the technical infrastructure used by the operator of the Equity Market for the purposes of receiving Trading Messages, matching and executing Orders and reporting transactions.

"**Training Register**" means the list, published on ASIC's website, of training courses and assessment services that meet ASIC's training requirements under Regulatory Guide 146 *Licensing: Training of financial product advisers* (RG 146).

"**Underlying Financial Product**" means, in relation to a Derivatives Market Contract, the Financial Product underlying that contract.

"**Underlying Commodity**" means, in relation to a Derivatives Market Contract, the commodity which underlies that contract.

"**Underlying Index**" means, in relation to a Derivatives Market Contract, the index which underlies that contract.

"**Underlying Instrument**" means:

(a) in relation to Option Series and Futures Series, the instrument which underlies that Option Series or Futures Series;

(b) in relation to Warrants means the Financial Product, index, foreign or Australian currency or commodity which underlies that Warrant; and

(c) in relation to AQUA Products means the Financial Product, index, foreign or Australian currency, commodity or other point of reference for determining the value of the AQUA Product.

"**Underlying Market**" means, in relation to a Derivatives Market Contract, a market in the instruments, commodities, securities or other things which underlie the Derivatives Market Contract.

"**Unprofessional Conduct**" includes:

(a) conduct which amounts to impropriety affecting professional character and which is indicative of a failure either to understand or to practise the precepts of honesty or fair dealing in relation to other Market Participants, clients or the public;

(b) unsatisfactory professional conduct, where the conduct involves a substantial or consistent failure to reach reasonable standards of competence and diligence; and

(c) conduct which is, or could reasonably be considered as likely to be, prejudicial to the interests of the Market Operator or Market Participants,

by a Market Participant, or an Employee, whether in the conduct of the Market Participant's business as a Market Participant or in the conduct of any other business, and need not involve a contravention of these Rules or any law.

"**Warrant**" means:

(a) a financial instrument which gives the holder of the instrument the right:

(i) to acquire the Underlying Instrument; or

(ii) to require the Warrant-Issuer to acquire the Underlying Instrument;

(iii) to be paid by the Warrant-Issuer an amount of money to be determined by reference to the amount by which a specified number is greater or less than the number of an index; or

(iv) to be paid by the Warrant-Issuer an amount of money to be determined by reference to the amount by which the price or value of the Underlying Instrument is greater than or less than a specified price or value,

in accordance with the Terms of Issue and the Market Operating Rules that apply to Warrant-Issuers; or

(b) any other Financial Product that is a "warrant" within the meaning given to that term in Corporations Regulation 1.0.02 and which the Market Operator notifies Trading Participants is a Warrant.

"**Warrant-Issuer**" means an entity approved by the Market Operator to issue Warrants.

"**Wholesale Client**" has the meaning given by subsection 761G(4) of the Corporations Act.

"**Wholesale Client Agreement**" means the agreement between a Trading Participant and a client lodged with a Clearing Facility in accordance with paragraph 3.1.12(d) and Rule 3.1.13.

Note: There is no penalty for this Rule.

Chapter 2: Participants and Representatives

Part 2.1 Management requirements

2.1.1 Management structure

(1) A Market Participant must, in relation to its conduct, and that part of its business that it conducts, on or in relation to the Market, wherever the conduct occurs or the business is located and regardless of the number of offices operated or intended to be operated by the Market Participant, have appropriate management structures in place to ensure that:

(a) it has operations and processes in place that are reasonably designed, implemented, and that function, so as to achieve compliance by the Market Participant with these Rules and the Market Operating Rules;

(b) the design, implementation, functioning and review of those operations and processes are subject to the supervision of one or more Responsible Executives; and

(c) each Responsible Executive has sufficient seniority and authority within the Market Participant to exert control, leadership, influence and supervision over those operations and processes.

(2) A Market Participant must keep accurate records of its management structure and its allocation of responsibilities among its Responsible Executives.

Maximum penalty: $1,000,000

2.1.2 Notification of management structure

(1) A Market Participant that is a Market Participant as at the Commencement Date must give to ASIC a document that sets out its management structure and its allocation of its responsibilities among its Responsible Executives, within 3 months of the Commencement Date.

(2) A Market Participant that was not a Market Participant as at the Commencement Date must give to ASIC a document that sets out its management structure and its allocation of its responsibilities among its Responsible Executives, within 10 Business Days of becoming a Market Participant.

(3) A Market Participant that has given to ASIC a document under subrule (1) or (2) must notify ASIC in writing, within 10 Business Days, of any significant change in the management structure or its allocation of its responsibilities among its Responsible Executives shown in that document.

Maximum penalty: $20,000

2.1.3 Supervisory procedures

A Market Participant must have appropriate supervisory policies and procedures to ensure compliance by the Market Participant and each person involved in its business as a Market Participant with these Rules, the Market Operating Rules and the Corporations Act.

Maximum penalty: $1,000,000

2.1.4 Persons involved in the business—Good fame and character requirement

(1) A Market Participant must ensure that any Employee or other person who is or will be involved in the business of the Market Participant in connection with the Market and, in the case of a body corporate, each director or Controller, is of good fame and character and high business integrity having regard to subrule (2).

(2) In assessing whether a person is of good fame and character and high business integrity for the purpose of subrule (1):

(a) a person will not be of good fame and character if he or she is disqualified from managing a corporation under the Corporations Act or under the law of another country, or is an insolvent under administration or its equivalent in another country; and

(b) a person may not be of good fame and character or high business integrity if the person has been:

(i) convicted of any offence;

(ii) disciplined or adversely mentioned in a report made by, or at the request of, any government or governmental authority or agency;

(iii) adversely mentioned in a report made by, or at the request of, the Market Operator, a Clearing Facility, a Settlement Facility or any other exchange, market operator or clearing and settlement facility; or

(iv) disciplined by the Market Operator, a Clearing Facility, a Settlement Facility or any other exchange, market operator or clearing and settlement facility.

Maximum penalty: $1,000,000

2.1.5 Unprofessional Conduct

(1) A Market Participant must not engage in Unprofessional Conduct.

(2) A Market Participant must ensure that its Responsible Executives do not engage in Unprofessional Conduct.

Maximum penalty: $1,000,000

2.1.6 Responsibility for individuals involved in business

A Market Participant is responsible for all actions and omissions of its Employees.

Note: There is no penalty for this Rule.

Part 2.2 Insurance and information requirements

2.2.1 Insurance requirements—Obligation to have insurance

(1) Subject to Rule 2.2.2, every Market Participant must, where the Market Participant acts for any person other than itself or a Related Body Corporate, take out and maintain, at all times, a professional indemnity (or equivalent) insurance policy that the Market Participant determines (acting reasonably) to be adequate having regard to the nature and extent of the business carried on by the Market Participant in connection with its business as a Market Participant and the responsibilities and risks assumed or which may be assumed by the Market Participant in connection with that business.

(2) The professional indemnity (or equivalent) insurance referred to in subrule (1) must include insurance against a breach of duty the Market Participant owes in a professional capacity, whether owed in contract or otherwise at law, arising from any act or omission of the Market Participant and its Employees.

Maximum penalty: $100,000

2.2.2 Insurance requirements—Insurance with Related Body Corporate

If the insurance referred to in Rule 2.2.1 is provided by a Related Body Corporate, the Market Participant must provide ASIC with the following information by no later than 10 Business Days after the issue or renewal of the insurance:

(a) the name of the Related Body Corporate and a copy of evidence sufficient to establish that it is a Related Body Corporate; and

(b) confirmation from the Related Body Corporate that it is the insurer or the self-insurer covering and indemnifying the Market Participant against the liabilities referred to in Rule 2.2.1 and a copy of the certificate evidencing the insurance.

Maximum penalty: $20,000

2.2.3 Insurance requirements—Notification of amount and period of cover

(1) The Market Participant must notify ASIC in writing within 10 Business Days following the issue of a new professional indemnity (or equivalent) insurance policy or the renewal of an existing professional indemnity (or equivalent) insurance policy of:

(a) the amount and nature of cover which the Market Participant has under Rule 2.2.1;

(b) the date on which the cover became effective; and

(c) the date on which the cover will expire.

(2) The Market Participant must renew that cover with effect from no later than its expiry to comply with Rule 2.2.1.

(3) The Market Participant must, at the time it notifies ASIC of the issue or renewal of the policy, give ASIC a copy of the certificate of insurance.

Maximum penalty: $20,000

2.2.4 Insurance requirements—Notification of claims

In relation to any liability or potential liability of the type referred to in Rule 2.2.1, a Market Participant must immediately notify ASIC of any notification to its insurer of any claim, potential claim or circumstance that might give rise to a claim and must include the following details:

(a) any circumstance which is likely to give rise to a claim or potential claim against the Market Participant;

(b) the receipt of a notice from any person of any intention to make a claim or potential claim against the Market Participant; and

(c) the details of any claim, potential claim or circumstance against the Market Participant, including the gross contingent liability, the net contingent liability, the full name of the Market Participant's insurer and the date the Market Participant notified its insurer of the claim, potential claim or circumstance.

Maximum penalty: $20,000

2.2.5 Information requirements—Obligation to notify of legal proceedings

If:

(a) a Market Participant commences legal proceedings against, or has legal proceedings commenced against it by, another Market Participant, a Clearing Participant, a regulatory authority or a client in connection with their role as a Market Participant; and

(b) those legal proceedings may affect the operations of the Market Operator, or the interpretation of these Rules or the Market Operating Rules,

the Market Participant must, upon commencing or upon becoming aware of the proceedings, immediately notify ASIC and the Market Operator in writing of the particulars of the proceedings.

Maximum penalty: $100,000

Part 2.3 Responsible Executives

2.3.1 Appointment or resignation of Responsible Executives

(1) A Market Participant must notify ASIC within 10 Business Days if the Market Participant appoints a new Responsible Executive, or if a person ceases to be a Responsible Executive of the Market Participant.

(2) A Market Participant must not appoint a person as a Responsible Executive unless:

(a) the person has skills, knowledge and experience that are appropriate having regard to the supervisory role that the person will perform as a Responsible Executive in the business of the Market Participant; and

(b) if the person was a Responsible Executive prior to the Commencement Date:

(i) the person had satisfied the requirements of rule 3.6.5 of the operating rules in effect on the day immediately preceding the Commencement Date; and

(ii) the Market Participant is satisfied on reasonable grounds that the person has completed an appropriate level of Compliance Education from the date the person passed the examination as required under the rule referred to in subparagraph (i) to the date the Market Participant appoints the person as Responsible Executive;

(c) if the person becomes a Responsible Executive for the first time on or after the Commencement Date, the person has:

(i) attained a mark of at least 65% in an examination approved by ASIC under subrule (3), in the 12 months preceding the date the Market Participant appoints the person as a Responsible Executive; and

(ii) satisfied the Compliance Education Requirements from the date the person passed the examination as referred to in subparagraph (i) to the date the Market Participant appoints the person as a Responsible Executive, pro-rata to the number of full months in that period.

(3) For the purposes of subparagraph (2)(c)(i), ASIC may approve, in writing, one or more examinations that, in the opinion of ASIC, assess knowledge and competency in the application of the provisions of these Rules, the Market Operating Rules and the Corporations Act that govern the operation of the Market and are relevant to the role performed by Responsible Executives.

Maximum penalty: $20,000

2.3.2 Ongoing responsibilities of Market Participants in relation to Responsible Executives

A Market Participant must ensure that each of its Responsible Executives:

(a) supervises the design and implementation activities and the functioning and review of the operations and processes referred to in Rule 2.1.1 for the Relevant Activities of that Responsible Executive;

(b) is accountable to the Market Participant for the effective design, implementation, functioning and review of the operations and processes referred to in paragraph (a).

Maximum penalty: $20,000

2.3.3 Annual review and representation to Market Participant

(1) A Market Participant must ensure that each of its Responsible Executives:

(a) maintains the currency of his or her knowledge of these Rules, the Market Operating Rules and the Corporations Act related to the business that the Market Participant conducts in the Market;

(b) by 10 July each year, performs a review as at 30 June of that year, including all matters reasonably considered by the Responsible Executive to be necessary in the circumstances, of the supervision and control procedures involved in the business of the Market Participant and other relevant documentation concerning the Market Participant's compliance with these Rules and the Market Operating Rules for the 12 month period ending on 30 June that year;

(c) by 10 July each year, determines whether, based on the enquiries referred to in paragraph (b), the controls over the operations and processes of the Relevant Activities have been, during the period referred to in paragraph (b), and continue to be, reasonably designed, implemented and functioning to achieve compliance by the Market Participant with these Rules and the Market Operating Rules;

(d) by 10 July each year, provides a signed and dated representation to the Market Participant as to whether:

(i) the requirements of paragraphs (a) and (b) have been met for the period referred to in paragraph (b); and

(ii) the controls over the operations and processes of the Relevant Activities have been, for the period referred to in paragraph (b), and continue to be, reasonably designed, implemented and functioning to achieve compliance by the Market Participant with the Market Operating Rules and these Rules.

(2) The Market Participant must retain copies of the representation referred to at paragraph (1)(d), and of the documentation concerning the Market Participant's compliance with these Rules and the Market Operating Rules on which the representation is based, for 7 years from the date the representation is provided to the Market Participant.

Maximum penalty: $20,000

2.3.4 Continuing education requirements for Responsible Executives

(1) Subject to subrule (2), a Market Participant must ensure that, during the period from 1 July each year until 30 June the following year, each of its Responsible Executives meets the Compliance Education Requirements pro-rata to the number of complete months during that period in which that person is a Responsible Executive of the Market Participant.

(2) For the period that commences on the Commencement Date and ends on 1 July in the following year, the Market Participant must ensure that each person that was a Responsible Executive of the Market Participant on the Commencement Date meets the Compliance Education Requirements pro-rata to the number of complete months in that period.

Maximum penalty: $20,000

2.3.5 Annual continuing education and compliance self-assessment

(1) Subject to subrule (2), a Market Participant must provide a written notification to ASIC by 31 July each year that contains the following information:

(a) the name of each person who was a Responsible Executive of the Market Participant during the period from 1 July in the preceding calendar year to 30 June in the calendar year in which the notification is provided;

(b) if the person was a member of a professional body or bodies during the period referred to in paragraph (a), the name of that body or those bodies;

(c) a statement in relation to each person that the Market Participant confirms that, during the period referred to in paragraph (a), the person:

(i) has satisfied; or

(ii) has not satisfied,

as the case may be, each of the requirements of subrule 2.1.4(1) (good fame and character), paragraphs 2.3.1(2)(a) and (b) or (c) (skills, knowledge, experience and qualifications), subrule 2.1.5(2) (Unprofessional Conduct), paragraph 2.3.3(1)(d) (annual representation) and Rule 2.3.4 (continuing education), while the person was a Responsible Executive of the Market Participant during that period;

(d) if subparagraph (c)(ii) applies, an explanation of the reason that the person has not satisfied the requirement.

(2) A notification provided under subrule (1) prior to 1 August 2011 need only relate to the period from the Commencement Date to 30 June 2011.

(3) The Market Participant must retain copies of the records upon which the notification referred to in subrule (1) is based for 7 years from the end of the period to which the notification relates.

Maximum penalty: $20,000

Part 2.4 Retail Client Adviser Accreditation

2.4.1 Accreditation required

(1) A Market Participant must ensure that each of its Representatives who provides Financial Product Advice to a Retail Client in relation to:

(a) Options Market Contracts;

(b) Futures Market Contracts; or

(c) Warrants,

holds the relevant accreditation required by these Rules.

(2) A Market Participant must not, and must ensure that a Representative does not, hold himself or herself out as holding a type of accreditation under these Rules if they do not hold that type of accreditation.

Maximum penalty: $100,000

2.4.2 Extent of advice to clients—Level One Accredited Derivatives Adviser

(1) A Market Participant must ensure that each of its Representatives who provides Financial Product Advice to a Retail Client in relation to:

(a) taking Options Market Contracts (other than Futures Options);

(b) writing Options Market Contracts (other than Futures Options), but only for the purpose of closing out a position or writing Covered Call Options under paragraph (e);

(c) subscribing for and buying and selling Warrants;

(d) exercising Warrants and Options Market Contracts (other than Futures Options); and

(e) the Covered Call Option writing strategies as set out in Rule 2.4.3,

is accredited as a Level One Accredited Derivatives Adviser or a Level Two Accredited Derivatives Adviser.

(2) A Market Participant must ensure that each of its Representatives who is only accredited as a Level One Accredited Derivatives Adviser does not advise or make recommendations in relation to LEPOs.

Maximum penalty: $100,000

2.4.3 Covered Call Option Strategy

(1) For the purposes of Rule 2.4.2, "a Covered Call Option" writing strategy entails either:

(a) a client who already owns Underlying Financial Products in a particular Class writing Call Options over those Underlying Financial Products up to the number of Underlying Financial Products which the client owns and either prior to, or simultaneously with writing the Call Options, providing to the Clearing Facility those Underlying Financial Products as cover for the written Call Option obligations; or

(a) a client buying a particular Class of Underlying Financial Products and simultaneously writing Call Options over those Underlying Financial Products on the understanding that the client will provide, to the Clearing Facility, within 3 Trading Days of entering into the strategy, the simultaneously purchased Underlying Financial Products as cover for the written Call Option obligations.

(2) For the purposes of subrule (1), "**Call Option**" means an Options Market Contract that gives the taker a right, but not an obligation, to buy the Underlying Financial Products.

Note: There is no penalty for this Rule.

2.4.4 Extent of advice to clients—Level Two Accredited Derivatives Adviser

(1) A Market Participant must ensure that each of its Representatives who provides Financial Product Advice to a Retail Client in relation to:

(a) taking, writing and exercising all Derivatives Market Contracts (other than Futures Market Contracts and Futures Options);

(b) subscribing for, buying, selling and exercising Warrants;

(c) all trading strategies relating to Derivatives Market Contracts (other than Futures Market Contracts and Futures Options); and

(d) all trading strategies relating to Warrants,

is accredited as a Level Two Accredited Derivatives Adviser.

(2) For the avoidance of doubt, a person accredited as a Level Two Accredited Derivatives Adviser may advise and make recommendations in relation to the Products and strategies set out in Rules 2.4.2 and 2.4.3.

Maximum penalty: $100,000

2.4.5 Extent of advice to clients—Accredited Futures Adviser

A Market Participant must ensure that each of its Representatives who provides Financial Product Advice to Retail Clients in relation to:

(a) taking, writing and exercising Futures Market Contracts;

(b) taking, writing and exercising Futures Options;

(c) all trading strategies relating to Futures Market Contracts; and

(d) all trading strategies relating to Futures Options,

is accredited as an Accredited Futures Adviser.

Maximum penalty: $100,000

2.4.6 Accreditation—Accredited Futures Adviser

(1) ASIC may, subject to any conditions ASIC considers appropriate, accredit a person as an Accredited Futures Adviser for a period of time if:

(a) the person is a Representative of a Market Participant and the Market Participant nominates the person to be an Accredited Futures Adviser under subrule (2);

Federal Register of Legislative Instruments F2013C00794

(b) the person:

(i) is a Level Two Accredited Derivatives Adviser;

(ii) has successfully completed an educational module or subject, or series of educational modules or subjects, approved by ASIC in accordance with subrule (4);

(c) the person has read and understood:

(i) these Rules;

(ii) the Market Operating Rules; and

(iii) other reading materials approved by ASIC in accordance with subrule (4); and

(d) ASIC has no reason to believe that the person does not have the requisite skill, knowledge and integrity to give Financial Product Advice of the kind covered by Rule 2.4.5.

(2) A Market Participant may nominate a person to be an Accredited Futures Adviser by submitting a written application to ASIC that includes:

(a) the full name and date of birth of the applicant, a statement that the applicant is a Representative of the Market Participant, and a description of the nature of the relationship of the applicant to the Market Participant (for example, employee);

(a) the name, business address and AFSL number of the Market Participant nominating the applicant to be an Accredited Futures Adviser;

(b) the name, position and contact telephone number of the person referred to in subrule (3);

(c) a declaration, signed by the applicant, that the applicant has met the requirements of paragraphs (1)(b) and (c); and

(d) if subparagraph (1)(b)(ii) applies, evidence that the applicant has met the requirements of that subparagraph.

(3) A director, partner, Responsible Executive or Compliance Manager of the Market Participant must sign and date the application referred to in subrule (2).

(4) For the purposes of paragraphs (1)(b) and (c), ASIC may approve, in writing, educational modules, subjects and reading materials that are relevant to Financial Product Advice of the kind covered by Rule 2.4.5.

Note: There is no penalty for this Rule.

2.4.7 Accreditation—Level One Accredited Derivatives Adviser

(1) ASIC may, subject to any conditions ASIC considers appropriate, accredit a person as a Level One Accredited Derivatives Adviser for a period of time if:

(a) the person is a Representative of a Market Participant and the Market Participant nominates the person to be a Level One Accredited Derivatives Adviser under subrule (2);

(b) the person:

(i) unless the person is applying for, or has been granted, an exemption under subrule 2.4.11(1), has obtained a score of 80% or more for an Accreditation Examination for Level One Accredited Derivatives Advisers approved by ASIC in accordance with subrule (4);

(ii) has successfully completed an educational module or subject, or a series of educational modules or subjects, approved by ASIC in accordance with subrule (4); and

(c) ASIC has no reason to believe that the person does not have the requisite skill, knowledge and integrity to provide Financial Product Advice of the kind covered by Rules 2.4.2 and 2.4.3.

(2) A Market Participant may nominate a person to be a Level One Accredited Derivatives Adviser by submitting a written application to ASIC that includes:

(a) the full name, date of birth, business address and email address of the applicant, a statement that the applicant is a Representative of the Market Participant and a description of the nature of the relationship of the applicant to the Market Participant (for example, employee);

(b) the name, business address and AFSL number of the Market Participant nominating the person to be a Level One Accredited Derivatives Adviser;

(c) the name, position and contact telephone number of the director, partner, Responsible Executive or Compliance Manager of the Market Participant referred to in subrule (3);

(d) unless the person has been granted, or is applying for, an exemption under subrule 2.4.11(1), a declaration by the Market Participant that the applicant meets the requirements of paragraph (1)(b);

(e) if subparagraph (1)(b)(ii) applies, evidence that the applicant has successfully completed the educational subject or module, or series of educational subjects or modules, referred to in that subparagraph; and

(f) an acknowledgement by the Market Participant that accreditation as a Level One Accredited Derivatives Adviser will only authorise the applicant to provide Financial Product Advice of the kind covered by Rules 2.4.2 and 2.4.3.

(3) A director, partner, Responsible Executive or Compliance Manager of the Market Participant must sign and date the application referred to in subrule (2).

(4) For the purposes of subrule (1), ASIC may approve examinations, educational modules or subjects, or a series of educational modules or subjects, that are relevant to Financial Product Advice of the kind covered by Rules 2.4.2 and 2.4.3.

Note: There is no penalty for this Rule.

2.4.8 Accreditation—Level Two Accredited Derivatives Adviser

(1) ASIC may, subject to any conditions ASIC considers appropriate, accredit a person as a Level Two Accredited Derivatives Adviser for a period of time if:

(a) the person is a Representative of a Market Participant and the Market Participant nominates the person as a Level Two Accredited Derivatives Adviser in accordance with subrule (2);

(b) unless the person is applying for, or has been granted, an exemption under subrule 2.4.11(1), the person has obtained a score of 80% or more for each of the Accreditation Examinations for Level One Accredited Derivatives Advisers and Level Two Accredited Derivatives Advisers approved by ASIC in accordance with subrule (4); and

(c) ASIC has no reason to believe that the person does not have the requisite skill, knowledge and integrity to provide Financial Product Advice of the kind covered by Rules 2.4.2, 2.4.3 and 2.4.4.

(2) A Market Participant may nominate a person to be a Level Two Accredited Derivatives Adviser by submitting a written application to ASIC that includes:

(a) the full name, date of birth, business address, email address and contact telephone number of the applicant, a statement that the applicant is a Representative of the Market Participant and description of the nature of the relationship of the applicant to the Market Participant (for example, employee);

(b) the name, business address and AFSL number of the Market Participant nominating the person to be a Level Two Accredited Derivatives Adviser;

(c) the name, position and contact telephone number of the director, partner, Responsible Executive or Compliance Manager of the Market Participant referred to in subrule (3);

(d) unless the person has been granted, or is applying for, an exemption under subrule 2.4.11(1), a declaration by the Market Participant that the applicant meets the requirements of paragraph (1)(b); and

(e) an acknowledgement by the Market Participant that accreditation as a Level Two Accredited Derivatives Adviser will only authorise the applicant to provide Financial Product Advice of the kind covered by Rules 2.4.2, 2.4.3 and 2.4.4.

(3) A director, partner, Responsible Executive or Compliance Manager of the Market Participant must sign and date the application referred to in subrule (2).

(4) For the purposes of subrule (1), ASIC may approve, in writing one or more examinations that are relevant to Financial Product Advice of the kind covered by Rules 2.4.2, 2.4.3 and 2.4.4.

Note: There is no penalty for this Rule.

2.4.9 Acceptance of application

(1) If ASIC is satisfied that:

(a) an application for accreditation made by a Market Participant; and

(b) the person in respect of which the application for accreditation is made,

under Rule 2.4.6, 2.4.7 or 2.4.8, meets the applicable requirements of the Rule, ASIC will accredit the person in the relevant category of accreditation.

(2) ASIC will give the Market Participant a written notice that a person has been accredited under subrule (1), specifying:

(a) any conditions to which the accreditation is subject;

(b) the Renewal Date.

(3) Nothing in subrule (1) prevents ASIC from seeking further information from the Market Participant for the purposes of satisfying itself that the person or the application meets the requirements of the relevant Rule.

Note: There is no penalty for this Rule.

2.4.10 Rejection of application

(1) Subject to subrule (2), if ASIC is not satisfied that:

(a) an application for accreditation made by a Market Participant; or

(b) the person in respect of which the application for accreditation is made,

under Rule 2.4.6, 2.4.7 or 2.4.8, meets the applicable requirements of the Rule, ASIC will reject the application.

(2) ASIC will give the Market Participant a written notice that an application for accreditation has been rejected under subrule (1), specifying the reason or reasons why the application is rejected.

(3) Nothing in subrule (1) prevents ASIC from seeking further information from the Market Participant for the purposes of satisfying itself that the person or the application meets the requirements of the relevant Rule.

Note: There is no penalty for this Rule.

2.4.11 Exemption for other accreditation and experience

(1) ASIC may exempt a person, in writing, from the requirement to sit an Accreditation Examination if the person has:

(a) completed a course listed on ASIC's Training Register as a specialist course and which, in the opinion of ASIC, provides appropriate coverage of these Rules, the Market Operating Rules, the Trading Platform and the relevant Products;

(b) completed relevant training, other than a course listed on ASIC's Training Register, and can demonstrate, to the satisfaction of ASIC, their knowledge of these Rules, the Market Operating Rules, the Trading Platform and the relevant Products; or

(c) extensive relevant industry experience and can demonstrate, to the satisfaction of ASIC, their knowledge of these Rules, the Market Operating Rules, the Trading Platform and the relevant Products.

(2) ASIC may require a Market Participant to provide further information which ASIC considers necessary to establish the experience, expertise and professional history of a person nominated under this Rule for exemption from the examination requirement.

(3) ASIC may require a person nominated for exemption under this Rule to complete and pass a modified version of an Accreditation Examination to demonstrate the person's expertise and knowledge of the Rules, the Market Operating Rules, the Trading Platform and relevant Products.

Note: There is no penalty for this Rule.

2.4.12 Examinations

(1) Unless ASIC gives permission under this Rule, a person may sit an Accreditation Examination for a category of accreditation no more than three times.

(2) If a person has not obtained the required pass level after sitting the Accreditation Examination three times, the Market Participant may apply to ASIC under subrule (3) for permission for the person to sit the Accreditation Examination again.

(3) A Market Participant may apply for permission for a person to sit an Accreditation Examination again by submitting a written application to ASIC that includes:

(a) the full name, business and email address of the applicant;

(b) the name and business address of the Market Participant seeking permission for the applicant to sit the Accreditation Examination again;

(c) the type of Accreditation Examination that the Market Participant is applying for the applicant to re-sit;

(d) the date on which the person last sat the Accreditation Examination;

(e) reasons in support of the applicant being permitted to sit the Accreditation Examination again; and

(f) the name and position of the Responsible Executive referred to in subrule (4).

(4) A Responsible Executive of the Market Participant (or, if the applicant is a Responsible Executive, another Responsible Executive of the Market Participant) must sign and date the application referred to in subrule (3).

(5) After considering the application, ASIC may permit the person to sit the examination again.

(6) ASIC will not consider an application under this Rule unless 3 months have passed since the person last sat the Accreditation Examination.

Note: There is no penalty for this Rule.

2.4.13 Renewal of accreditation

(1) ASIC may renew the accreditation of an Accredited Adviser for a period of time with effect from the Renewal Date if:

(a) the person is a Representative of a Market Participant and the Market Participant applies to ASIC during the Renewal Period to renew the person's accreditation under subrule (2);

(b) the person has complied with the Continuing Professional Education Requirements pro-rata to the number of full months in the period from the date the Accredited Adviser was first accredited or last renewed their accreditation to the date of the application; and

(c) ASIC has no reason to believe that the person does not have the requisite skill, knowledge and integrity to provide Financial Product Advice of the kind covered by the relevant category of accreditation.

(2) A Market Participant may apply to ASIC to renew the accreditation of a person by submitting a written application to ASIC during the Renewal Period that includes:

(a) the name and business address of the Market Participant seeking renewal of the accreditation of the persons named in the application;

(b) in respect of each Accredited Adviser seeking renewal of accreditation:

(i) the name of the Accredited Adviser;

(ii) the category of accreditation held by the Accredited Adviser;

(iii) a declaration that the Accredited Adviser is a Representative of the Market Participant;

(iv) a declaration that the Accredited Adviser meets the requirements of paragraph (1)(b); and

(c) the name, position, contact telephone number, facsimile number and email address of the director, partner, Responsible Executive or Compliance Manager of the Market Participant referred to in subrule (3).

(3) A director, partner, Responsible Executive or Compliance Manager of the Market Participant must sign and date the application referred to in subrule (2).

Note: There is no penalty for this Rule.

2.4.14 Acceptance of application

(1) If ASIC is satisfied that:

(a) an application for renewal of accreditation made by a Market Participant; and

(b) a person in respect of which the application has been made,

meets the requirements of Rule 2.4.13, ASIC will renew the accreditation of the person with effect from the Renewal Date.

(2) ASIC will give the Market Participant a written notice that a person's accreditation has been renewed under subrule (1), specifying the next Renewal Date.

(3) Nothing in subrule (1) prevents ASIC from seeking further information from the Market Participant for the purposes of satisfying itself that the person or the application meets the requirements of the relevant Rule.

Note: There is no penalty for this Rule.

2.4.15 Rejection of application or renewal subject to conditions

(1) Subject to subrule (2), if ASIC is not satisfied that:

(a) an application for renewal of accreditation; or

(b) a person in respect of which the application has been made,

meets the requirements of Rule 2.4.13, ASIC may:

(c) reject the application for renewal in respect of one or more persons; or

(d) renew the person's accreditation but subject to such conditions as ASIC considers appropriate.

(2) If ASIC rejects the application under paragraph (1)(c), ASIC will give the Market Participant a written notice that a person's application for renewal has been rejected, specifying the reason or reasons that the application has been rejected.

(3) If ASIC renews the person's accreditation subject to conditions under paragraph (1)(d), ASIC will give the Market Participant a written notice that a person's accreditation has been renewed, specifying:

(a) the conditions to which the renewed accreditation is subject; and

(b) the next Renewal Date.

(4) Nothing in subrule (1) prevents ASIC from seeking further information from the Market Participant for the purposes of satisfying itself that the person or the application meets the requirements of the relevant Rule.

Note: There is no penalty for this Rule.

2.4.16 Effect of non-renewal

If, by 1 Business Day after the Renewal Date, ASIC has not renewed the accreditation of an Accredited Adviser under subrule 2.4.14(1) or paragraph 2.4.15(1)(d), the person will cease to hold the relevant accreditation with effect from the Renewal Date.

Note: There is no penalty for this Rule.

2.4.17 Automatic withdrawal of accreditation

(1) An Accredited Adviser's accreditation is automatically withdrawn when the Accredited Adviser ceases to be a Representative of the Market Participant that made the application for the person to be accredited.

(2) If an Accredited Adviser ceases to be a Representative of a Market Participant, the Market Participant must notify ASIC in writing within 5 Business Days of:

(a) the name and date of birth of the Accredited Adviser; and

(b) the date the Accredited Adviser ceased to be a Representative of the Market Participant.

Note: There is no penalty for this Rule.

2.4.18 Voluntary withdrawal of accreditation

(1) ASIC may withdraw the accreditation of an Accredited Adviser in one or more categories of accreditation if the Market Participant of which the person is a Representative requests that ASIC withdraw the accreditation under subrule (2).

(2) A Market Participant may request that ASIC withdraw the accreditation of an Accredited Adviser by submitting a written application to ASIC that includes:

(a) the name and date of birth of the Accredited Adviser;

(b) the name and business address of the Market Participant requesting that the accreditation be withdrawn;

(c) the category of the accreditation which is to be withdrawn;

(d) the Trading Day on which the Market Participant wishes the withdrawal to take effect;

(e) the reasons for withdrawal of the accreditation; and

(f) the name, position and contact telephone number of the director, partner, Responsible Executive or Compliance Manager of the Market Participant referred to in paragraph (3)(a).

(3) The application must be signed and dated by:

(a) a director, partner, Responsible Executive or Compliance Manager of the Market Participant; and

(b) the relevant Accredited Adviser.

Note: There is no penalty for this Rule.

2.4.19 Suspension or withdrawal by ASIC

(1) ASIC may suspend or withdraw the accreditation of an Accredited Adviser in a category of accreditation if ASIC has reason to believe that the person does not have the requisite skill, knowledge or integrity to provide Financial Product Advice of the kind covered by the relevant category of accreditation.

(2) ASIC will notify the relevant Market Participant and the Accredited Adviser in writing of a suspension or withdrawal of accreditation under subrule (1) and the reasons for the suspension or withdrawal.

Note: There is no penalty for this Rule.

2.4.20 Re-accreditation after withdrawal or expiry

(1) ASIC may re-accredit a person whose accreditation has been withdrawn or has expired, without the person sitting another Accreditation Examination if:

(a) the person is a Representative of a Market Participant and the Market Participant applies to ASIC to re-accredit the person under subrule (2);

(b) the person became an Employee of, or was otherwise engaged by, a Market Participant within 2 years from the date their accreditation was withdrawn or expired, and within 2 months of being re-accredited will re-commence providing Financial Product Advice to clients of a Market Participant of a kind covered by Rules 2.4.2, 2.4.3, 2.4.4 or 2.4.5;

(c) the person has complied with the Continuing Professional Education Requirements pro-rata to the number of full months since the date their accreditation was granted or last renewed; and

(d) ASIC has no reason to believe that the person does not have the requisite skill, knowledge and integrity to provide Financial Product Advice of the kind covered by the relevant category of accreditation.

(2) A Market Participant may apply to ASIC to re-accredit a person whose accreditation has been withdrawn or has expired by submitting a written application to ASIC that includes:

(a) the name, date of birth, business address and email address of the applicant, a statement that the applicant is a Representative of the Market Participant and a description of the nature of the relationship of the applicant to the Market Participant (for example, employee);

(b) the name, business address and AFSL number of the Market Participant seeking renewal of the accreditation of the applicant;

(c) the category of accreditation sought;

(d) a statement that the Market Participant requests the requirement for the person to sit the Accreditation Examination be waived;

(e) a declaration by the Market Participant that the applicant meets the requirements of paragraph (1)(c); and

(f) the name, position, contact telephone number, facsimile number and email address of the director, partner, Responsible Executive or Compliance Manager of the Market Participant referred to in subrule (3).

(3) A director, partner, Responsible Executive or Compliance Manager of the Market Participant must sign and date the application.

(4) If ASIC is satisfied that:

(a) an application for re-accreditation made by a Market Participant; and

(b) the person in respect of which the application for re-accreditation is made,

meets the applicable requirements of this Rule, ASIC will re-accredit the person in the relevant category of accreditation.

(5) ASIC will give the Market Participant a written notice that the person has been re-accredited under subrule (4), specifying:

(a) any conditions to which the accreditation is subject;

(b) the Renewal Date.

(6) Nothing in subrule (4) prevents ASIC from seeking further information from the Market Participant for the purposes of satisfying itself that the person or the application meets the requirements of the relevant Rule.

Note: There is no penalty for this Rule.

2.4.21 Continuing Professional Education Requirements for Accredited Advisers

(1) A Market Participant must ensure that all of its Accredited Advisers comply with any continuing professional education requirements approved by ASIC in accordance with subrule (2).

(2) For the purposes of subrule (1), ASIC may approve, in writing, continuing professional education requirements for Accredited Advisers that are relevant to the skills and knowledge required to provide Financial Product Advice of the kind covered by the relevant category of accreditation.

Maximum penalty: $20,000

2.4.22 Managed Discretionary Accounts—Derivatives Market Transactions and Warrants

A Market Participant must ensure that a Managed Discretionary Account for a Retail Client which involves dealing in Derivatives Market Transactions or Warrants is operated by an Accredited Adviser with the appropriate accreditation under these Rules.

Maximum penalty: $1,000,000

Part 2.5 Designated Trading Representatives (DTRs)

2.5.1 Trading in a Trading Platform

A Trading Participant must ensure that all trading in a Trading Platform by the Trading Participant is carried out either:

(a) by DTRs; or

(b) in accordance with the Automated Order Processing Requirements.

Maximum penalty: $1,000,000

2.5.2 Trading Participant must have a DTR

A Trading Participant must have at least one DTR in respect of any one or more Products for which the Trading Participant has Trading Permission.

Maximum penalty: $1,000,000

2.5.3 DTRs may submit Trading Messages

A Trading Participant must ensure that only its DTRs submit Trading Messages into the Trading Platform through the Trading Participant's system, unless the trading is conducted in accordance with the Automated Order Processing Requirements.

Maximum penalty: $1,000,000

2.5.4 Responsibility of Trading Participant

A Trading Participant is responsible for the accuracy of details, the integrity and bona fides of all Trading Messages containing their unique identifier that are submitted into the Trading Platform, regardless of whether a DTR of the Trading Participant was involved in their submission.

Note: There is no penalty for this Rule.

2.5.5 DTR criteria

A Trading Participant must ensure that:

(a) each of its DTRs is at all times a Representative of the Trading Participant authorised to deal in the Products in respect of which the DTR submits orders on behalf of the Trading Participant either:

(i) under the Trading Participant's AFSL; or

(ii) under the person's own AFSL (unless the person is a Principal Trader not required to hold an AFSL);

(b) each of its DTRs is suitably qualified and experienced to deal in the Products referred to in paragraph (a), by submitting orders on behalf of the Trading Participant;

(c) prior to submitting Trading Messages on behalf of the Trading Participant, each DTR has demonstrated to the Trading Participant knowledge of the Dealing Rules governing the process of dealing and reporting Market Transactions on the Trading Platform, and the relevant practices of the Market Operator;

(d) each of its DTRs does not:

(i) execute any order in a Trading Platform for or on behalf of, or which will benefit, directly or indirectly, the DTR or any associate or Relative of the DTR, without the prior written approval of the Trading Participant;

(ii) intentionally take advantage of a situation arising as a result of:

(A) a breakdown or malfunction in the Market Operator's procedures or systems;

(B) an error made over the National Voiceline System; or

(C) an error in entries made by the Market Operator within a Trading Platform.

Maximum penalty: $1,000,000

2.5.6 Trading Participant must allocate unique identifier

A Trading Participant must allocate a unique identifier to each DTR of the Trading Participant.

Maximum penalty: $100,000

2.5.7 Records—DTRs

A Trading Participant must maintain a record of:

(a) the name, contact details and DTR identifier of each of its DTRs, while the person remains a DTR of a Trading Participant; and

(b) the information in paragraph (a) for a period of 7 years from the date the person ceases to be a DTR of the Trading Participant.

Maximum penalty: $100,000

Part 2.6 Foreign Participants

2.6.1 Minimum presence requirements

(1) This Rule applies to a Market Participant ("**Foreign Market Participant**") that:

(a) is a foreign entity; and

(b) does not hold an AFSL.

(2) Before entering into a Market Transaction, a Foreign Market Participant must provide ASIC with a deed of the Foreign Market Participant for the benefit of and enforceable by ASIC and the other persons referred to in subsection 659B(1) of the Corporations Act, which deed provides that:

(a) the deed is irrevocable except with the prior written consent of ASIC;

(b) the Foreign Market Participant submits to the non-exclusive jurisdiction of the Australian courts in legal proceedings conducted by ASIC (including under section 50 of the ASIC Act) and, in relation to proceedings relating to a financial services law, by any person referred to in subsection 659B(1) of the Corporations Act and whether brought in the name of ASIC or the Crown or otherwise;

(c) the Foreign Market Participant covenants to comply with any order of an Australian court in respect of any matter relating to the activities or conduct of the Foreign Market Participant in relation to the Market or in relation to Financial Products traded on the Market, including but not limited to any matter relating to the Foreign Market Participant's obligations under:

(i) the ASIC Act;

(ii) the Corporations Act; and

(iii) the *Corporations (Fees) Act 2001*;

(d) if the Foreign Market Participant is not registered under Division 2 of Part 5B.2 of the Corporations Act:

(i) the Foreign Market Participant must have at all times an agent who is:

(A) a natural person or a company;

(B) resident in this jurisdiction; and

(C) authorised to accept, on behalf of the Foreign Market Participant, service of process and notices; and

(ii) the Foreign Market Participant must notify ASIC of any change to:

(A) the agent; or

(B) the name and address of the agent (if the agent is a company, address means the address of the registered office of the company); and

(iii) service of process on the Foreign Market Participant in relation to legal proceedings conducted by ASIC (including under section 50 of the ASIC Act), and in relation to proceedings relating to a financial services law, by any person referred to in subsection 659B(1) of the Corporations Act and whether brought in the name of ASIC or the Crown or otherwise, can be effected by service on the agent;

(e) the deed applies notwithstanding that the Foreign Market Participant may have ceased to be a Market Participant; and

(f) such additional terms notified by ASIC to the Foreign Market Participant.

Maximum penalty: $1,000,000

Chapter 3: Client relationships

Part 3.1 Clients trading in products for first time

3.1.1 Documents to be given to a client

Before accepting an order from a person to enter into a Market Transaction, a Market Participant must give the person, in addition to all of the documents which the Market Participant is required to give the person in respect of the Market Transaction under the Corporations Act, all of the documents the Market Participant is required to give the person in respect of the Market Transaction under this Part.

Note: There is no penalty for this Rule.

3.1.2 Documents to be given to a client: Options, LEPOs and Warrants

(1) Subject to subrule (4), before a Market Participant accepts an Order from a person to enter into an Options Market Transaction, the Market Participant must give the person a copy of any current explanatory booklet in respect of Options Market Contracts published by the Market Operator, together with any updates to that explanatory booklet published by the Market Operator, if it is the first time an Order to enter into an Options Market Transaction is accepted from the person.

(2) Subject to subrule (4), before a Market Participant accepts an order from a person to enter into an Options Market Transaction in respect of LEPOs, the Market Participant must give the person a copy of any current explanatory booklet in respect of LEPOs published by the Market Operator, together with any updates to that explanatory booklet published by the Market Operator, if it is the first time an Order in respect of LEPOs is accepted from the person.

(3) Subject to subrule (4), before a Market Participant accepts an Order from a person to purchase a Warrant, the Market Participant must give the person a copy of any current explanatory booklet in respect of Warrants published by the Market Operator, together with any updates to that explanatory booklet published by the Market Operator, if it is the first time an Order in respect of Warrants is accepted from the person.

(4) A Market Participant is not required to comply with subrule (1), (2) or (3) if the person from whom the Order is accepted is a Wholesale Client, unless the person expressly requests it.

(5) For the avoidance of doubt, a Market Participant is not required to comply with subrule (3) if the person from whom the Order is accepted is entering into a Market Transaction to sell Warrants.

Maximum penalty: $100,000

Federal Register of Legislative Instruments F2013C00794

3.1.3 Information to be given to a client: Execution arrangements

Before accepting an Order from a person to enter into a Market Transaction, if the Market Participant does not have Trading Permission to execute that Market Transaction, the Market Participant must give the person a document which clearly discloses the execution arrangements in place for that Market Transaction including, without limitation:

(a) the name, principal telephone number and principal business address of the Trading Participant which executes the Market Transactions of the Market Participant; and

(b) the extent of any NGF coverage of the Market Transaction.

Maximum penalty: $100,000

3.1.4 Information to be given to a client: Clearing arrangements for Equity Securities, Loan Securities or Warrants

(1) Before accepting an order from a person (the "**Client**") to enter into a Cash Market Transaction for an Equity Security, Loan Security or Warrant, if the Market Participant:

(a) is not a Clearing Participant, who is permitted under the Clearing Rules to clear the Cash Market Transaction; or

(b) is a Clearing Participant who is permitted under the Clearing Rules to clear that Cash Market Transaction, but has an arrangement with another Clearing Participant to clear that Cash Market Transaction, and such transaction is cleared under the arrangement,

the Market Participant must give the Client a document which clearly discloses the clearing arrangements in place for that Cash Market Transaction, including, without limitation, any information required by subrule (2).

(2) The written disclosure document referred to in subrule (1) must include:

(a) the name, principal telephone number and principal business address of the Clearing Participant which clears the Market Transactions of the Market Participant;

(b) if, under the clearing arrangements:

(i) notwithstanding that the Market Transaction may have been entered into on the Client's behalf, the Clearing Participant carries the Clearing Obligations and any settlement obligations for all Market Transactions of the Trading Participant, including those of the Client, and must settle as principal with the Clearing Facility or the relevant counter-party;

(ii) the Client owes obligations to the Clearing Participant in relation to the clearing and settlement of Cash Market Transactions;

(iii) the Clearing Participant has rights against the Client in the event that:

(A) the Client fails to pay the amounts due in respect of Cash Market Transactions;

(B) the Client fails to fulfil its settlement obligations in respect of Cash Market Transactions,

Federal Register of Legislative Instruments F2013C00794

statements to that effect.

Maximum penalty: $100,000

3.1.5 Information to be given to a client: Clearing arrangements for Futures Market Transactions

Before accepting an order from a person (the "**Client**") to enter into a Futures Market Transaction where the Client does not have a direct relationship with a Clearing Participant, if the Market Participant:

(a) is not a Clearing Participant, who is permitted under the Clearing Rules to clear that Futures Market Transaction; or

(b) is a Clearing Participant who is permitted under the Clearing Rules to clear that Futures Market Transaction, but has an arrangement with another Clearing Participant to clear that Futures Market Transaction, and such transaction is cleared under the arrangement,

the Market Participant must give the Client a document which clearly discloses the clearing arrangements in place for that Futures Market Transaction, including, without limitation, the name, principal telephone number and principal business address of the Clearing Participant which clears the Market Transactions of the Market Participant.

Maximum penalty: $100,000

3.1.6 Minimum terms of Client Agreement for Futures Market Contracts

(1) Before entering into a Market Transaction on behalf of a person (the "**Client**") in respect of a Futures Market Contract, the Market Participant must enter into a written agreement with the Client under which the Market Participant discloses, and the Client acknowledges:

(a) that trading in Futures Market Contracts and Options Market Contracts incurs a risk of loss as well as a potential for profit;

(b) that the Client has read and understood the details of the contract specifications of Futures Market Contracts and Options Market Contracts in which the Market Participant will deal on behalf of the Client;

(c) that the Client should consider:

  (i) its objectives, financial situation and needs; and

  (ii) whether dealing in Futures Market Contracts and Options Market Contracts is suitable for its purposes;

(d) that notwithstanding that the Market Participant may act in accordance with the instructions of, or for the benefit of, the Client, any Futures Market Contract or Options Market Contract arising from any order submitted by the Market Participant, is entered into by the Market Participant as principal;

(e) that upon registration of a Futures Market Contract or Options Market Contract with the Clearing Facility in the name of a Clearing Participant, the Clearing Participant incurs

obligations to the Clearing Facility as principal, even though the Futures Market Contract or Options Market Contract may have been entered into on the Client's instructions;

(f) that the Clearing Participant may obtain benefits or rights upon registration of a Futures Market Contract or Options Market Contract with the Clearing Facility by novation of a contract under the Clearing Rules or other legal results of registration and those benefits, rights or legal results may or will be personal to the Clearing Participant and may or will not pass to the Client;

(g) that the Market Participant is not required to act in accordance with the Client's instructions, where to do so would constitute a breach of the Market Operating Rules, the Clearing Rules or the Corporations Act;

(h) that the Market Participant may, in certain circumstances permitted under the Market Operating Rules or the Corporations Act, take the opposite position in a Market Transaction, either acting for another person or on its Own Account;

(i) that the Market Participant may call for payment of money or the provision of other security in connection with the obligations incurred by the Market Participant in respect of Futures Market Contracts and Options Market Contracts entered into for the account of the Client and:

(i) the fact that the Client will be required to pay the money or provide the security; and

(ii) the arrangements for paying the money or providing the security, including, without limitation, the time by which the Client must pay the money or provide the security;

(j) the nature of any events that will constitute a default by the Client in connection with the agreement that are:

(i) prescribed under the Market Operating Rules; and

(ii) agreed between the Market Participant and the Client;

(k) the nature of any rights the Market Participant may have against the Client in an event of default disclosed in accordance with paragraph (j) that are:

(i) prescribed under the Market Operating Rules; and

(ii) agreed between the Market Participant and the Client;

(l) if the Client will or may be required to pay to the Market Participant commissions, fees, taxes or charges in connection with dealings in Futures Market Contracts and Options Market Contracts for the Client:

(i) the fact that the Client is required to pay such commissions, fees, taxes and charges; and

(ii) the manner in which the Client will be notified of the rate of such commissions, fees, taxes and charges;

(m) that the Market Participant may record telephone conversations between the Client and the Market Participant and that if there is a dispute between the Client and the Market Participant, the Client has the right to listen to any recording of those conversations;

(n) if the Market Participant may refuse to enter into Market Transactions for the Client, or limit the Market Transactions it enters into for the Client, that the Market Participant will notify the Client of any refusal or limitation as soon as practicable;

(o) that money or property, other than property to which Division 3 of Part 7.8 of the Corporations Act applies, deposited with, or received by, the Market Participant in connection with dealings in Futures Market Contracts and Options Market Contracts for the Client will be segregated by the Market Participant in accordance with the Market Operating Rules and the Corporations Act; and

(p) that the Client's monies and the monies of other clients will or may, as applicable, be combined and deposited by the Market Participant in a clients' segregated account and may be used by the Market Participant to meet the default of any client of the Market Participant.

(2) The Market Participant must set out in a Client Agreement entered into under subrule (1) any minimum period of notice to terminate the agreement and any other limitations on the right to terminate the agreement.

Maximum penalty: $100,000

3.1.7 Minimum terms of Client Agreement for Options Market Contracts

(1) Before entering into a Market Transaction in respect of an Options Market Contract on behalf of a Retail Client (the "**Client**"), the Market Participant must enter into a written agreement with the Client under which:

(a) the Client and the Market Participant agree on the instruments (the "**ASX Derivatives Market Contracts**") in which the Market Participant may deal on behalf of the Client;

(b) the Client acknowledges that the Client has received and read a copy of any current explanatory booklets published by the Market Operator in respect of the ASX Derivatives Market Contracts;

(c) the Client acknowledges that the Client is acting:

(i) as principal; or

(ii) as an intermediary on another's behalf and are specifically authorised to transact the ASX Derivatives Market Contracts by the terms of:

(A) a licence held by the Client;

(B) a trust deed (if the Client is a trustee); or

(C) an agency contract;

Federal Register of Legislative Instruments F2013C00794

(d) the Market Participant discloses, and the Client acknowledges:

(i) that notwithstanding that the Market Participant may act in accordance with the instructions of, or for the benefit of, the Client, any contract arising from any order submitted to the Market, is entered into by the Market Participant as principal;

(ii) that the Market Participant may, in certain circumstances permitted under the Market Operating Rules or the Corporations Act, take the opposite position in a transaction in the ASX Derivatives Market Contracts, either acting for another person or on its Own Account;

(iii) if the Client will or may be required to pay to the Market Participant commissions, fees, taxes or charges in connection with dealings in the ASX Derivatives Market Contracts for the Client:

(A) the fact that the Client is required to pay such commissions, fees, taxes and charges; and

(B) the manner in which the Client will be notified of the rates of such commissions, fees, taxes and charges;

(iv) that the Market Participant may record telephone conversations between the Client and the Market Participant and if there is a dispute between the Client and the Market Participant, the Client has the right to listen to any recording of those conversations;

(v) if the Market Participant may refuse to enter into Market Transactions for the Client, or limit the Market Transactions it enters into for the Client, that the Market Participant will notify the Client of any refusal or limitation as soon as practicable;

(vi) that the Trading Participant is not required to act in accordance with the Client's instructions, where to do so would constitute a breach of the Market Operating Rules, the Clearing Rules or the Corporations Act;

(vii) that each Options Market Contract registered with a Clearing Facility is subject to operating rules and any practices, directions, decisions and requirements of that Clearing Facility.

(2) The Market Participant must set out in a Client Agreement entered into under subrule (1) any minimum period of notice to terminate the agreement and any other limitations on the right to terminate the agreement.

Maximum penalty: $100,000

3.1.8 Client Agreement for Warrants

(1) Before entering into a Market Transaction in respect of Warrants on behalf of a Retail Client (the "**Client**"), subject to subrule (3), the Market Participant must enter into a written agreement with the Client under which the Market Participant discloses, and the Client acknowledges that they are aware that:

Federal Register of Legislative Instruments F2013C00794

(a) a Warrant has a limited life and cannot be traded after its expiry date;

(b) Warrants do not have standardised Terms of Issue and it is the responsibility of the Client to become aware of the Terms of Issue of any Warrant in which the Client chooses to invest; and

(c) Warrants may be subject to adjustments after their initial issue and it is the Client's responsibility to become aware of any adjustments which may have been made to any Warrant in which the Client chooses to invest.

(2) The written agreement referred to in subrule (1) must include an acknowledgement from the Client that the Client has received and read a copy of any current explanatory booklet issued by the Market Operator in respect of Warrants.

(3) A Market Participant is not required to enter into an agreement under subrule (1) before entering into a Market Transaction to sell Warrants.

Maximum penalty: $100,000

3.1.9 Client Agreement for Partly Paid Securities

(1) Before entering into a Market Transaction in respect of Partly Paid Securities on behalf of a Retail Client (the "**Client**"), subject to subrule (2), the Market Participant must enter into a written agreement with the Client under which the Market Participant discloses, and the Client acknowledges that they are aware, that:

(a) a Partly Paid Security is a security which may require the Client to make a further payment or payments at some time in the future;

(b) it is the responsibility of the Client to obtain and read a copy of the prospectus, product disclosure statement or information memorandum issued by an Issuer which sets out the particular features of, and rights and obligations attaching to, a Partly Paid Security before the Client places an order to buy a Partly Paid Security;

(c) the Client may be required to make further payments on a Partly Paid Security and that a failure to make a further payment by the specified date(s) may result in an Issuer of a Partly Paid Security or their associates or agents taking action, including legal action, against the Client to recover the outstanding payments and/or may result in the forfeiture of the Client's entitlement to the Partly Paid Security;

(d) in certain circumstances the Client may be required to make a further payment on a Partly Paid Security despite the fact that the Client may have disposed of a Partly Paid Security prior to the date that a further payment falls due;

(e) the Client should monitor announcements made by the Issuer of a Partly Paid Security and that it is the responsibility of the Client to inform themselves of the dates or circumstances that a further payment falls due and the last day that the Client can dispose of the Partly Paid Security before the Client becomes required to make a further payment;

Federal Register of Legislative Instruments F2013C00794

(f) the amount of a further payment may be unrelated to the financial performance of a Partly Paid Security and that the amount of the further payment may exceed the intrinsic value of a Partly Paid Security at the time a further payment falls due.

(2) A Market Participant is not required to enter into an agreement under subrule (1) before entering into a Market Transaction to sell Partly Paid Securities.

Maximum penalty: $100,000

3.1.10 Other terms of Client Agreements

For the avoidance of doubt, a Client Agreement may include other disclosures, acknowledgements, terms and conditions agreed between the Market Participant and the Client, or required to be included under the Market Operating Rules, provided they are not inconsistent with the requirements of Rules 3.1.6, 3.1.7, 3.1.8 and 3.1.9.

Note: There is no penalty for this Rule.

3.1.11 Market Participant to keep copy of Client Agreement and disclosures

The Market Participant must retain a copy of each Client Agreement and any disclosures made under this Part for at least 7 years following the date on which the Client Agreement, or the arrangement the subject of the disclosure, is terminated.

Maximum penalty: $100,000

3.1.12 Client agreement where Market Participant is not the Clearing Participant (Options Market Transactions only)

Before entering into an Options Market Transaction for a person (the "**Client**"), where the Market Participant:

(a) is not a Clearing Participant, who is permitted under the Clearing Rules to clear that Options Market Transaction; or

(b) is a Clearing Participant, who is permitted under the Clearing Rules to clear that Market Transaction, but has an arrangement with another Clearing Participant to clear that Options Market Transaction, and such transaction is cleared under the arrangement,

the Market Participant must:

(c) have previously confirmed with the Clearing Participant that the Client has entered into an agreement with the Clearing Participant as required under the Clearing Rules; or

(d) where the Client is a Wholesale Client, have satisfied itself that the Client has executed and lodged with the Clearing Facility a Wholesale Client Agreement as required under the Market Operating Rules.

Maximum penalty: $100,000

3.1.13 Client agreement where Market Participant is the Clearing Participant (Options Market Transactions only)

Before entering into an Options Market Transaction for a person (the "**Client**"), where the Market Participant is the Clearing Participant in relation to the Options Market Transaction, the Market Participant must:

(a) have entered into an agreement with the Client as required under the Clearing Rules; or

(b) where the client is a Wholesale Client, have satisfied itself that the Client has executed and lodged with the Clearing Facility a Wholesale Client Agreement as required under the Market Operating Rules.

Maximum penalty: $100,000

Part 3.2 Trading as Principal

3.2.1 Application

This Part 3.2 applies where a Market Participant enters into a Market Transaction with a Client as Principal, except where the Client is a Market Participant or a participant or member of a Recognised Stock Exchange.

Note: There is no penalty for this Rule.

3.2.2 Disclosure and consent

Before entering into a Market Transaction as Principal with a person (the "**Client**"), the Market Participant must disclose, or have previously disclosed, in accordance with paragraph 991E(1)(c) of the Corporations Act, that it is acting, or may act, as Principal and have obtained the consent of the Client, in accordance with paragraph 991E(1)(d) of the Corporations Act.

Maximum penalty: $100,000

3.2.3 Confirmation must include disclosure

When a Market Participant enters into a Market Transaction with a person (the "**Client**") as Principal, the confirmation issued by the Market Participant to the Client under Rule 3.4.1 in respect of that Market Transaction must state that the Market Participant entered into the transaction as Principal and not as agent.

Maximum penalty: $100,000

3.2.4 Brokerage and commission

(1) When a Market Participant enters into a Market Transaction as Principal on its own behalf with a person (the "**Client**"), the Market Participant must not charge the Client brokerage, commission or any other fee in respect of the Market Transaction, except in the following circumstances:

(a) where the Client is a Prescribed Person of the Market Participant;

(b) where the Client is a Wholesale Client who has consented to the Market Participant charging brokerage, commission or the other fee (and that consent has not been withdrawn); or

(c) where otherwise permitted by the Corporations Act.

(2) The Market Participant must keep a written record of any consent given by a Wholesale Client under paragraph (1)(b), and send a copy of the record to that Wholesale Client as soon as practicable.

Maximum penalty: $100,000

3.2.5 Extended meaning of dealing as Principal

(1) Except where a Market Participant is dealing as a trustee of a trust in which the Market Participant has no direct or indirect beneficial interest, a reference in this Part 3.2 to a Market Participant dealing or entering into a Market Transaction as Principal, includes a reference to a Market Participant entering into a Market Transaction on its own behalf or on behalf of any of the following persons:

(a) a partner of the Market Participant;

(b) a director, company secretary or Substantial Holder of the Market Participant;

(c) the Immediate Family, Family Company or Family Trust of a partner, director, company secretary or Substantial Holder of the Market Participant;

(d) a body corporate in which the interests of one or more of the partners singly or together constitute a controlling interest;

(e) any Related Body Corporate of the Market Participant.

(2) Without limitation, in paragraph (1)(b), a reference to dealing on behalf of a Substantial Holder means that any Cash Market Product the subject of the Market Transaction is, or will be on the execution of the transaction, beneficially owned by the Substantial Holders.

(3) For the purposes of subrule (2), Cash Market Products beneficially owned by a Substantial Holder include Cash Market Products that appear or would appear as assets on the balance sheet or consolidated balance sheet of that Substantial Holder's assets and liabilities, except where the Cash Market Products concerned appear or would appear as assets on the balance sheet or consolidated balance sheet of a life insurance company registered under the *Life Insurance Act 1995* or the equivalent Act of a State, and are held for or on behalf of that life insurance company's statutory funds.

Note: There is no penalty for this Rule.

3.2.6 Register of persons who are regarding as Principal

A Market Participant must keep a register of the persons referred to in paragraphs 3.2.5(1)(a) to (e).

Maximum penalty: $100,000

Part 3.3 Client instructions

3.3.1 Market Participant restrictions

A Market Participant must not:

(a) accept or execute instructions from a person (a "**Client**") to enter into a Market Transaction except in accordance with these Rules, the Competition Market Integrity Rules and the Market Operating Rules;

(b) enter into a Market Transaction for a Client, except in accordance with the instructions of the Client, or of a person authorised in writing by a Client to give such instructions, or pursuant to an exercise of discretion in respect of that particular Client's Managed Discretionary Account or as otherwise permitted by these Rules or the Market Operating Rules;

(c) allocate a Market Transaction to a Client's account unless the Market Transaction was entered into on the instructions of the Client, or of a person authorised in writing by a Client to give such instructions, or pursuant to an exercise of discretion in respect of that particular Client's Managed Discretionary Account or as otherwise permitted by these Rules or the Market Operating Rules; or

(d) except as permitted under these Rules, the Competition Market Integrity Rules or the Market Operating Rules, or in writing by ASIC, enter into or arrange a Market Transaction on the instructions of a Client unless the instructions are executed in such a manner that the Market Transaction is entered into on a Trading Platform.

Maximum penalty: $1,000,000

3.3.2 Excessive trading

A Market Participant must not enter into Market Transactions on a Managed Discretionary Account for a Retail Client where the size or frequency of the Market Transactions may be considered excessive having regard to the investment objectives, financial situation and needs of the client and the relevant markets.

Maximum penalty: $1,000,000

Part 3.4 Reporting to Clients

3.4.1 Confirmations—Form and timing

(1) Subject to Rule 3.4.3, a Market Participant must give a confirmation to a person (the "**Client**") in respect of each Market Transaction entered into on the Client's instructions or on the Client's Managed Discretionary Account.

(2) The Market Participant must send to, or cause to be sent to, the Client a confirmation:

(a) in writing;

(b) electronically; or

(c) in another form permitted by ASIC,

as soon as practicable after the Market Participant enters into the Market Transaction.

(3) The confirmation must meet the following requirements:

(a) the confirmation must include all of the information required to be included in a confirmation under Division 3 of Part 7.9 of the Corporations Act;

(b) the confirmation must include a statement that the confirmation is issued subject to:

(i) the directions, decisions and requirements of the Market Operator, these Rules, the Market Operating Rules, the Clearing Rules and where relevant, the Settlement Rules;

(ii) the customs and usages of the Market; and

(iii) the correction of errors and omissions,

unless the Market Participant has obtained and retained an acknowledgment from the Client that the conditions set out in subparagraphs (i), (ii) and (iii) apply to the issue of confirmations to that Client;

(c) if the Market Transaction is to be cleared by another party which is a Clearing Participant, the confirmation must include the name of the Market Participant which executed the trade and the Clearing Participant which clears it;

(d) the confirmation must state the time by which all documents and information which the Market Participant or Clearing Participant will require to settle the Market Transaction must be provided by the Client:

(i) in the case of a sale of Cash Market Products, the date by which the Client must provide all documents and security holder information (including, if applicable, the relevant holder identification number or personal identification number and/or shareholder reference number) required by the relevant Clearing Participant to meet its Clearing Obligations; and

(ii) if applicable, the date by which the Client must provide the consideration specified in the confirmation; and

(iii) if applicable, the date by which the net consideration to the Client falls due;

(e) the confirmation must state the amount of money which the Client must pay, or which the Client will receive, on settlement of the Market Transaction and, if the Client is required to pay an amount of money, the time by which that money must be paid;

(f) where the Market Transaction involved a Crossing, the confirmation must include a statement to that effect;

(g) the confirmation must include any disclosure required under Rule 3.2.3; and

(h) if the confirmation is a confirmation in respect of:

(i) a Conditional Sale of a Cash Market Product and the corresponding confirmation in respect of the conditional purchase of the relevant Cash Market Product; or

(ii) the entry into of an Options Market Contract over a Cash Market Product which is, at the time, traded on a conditional basis,

the confirmation must be endorsed as conditional and state the condition and the effect of non-fulfilment of the condition.

Maximum penalty: $100,000

3.4.2 Confirmations—accumulation and price averaging

If a Market Participant is required by Rule 3.4.1 to give a confirmation to a person (the "**Client**") and the Market Participant enters into multiple Market Transactions for the purpose of completing the Client's order, the Market Participant may accumulate those Market Transactions on a single confirmation and specify the volume weighted average price for those Market Transactions provided that:

(a) the Client authorised in writing the accumulation and price averaging of 2 or more Market Transactions in a confirmation at or before the time the order was placed; and

(b) if requested by the Client, the Market Participant gives to the Client a statement of all the individual prices of the Cash Market Products or Derivatives Market Contracts, as applicable, which are accumulated and averaged under this Rule.

Maximum penalty: $20,000

3.4.3 Confirmations—clients other than Retail Clients

(1) A Market Participant is not required to comply with Rule 3.4.1 in respect of a client that is not a Retail Client, provided the Market Participant has notified the client before entering a Trading Message on the client's behalf that Market Transactions effected for the client are subject to:

(a) the directions, decisions and requirements of the Market Operator, these Rules, the Market Operating Rules, the Clearing Rules and where relevant, the Settlement Rules;

(b) the customs and usages of the Market; and

(c) the correction of errors and omissions.

(2) A Market Participant must keep a record of the notification.

Maximum penalty: $100,000

Part 3.5 Client Money and Property

3.5.1 Trust accounts—Cash Market Transactions and Options Market Transactions

A Market Participant must establish one or more clients' trust accounts for money received by the Market Participant in connection with dealings in Cash Market Transactions or Options Market Transactions.

Maximum penalty: $1,000,000

3.5.2 Segregated accounts or trust accounts—Futures Market Transactions

A Market Participant must establish either one or more clients' trust accounts or clients' segregated accounts for money received by the Market Participant in connection with dealings in:

(a) Futures Market Transactions; and

(b) Options Market Transactions over an Underlying Financial Product which is a Futures Market Contract.

Maximum penalty: $1,000,000

3.5.3 Bank accounts to be with Australian ADI

All money received by a Market Participant which the Corporations Act requires the Market Participant to deposit in a clients' segregated account or in a clients' trust account must be deposited in an account with an Australian ADI in Australia (which has been rated by an Approved Ratings Agency as being at least short term investment grade) unless:

(a) the money is received by the Market Participant in another country and the Market Participant deposits the money in a clients' segregated account or clients' trust account with a branch of an Australian ADI with such a rating in that country; or

(b) Rule 3.5.4 applies.

Maximum penalty: $1,000,000

Federal Register of Legislative Instruments F2013C00794

3.5.4 Approved foreign banks

(1) ASIC may approve, in writing, foreign banks at which Market Participants may:

(a) open clients' segregated accounts or clients' trust accounts for the handling of money received for a person in another country or for a person who is resident in another country; and

(b) invest money held in clients' segregated accounts or clients' trust accounts in another country.

(2) ASIC may impose conditions on the use of a foreign bank approved under subrule (1) for clients' segregated accounts and clients' trust accounts.

Note: There is no penalty for this Rule.

3.5.5 Change of rating or approval of ADI

If the Market Participant has a clients' segregated account or a clients' trust account with an Australian ADI which ceases to have the rating referred to in Rule 3.5.3 or with a foreign bank which ceases to be a bank approved under Rule 3.5.4, the Market Participant must transfer the balance of the relevant account to an entity which meets the requirements of Rule 3.5.3 or Rule 3.5.4, as applicable.

Maximum penalty: $1,000,000

3.5.6 Liquidity requirement—clients' segregated accounts—Futures Market Transactions

If a Market Participant invests money from a clients' segregated account maintained under Rule 3.5.2 pursuant to paragraph 981C(a) of the Corporations Act, that investment must be readily realisable and at least 50% of money invested under that paragraph must be invested on 24 hour call terms.

Maximum penalty: $1,000,000

3.5.7 Top up requirement—clients' segregated accounts—Futures Market Transactions

(1) Subject to subrule (2), if a person (the "**Client**") does not satisfy, either through payment or the provision of security, a request by the Market Participant to meet:

(a) an Initial Margin call in relation to positions in Futures Market Transactions held by the Market Participant on behalf of the Client; or

(b) a call in relation to the close out, settlement or daily settlement of Open Contracts,

within 48 hours following the call for payment, the Market Participant must pay into the clients' segregated account the lesser of:

(c) the amount of the request; or

(d) the amount which the Market Participant would be obliged under the Market Operating Rules to request from the Client on the following day.

(2) Where the request by a Market Participant for payment or the provision of security relates to derivatives traded on a market operated by a person other than the Market Operator, the Market Participant must by the time required under the rules of that market, pay into the clients' segregated account the lesser of:

(a) the amount of the request; or

(b) the amount which the Market Participant would be obliged under the operating rules of the other market to request from the Client on the following day.

Maximum penalty: $1,000,000

3.5.8 Reconciliation of clients' segregated accounts

(1) A Market Participant must perform an accurate reconciliation, by 7.00pm on the Trading Day after the Trading Day to which the reconciliation relates, of the aggregate balance held by it at the close of business on each Business Day in clients' segregated accounts maintained pursuant to Rule 3.5.2 and the corresponding balance as recorded in the Market Participant's accounting records.

(2) The reconciliation referred to in subrule (1) must set out:

(a) the date to which the reconciliation relates;

(b) the dollar amounts of:

(i) Total Futures Client Monies;

(ii) Associated/Related Company Monies;

(iii) Director/Employee Monies;

(iv) Total Third Party Client Monies,

for both the day of the reconciliation and the prior day;

(c) the dollar amounts of:

(i) clients' segregated account at bank;

(ii) Deposits with ASX Clear Client Account;

(iii) Deposits with ASX Clear (Futures) Client Account;

(iv) Deposits with ASX Clear Futures Clearing Participant;

(v) Deposits with ASX Clear (Futures) Participant;

(vi) Deposits with an ASX Market Participant;

(vii) Deposits with an Australian Securities Exchange Participant;

(viii) Deposits with an Overseas Broker;

(ix) funds invested in accordance with paragraph 981C(a) of the Corporations Act;

Federal Register of Legislative Instruments F2013C00794

(x) Total Deposits,

for both the day of the reconciliation and the prior day;

(d) the dollar amount of the Variation for both the day of the reconciliation and the prior day;

(e) an explanation of the reason for a Variation, if the dollar amount of the Variation is more than, or less than, zero;

(f) where the movement in Total Futures Client Monies is greater than 20% from the prior day, an explanation of the reason.

(3) For the purposes of this Part:

"**Associated/Related Company Monies**" means the total amount of money received from:

(a) any body corporate that is related to the Market Participant;

(b) any person who is associated with the Market Participant; and

(c) any body corporate in which the Market Participant has a controlling interest,

in respect of transactions in futures contracts dealt on any exchange.

"**ASX Clear**" means ASX Clear Pty Limited.

"**ASX Clear (Futures)**" means ASX Clear (Futures) Pty Limited.

"**Australian Securities Exchange**" means Australian Securities Exchange Limited.

"**Client**" means a person (including any director, officer, employee or associated or related company of the Market Participant) on behalf of whom the Market Participant deals, or from whom the Market Participant accepts instructions to deal, in futures contracts.

"**Clients' Segregated Account at Bank**" means the Total Third Party Client Monies held in the clients' segregated account relating to futures contracts traded on any exchange.

"**Deposits with ASX Clear Client Account**" means the total amount of third-party client funds, including margin amounts, lodged with ASX Clear in relation to transactions in futures contracts.

"**Deposits with ASX Clear (Futures) Client Account**" means the total amount of third-party client funds, including margin amounts, lodged with ASX Clear (Futures) in relation to transactions in futures contracts.

"**Deposits with ASX Clear Futures Clearing Participant**" means the total amount of third-party client funds paid to a Clearing Participant of ASX Clear in relation to transactions in futures contracts.

"**Deposits with ASX Clear (Futures) Participant**" means the total amount of third-party client funds paid to a participant of ASX Clear (Futures) in relation to transactions in futures contracts.

"**Deposits with an ASX Market Participant**" means the total amount of third-party client funds paid to another Market Participant.

"**Deposits with an Australian Securities Exchange Participant**" means the total amount of third-party client funds paid to a participant of Australian Securities Exchange in relation to transactions in futures contracts.

"**Deposits with an Overseas Broker**" means the total amount of third-party client funds lodged with an Overseas Broker in relation to transactions in futures contracts.

"**Director/Employee Monies**" means the total amount of money received from:

(a) any director, or officer, of the Market Participant; and

(b) any employee of the Market Participant;

in respect of transactions in futures contracts dealt on any exchange.

"**Total Deposits**" means the sum of subparagraphs (2)(c)(i) to (c)(ix).

"**Total Futures Client Monies**" means the total amount of money received from Clients in respect of transactions in futures contracts, including amounts relating to futures contracts traded on any exchange.

"**Total Third Party Client Monies**" means:

Total Futures Client Monies less (Associated/Related Company Monies plus Director/Employee Monies)

"**Variation**" means:

Total Third Party Client Monies less Total Deposits

(4) The reconciliation must contain a statement signed by a Responsible Executive or a person authorised in writing by a Responsible Executive, stating that the signatory believes, and has no reason not to believe, that the reconciliation is accurate in all respects.

Maximum penalty: $1,000,000

3.5.9 Reconciliation of trust accounts

(1) A Market Participant must perform a reconciliation of:

(a) the aggregate balance held by it at the close of business on each Business Day in clients' trust accounts maintained pursuant to Rule 3.5.1 or 3.5.2 and the corresponding balance as recorded in the Market Participant's accounting records; and

(b) the balance held by it at the close of business on the last Business Day of each week on trust for each person on whose behalf money is held in a trust account maintained pursuant to Rule 3.5.1 or 3.5.2 and the corresponding balance as recorded in the Market Participant's accounting records,

that:

(c) is accurate in all respects; and

(d) contains a statement signed by a Responsible Executive or a person authorised in writing by a Responsible Executive, stating that the signatory believes, and has no reason not to believe, that the reconciliation is accurate in all respects.

(2) The Market Participant must perform the reconciliation referred to in subrule (1) by 7.00pm on the Trading Day after the Trading Day to which the reconciliation relates.

Maximum penalty: $1,000,000

3.5.10 Obligation to notify ASIC in respect of reconciliation

A Market Participant must notify ASIC, in writing, within 2 Business Days if:

(a) a reconciliation has not been performed in accordance with Rule 3.5.8;

(b) a reconciliation has not been performed in accordance with Rule 3.5.9;

(c) according to a reconciliation performed pursuant to Rule 3.5.8, Total Deposits is less than Total Third Party Client Monies; or

(d) according to a reconciliation performed pursuant to Rule 3.5.9, there is a deficiency of funds in its trust accounts (or, in respect of a reconciliation performed pursuant to paragraph 3.5.9(1)(b), a deficiency in respect of any particular person on whose behalf money is held in the trust account) or if it is unable to reconcile its trust accounts pursuant to Rule 3.5.9.

Maximum penalty: $100,000

3.5.11 Schedule of trust amounts

Each Market Participant must by no later than 5 Business Days after 31 March, 30 June, 30 September and 31 December in each year cause to be prepared a schedule as at the above dates showing the respective amounts held in the Market Participant's trust account on behalf of clients together with the names of the particular client in respect of each amount.

Maximum penalty: $100,000

Part 3.6 Prohibition of advice to Client

3.6.1 Definition used in this Part 3.6

For the purposes of this Part 3.6, "**Client**" includes a shareholder in a company which constitutes the Market Participant.

Note: There is no penalty for this Rule.

3.6.2 Market Participant possesses information that is not generally available

Where as a result of its relationship to a Client, a Market Participant is in possession of information that is not generally available in relation to a Financial Product and which would be likely to materially affect the price of that Financial Product if the information was generally available, that Market Participant must not give any advice to any other Client of a nature that would damage the interest of either of those Clients.

Maximum penalty: $1,000,000

3.6.3 Chinese Walls in place

For the purposes of Rule 3.6.2, a Market Participant is not regarded as having possession of information that is not generally available in relation to a Financial Product where:

(a) that Market Participant has in place arrangements whereby information known to persons included in one part of the business of the Market Participant is not available, directly or indirectly, to those involved in another part of the business of the Market Participant;

(b) it is accepted that in each of the parts of the business of the Market Participant so divided, decisions will be taken without reference to any interest which any other such part or any person in any other such part of the business of the Market Participant may have in the matter; and

(c) the person advising the Client is not in possession of that information.

Note: There is no penalty for this Rule.

3.6.4 Certain actions do not constitute giving advice

For the purposes of Rule 3.6.2, a Market Participant or an Employee or partner of a Market Participant advising a Client that the Market Participant is precluded from giving the Client advice will not be regarded as giving advice.

Note: There is no penalty for this Rule.

Federal Register of Legislative Instruments F2013C00794

Chapter 4: Records

Part 4.1 Trading records

4.1.1 Records of dealings for clients

(1) This Rule applies to a Market Participant who receives instructions to enter into a Market Transaction on behalf of a person (the "**Client**"), whether or not a Trading Message corresponding to those instructions is entered into or matched on a Trading Platform.

(2) Subject to Rule 4.1.7, in addition to complying with the requirements of the Corporations Act to the extent that those requirements apply to dealing in the Market, the Market Participant must maintain sufficiently detailed records showing:

(a) particulars of the instructions, including, without limitation:

(i) the Financial Product to be bought or sold;

(ii) the number thereof;

(iii) any price or time related instructions;

(iv) any time limit on the instructions;

(v) the date and time the Market Participant received the instructions;

(vi) instructions or decisions to purchase or sell Financial Products pursuant to a Managed Discretionary Account (including, without limitation, the Financial Products to be bought or sold and the number thereof, any price or time related instructions or decisions and the name of the person who generated the instruction or made the decision), whether the instruction or decision was executed or not; and

(vii) the authority of the Client, if any, for accumulation and price averaging under Rule 3.4.2;

(b) the name of the Client;

(c) the name of the person who gave the instructions (or, if the Trading Message was received by Automated Order Processing, the information set out in Rule 5.5.3);

(d) any amendment of any kind to the instructions or Trading Message (including, without limitation, cancellation of an instruction or Trading Message, variation of the number of Financial Products to be bought or sold or variation of any price or time related instructions) including the date and time of any amendment to the instructions or Trading Message;

(e) the name of the person who received the instruction (or, if the Trading Message was received by Automated Order Processing, the information set out in Rule 5.5.3);

(f) the name of any other person who passed the instruction on between the person who initially received the instruction, and the Trading Platform and the date and time they passed it;

Federal Register of Legislative Instruments F2013C00794

(g) the name of the DTR who entered a Trading Message into a Trading Platform (or, if the Trading Message was submitted by Automated Order Processing, the information set out in Rule 5.5.3);

(h) the time the DTR entered a Trading Message into a Trading Platform (or if the Trading Message was submitted by Automated Order Processing, the time at which the Trading Message was initiated by the Open Interface Device);

(i) if the Trading Message gives rise to a Market Transaction, the date and time that occurs; and

(j) the Derivatives Market Contracts arising from instructions that are nominated for accumulation and price averaging under the Clearing Rules.

Maximum penalty: $100,000

4.1.2 Records of dealings on Own Account

(1) This Rule applies to a Market Participant that makes a decision, or gives instructions to, enter into a Market Transaction on its Own Account, whether or not the Market Transaction is executed.

(2) Subject to Rule 4.1.8, the Market Participant must, in addition to complying with the requirements of the Corporations Act to the extent that those requirements apply to dealing in the Market provided by the Market Operator, maintain sufficiently detailed records showing:

(a) particulars of the decision or instructions, including, without limitation:

(i) the name of the person who generated the instruction or made the decision;

(ii) the Financial Products to be bought or sold;

(iii) the number thereof;

(iv) any price or time related instructions or decisions; and

(v) any time limit on the instruction;

(b) any amendment of any kind to the instructions or Trading Message (including, without limitation, cancellation of an instruction or Trading Message, variation of the number of Financial Products to be bought or sold or variation of any price or time related instructions), including the date and time of any amendment to the instruction or Trading Message;

(c) the name of any other person who passed the instruction on between the person who initially gave the instruction or made the decision, and a Trading Platform and the date and time they passed it;

(d) the name of the DTR who entered a Trading Message into a Trading Platform (or if the Trading Message was submitted by Automated Order Processing, the information set out in Rule 5.5.3);

(e) the time the DTR entered a Trading Message into a Trading Platform (or if the Trading Message was submitted by Automated Order Processing, the time at which the Trading Message was initiated by the Open Interface Device); and

(f) if the Trading Message gives rise to a Market Transaction, the date and time that occurs.

Maximum penalty: $100,000

4.1.3 Records to be made immediately

A Market Participant must make the records referred to in Rules 4.1.1, 4.1.2, 4.1.7 and 4.1.8 immediately after the event to which they relate and record the time of the relevant event.

Maximum penalty: $100,000

4.1.4 Records to be retained for prescribed period

A Market Participant must retain the records referred to in Rules 4.1.1, 4.1.2, 4.1.7 and 4.1.8 for 7 years from the date the record is made.

Maximum penalty: $100,000

4.1.5 Certain records maintained by the Market Operator

Where a Market Participant is a Trading Participant, certain of its obligations under Rules 4.1.1 and 4.1.2 may be met by relying on records maintained electronically as set out in Rule 4.1.6.

Note: There is no penalty for this Rule.

4.1.6 Conditions for reliance on the Market Operator records

(1) Where the records of the Trading Participant:

(a) are able to connect the DTR identifier with the particular DTR; and

(b) identify the person, or any other persons, receiving the instructions, generating an order or making a decision (if not the DTR) and a DTR is capable of being connected to a particular Trading Record or sequence of events,

a Trading Participant may:

(a) when dealing for clients satisfy certain of its obligations in relation to paragraphs 4.1.1(2)(g), 4.1.1(2)(h) and 4.1.1(2)(i); or

(b) when dealing on its Own Account, satisfy certain of its obligations in relation to subparagraphs 4.1.2(2)(a)(i) to (iv), paragraphs 4.1.2(2)(b), 4.1.2(2)(d), 4.1.2(2)(e) and 4.1.2(2)(f),

by relying on records maintained by the Market Operator, but only to the extent permitted by subrule (2).

(2) For the purposes of subrule (1), the Market Participant may satisfy the obligation specified in column 1 of the following table by relying on records maintained by the Market Operator in the circumstances specified in column 2 of the following table:

Column 1: **A Market Participant may satisfy the obligation:**	**Column 2:** **by relying on records maintained by the Market Operator in the following circumstances:**
under paragraph 4.1.1(2)(g) to maintain records of the name of the DTR who entered a Trading Message into the Trading Platform	where the DTR identifier is contained in the Trading Message and recorded by the Trading Platform (the DTR who entered the Trading Message being taken to be the DTR whose identifier is so recorded)
under paragraph 4.1.1(2)(h) to maintain records of the time of the Trading Message	where the Trading Platform records the time the Trading Message was entered into the Trading Platform
under paragraph 4.1.1(2)(i) to maintain records of the date and time that a Trading Message gives rise to a Market Transaction	where the Trading Platform records the date and time of effecting of the Market Transaction
under subparagraph 4.1.2(2)(a)(i) to maintain records of the name of a person who made the decision, where that person is the DTR who entered the Trading Message	where the DTR identifier is contained in the Trading Message and recorded by the Trading Platform (the person who made the decision being taken to be the DTR whose identifier is so recorded)
under subparagraph 4.1.2(2)(a)(ii) to maintain records of the Financial Products to be bought or sold	where the Financial Products are entered into the Trading Platform for the particular Trading Message (which are taken to be the Financial Products decided or instructed to be bought or sold)
under subparagraph 4.1.2(2)(a)(iii) to maintain records of the number of Financial Products to be bought or sold	where the number of Financial Products is entered into the Trading Platform for the particular Trading Message (which is taken to be the number of Financial Products decided or instructed to be bought or sold)
under subparagraph 4.1.2(2)(a)(iv) to maintain records of price-related decisions to enter into a Market Transaction	where the price is entered into the Trading Platform for the particular Trading Message (which is taken to be the price at which the Financial Products are decided or instructed to be bought or sold)
under paragraph 4.1.2(2)(b) to maintain records of an amendment to a Trading Message	where the particulars of the Trading Message are entered into the Trading Platform
under paragraph 4.1.2(2)(d) to maintain records of the name of the DTR who entered the Trading Message	where the DTR identifier is contained in the Trading Message and recorded by the Trading Platform (the DTR who entered the Trading Message being taken to be the DTR whose identifier is so recorded)
under paragraph 4.1.2(2)(e) to maintain records of the time of a Trading Message	where the Trading Platform records the time the Trading Message was entered into the Trading Platform
under paragraph 4.1.2(2)(f) to maintain records of the time that a Trading Message gives rise to a Market Transaction	where the Trading Platform records the time of effecting of the Market Transaction

Note: There is no penalty for this Rule.

4.1.7 Records of dealings for clients by a Market Participant who instructs another Trading Participant to execute the dealings

A Market Participant that instructs another Trading Participant to enter into a Market Transaction on behalf of a person:

(a) need not comply with paragraphs 4.1.1(2)(e), (f), (g), (h), (i) and (j) in respect of that instruction;

(b) must maintain sufficiently detailed records in respect of such instruction showing:

(i) the name of the person who received the instructions;

(ii) the name of any person who passed the instruction on between the person who initially received the instruction and the person instructing the Trading Participant to enter into the Market Transaction;

(iii) the name of the person who instructed such Trading Participant to enter into the Market Transaction; and

(iv) the time the person instructed such Trading Participant to enter into the Market Transaction.

Maximum penalty: $100,000

4.1.8 Records of dealings on its Own Account by a Market Participant who instructs another Trading Participant to execute the dealings

A Market Participant (whether or not it is a Trading Participant) that instructs a Trading Participant to enter into a Market Transaction on its behalf:

(a) need not comply with paragraphs 4.1.2(2)(c), (d), (e) and (f) in respect of that instruction; and

(b) must maintain sufficiently detailed records in respect of such instruction showing:

(i) the name of any person who passed the instruction on between the person who initially gave the instruction or made the decision and the Trading Participant instructed to enter into the Market Transaction;

(ii) the name of the person who instructed such Trading Participant to enter into the Market Transaction; and

(iii) the time the person instructed such Trading Participant to enter into the Market Transaction.

Maximum penalty: $100,000

4.1.9 Records regarding Authorised Persons

A Trading Participant must maintain records of:

(a) the name and contact details of an Authorised Person, and if that Authorised Person is an agent of another person, the details of that other person; and

(b) the security arrangements regarding access by the Authorised Person to a computer or other device connected to the Trading Participant's Open Interface Device and its location or if not fixed, the method of identifying the computer or other device,

for a period of 7 years from the date the person ceases to be an Authorised Person.

Maximum penalty: $100,000

4.1.10 Telephone recording of client dealings—Futures Market Transactions

(1) A Market Participant must record, by tape, telephone lines or other electronic device, all telephone conversations with clients in relation to its dealings in Futures Market Transactions including, without limitation, conversations relating to the receipt, transaction and confirmation of orders.

(2) The Market Participant must retain the records referred to in subrule (1) for at least 3 months.

Maximum penalty: $100,000

Part 4.2 Records—General

4.2.1 General recordkeeping requirements

(1) A Market Participant must maintain accurate records in sufficient detail to show particulars of:

(a) all money received or paid by the Market Participant, including trust account receipts and payments in a manner usual for a business of the kind being carried on by a Market Participant;

(b) all transactions by the Market Participant with or for the account of:

(i) a person of a type described in Rule 5.4.1 or a Related Party;

(ii) other Market Participants; and

(iii) members of any overseas stock exchange;

(c) all income from commissions, interest and other sources and all expenses, commissions and interest paid;

(d) all assets and liabilities, including contingent liabilities of the Market Participant;

(e) all Cash Market Products and Derivatives Market Contracts which are the property of the Market Participant, showing by whom they, or the documents of title to them, are held and if held otherwise than by the Market Participant, whether they are held as security for loans or advances;

(f) all Cash Market Products and Derivatives Market Contracts which are not the property of the Market Participant but for which the Market Participant or any nominee

controlled by it is accountable, showing by whom and for whom such Financial Products and Derivatives Market Contracts are held and:

(i) in respect of those which are held for safe custody details sufficient to identify such Cash Market Products and Derivatives Market Contracts;

(ii) in respect of those which are held for any person or firm or corporation as security for loans or advances made by the Market Participant details sufficient to identify such Cash Market Products and Derivatives Market Contracts;

(g) all dealings in Derivatives Market Contracts by the Market Participant and all fees (option moneys) arising there-from and any related covering transactions;

(h) all confirmations issued by the Market Participant and details of any statements and specifications which are required by these Rules, the Market Operating Rules and the Corporations Act to appear on confirmations; and

(i) all underwriting transactions entered into by the Market Participant.

(2) All Cash Market Products and Derivatives Market Contracts held for safe custody or whose certificates are held for safe custody must either be registered in the name of the client or the Market Participant's nominee.

(3) The holding of Cash Market Products and Derivatives Market Contracts for security must be authorised in writing by the owner thereof or some other person lawfully authorised to do so.

(4) An authority referred to in subrule (3) must specify the period for which such Cash Market Products and Derivatives Market Contracts or documents of title may be held.

Maximum penalty: $100,000

4.2.2 Client complaints—Records of complaints and correspondence

(1) A Market Participant must keep the following records of complaints received from clients:

(a) a copy of all written complaints;

(b) a copy of all written correspondence between the Market Participant and the clients and a written summary of any oral communication in connection with a written complaint; and

(c) any correspondence or documents relating to the resolution of a complaint through any complaints resolution scheme.

(2) A Market Participant must keep the records referred to in subrule (1) in respect of a complaint for at least 5 years from the date of the last correspondence in respect of that complaint.

Maximum penalty: $1,000,000

Part 4.3 Access to records

4.3.1 Records to be in writing and in English

(1) A Market Participant must keep all of the records it is required to maintain under this Chapter 4, in writing and in the English language or in a manner which will enable them to be readily accessible by ASIC and readily converted into writing in the English language.

(2) A Market Participant must, if directed by ASIC in writing to do so, convert records maintained under this Chapter 4 into writing and into English.

(3) A Market Participant must comply with a direction given under subrule (2) by the time specified by ASIC when giving the direction.

Maximum penalty: $100,000

4.3.2 Records kept outside of Australia

(1) If the records which a Market Participant is required to maintain under this Chapter 4 are kept outside Australia:

(a) the Market Participant must send, or cause to be sent, to Australia records which will enable true and fair financial statements to be prepared; and

(b) the Market Participant must, if directed by ASIC in writing to do so, produce any of its records in Australia.

(2) A Market Participant must comply with any direction given by ASIC under paragraph (1)(b) by the time specified by ASIC when giving the direction.

Maximum penalty: $100,000

Chapter 5: Trading

Part 5.1 Client order priority

5.1.1 Application and meaning of dealing on "Own Account"

Subject to Rule 5.1.2, a reference to a Market Participant having an order for its own account means:

(a) in relation to Cash Market Transactions, that the Cash Market Products to be bought or sold are (in the case of a sale) or will be on the completion of the transaction (in the case of a purchase) beneficially owned by the Market Participant or a Prescribed Person, where the Cash Market Products beneficially owned by a Market Participant or Prescribed Person include Cash Market Products which would appear as assets on the balance sheet or consolidated balance sheet of that Market Participant or Prescribed Person; and

(b) in relation to Derivatives Market Transactions, having an order to enter into a Derivatives Market Transaction on its own behalf or for the benefit of a Prescribed Person.

Note: There is no penalty for this Rule.

5.1.2 Exceptions

The following are not regarded as orders on a Market Participant's own account:

(a) an order placed by a life insurance company registered under the *Life Insurance Act 1995* (or equivalent State legislation) on behalf of a statutory fund;

(b) an order placed by a Controller or a Related Body Corporate of the Market Participant or of a Controller on behalf of clients of, or funds managed by them or their Related Bodies Corporate.

Note: There is no penalty for this Rule.

5.1.3 Fairness and priority in dealing

A Market Participant must deal fairly and in due turn with:

(a) clients' orders; and

(b) a client order and an order on its Own Account.

Maximum penalty: $1,000,000

5.1.4 Relevant factors

(1) In considering whether Rule 5.1.3 has been complied with, the following factors are relevant:

(a) the Market Participant acts in accordance with its instructions;

(b) orders that do not involve the exercise of discretion by the Market Participant in relation to the time or price or quantity of the order are entered in a Trading Platform in the sequence in which they are received, and otherwise as expeditiously as practicable;

(c) orders of a client (which is not a Prescribed Person) that involve the exercise of discretion by the Market Participant in relation to the time or price or quantity of the order are given preference, within the meaning of subrule (2), over orders on the Market Participant's Own Account, unless the client otherwise consents;

(d) if the sequence of entry of orders into a Trading Platform is not clearly established by the time the orders were received, and one of the orders is for the Market Participant's Own Account, the Market Participant gives preference to the order of a client over any order for the Market Participant's Own Account;

(e) if the Market Participant has acted in accordance with its procedures to ensure that a person initiating, transmitting or executing an order who is aware of instructions of a client (which is not a Prescribed Person) to deal in the relevant Products that has not been entered in a Trading Platform does not use that information to the disadvantage of that client;

(f) the Market Participant buys or sells for a Wholesale Client;

(g) allocation of Market Transactions occurs in accordance with Rule 5.1.5.

(2) In paragraph (1)(c), a reference to a Market Participant giving preference to an order of a client over an order on the Market Participant's Own Account, means that from the time of receipt of the order until it is fully executed, the Market Participant does not enter into, on its Own Account, a Market Transaction for the same Products on the same terms, having regard to subrule (3), unless:

(a) the Products are allocated to the client in accordance with paragraph 5.1.6(c); or

(b) the Products are allocated to the client pursuant to an allocation policy previously disclosed to the client, to which the client consents, under which the Market Participant may buy or sell (and be allocated) the same Products on its Own Account.

(3) For the purposes of subrule (2), a limit order which cannot be executed owing to price differences is not on the same terms.

(4) A Market Participant must keep a record of any consent given by a client for the purposes of paragraph (1)(c).

Note: There is no penalty for this Rule.

5.1.5 Fairness and priority in allocation

A Market Participant must allocate Market Transactions fairly.

Maximum penalty: $1,000,000

5.1.6 Relevant factors

In considering whether Rule 5.1.5 has been complied with, the following factors are relevant:

(a) allocation of Market Transactions is immediate and automatic, unless circumstances or instructions justify later or manual allocation;

(b) Market Transactions executed pursuant to instructions (whether an order of a client or an order on its Own Account) are allocated in the sequence in which the Market Participant received those instructions, entered those instructions or the Market Transactions were effected;

(c) the client's instructions;

(d) allocation of a Market Transaction occurs in accordance with the disclosed allocation policy of the Market Participant; and

(e) except as provided in these Rules or the Market Operating Rules, a Market Participant does not allocate Market Transactions to fulfil all or part of an order for its Own Account when it has an unfulfilled order on the same terms for those Market Transactions from a client.

Note: There is no penalty for this Rule.

5.1.7 Unexecuted order in Underlying Financial Products—Trading Participant not to make Bids or Offers

If a Trading Participant has or receives an Order to buy or sell an Underlying Financial Product in the Underlying Market which may materially affect:

(a) the market price of the Underlying Financial Product in the Underlying Market; or

(b) the level of an Underlying Index, the level of which is calculated by reference to the value of that Underlying Financial Product and other Products,

the Trading Participant must not make Bids or Offers to enter into an Options Market Transaction over that Underlying Financial Product as Principal until the order in the Underlying Financial Product has been executed in the Underlying Market.

Maximum penalty: $1,000,000

5.1.8 Allocation policy and Automated Client Order Processing Crossings—disclosure to Client

(1) A Market Participant must when requested to do so by a person (the "**Client**"), disclose to the Client each of the following:

(a) the policy it adopts in the allocation of Market Transactions to fill orders placed with it; and

(b) in relation to Crossings under the Market Operating Rules:

(i) that the Client's orders may match opposite orders in a Trading Platform by the same Market Participant, effectively resulting in a Crossing and entitling the Market Participant to commission from both sides of the transaction; and

(ii) if the Market Participant deals as Principal, that the Client's orders may match opposite orders in a Trading Platform on behalf of the same Market Participant as Principal.

(2) The Market Participant must keep a record of disclosures made under subrule (1).

Maximum penalty: $20,000

Part 5.2 Business connections between Market Participants

5.2.1 Connections requiring ASIC consent

A Market Participant must not, without the prior written consent of ASIC:

(a) be a Related Body Corporate of another Market Participant;

(b) allow a Controller or Employee to be a Controller of another Market Participant;

(c) have an Employee who is an Employee of another Market Participant or a Related Body Corporate of another Market Participant;

(d) share common computer facilities with, or allow its computer facilities to be linked with, another Market Participant; or

(e) share common premises with, or allow its premises to be accessed by another Market Participant or its Employees.

Maximum penalty: $100,000

5.2.2 Access to records

Without limiting ASIC's discretion under Rule 5.2.1, when giving any consent under Rule 5.2.1, ASIC may impose on one or both of the Market Participants involved conditions concerning access by common Controllers or Employees to records of those Market Participants including, without limitation, the records of orders received by the Market Participants.

Note: There is no penalty for this Rule.

Part 5.3 Large Order facilitation

5.3.1 Futures Market Contracts—Action a Market Participant may take when insufficient opposite orders

(1) This Part 5.3 applies only to orders to deal in Futures Market Contracts.

(2) Where a Market Participant receives a Large Order from a client and there are insufficient opposite orders in the Central Orderbook at that time to satisfy that order:

(a) the Market Participant may, with the written authority of the client, withhold transmission of the Large Order and solicit counterparties, disclose the relevant instructions and aggregate opposite orders from other clients;

(b) when the Market Participant has solicited other counterparties under paragraph (a), the Market Participant must enter the Large Order into the Central Orderbook (or, where the counterparty orders are orders of other clients of the Market Participant, effect a Crossing in accordance with the Market Operating Rules); and

(c) during the period in which the Market Participant solicits orders under paragraph (a) and until the Large Order has been entered or executed as a Crossing under paragraph (b), the Market Participant must not enter an opposite order.

Maximum penalty: $100,000

5.3.2 Application

(1) For the purposes of this Part 5.3:

(a) "**Large Order**" means an Order for a number of Futures Market Contracts that is greater than or equal to the number set out in subrule (2); and

(b) where the Market Participant is a body corporate, a Related Body Corporate and a division of the Market Participant other than its futures division will each be regarded as "clients".

(2) For the purposes of subrule (1):

(a) for Futures Market Contracts which are Futures Market Contracts over an Underlying Index (other than Futures Market Contracts referred to in paragraph (b)), 750 contracts;

(b) for Futures Market Contracts which are Futures Market Contracts over the Underlying Index which is known as the S&P/ASX 200 Property Trust Index Futures, 50 contracts;

(c) for Futures Market Contracts which are Futures Market Contracts over an Underlying Commodity which is wool, 100 contracts;

(d) for Futures Market Contracts which are Futures Market Contracts over an Underlying Commodity which is grain, 200 contracts.

Note: There is no penalty for this Rule.

Part 5.4 Transactions by connected persons (including persons connected with other Market Participants)

5.4.1 Application

In this Part 5.4, a reference to a connected person is a reference to the following persons:

(a) an Employee;

(b) a company controlled by an Employee; and

(c) a Controlled Trust (other than a trust controlled by an Immediate Family of an employee or a trust in relation to which an Immediate Family of an Employee is a trustee or holds more than 50% of the whole beneficial interest).

Note: There is no penalty for this Rule.

5.4.2 Internal consent required for trading by connected persons

(1) A Market Participant must not enter into a Market Transaction by or for the account of its connected persons, whether the Market Transaction is conducted through that Market Participant or through another Market Participant unless the Market Transaction has been approved in writing in accordance with subrule (4) by a Responsible Executive, director or partner of the Market Participant or a person with written delegation for that responsibility from a Responsible Executive, director or partner (other than the Employee concerned).

(2) A Market Participant must obtain a separate approval under subrule (1) for each relevant Market Transaction.

(3) A Market Participant must take reasonable steps to ensure that a person who approves a Market Transaction under subrule (1) takes into account the circumstances of the proposed transaction and anything which might materially affect the price of the relevant Cash Market Product (or, in the case of a Derivatives Market Transaction, the price or value of the relevant Contract Series) the subject of the Market Transaction.

(4) For the purposes of subrule (1), the approval in writing must include:

(a) all the information required by Part 4.1 for orders, whether or not the Market Participant will be executing the order to which the approval relates; and

(b) the date and time of approval.

(5) If a Market Transaction referred to in subrule (1) is conducted through another Market Participant, that Market Participant must, as soon as practicable after entering into the Market Transaction, give to the employing Market Participant a confirmation in respect of the Market Transaction.

Maximum penalty: $100,000

Part 5.5 Participant's trading infrastructure

5.5.1 Knowledge of Trading Participant

If a Trading Message embedded with a Trading Participant's unique identifier is submitted, the Trading Message is taken for all purposes under these Rules to have been submitted in a Trading Platform by or with the knowledge of the Trading Participant.

Note: There is no penalty for this Rule.

5.5.2 Organisational and technical resources

A Trading Participant must have and maintain the necessary organisational and technical resources to ensure that:

(a) Trading Messages submitted by the Trading Participant do not interfere with:

(i) the efficiency and integrity of the Market; or

(ii) the proper functioning of a Trading Platform; and

(b) the Trading Participant complies at all times with these Rules and the Market Operating Rules.

Maximum penalty: $1,000,000

5.5.3 Trading management arrangements

A Trading Participant must have arrangements in place so that at all times the Trading Participant can determine the origin of all orders and Trading Messages, including:

(a) the different stages of processing each order (regardless of whether a Trading Message is generated) and the time at which each stage of processing occurred;

(b) the order that corresponds to a Trading Message;

(c) the identity and capacity of the person placing the order that corresponds to the Trading Message;

(d) whether the Trading Message was the result of Automated Order Processing;

(e) the Open Interface Device and the computer or other device of the Trading Participant connected to an Open Interface Device of the Trading Participant through which the Trading Message was submitted;

(f) the DTR with responsibility for that Open Interface Device or computer or other device connected to the Open Interface Device (unless the Trading Message was the result of Automated Order Processing); and

(g) whether the Trading Message was submitted on the Trading Participant's Own Account or for a client.

Maximum penalty: $1,000,000

Federal Register of Legislative Instruments F2013C00794

5.5.4 Trading management arrangements—Records

A Trading Participant must maintain records of the matters referred to in Rule 5.5.3, for a period of 7 years from the date of the Trading Message to which the matters relate.

Maximum penalty: $100,000

Part 5.6 Automated Order Processing—Filters, conduct, and infrastructure

5.6.1 Responsible use of system for Automated Order Processing

(1) A Trading Participant which uses its system for Automated Order Processing must at all times:

(a) have appropriate automated filters, in relation to Automated Order Processing; and

(b) ensure that such use does not interfere with:

(i) the efficiency and integrity of the Market;

(ii) the proper functioning of any Trading Platform; or

(iii) the efficiency and integrity of any Crossing System operated by the Trading Participant.

(2) A Trading Participant does not have to ensure its system used for Automated Order Processing does not interfere with the efficiency and integrity of any Crossing System operated by the Trading Participant under subparagraph (1)(b)(iii) until six months have passed from the commencement of subparagraph (1)(b)(iii).

Maximum penalty: $1,000,000

5.6.2 Authorised Persons for Automated Client Order Processing

A Trading Participant which uses its system for Automated Client Order Processing must also have procedures in place to ensure that each Authorised Person has demonstrated to the Trading Participant knowledge of the order entry system of the Trading Participant and of the Dealing Rules, directions, decisions and requirements of the Market Operator relevant to the type of order submission facilities given to the Authorised Person by the Trading Participant.

Maximum penalty: $1,000,000

5.6.3 Automated Order Processing system requirements

A Trading Participant which uses its system for Automated Order Processing must ensure that the system has in place:

(a) organisational and technical resources, including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters, to enable Trading Messages to be submitted into the Trading Platform without interfering with the efficiency and integrity of the Market or the proper functioning of the Trading Platform;

(b) trading management arrangements, including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters to enable the ready determination of the origin of all orders and trading messages; and

(c) security arrangements to monitor for and prevent unauthorised persons having access to a gateway or an Open Interface Device or to a computer or other device connected to an Open Interface Device, and to ensure that the Automated Order Processing system does not interfere with the efficiency and integrity of markets provided by the Market Participant or the proper functioning of the Trading Platform.

Maximum penalty: $1,000,000

5.6.4 Review of documentation and systems prior to use of Automated Order Processing system

Before using their system for Automated Order Processing, a Trading Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, perform a review of the Trading Participant's policies, procedures, system design documentation, including the Trading Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters, and other relevant documentation concerning the Trading Participant's compliance with Part 5.6 of these Rules.

Maximum penalty: $1,000,000

5.6.5 Representations as to organisational and technical resources, trading management arrangements and security arrangements, prior to use of Automated Order Processing system

(1) Before using their system for Automated Order Processing, the Trading Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, obtain written representations that their Automated Order Processing system meets the requirements of each of paragraphs 5.6.3(a), (b) and (c).

(2) The representations referred to in subrule (1):

(a) must be provided by persons who are suitably qualified and experienced in relation to the controls for which they are making the representation;

(b) include the name of the person making the representation;

(c) be signed and dated by the person making the representation;

(d) set out the methodology used by the person to enable them to make the representation.

Maximum penalty: $1,000,000

5.6.6 Certification of Automated Order Processing system

(1) Before using their system for Automated Order Processing, a Trading Participant must:

(a) give a written certification to ASIC that includes the matters set out in subrule (2); and

(b) receive a written confirmation from ASIC that the certification complies with subrule (2).

(2) The written certification given by the Trading Participant to ASIC must include:

(a) the name of the Trading Participant;

(b) the version number and name of the Trading Participant's Automated Order Processing system;

(c) copies of the representations required by Rule 5.6.5 in relation to the system referred to in paragraph (b);

(d) a confirmation by the Trading Participant that:

(i) the Trading Participant has performed the review required by Rule 5.6.4 and that nothing came to the attention of the Trading Participant during the course of that review which would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules;

(ii) based on the review required by Rule 5.6.4 and the representations required by Rule 5.6.5, the Trading Participant's Automated Order Processing system:

(A) does, or does not, permit Automated Client Order Processing, as the case may be; and

(A) meets the requirements of Rule 5.6.3; and

(iii) the representations required by Rule 5.6.5 have been made by persons whom the Trading Participant considers to be suitably qualified and experienced in relation to the controls for which they are making those representations;

(e) the name of the directors of the Trading Participant referred to in subrule (3).

(3) At least two directors of the Trading Participant must sign and date the written certification referred to in subrule (2).

Maximum penalty: $1,000,000

5.6.7 Material changes

(1) If a Trading Participant who uses its system for Automated Order Processing under the Rules proposes to make a material change to any of the organisational or technical resources employed to comply with Rule 5.6.3, the Trading Participant must immediately notify ASIC of the proposed change.

(2) The Trading Participant must, before implementing the change:

(a) undertake the review required by Rule 5.6.8 and provide either of the following at the option of ASIC:

(i) a confirmation as required by Rule 5.6.9; or

(ii) a further certification as required by Rule 5.6.10;

(b) receive a written confirmation from ASIC that the confirmation or certification complies with Rule 5.6.9 or 5.6.10, as applicable.

Maximum penalty: $100,000

5.6.8 Material change review

Before making a material change to any of the organisational or technical resources employed to comply with Rule 5.6.3, the Trading Participant must, for the purposes of providing the confirmation referred to in Rule 5.6.9 or the further certification referred to in Rule 5.6.10, ensure that an appropriately qualified person performs a review of the material changes to the Automated Order Processing system, the Trading Participant's policies, procedures, system design documentation, including the Trading Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters and other relevant documentation concerning the Trading Participant's compliance with Part 5.6 of these Rules.

Maximum penalty: $100,000

5.6.9 Material change confirmation

(1) A confirmation provided under subparagraph 5.6.7(2)(a)(i) must include:

(a) the name of the Trading Participant;

(b) the version number and name of the Trading Participant's Automated Order Processing system;

(c) a description of the material changes to the system that are the subject of the confirmation;

(d) a confirmation from the appropriately qualified person who performed a review in accordance Rule 5.6.8 that:

(i) the person has performed the review and that nothing came to the attention of the person during the course of the review which would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules;

(ii) the material changes set out in the confirmation do not detract from the certification of the Automated Order Processing system previously provided to the Market Operator or ASIC.

(2) The confirmation referred to in paragraph (1)(d) must include the name of the person making the confirmation and be signed and dated by that person.

Maximum penalty: $100,000

5.6.10 Material change further certification

(1) A further certification provided under subparagraph 5.6.7(2)(a)(ii) must include:

(a) the name of the Trading Participant;

(b) the version number and name of the Trading Participant's Automated Order Processing system;

(c) a description of the material changes to the system that are the subject of the confirmation;

(d) a confirmation from the appropriately qualified person who performed a review in accordance with Rule 5.6.8 that:

(i) the person has performed the review and that nothing came to the attention of the person during the course of the review which would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules;

(ii) the elements of the system which have not been the subject of the material changes do not detract from the certification for the system previously provided to the Market Operator or ASIC;

(iii) the Trading Participant has in place, in relation to the material changes the subject of the certification, organisational and technical resources, trading management arrangements and security arrangements that meet the requirements of Rule 5.6.3.

(2) The confirmation referred to in paragraph (1)(d) must include the name of the person making the confirmation and be signed and dated by that person.

Maximum penalty: $100,000

5.6.11 Further certification

(1) A Trading Participant must, if directed by ASIC in writing to do so, provide a further certification in a form acceptable to ASIC from an appropriately qualified person acceptable to ASIC as to compliance by the Trading Participant with the Automated Order Processing Requirements.

(2) A Trading Participant must comply with a direction under subrule (1) within the time specified in the direction.

Maximum penalty: $100,000

5.6.12 Limitations on Automated Order Processing

(1) This Rule applies where ASIC reasonably considers that:

(a) a Trading Participant is not complying with the Automated Order Processing Requirements; or

(b) it is otherwise appropriate to direct a Trading Participant to take the actions referred to in subrule (2).

(2) A Trading Participant must, if directed to do so by ASIC:

(a) cease conducting Automated Order Processing until ASIC is satisfied that the Trading Participant complies with the Automated Order Processing Requirements; or

(b) immediately suspend, limit or prohibit the conduct of Automated Order Processing in respect of:

(i) one or more Authorised Persons or clients;

(ii) Automated Client Order Processing;

(iii) Automated Order Processing; or

(iv) one or more Products,

as required by the direction.

Maximum penalty: $1,000,000

Part 5.7 Manipulative trading

5.7.1 False or misleading appearance

A Market Participant must not make a Bid or Offer for, or deal in, any Products:

(a) as Principal:

(i) with the intention; or

(ii) if that Bid, Offer or dealing has the effect, or is likely to have the effect,

of creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product; or

(b) on account of any other person where:

(i) the Market Participant intends to create;

(ii) the Market Participant is aware that the person intends to create; or

(iii) taking into account the circumstances of the Order, a Market Participant ought reasonably suspect that the person has placed the Order with the intention of creating,

a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product.

Maximum penalty: $1,000,000

5.7.2 Circumstances of Order

In considering the circumstances of the Order, the Market Participant must have regard to the following matters:

(a) whether the Order or execution of the Order would be inconsistent with the history of or recent trading in that Product;

(b) whether the Order or execution of the Order would materially alter the market for, or the price of, the Product;

(c) the time the Order is entered or any instructions concerning the time of entry of the Order;

(d) whether the person on whose behalf the Order is placed, or another person who the Market Participant knows to be a Related Party of that person, may have an interest in creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product;

(e) whether the Order is accompanied by settlement, delivery or security arrangements which are unusual;

(f) where the Order appears to be part of a series of Orders, whether when put together with other Orders which appear to make up the series, the Order or the series is unusual having regard to the matters referred to in this Rule 5.7.2;

(g) whether there appears to be a legitimate commercial reason for that person placing the Order, unrelated to an intention to create a false or misleading appearance of active trading in or with respect to the market for, or price of, any Product; and

(h) whether the transaction, bid or offer the execution of which is proposed will involve no change of beneficial ownership.

Maximum penalty: $1,000,000

5.7.3 Obligations apply to Automated Order Processing

A Market Participant must also comply with this Part 5.7 in respect of Orders the subject of Automated Order Processing.

Note: There is no penalty for this Rule.

Part 5.8 Prohibition on wash trades, pre-arranged trades and dual trading—Futures

5.8.1 Application of Rule 5.8

This Part 5.8 applies to Futures Market Transactions only.

Note: There is no penalty for this Rule.

5.8.2 Wash trades

A Market Participant must not effect any Futures Market Transaction where the account on behalf of which the Market Participant enters into the Futures Market Transaction is the same on both sides of that transaction.

Maximum penalty: $100,000

5.8.3 Pre-arranged trades

(1) A Market Participant must not give or accept a request or instructions that a Futures Market Transaction only be entered into between particular Market Participants.

(2) A Market Participant must not arrange a Futures Market Transaction with another Market Participant to the exclusion of other Market Participants.

Maximum penalty: $100,000

5.8.4 Dual trading

A Market Participant must ensure that arrangements are in place to ensure that a Representative responsible for placing orders for the Market Participant's own account does not have access to orders submitted by clients of the Market Participant before the client orders are transmitted for execution.

Maximum penalty: $100,000

5.8.5 Corners—Postponement of deliveries

When, in the opinion of ASIC, a person or two or more persons acting in concert have acquired such control of a Quoted Product that the Quoted Product cannot be obtained for delivery on existing contracts except at prices or on terms arbitrarily dictated by such persons which are unfair, harsh, or unconscionable, ASIC may:

(a) for the purpose of enabling equitable settlement to be effected on these contracts, postpone (or from time to time further postpone) the times for deliveries on contracts for any such Quoted Product; and

(b) at any time declare that if such Quoted Product is not delivered on any contract requiring delivery on or before the time to which delivery has been postponed such contract will be settled by payment to the party entitled to receive such Quoted Product or by the credit to such party of a fair settlement price determined under Rule 5.8.6.

Note: There is no penalty for this Rule.

5.8.6 Establishment of a fair settlement price

If the parties to a contract referred to in Rule 5.8.5 do not agree on a fair settlement price and set a date for payment they must submit the differences or matter in dispute to arbitration by an independent arbiter capable of making an award on the difference or matters in dispute in accordance with the provisions of the *Commercial Arbitration Act 1984* (NSW).

Maximum penalty: $20,000

Part 5.9 Fair and orderly markets

5.9.1 Market must remain fair and orderly

A Market Participant must not do anything which results in a market for a Product not being both fair and orderly, or fail to do anything where that failure has that effect.

Maximum penalty: $1,000,000

5.9.2 Representative must be available

A Trading Participant must ensure that a Representative of the Trading Participant is available to receive communications from other Trading Participants or from the Market Operator during the following times on a Trading Day:

(a) in relation to Cash Market Products—from the beginning of Open Session State until the end of CSPA Session State;

(b) in relation to Options Market Contracts and Futures Market Contracts—during Open Session State,

unless otherwise determined in writing by ASIC and notified to the Trading Participant.

Maximum penalty: $100,000

5.9.3 Must not take advantage of breakdown or malfunction

A Market Participant must not take advantage of a situation arising as a result of a breakdown or malfunction in the Market Operator's procedures or systems or an error in any Trading Message submitted by the Market Operator.

Maximum penalty: $1,000,000

Part 5.10 Dealing in Cash Market Products

5.10.1 Trading Participants may not deal in Cash Market Products for which Official Quotation will be sought

Except as permitted in Rule 5.10.2, a Trading Participant is prohibited, either in its own office or elsewhere, from making quotations or dealing in a new issue or placement of Cash Market Products (except Loan Securities):

(a) made for the purpose of qualifying a company for admission to the Official List; or

(b) for which Official Quotation will be sought,

until those Cash Market Products have been granted Official Quotation.

Maximum penalty: $100,000

5.10.2 When Trading Participants may deal in Cash Market Products for which Official Quotation will be sought

Notwithstanding Rule 5.10.1 but subject to any other provisions of these Rules and the Market Operating Rules, a Trading Participant may deal in Cash Market Products to which Rule 5.10.1 applies in the following circumstances:

(a) a Trading Participant may underwrite or sub-underwrite a new issue or placement of Cash Market Products;

(b) a Trading Participant may dispose of Cash Market Products if those Cash Market Products comprise an underwriting or sub-underwriting shortfall;

(c) where the Cash Market Products have been issued on a pro-rata basis to holders;

(d) where a listed entity acquires assets and as part or full consideration, issues new Cash Market Products (except Loan Securities) to the vendor and the Trading Participant:

  (i) has made a prior firm arrangement with the vendor to place these Cash Market Products as soon as they are issued; and

  (ii) ensures that the details of the issue to the vendor are advised to the Market by the listed entity immediately the Cash Market Products are issued;

(e) where a Trading Participant:

  (i) makes a placement of new Cash Market Products (except Loan Securities) for which Official Quotation will be sought, and the Trading Participant ensures that all investors accepting the Cash Market Products are informed in writing that Trading Participants cannot deal in the Cash Market Products either as Principal or agent until Official Quotation is granted in respect of those Cash Market Products;

  (ii) accepts selling orders in Cash Market Products (except Loan Securities) for which Official Quotation will be sought, and the Trading Participant takes all reasonable steps to ensure that the Cash Market Products are not sold before the Cash Market Products have been granted Official Quotation; or

(iii) accepts selling orders in Cash Market Products (except Loan Securities) where the Cash Market Products are of the same class as Cash Market Products which have already been granted Official Quotation and:

(A) the Cash Market Products have already been issued by the Issuer; and

(A) the fact that the Cash Market Products have been issued has been notified to, and released to the Market by, the Company Announcements Office of the Market Operator;

(f) a Trading Participant may dispose of or acquire ETF Securities which are the subject of a subscription application if:

(i) the ETF Securities are in a class of ETF Securities which are quoted on the Market;

(ii) the subscription application is irrevocable and subject only to transfer of the subscription consideration from the subscriber to the Issuer;

(iii) the disposal or acquisition is made on the Market in accordance with these Rules and the Market Operating Rules;

(iv) there is an arrangement between the Issuer and the Market Operator under which the ETF Securities will be granted Official Quotation before settlement of the disposal or acquisition; and

(v) the number of ETF Securities on issue is regularly reported to the Market Operator on the basis required by the Market Operator.

Note: There is no penalty for this Rule.

5.10.3 Dealings in Securities for which Official Quotation will not be sought

A Trading Participant may deal in new Securities issued by a listed entity for which Official Quotation will not be sought 24 hours after that entity has advised the Market of the details of the issue.

Note: There is no penalty for this Rule.

5.10.4 Dealings in Cash Market Products suspended from Official Quotation

A Trading Participant must not deal in Cash Market Products which have been suspended from quotation or trading unless the Cash Market Product is an Equity Market Product that is quoted on another Equity Market and is not in a Trading Suspension on that Equity Market.

Maximum penalty: $100,000

5.10.5 Disclosure of shortfall—Must disclose to Client

A Market Participant, an Employee or a director of a Market Participant or a company which is a partner of a Market Participant who or which will be required to acquire Cash Market Products as underwriter or sub-underwriter must not offer such Cash Market Products to clients unless:

(a) they first inform the clients concerned of the closing date of the issue or offering of the Cash Market Products and the reasons for the acquisition; or

(b) the offer to the client is made more than 90 days from the closing date.

Maximum penalty: $100,000

5.10.6 Expenses—Reimbursement for out-of-pocket expenses

Where a Trading Participant seeks out-of-pocket expenses involved in the purchase or sale of Cash Market Products, the Trading Participant must not cover that charge by an increase or reduction in the price of the Cash Market Products.

Maximum penalty: $100,000

5.10.7 Nominee holdings—Restrictions on when an Equity Security can be recorded in the name of a nominee company

(1) A Market Participant must not cause the ownership of an Equity Security of which it is not the beneficial owner to be registered in its own name or in the name of its partners, directors or Employees.

(2) A Market Participant may only cause the ownership of an Equity Security referred to in subrule (1) to be registered in the name of a nominee company which:

(a) unless otherwise agreed by ASIC, is incorporated in Australia with a name which contains the word "nominee";

(b) has a constitution which precludes the nominee company from owning any Equity Security or other property except cash beneficially; and

(c) is a directly legally and beneficially wholly owned subsidiary of the Market Participant which is operated by the Market Participant unless the Market Participant is a Clearing Participant who appoints a Settlement Participant as its agent in accordance with the Clearing Rules.

Maximum penalty: $100,000

Part 5.11 Suspicious activity reporting

5.11.1 Notification requirement

(1) Subject to subrules (2) and (3), if a Market Participant has reasonable grounds to suspect that:

(a) a person ("the Insider") has placed an order into or entered into a transaction on the Market in relation to a financial product while in possession of inside information (within the meaning of section 1042A of the Corporations Act), whether or not the Market Participant is aware of:

(i) the identity of the Insider; or

(ii) all of the details of the order or transaction; or

(b) a transaction or an order transmitted to a Trading Platform has or is likely to have the effect of:

(i) creating an artificial price for trading in financial products on the Market;

(ii) maintaining at a level that is artificial (whether or not it was previously artificial) a price for trading in financial products on the Market;

(iii) creating, or causing the creation of, a false or misleading appearance of active trading in financial products on the Market; or

(iv) creating, or causing the creation of, a false or misleading appearance with respect to the market for, or the price for trading in, financial products on the Market,

whether or not the Market Participant is aware of:

(v) the intention of any party to the transaction or order; or

(vi) all of the details of the transaction or order,

the Market Participant must, as soon as practicable, notify ASIC in writing of the details of the transaction or order (to the extent known to the Market Participant) and the reasons it suspects the matter set out in paragraphs (a) and/or (b).

(2) A Market Participant is not required to notify ASIC under subrule (1) if the Market Participant has reported the information that would otherwise be required to be contained in the notification to ASIC under subrule (1) to the Australian Transaction Reports and Analysis Centre under section 41 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* or under section 16 of the *Financial Transaction Reports Act 1988*.

(3) A Market Participant is not required to comply with subrule (1) until 1 November 2012.

Maximum penalty: $20,000

5.11.2 Confidentiality

A Market Participant who notifies ASIC under subrule 5.11.1(1) must not disclose that the notification was made, or the information contained in the notification, to any person other than:

(a) for the purposes of seeking legal advice; or

(b) as required by law.

Maximum penalty: $20,000

Part 5.12 Identification of short sales

5.12.1 Identification of short sales

A Market Participant must:

(a) include in a Reportable Short Sale Order transmitted to the Market, the number of Section 1020B Products that the seller will vest in the buyer under the relevant Securities Lending Arrangement; and

(b) include in a report of a Reportable Short Sale Transaction, provided to the Market Operator under Rule 5.1.1 of the Competition Market Integrity Rules, the number of Section 1020B Products that the seller will vest in the buyer under the relevant Securities Lending Arrangement.

Maximum penalty: $1,000,000.

5.12.2 Compliance start date

A Market Participant is not required to comply with Rule 5.12.1 until 10 March 2014.

Chapter 6: Takeovers

Part 6.1 Market Bid—Announcements by Market Participant

6.1.1 Announcement of Market Bid

(1) A Market Participant acting on behalf of a Bidder in relation to a Market Bid must announce the bid to the Market in accordance with subrule (2).

(2) For the purposes of subrule (1), the announcement must include the following information:

(a) a description of the Bid Class of Cash Market Products in the Target and the total number of Cash Market Products in that Bid Class;

(b) the price offered for Cash Market Products in the Bid Class;

(c) the date of the commencement and conclusion of the Offer Period;

(d) the number of Cash Market Products in the Bid Class that the Bidder had a relevant interest in immediately prior to the announcement (expressed as a percentage of the total number of Cash Market Products in the Bid Class); and

(e) a statement:

(i) as to whether the Bidder will buy Cash Market Products in the Bid Class On-Market before the Offer Period commences and, if so, the maximum number of those Cash Market Products to be bought and the price that will be paid;

(ii) that the Market Bid is an offer to buy all the Cash Market Products in the Bid Class that exist or will exist at any time during the Offer Period for the price offered; and

(iii) that the Offer Period may be extended and the offer price may be increased in accordance with the Corporations Act.

Maximum penalty: $100,000

6.1.2 Announcement of variations to Market Bid

A Market Participant acting on behalf of a Bidder in relation to a Market Bid must announce to the Market, in writing:

(a) an increase to the price offered for Cash Market Products in the Bid Class;

(b) an extension to the Offer Period;

(c) a withdrawal of the Market Bid;

(d) any other variation to the Market Bid in accordance with the Corporations Act; or

(e) if the Market Participant ceases to act on behalf of the Bidder.

Maximum penalty: $100,000

Part 6.2 Acquisition of Cash Market Products during the Bid Period

6.2.1 Acquisition of Cash Market Products by Bidder

(1) This rule applies to both Market Bids and Off-Market Bids.

(2) A Market Participant acting on behalf of a Bidder must not offer to buy on behalf of the Bidder Cash Market Products in the Bid Class On-Market during the Bid Period for a price that varies from the consideration offered under the Takeover Bid unless and until an announcement has been made to the Market.

(3) For the purposes of subrule (2), the announcement must be made in writing, by facsimile or electronic delivery to the Market Operator.

Maximum penalty: $100,000

6.2.2 Acquisition of Cash Market Products by another Bidder

(1) Where Cash Market Products are subject to a Market Bid, a Market Participant acting on behalf of another Bidder, must not buy the Cash Market Products in the Bid Class of the Target on behalf of that Bidder unless and until the Market Participant has announced in accordance with subrule (2):

(a) a Market Bid on behalf of the person pursuant to Rule 6.1.1; or

(b) an increase in the price offered under a Market Bid for the Cash Market Products pursuant to Rule 6.1.2.

(2) For the purposes of subrule (1), the announcement must be made in writing, by facsimile or electronic delivery to the Market Operator.

Maximum penalty: $100,000

Part 6.3 Market Participant acting for Bidder or Issuer

6.3.1 Market Participant to advise seller if acting for Bidder or Issuer

Where a Market Participant:

(a) has an order from the Bidder in relation to an Off-Market Bid;

(b) has made an announcement to the Market on behalf of a Bidder to acquire Cash Market Products under a Market Bid; or

(c) acts for a company involved in a buy-back under Chapter 2J of the Corporations Act conducted On-Market,

the Market Participant must not accept, or transact, an order to sell Cash Market Products in the Bid Class referred to in paragraph (a) or subject to the announcement referred to in

paragraph (b) or subject to the buy-back referred to in paragraph (c) unless the Market Participant:

(d) advises the seller that it is acting for the Bidder or that it is acting for the company involved in the buy-back and is thus unable to give the seller advice in respect of the proposed sale; and

(e) does not give the seller any advice in respect of the proposed sale.

Maximum penalty: $100,000

Part 6.4 Limitations on Crossings outside of Trading Hours during a Takeover Bid or Scheme

6.4.1 Crossings outside of Trading Hours in Cash Market Products

(1) During the Offer Period under a Takeover Bid or Scheme, a Trading Participant must not effect a Crossing of the type set out in subrule (2) in a class of Cash Market Products where the Crossing is at a price which is at or below the offer price for that class of Cash Market Products.

(2) For the purposes of subrule (1), the type of Crossing is a Crossing (other than a Special Crossing) that is effected outside of Trading Hours and reported to the Market Operator.

Maximum penalty: $100,000

6.4.2 Crossings after Trading Close in Derivatives Market Contracts

(1) A Trading Participant must not execute a Crossing of the type set out in subrule (2) in Derivatives Market Contracts that are over a Cash Market Product in respect of which there is currently an Offer Period for a Takeover Bid or Scheme.

(2) For the purposes of subrule (1), the type of Crossing is a Crossing (other than a Special Crossing) that is effected during Late Trading Session State in accordance with the Market Operating Rules.

Maximum penalty: $100,000

6.4.3 Crossings outside of Trading Hours and Crossings after Trading Close in Combinations

(1) A Trading Participant must not execute a Crossing in a Combination of the type set out in subrule (2) (at a price which is at or below the offer price for the relevant class of Cash Market Products) or of the type set out in subrule (3), if a component part of that Combination is:

(a) a Cash Market Product (other than a Warrant); or

(b) a Derivatives Market Contract over a Cash Market Product; or

(c) a Warrant over a Cash Market Product;

in respect of which there is currently an Offer Period for a Takeover Bid or Scheme (in respect of a Crossing under subrule (3)) or an Offer Period for a Takeover Bid (in respect of a Combination under subrule (2)).

(2) For the purposes of subrule (1), the type of Crossing is a Crossing (other than a Special Crossing) in a Cash Only Combination that is effected outside of Trading Hours and reported to the Market Operator.

(3) For the purposes of subrule (1), the type of Crossing is a Crossing (other than a Special Crossing) in a Derivatives Combination that is effected during Late Trading Session State in accordance with the Market Operating Rules.

Maximum penalty: $100,000

Part 6.5 Special Crossings Prohibited During Offer Period

6.5.1 Special Crossings in Cash Market Products (excluding Warrants)

A Trading Participant must not effect a Special Crossing of any Cash Market Products (excluding Warrants) of an Issuer during a Bid Period for a Takeover Bid or Scheme for the Cash Market Products (excluding Warrants) of the Issuer.

Maximum penalty: $100,000

6.5.2 Special Crossings in Warrants

A Trading Participant must not execute Special Crossings in Warrants that are over a Cash Market Product in respect of which there is currently a Bid Period for a Takeover Bid or Scheme.

Maximum penalty: $100,000

6.5.3 Special Crossings in Derivatives Market Contracts

A Trading Participant must not execute Special Crossings in Derivative Market Contracts over a Cash Market Product in respect of which there is currently an Offer Period for a Takeover Bid or Scheme.

Maximum penalty: $100,000

Federal Register of Legislative Instruments F2013C00794

6.5.4 Special Crossings in Combinations

A Trading Participant must not execute a Special Crossing in a Combination if a component part of that Combination is:

(a) a Cash Market Product (other than a Warrant); or

(b) a Derivatives Market Contract over a Cash Market Product; or

(c) a Warrant over a Cash Market Product,

in respect of which there is currently an Offer Period for a Takeover Bid or Scheme.

Maximum penalty: $100,000

Part 6.6 Limitations on Crossings during buy-back conducted On-Market

6.6.1 Special Crossing in Cash Market Products (excluding Warrants) on behalf of Issuer

A Trading Participant must not effect a Special Crossing of any Cash Market Products (excluding Warrants) of an Issuer, on behalf of that Issuer during the term of a buy-back offer conducted On-Market by that Issuer.

Maximum penalty: $100,000

6.6.2 Crossings after Trading Close and Special Crossings in Derivatives Market Contracts

(1) A Trading Participant must not execute, on behalf of an Issuer:

(a) Crossings of the type set out in subrule (2); or

(b) Special Crossings,

in Derivatives Market Contracts if those Derivative Market Contracts are over a Cash Market Product of that Issuer in respect of which there is currently a buy-back being conducted On-Market.

(2) For the purposes of paragraph (1)(a), the type of Crossing is a Crossing (other than a Special Crossing) that is effected during Late Trading Session State in accordance with the Market Operating Rules.

Maximum penalty: $100,000

6.6.3 Crossings after Trading Close and Special Crossings in Combinations

(1) A Trading Participant must not execute, on behalf of an Issuer:

(a) Crossings of the type set out in subrule (2); or

(b) Special Crossings,

in a Combination if a component part of that Combination is:

(c) a Cash Market Product (other than a Warrant); or

(d) a Derivatives Market Contract over a Cash Market Product; or

(e) a Warrant over a Cash Market Product,

during the term of a buy-back offer conducted On-Market by the Issuer.

(2) For the purposes of paragraph (1)(a), the type of Crossing is a Crossing other than a Special Crossing that is effected during Late Trading Session State in accordance with the Market Operating Rules.

Maximum penalty: $100,000

Chapter 7: Rules applying to Market Operators

Part 7.1 Data feeds

7.1.1 Provision of live electronic data from the Trading Platform

(1) The Market Operator must deliver, or procure delivery of, a live feed of the electronic data items set out in subrule (2) as generated on or by its Trading Platform to ASIC or to a service provider nominated by ASIC and notified to the Market Operator in accordance with Rule 7.1.2.

Order information from Trading Platform

(2) Electronic data provided pursuant to subrule (1) must contain such data items and fields which are generated on or by the Market Operator's Trading Platform containing all Orders entered on the Market Operator's Trading Platform, being:

(a) order price and volume entries;

(b) order amendments;

(c) trade price and volume entries;

(d) any special trade condition codes;

(e) broker number and identifier code;

(f) participant operator cross-reference data, where that data is available;

(g) information comprising details of the Financial Products traded through the Trading Platform, being:

  (i) name of Issuer or publicly available issuer code;

  (ii) tick size;

  (iii) lot size;

  (iv) basis of quotation;

  (v) time stamps on all order entries, trades, amendments, cancellations and deletions; and

  (vi) unique order identifier or, if this is not available, unique order series identifier;

(ga) information for the order or trade recorded by the Market Operator in accordance with subrule 5A.2.2(1) of the Competition Market Integrity Rules; and

(h) such additional data items or fields notified by ASIC to the Market Operator under Rule 7.1.2 which are generated on or by the Market Operator's Trading Platform, provided that a Market Operator is not required to provide fields that are not generated on or by the Market Operator's Trading Platform.

Format requirements

(3) The electronic data required by subrule (1) must be in such format as ASIC notifies the Market Operator in accordance with Rule 7.1.2.

Federal Register of Legislative Instruments F2013C00794

Data security and redelivery

(4) The electronic data required by subrule (1) must:

(a) comply with any data security requirements as notified by ASIC to the Market Operator under Rule 7.1.2; and

(b) be redelivered by the Market Operator if there is disruption to the telecommunications link through which the data is provided or for any other reason ASIC does not receive the data, and ASIC notifies the Market Operator in accordance with Rule 7.1.2 that ASIC requires the data to be redelivered.

Delivery requirements

(5) The electronic data required by subrule (1) must be delivered by the Market Operator to ASIC or its nominated service provider in a manner and to a location notified by ASIC to the Market Operator in accordance with Rule 7.1.2.

Maximum penalty: $1,000,000

7.1.2 Notification

A notification by ASIC to the Market Operator of:

(a) a service provider under subrule 7.1.1(1);

(b) additional data items under paragraph 7.1.1(2)(h);

(c) data format requirements under subrule 7.1.1(3);

(d) data security requirements or to redeliver data under subrule 7.1.1(4); or

(e) a manner and, or, location of delivery under subrule 7.1.1(5),

must be in writing and allow the Market Operator a reasonable period to comply.

Note: There is no penalty for this rule.

Part 7.2 Information

7.2.1 Provision of information about Market Participants

The Market Operator must maintain the information specified below about each Market Participant and advise ASIC in writing of any changes which are made to the information (including any changes resulting from the admission of new Market Participants) within 2 Business Days of the change being made:

(a) Market Participant name;

(b) the unique identifier that is used by the Market Operator to identify the trading activities of the Market Participant on the Market Operator's Trading Platform;

(c) Market Participant type, being:

(i) Trading Participant;

(ii) Market Maker; or

(iii) Principal Trader; and

(d) the type of permissions provided to each Market Participant, being permissions to trade:

(i) Cash Market Products; or

(ii) Derivatives Market Contracts.

Maximum penalty: $100,000

Chapter 8: Capital requirements

Part 8.1 Preliminary

8.1.1 Definitions

In this Chapter and in Chapter 9:

"**Approved Clearing Facility**" means ASX Clear Pty Limited (ACN 001 314 503).

"**Capital Requirements**" means, in relation to a Market Participant, the Risk Based Capital Requirements or the NTA Requirements as applicable.

"**NTA Requirements**" means the requirements set out in Schedule 1B.

"**Risk Based Capital Requirements**" means the requirements set out in Schedule 1A.

Note: There is no penalty for this Rule.

Part 8.2 Application

8.2.1 Market Participant to comply with Risk Based Capital Requirements

A Market Participant must at all times comply with the Risk Based Capital Requirements, unless:

(a) the Market Participant is only a Principal Trader;

(b) the Market Participant has elected to comply with the NTA Requirements under Rules 8.3.1 to 8.3.3; or

(c) the Market Participant is a Clearing Participant of an Approved Clearing Facility and complies with the capital requirements under the Clearing Rules.

Maximum penalty: $1,000,000

Note: The Risk Based Capital Requirements are contained in Schedule 1A and the NTA Requirements are contained in Schedule 1B.

Part 8.3 Participants with Trading Permission for Futures Market Transactions only

8.3.1 Market Participant may elect to comply with NTA Requirements

(1) A Market Participant with Trading Permission for Futures Market Transactions only must elect to comply with either the Risk Based Capital Requirements or the NTA Requirements. That election must be made in accordance with subrule (2) and may only be

changed in accordance with Rule 8.3.2 or 8.3.3. A Market Participant must at all times comply with the Capital Requirements with which it has elected to comply.

Note: The NTA Requirements are contained in Schedule 1B.

(2) A Market Participant to which subrule (1) applies must notify ASIC in writing of the Capital Requirements the Market Participant has elected to comply with, within 1 Business Day after the Market Participant is granted Trading Permission for Futures Market Transactions only.

Maximum penalty: $1,000,000

8.3.2 Consent to change to other requirements

A Market Participant with Trading Permission for Futures Market Transactions only and to which the NTA Requirements or the Risk Based Capital Requirements applies is not entitled to change to the other requirements without the prior written consent of ASIC.

Maximum penalty: $100,000

8.3.3 Notification of change to Trading Permission

(1) A Trading Participant which is entitled to comply with the NTA Requirements under Rule 8.3.1 must comply with the Risk Based Capital Requirements if it is granted Trading Permission for Products other than Futures Market Transactions (unless the Trading Participant is only a Principal Trader in respect of the other Products).

(2) A Trading Participant to which subrule (1) applies must notify ASIC in writing within 1 Business Day after the Trading Participant is granted Trading Permission for Products other than Futures Market Products.

Maximum penalty: $100,000

Chapter 9: Accounts and audit

Part 9.1 Application of Rules

9.1.1 Principal Traders and Clearing Participants

This Chapter does not apply to:

(a) a Market Participant that is only approved as a Principal Trader;

(b) a Market Participant that is a Clearing Participant of an Approved Clearing Facility and complies with the capital requirements under the Clearing Rules.

Note: There is no penalty for this Rule.

Part 9.2 Risk Based Capital Requirements—Reporting

9.2.1 Risk Based Capital Requirements—Ad hoc or Summary Return on Request by ASIC

A Market Participant that is required to comply with the Risk Based Capital Requirements must, if requested to do so by ASIC, provide ASIC with a return containing the information in, and in the form set out in, Part 1 of Form 1 in Schedule 1C to these Rules or Parts 1 and 2 of Form 2 in Schedule 1C to these Rules, authorised by one director or partner of the Market Participant, within the time specified by ASIC in the request.

Maximum penalty: $20,000

9.2.2 Core Capital or Liquid Capital below minimum

(1) A Market Participant that is required to comply with the Risk Based Capital Requirements must notify ASIC immediately if its:

(a) Core Capital is at any time less than the minimum amount required by paragraph S1A.2.1(b); or

(b) Liquid Capital divided by its Total Risk Requirement is equal to or falls below 1.2.

(2) A Market Participant must provide ASIC with a return containing the information in, and in the form set out in, at the option of ASIC, Part 1 of Form 1 in Schedule 1C to these Rules, or Parts 1 and 2 of Form 2 in Schedule 1C to these Rules, disclosing the amount of its Liquid Margin:

(a) no later than one Business Day after notifying ASIC under subrule (1); and

(b) from then on, either:

(i) by 10am on the first Business Day of each week, showing the financial position of the Market Participant on the last Business Day of the prior week, for so long as

the amount referred to in paragraph (1)(b) is equal to or less than 1.2 but greater than 1.1; and

(ii) by 10am on each Business Day, showing the financial position of the Market Participant on the prior Business Day, for so long as the amount referred to in paragraph (1)(b) is 1.1 or less.

(3) The return referred to in subrule (2) must be authorised by one director or partner of the Market Participant.

Maximum penalty: $20,000

9.2.3 Monthly Return

(1) A Market Participant that is required to comply with the Risk Based Capital Requirements must prepare and deliver to ASIC within 10 Business Days of the end of each calendar month, the following documents and information:

(a) if the Market Participant is not a partnership, a return (the "**Monthly Return**") containing the information in, and in the form set out in, Part 1 of Form 3A in Schedule 1C to these Rules, which accurately reflects the Market Participant's accounts and financial position on the last Business Day of the previous calendar month;

(b) if the Market Participant is not a partnership, a director's declaration relating to the Monthly Return, in the form set out in Part 2 of Form 3A in Schedule 1C to these Rules, authorised by one director of the Market Participant;

(c) if the Market Participant is a partnership, a return (the "**Partnership Monthly Return**") containing the information in, and in the form set out in, Part 1 of Form 3B in Schedule 1C to these Rules, which accurately reflects the Market Participant's accounts and financial position on the last Business Day of the previous calendar month; and

(d) if the Market Participant is a partnership, a partnership declaration relating to the Partnership Monthly Return, in the form set out in Part 2 of Form 3B in Schedule 1C to these Rules, authorised by one partner of the Market Participant.

Maximum penalty: $20,000

9.2.4 Audited Annual Return

(1) A Market Participant that is required to comply with the Risk Based Capital Requirements must prepare and deliver to ASIC:

(a) within 3 months following the end of the Market Participant's financial year if the Market Participant is not a partnership; or

(b) within 2 months following the end of the Market Participant's financial year if the Market Participant is a partnership,

the following documents and information:

(c) the Market Participant's statutory accounts, including directors' declaration and audit report as required under the laws of the Market Participant's home jurisdiction, which give a true and fair view of the financial position and performance of the Market Participant's business as at the end of the financial year and which are prepared in accordance with accounting standards and principles which are generally accepted in Australia, unless ASIC determines otherwise;

(d) if the Market Participant is not a partnership, a return (the "Annual Audited Return") containing the information in, and in the form set out in, Part 1 of Form 4A in Schedule 1C to these Rules, which accurately reflects the Market Participant's accounts and its financial position as at the end of the Market Participant's financial year;

(e) if the Market Participant is not a partnership, a directors' declaration relating to the Annual Audited Return, in the form set out in Part 2 of Form 4A in Schedule 1C to these Rules, authorised by two directors of the Market Participant or by one director in accordance with a resolution of the board of directors of the Market Participant;

(f) if the Market Participant is a partnership, a return (the "Annual Audited Partnership Return") containing the information in, and in the form set out in, Part 1 of Form 4B in Schedule 1C to these Rules, which accurately reflects the Market Participant's accounts and its financial position as at the end of the Market Participant's financial year;

(g) if the Market Participant is a partnership, a partnership declaration relating to the Annual Audited Partnership Return, in the form set out in Part 2 of Form 4B in Schedule 1C to these Rules, authorised by two partners of the Market Participant;

(h) an auditor's report on the Annual Audited Return or Annual Audited Partnership Return (as applicable), in the form set out in Form 5 in Schedule 1C to these Rules, dated and signed by the audit firm;

(i) a statement (the "Key Risks and Internal Systems statement") in the form set out in Form 6 in Schedule 1C to these Rules, dated and signed by two directors of the Market Participant or by one director in accordance with a resolution of the board of directors of the Market Participant (the date of the resolution must be specified), or, if the Market Participant is a partnership, by two partners of the Market Participant; and

(j) the Market Participant's group structure chart showing the Market Participant's corporate ownership structure starting at the ultimate parent, dropping down to the immediate parent, the Market Participant, any subsidiaries (including nominee companies of the Market Participant) and any related/associated companies of the Market Participant.

(2) If the financial year end of the Market Participant is other than 30 June, the Market Participant must notify ASIC of its financial year end.

Maximum penalty: $20,000

9.2.5 Partnership Statutory Declaration

A Market Participant that is a partnership must give ASIC, within 10 Business Days after the end of June and December each year, for each partner of the Market Participant, a declaration (the "**Partnership Statutory Declaration**") in the form set out in Form 7 in Schedule 1C to these Rules, signed by the partner to which the Partnership Statutory Declaration relates and witnessed in accordance with the instructions included on the Partnership Statutory Declaration.

Maximum penalty: $20,000

Part 9.3 NTA Requirements—Reporting

9.3.1 Ad Hoc Return or Summary Return on Request by ASIC

(1) A Market Participant that is required to comply with the NTA Requirements must, if requested to do so by ASIC, provide ASIC with:

(a) a return (the "**Ad Hoc Return**") containing the information in, and in the form set out in, Parts 1 and 2 of Form 8 in Schedule 1C to these Rules;

(b) a return (the "**Summary Return**") containing the information in, and in the form set out in, Parts 1 and 2 of Form 9 in Schedule 1C to these Rules,

by the time specified by ASIC.

(2) An Ad Hoc Return or Summary Return lodged under subrule (1) must be authorised by one director of the Market Participant.

Maximum penalty: $20,000

9.3.2 NTA below minimum amount

A Market Participant that is required to comply with the NTA Requirements must immediately notify ASIC if its NTA falls below the minimum amount required by Rule S1B.3.1.

Maximum penalty: $20,000

9.3.3 NTA changes

A Market Participant that is required to comply with the NTA Requirements must immediately notify ASIC in each of the following circumstances:

(a) if the Market Participant's NTA is less than 150% of the minimum amount required by Rule S1B.3.1; and

(b) having notified ASIC under paragraph (a), the Market Participant's NTA has then decreased by more than 20% since the amount last notified to ASIC under this Rule 9.3.3.

Maximum penalty: $20,000

9.3.4 ASIC may require additional returns

(1) A Market Participant who has given a notice under Rule 9.3.2 or 9.3.3 must, unless advised otherwise by ASIC, prepare and lodge with ASIC:

(a) a return ("**Summary Return**") containing the information in, and in the form set out in, Parts 1 and 2 of Form 9 in Schedule 1C to these Rules, within one Business Day of giving the notice; and

(b) at the option of ASIC:

(i) a return (the "**Ad Hoc Return**") containing the information in, and in the form set out in, Parts 1 and 2 of Form 8 in Schedule 1C to these Rules; or

(ii) a Summary Return,

from the time of giving the notice:

(iii) by 10am on the first Business Day of each week, prepared as at the close of business the last Business Day of the previous week, for so long as the NTA is less than 150% of the minimum amount required by Rule S1B.3.1 but greater than or equal to 120% of the minimum amount required by Rule S1B.3.1; and

(iv) by 10am on each Business Day, for so long as the NTA is less than 120% of the minimum amount required by Rule S1B.3.1.

(2) An Ad Hoc Return or Summary Return lodged under subrule (1) must be authorised by one director of the Market Participant.

Maximum penalty: $20,000

9.3.5 Monthly Return

A Market Participant that is required to comply with the NTA Requirements must prepare and deliver to ASIC within 10 Business Days of the end of each calendar month, the following documents and information:

(a) a return (the "**Monthly Return**") containing the information in, and in the form set out in, Part 1 of Form 10 in Schedule 1C to these Rules, which accurately reflects the accounts and the financial position of the Market Participant on the last Business Day of the previous calendar month; and

(b) a directors' declaration relating to the Monthly Return, in the form set out in Part 2 of Form 10 in Schedule 1C to these Rules, authorised by one director of the Market Participant.

Maximum penalty: $20,000

9.3.6 Audited Annual NTA Return

(1) A Market Participant that is required to comply with the NTA Requirements must prepare and deliver to ASIC, within 3 months following the end of the Market Participant's financial year, the following documents and information:

(a) the Market Participant's statutory accounts, including directors declaration and audit report as required under the laws of the Market Participant's home jurisdiction, which give a true and fair view of the financial position and performance of the Market Participant's business as at the end of the financial year and which are prepared in accordance with accounting standards and principles which are generally accepted in Australia, unless ASIC determines otherwise;

(b) a return (the "**Annual Audited Return**") containing the information in, and in the form set out in, Part 1 of Form 11 in Schedule 1C to these Rules, which accurately reflects the accounts and the financial position of the Market Participant as at the end of the Market Participant's financial year;

(c) a directors' declaration relating to the Annual Audited Return, in the form set out in Part 2 of Form 11 in Schedule 1C to these Rules, authorised by two directors of the Market Participant or by one director in accordance with a resolution of the board of directors of the Market Participant;

(d) an auditor's report on the Annual Audited Return in the form set out in Form 5 in Schedule 1C to these Rules, dated and signed by the audit firm;

(e) a statement (the "**Key Risks and Internal Systems Statement**") in the form set out in Form 6 in Schedule 1C to these Rules, dated and signed by two directors of the Market Participant or by one director in accordance with a resolution of the board of directors of the Market Participant (the date of the resolution must be specified); and

(f) the Market Participant's group structure chart, showing the Market Participant's corporate ownership structure starting at the ultimate parent, dropping down to the immediate parent, the Market Participant, any subsidiaries (including nominee companies of the Market Participant) and any related/associated companies of the Market Participant.

(2) If the financial year end of the Market Participant is other than 30 June, the Market Participant must notify ASIC of its financial year end.

Maximum penalty: $20,000

Part 9.4 General

9.4.1 Alternate Director

Where a Market Participant has appointed an alternate director in accordance with section 201K of the Corporations Act and the constitution of the Market Participant, the alternate director may authorise or sign the Forms referred to in Parts 9.2 and 9.3 only if the Market Participant has provided ASIC with:

(a) the details of the appointment of the alternate director; and

(b) a statement that the Market Participant's constitution permits the appointment of the alternate director.

Note: There is no penalty for this Rule.

9.4.2 Use of Return Lodgement and Monitoring System

Unless otherwise directed by ASIC, a Market Participant may comply with the following provisions:

(a) Rule 9.2.1;

(b) subrule 9.2.2(2);

(c) Rule 9.2.3;

(d) paragraphs 9.2.4(1)(d) to (g);

(e) Rule 9.3.1;

(f) Rule 9.3.4;

(g) Rule 9.3.5;

(h) paragraphs 9.3.6(1)(b) and (c),

by submitting the information required to be delivered to ASIC under those provisions to the electronic Return Lodgement and Monitoring system maintained by the Market Operator.

Note: There is no penalty for this Rule.

Part 9.5 Scope of audits

9.5.1 Market Participant to assist auditor

(1) A Market Participant must give its auditor access to its premises and Employees and all records, documents, explanations and other information required by the auditor in respect of any audit conducted under Part 9.2 or 9.3.

(2) A Market Participant must:

(a) not impose any limitation on the extent of any audit required under Part 9.2 or 9.3; and

(b) permit and direct the auditor to notify ASIC immediately if any limitation is imposed on the auditor, or if the auditor is hindered or delayed in the performance of the auditor's duties.

(3) The records of each of the Market Participant's nominee companies must be included in the audit.

Maximum penalty: $100,000

Chapter 10: Futures Market Transactions

Part 10.A Interpretation

10.A.1 Definitions

In this Chapter:

"**Alternative Clearing Facility**" means a CS Facility which, in the opinion of ASIC, has:

(a) adequate rules or procedures relating to the operation of the facility, including effective risk management procedures;

(b) adequate arrangements for supervision and regulation of the facility; and

(c) sufficient resources to conduct the facility and perform its supervisory and regulatory functions, and which is recognised by ASIC as an Alternative Clearing Facility for the purposes of these Rules.

"**Approved Clearing Facility**" means ASX Clear Pty Limited (ACN 001 314 503).

"**Clearing Agreement**" means a separate written agreement between a Trading Participant which is not a Clearing Participant and a Clearing Participant setting out the terms and conditions which govern their relationship in compliance with the requirements of the Clearing Rules.

Note: There is no penalty for this Rule.

Part 10.1 Payment by client

10.1.1 Application

Rules 10.1.2 to 10.1.7 apply only where the Market Participant is regarded as the client of a Clearing Participant and holds positions in Futures Market Transactions on an omnibus basis for its own clients.

Note: There is no penalty for this Rule.

10.1.2 Initial Margin

(1) Where a Market Participant is required to pay an amount of Initial Margin to a Clearing Participant (or to a participant of an Alternative Clearing Facility) in respect of positions the Market Participant holds for the benefit of one or more of its clients, the Market Participant must, in turn, call a corresponding amount from the relevant client or clients.

(2) Subject to Rule 10.1.4, the call must be made in sufficient time to ensure that the Market Participant is placed in funds before the Market Participant is obliged to pay the

corresponding amount to the Clearing Participant or, if applicable, the participant of an Alternative Clearing Facility.

(3) A Market Participant that is required to comply with this Part in relation to a client must have in place arrangements with that client that entitle the Market Participant, at any time, to ask the client to pay any additional amount which the Market Participant considers appropriate to manage the risk to which the Market Participant is exposed.

Maximum penalty: $100,000

10.1.3 Close out, settlement or daily settlement of Open Contracts

(1) A Market Participant that is required to comply with this Part in relation to a client must have in place arrangements with that client that entitle the Market Participant to call from the client an amount sufficient to cover amounts which the Market Participant has been required to pay to its Clearing Participant pursuant to the close out, settlement or daily settlement of Open Contracts under the Clearing Rules (or to a participant of an Alternative Clearing Facility under the rules of that facility).

(2) Subject to Rule 10.1.4, if, at any time, the net amount of those amounts payable by the client under subrule (1) exceeds 25% of the amount of Initial Margin called under Rule 10.1.2, the Market Participant must call that amount.

(3) This Rule does not prevent the Market Participant from calling the amount at an earlier time or from calling an additional amount which it considers appropriate to manage the risk to which it is exposed.

Maximum penalty: $100,000

10.1.4 Exception

A Market Participant is not required to make a call under Rule 10.1.2 or Rule 10.1.3 if:

(a) (in the case of a call under Rule 10.1.3 in relation to settlement amounts generated as a result of close outs, contract settlement or daily settlement of Open Contracts) the amount of the call at that time is less than $1000;

(b) the client has already paid that amount to the relevant Market Participant; or

(c) the client has provided security for that amount to the relevant Market Participant (or to an Approved Clearing Facility on behalf of the Clearing Participant or an Alternative Clearing Facility, if applicable, on behalf of a participant) which is acceptable to the relevant Market Participant.

Note: There is no penalty for this Rule

10.1.5 Arrangements with client—Payment and security

A Market Participant that is required to comply with this Part in relation to a client must have in place arrangements with the client that require the client to, by the time specified in the relevant Client Agreement:

(a) pay to the Market Participant any amounts which the Market Participant asks the client to pay under Rule 10.1.2 or Rule 10.1.3; or

(b) provide security for the amounts referred to in paragraph (a) which is acceptable to the Market Participant.

Maximum penalty: $100,000

10.1.6 Arrangements with client—Default timing

If no time is agreed between the Market Participant and the client for the purpose of Rule 10.1.5, the Market Participant must have in place arrangements with the client that require the client to meet its obligations under Rule 10.1.5 within 24 hours after the request for payment.

Maximum penalty: $100,000

10.1.7 Arrangements with client—Maximum time

The time agreed between the Market Participant and its client for the purpose of Rule 10.1.5 must not be later than 48 hours after the request for payment.

Maximum penalty: $100,000

Part 10.2 Death of client and other circumstances

10.2.1 Application

Rules 10.2.2 to 10.2.6 apply only where the Market Participant is regarded as the client of a Clearing Participant and holds positions in Futures Market Contracts on an omnibus basis for its own clients.

Note: There is no penalty for this Rule

10.2.2 Death of client—Where legal representative unable to be identified

If a Market Participant becomes aware of the death of a client and, after reasonable enquiry, the Market Participant does not know the identity of the legal representative of the client, the Market Participant may exercise the powers under Rule 10.2.5 where the Market Participant had in place arrangements with the Client as required by that Rule.

Note: There is no penalty for this Rule

10.2.3 Death of client—Where no undertaking by legal representative

If:

(a) a Market Participant becomes aware of the death of a client;

(b) the Market Participant knows the identity of the legal representative who has been appointed to the client's estate; and

(c) the legal representative does not, after being requested by the Market Participant, undertake to meet the client's obligations in respect of one or more Open Contracts for the benefit of the client's estate,

the Market Participant may exercise the powers under Rule 10.2.5 in respect of those Open Contracts for which the undertaking referred to in paragraph (c) is not given by the legal representative and where the Market Participant had in place arrangements with the Client as required by that Rule.

Note: There is no penalty for this Rule

10.2.4 Other circumstances—Where client unable to be contacted

If the Market Participant, after reasonable enquiry, has been unable to contact a client to obtain instructions in respect of the exercise of any rights or the performance of any obligations in connection with an Open Contract, the Market Participant may exercise the powers under Rule 10.2.5 where the Market Participant has in place arrangements with the Client as required by that Rule.

Note: There is no penalty for this Rule

10.2.5 Death of client and other circumstances—Prior arrangements with client

A Market Participant that is required to comply with this Part in relation to a client must have in place arrangements with that client such that if Rules 10.2.2, 10.2.3 or 10.2.4 apply, the Market Participant may, without giving prior notice to the client or the legal representative (as the case may be), take any action, or refrain from taking action, which it considers reasonable in the circumstances in connection with Open Contracts held for the benefit of the relevant client or the estate of the client (as the case may be) and, without limitation, the Market Participant may:

(a) enter into, or cause to be entered into, one or more Futures Market Transactions to effect the close out of one or more Open Contracts;

(b) exercise one or more Options Market Contracts; or

(c) exercise, or cause to be exercised, any other rights conferred by the Rules or the Client Agreement or perform any other obligations arising under the Rules or the Client Agreement in respect of those Open Contracts,

and the client or the estate of the client (as the case may be) will be required to account to the Market Participant as if those actions were taken on the instructions of the client and,

without limitation, will be liable for any deficiency and entitled to any surplus which may result.

Note: There is no penalty for this Rule

10.2.6 Records

A Market Participant must keep records in writing containing full particulars of all enquiries made and action taken under Rules 10.2.1 to 10.2.5.

Maximum penalty: $100,000

Part 10.3 Default by a client

10.3.1 Application

Rule10.3.2 applies only where the Market Participant is regarded as the client of a Clearing Participant and holds positions in Futures Markets Contracts on an omnibus basis for its own clients.

Note: There is no penalty for this Rule

10.3.2 Default by a client—Prior arrangements with client

A Market Participant that is required to comply with this Part in relation to a client must have in place arrangements with that client such that if:

(a) a client fails to pay, or provide security for, amounts payable to the Market Participant under Rule 10.1.2 or Rule 10.1.3;

(b) a client fails to discharge any obligation in connection with the settlement of an Open Contract in accordance with its terms; or

(c) any other event occurs which the Market Participant and the client have agreed entitles the Market Participant to take action in respect of the client,

the Market Participant may exercise any rights which the Market Participant has under these Rules, the Client Agreement, the Clearing Agreement or otherwise and such that the client will be required to account to the Market Participant for any deficiency and will be entitled to any surplus which may result from the exercise of those rights.

Maximum penalty: $100,000

Schedule 1A: Capital liquidity requirements

Part S1A.1 Definitions and Interpretation

S1A.1.1 Definitions

In this Schedule 1A and in Chapter 9, unless the context otherwise requires:

"**Approved Deposit Taking Institution**" means:

(a) an authorised deposit taking institution under section 5 of the *Banking Act 1959* (Cth);

(b) a banking institution which has its activities formally regulated in accordance with the standards of the Basel Committee on Banking Supervision; or

(c) an institution which has been given a risk weighting by the Australian Prudential Regulation Authority equivalent to an authorised deposit taking institution referred to in paragraph (a) above.

"**Approved Institution**" means:

(a) any of the following institutions whose net assets are greater than $30 million at the date of its last published audited balance sheet:

  (i) a life insurance company or general insurance company; or

  (ii) an investment company, trust or other similar institution whose ordinary business is to buy and sell Financial Instruments;

(b) any body corporate or partnership whose ordinary business is to buy and sell Financial Instruments and which is regulated by a:

  (i) Recognised non-European Union Regulator specified in Table A5.3.1 in Annexure 5 to this Schedule 1A;

  (ii) Recognised European Union Regulator specified in Table A5.3.2 in Annexure 5 to this Schedule 1A; or

(c) a Fund Manager and an underlying client that has placed money with, or has securities under the control of, the Fund Manager, where:

  (i) the Market Participant has a dealing relationship with the Fund Manager but not the underlying client; and

  (ii) the Fund Manager is placing orders on behalf of the underlying client and not as principal,

provided that the Market Participant maintains adequate documentation in support of paragraphs (a), (b) or (c).

"**Approved Subordinated Debt**" means an amount owing by a Market Participant under a subordination arrangement which is approved by ASIC under Rule S1A.2.4.

"**Approved Subordinated Loan Deed**" means, in respect of a subordination arrangement, a deed which:

(a) is executed:

(i) by the lender and ASIC under seal or by such equivalent method expressly recognised under the Corporations Act;

(ii) in the case of a Market Participant which is a company, by the Market Participant under seal or by such equivalent method expressly recognised under the Corporations Act; and

(iii) in the case of a Market Participant which is a partnership, by each of its partners;

(b) sets out details of the terms governing any subordinated debt regulated by the subordination arrangement or identifies the document which does so;

(c) contains those provisions required by ASIC including without limitation, provisions to the effect that:

(i) alterations to the subordinated loan deed or the terms or details of any subordinated debt regulated by the subordination arrangement cannot be made unless the agreement of all parties is obtained and the variation is executed in the manner required under paragraph (a);

(ii) ASIC must be satisfied that the Market Participant has made adequate arrangements to ensure that Schedule 1A will be complied with and will continue to be complied with upon the maturity date of any loan for a fixed term;

(iii) ASIC must be given full particulars of any debt to be regulated by the subordination arrangement under the subordinated loan deed prior to such debt being created; and

(iv) prior to the Bankruptcy of the Market Participant, repayment of any subordinated debt regulated by the subordination arrangement can only occur in accordance with subrules S1A.2.4(6) and (7); and

(d) contains specific acknowledgment by the lender of the matters set out in paragraphs S1A.2.4(2)(a) and (b).

"**ASX Clear**" means ASX Clear Pty Limited (ACN 001 314 503).

"**ASX Clear Operating Rules**" means the Operating Rules of ASX Clear.

"**ASX Settlement**" means ASX Settlement Pty Limited (ACN 008 504 532).

"**ASX Settlement Operating Rules**" means the Operating Rules of ASX Settlement.

"**Bankruptcy**" means in respect of an entity:

(a) the entity becomes an externally administered body corporate within the meaning of the Corporations Act;

(b) the entity becomes an individual who is an insolvent under administration within the meaning of the Corporations Act;

(c) if the entity is a partnership, the entity is wound up or dissolved or a liquidator is appointed to it;

(d) a person takes control of the entity's property for the benefit of the entity's creditors because the entity is, or is likely to become, insolvent;

(e) the entity enters into an arrangement, composition or compromise with, or assignment for the benefit of, all of its creditors or any class of them; or

(f) anything analogous to, or having a substantially similar effect to the events specified in paragraphs (a) to (e) happens to the entity under the laws of any applicable jurisdiction.

"**CFD**" means contract for difference.

"**Classical ETF**" means a managed fund that meets all of the following criteria:

(a) that is listed and quoted on a stock exchange (and in Australia is registered as a managed investment scheme under the Corporations Act);

(b) where, under an open prospectus, the units in the fund can only be subscribed for and redeemed in kind, on demand and via the exchange of a defined basket of Equity securities;

(c) that has a "passive" investment strategy designed to replicate a stock index at all times and this is evidenced by the holding of physical securities in weightings that predominantly match the stock index the fund has been issued over, and accordingly, any cash or Derivative components must be immaterial and must not be used to gear the fund;

(d) where the underlying assets are known on a daily basis; and

(e) that is subscribed for and redeemed in a "primary" market via either a Market Participant or the fund issuer, and existing units are traded in a "secondary" market provided through a stock exchange.

"**Client Balance**" means an individual Counterparty's net debit or credit balance with a Market Participant arising from non margined Financial Instruments.

"**Core Capital**" means:

(a) in the case of a Market Participant which is a company, the sum of:

  (i) all ordinary issued shares to the extent that those shares are paid-up;

  (ii) all non cumulative Preference Shares;

  (iii) all reserves, excluding revaluation reserves other than Financial Asset Revaluation Reserves; and

  (iv) opening retained profits/losses adjusted for all current year movements; and

(b) in the case of a Market Participant which is a partnership, the sum of the partners' current and capital accounts.

"**Counterparty**" means in respect of a transaction to which a Market Participant is a party, another party to that transaction whether that person is a counterparty or a client.

"**Counterparty Risk Requirement**" means the greater of:

(a) zero; and

(b) the absolute sum of the counterparty risk amounts calculated in accordance with Annexure 1 to this Schedule 1A less any provision raised for doubtful debts.

> Note: The provision for doubtful debts must relate to a specific Counterparty receivable for which a counterparty risk amount has been calculated in accordance with Annexure 1 or to cover the possibility of a Counterparty or Client Balance becoming doubtful. A Market Participant must not deduct a provision amount from an individual counterparty risk amount.

"**Debt Derivative**" includes:

(a) a convertible note (except to the extent that Annexure 3 to this Schedule 1A provides for the treatment of a convertible note as an equity position);

(b) an interest rate Swap;

(c) a Forward Rate Agreement;

(d) a forward contract over a Debt Instrument;

(e) a Future over a Debt Instrument and a Future over an index or basket product based on Debt Instruments;

(f) an index or basket product based on Debt Instruments; and

(g) an Option over a Debt Instrument and an Option over any of the products referred to in paragraphs (a) to (f),

but does not include an instrument that falls within the definition of Equity Derivative or Foreign Exchange Derivative.

"**Debt Equivalent**" means the value of a position in a Debt Derivative that is equivalent to the value had it been a physical position in the underlying Debt Instrument calculated in accordance with Part A3.16 of Annexure 3 to this Schedule 1A.

"**Debt Instrument**" includes:

(a) a debt security without call or put provisions;

(b) a discount security without call or put provisions;

(c) a non-convertible preference share;

(d) a redeemable preference share with a fixed and certain date for redemption; and

(e) an interest in a managed investment scheme investing only in Debt Instruments, mortgages or cash, including an interest in a Hybrid ETF or Other Managed Fund that is issued over physical Debt Instruments only (ignoring any immaterial percentage of cash or Derivatives also included in the Hybrid ETF or Other Managed Fund and used only for hedging purposes),

but does not include an instrument that falls within the definition of Equity.

"**Debt Net Position**" means an amount calculated in accordance with Part A3.17 of Annexure 3 to this Schedule 1A.

"**Derivative**" includes:

(a) an Equity Derivative;

(b) a Debt Derivative; and

(c) a Foreign Exchange Derivative,

but does not include an instrument that falls within the definition of Equity or Debt Instrument.

"**Equity**" includes:

(a) a share other than a share referred to in paragraphs (c) and (d) of the definition of Debt Instrument;

(b) a depository receipt;

(c) an instalment receipt;

(d) an interest in a managed investment scheme, including an interest in a Hybrid ETF or an Other Managed Fund that is issued over:

(i) physical Equities only;

(ii) physical Debt Instruments and property;

(iii) physical Equities, physical Debt Instruments and property;

(iv) physical Equities and property; or

(v) physical property only,

(ignoring any immaterial percentage of cash or Derivatives also included in the Hybrid ETF or Other Managed Fund and used only for hedging purposes), other than an interest referred to in paragraph (e) of the definition of Debt Instrument,

but does not include an instrument that falls within the definition of Debt Instrument.

"**Equity Derivative**" includes:

(a) an equity Swap;

(b) a forward contract over an Equity;

(c) a Future over an Equity and a Future over a basket or index product based on Equities;

(d) an index or basket product based on Equities (including a Classical ETF);

(e) a renounceable or non-renounceable right to subscribe for an equity;

(f) an Option over an Equity (whether issued or unissued) and an Option over any of the products referred to in paragraphs (a) to (d); and

(g) an exchange traded CFD over:

(i) an Equity; or

(ii) a basket or index product based on Equities,

but does not include an instrument that falls within the definition of Debt Derivative or Foreign Exchange Derivative.

"**Equity Equivalent**" means the value of a position calculated in accordance with Part A3.8 of Annexure 3 to this Schedule 1A.

"**Equity Net Position**" means an amount calculated in accordance with Part A3.9 of Annexure 3 to this Schedule 1A.

"**Excluded Asset**" means:

(a) a fixed asset;

(b) an intangible asset;

(c) a future income tax benefit;

(d) a non current asset;

(e) a deposit with or loan to a person other than:

(i) a deposit or loan with an Approved Deposit Taking Institution;

(ii) a deposit or loan to the extent the balance is secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value; or

(iii) a deposit of funds as a margin or deposit with a person licensed to trade or clear Futures or Options to the extent that those funds relate to an open position;

(f) a deposit with a third party clearing organisation;

(g) a Related/Associated Persons Balance to the extent the balance is not secured by collateral which is:

(i) Liquid;

(ii) under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;

(iii) evidenced in writing by a legally binding agreement between the Market Participant and the Related/Associated Person in circumstances where the Market Participant has established that the Related/Associated Person and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

(iv) valued at the mark to market value;

(h) a debt which was reported or created more than 30 days previously, other than a debt:

(i) from another Market Participant that is not an Related/Associated Person; or

(ii) which is secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value;

(i) a prepayment (being an expense which has been paid during one accounting period for a term which extends beyond the end of that period) which is not Liquid or which is Liquid but has been made in respect of an item of expenditure that is specifically required to be made by the Market Participant for the Market Participant to comply with the requirements of these Rules or the Market Operating Rules;

(j) an asset which is not Liquid; or

(k) an asset which is Liquid but which has a charge against it (in whole or in part) where the purpose of the charge is to raise funds for use outside the ordinary course of the Market Participant's securities or derivatives business.

"**Excluded Liability**" means the maximum liability specified in a guarantee or indemnity under paragraph S1A.2.6(1)(c).

"**Family Trust**" means a trust in which:

(a) the person or the Immediate Family of the person is the sole or majority beneficiary; or

(a) the person has the ability to remove the trustee of the trust and replace the trustee with his or her own nominee.

"**Financial Asset Revaluation Reserves**" means revaluation reserves relating to available for sale financial assets as defined in accordance with accounting standards which are generally accepted in Australia or other accounting standards approved by ASIC under subrule S1A.2.7(3).

"**Financial Instrument**" means:

(a) an Equity;

(b) a Debt Instrument; and

(c) a Derivative.

"**Foreign Exchange Derivative**" includes:

(a) a forward contract over foreign currency;

(b) a Future over foreign currency;

(c) an Option over foreign currency; and

(d) an exchange traded CFD over an exchange rate or foreign currency,

but does not include an instrument that meets the definition of Equity Derivative or Debt Derivative.

"**Foreign Exchange Equivalent**" means the value of a position calculated in accordance with Part A3.21 of Annexure 3 to this Schedule 1A.

"**Forward Rate Agreement**" means an agreement in which two parties agree that:

(a) one party will make payments to the other of an amount of interest based on an agreed interest rate for a specified period from a specified date applied to an agreed principal amount;

(b) no commitment is made by either party to lend or borrow the principal amount; and

(c) the exposure is limited to the interest difference between the agreed and actual market rates at settlement.

"**Free Delivery**" means a trade where delivery of the Financial Instrument is made to a client or Counterparty without receiving payment or where a payment is made without receiving a

Financial Instrument, regardless of whether the client or Counterparty is issuer sponsored or participant sponsored.

"**Fund Manager**" means any licensed responsible entity, agent of a responsible entity, trustee or manager whose ordinary business it is to buy or sell Financial Instruments and make investment decisions on behalf of an independent third party.

"**Future**" means a contract which is traded on an exchange, subject to a Primary Margin Requirement and which is:

(a) a contract to make an adjustment between the parties on an agreed future date as to the value on that date of an interest rate, a foreign currency, an Equity, basket or index, or some other agreed factor; or

(b) a deliverable bond futures contract or deliverable share futures contract.

"**Government Debt Instrument**" means any form of government financial instrument including a bond, treasury note or other short term instrument, and a Debt Derivative of any of those instruments where:

(a) it is issued by, fully guaranteed by, or fully collateralised by a Debt Instrument issued by:

  (i) the Australian Commonwealth, State (including Territories) governments; or

  (ii) a central government or central bank within the OECD;

(b) it is issued by, or fully guaranteed by, a non-OECD country central government or central bank, has a residual maturity of one year or less and is denominated in local currency and funded by liabilities in the same currency.

"**Group of Connected Persons**" means two or more persons or entities where:

(a) each person or entity is a Related/Associated Person of each other person or entity; or

(a) the persons who have control of the management of each entity or have been appointed as directors of each entity are substantially the same.

"**Hybrid ETF**" means a managed fund:

(a) that is listed and quoted on a stock exchange (and in Australia is registered as a managed investment scheme under the Corporations Act); and

(b) where, under an open prospectus, the units can only be subscribed for and redeemed in cash or in kind; and

(c) that is subscribed for and redeemed in a "primary" market and existing units are traded in a "secondary" market; or

(d) that does not satisfy all of the requirements of a Classical ETF but satisfies the three criteria referred to in paragraphs (a), (b) and (c).

"**Immediate Family**" in relation to a person means that person's spouse and any non-adult children.

"**In the Money**" means:

(a) in relation to call Options, that the current market price of the underlying instrument is greater than the exercise price; and

(b) in relation to put Options, that the current market price of the underlying instrument is less than the exercise price.

"**Large Exposure Risk Requirement**" is the absolute sum of a Market Participant's:

(a) counterparty large exposure risk amount calculated in accordance with Annexure 2 to this Schedule 1A; and

(b) issuer large exposure risk amount calculated in accordance with Annexure 2 to this Schedule 1A.

"**Liquid**" means realisable or otherwise convertible to cash within 30 days and in the case of a Financial Instrument, means the Financial Instrument meets the following criteria:

(a) there are genuine independent offers from third parties to the Market Participant;

(b) prices or rates exist that closely approximate the last sale price or rate in the Financial Instrument (whether exchange traded or over-the-counter);

(c) payment/settlement can be effected within the settlement conventions applicable to the Financial Instrument; and

(d) there is sufficient liquidity in the market to ensure a ready sale of the position held.

"**Liquid Capital**" means the sum of:

(a) Core Capital;

(b) cumulative Preference Shares;

(c) Approved Subordinated Debt; and

(d) revaluation reserves other than Financial Asset Revaluation Reserves;

less the sum of:

(e) Excluded Assets; and

(f) Excluded Liabilities.

"**Liquid Margin**" means the amount calculated by deducting the Total Risk Requirement amount from the amount of Liquid Capital.

"**Market Spot Exchange Rate**" means the closing rate of exchange for foreign currencies against Australian dollars on each Business Day, having a settlement period of 2 days.

"**Non-Standard Risk Requirement**" means the amount calculated in accordance with Rule S1A.2.9 to cover unusual or non-standard exposures.

"**OECD**" means the Organisation for Economic Co-operation and Development.

"**Operational Risk Requirement**" means the amount calculated in accordance with subrule S1A.2.3(1) which is required to cover exposures associated with commencing and remaining in business arising separately from exposures covered by other risk requirements.

"**Option**" means a contract which gives the holder the option or right, exercisable at or before a specified time to:

(a) buy (whether by way of issue or transfer) or sell a quantity of a Financial Instrument or a foreign currency; or

(b) be paid an amount of money calculated by reference to the value of a Financial Instrument, foreign currency or index as specified in the contract.

"**OTC Derivative**" means a Derivative which is not traded on an exchange.

"**Other Managed Fund**" means a managed fund:

(a) that is not listed and quoted on a stock exchange (and in Australia is registered as a managed investment scheme under the Corporations Act); or

(b) that is listed and quoted on a stock exchange but does not satisfy all of the requirements of a Classical ETF or Hybrid ETF.

"**Position Risk Factors**" are the percentages applied to principal positions as specified in Tables A5.1.1, A5.1.2, A5.1.3 and A5.1.7 of Annexure 5 to this Schedule 1A.

"**Position Risk Requirement**" is the absolute sum of the position risk amounts for a Market Participant's:

(a) Equity and Equity Derivative positions calculated in accordance with Parts A3.1 to A3.9 of Annexure 3 to this Schedule 1A;

(b) Debt Instrument and Debt Derivative positions calculated in accordance with Parts A3.10 to A3.17 of Annexure 3 to this Schedule 1A; and

(c) foreign exchange and Foreign Exchange Derivative positions calculated in accordance with Parts A3.18 to A3.22 of Annexure 3 to this Schedule 1A.

"**Positive Credit Exposure**" means an exposure to a Counterparty such that if the Counterparty were to default on its obligations under:

(a) an individual transaction; or

(b) to the extent allowed by Schedule 1A, a group of transactions, contracts, arrangements or agreements,

the Market Participant may incur a financial loss.

"**Preference Share**" means a preference share that is redeemable solely at the request of the Market Participant.

"**Primary Margin Requirement**" means the amount which a Market Participant lodges or is notionally required to lodge as a deposit to cover potential daily worse case price movements in the relevant market, lodged in accordance with the rules of an exchange or clearing house

against open positions registered in the name of the Market Participant on the exchange or clearing house.

"**Qualifying Debt Instruments**" means Debt Instruments that are:

(a) rated investment grade by at least two of the credit rating agencies recognised by the Australian Prudential Regulation Authority and specified in Table A5.1.5 in Annexure 5 to this Schedule 1A;

(b) rated investment grade by one credit rating agency recognised by the Australian Prudential Regulation Authority and specified in Table A5.1.5 in Annexure 5 to this Schedule 1A, and the issuer has its ordinary shares included in a Recognised Market Index;

(c) unrated but the Issuer of the Debt Instrument has its ordinary shares included in a Recognised Market Index and the Debt Instruments are reasonably deemed by the Market Participant to be of comparable investment quality to one or more of the categories of Qualifying Debt Instrument as described in this definition;

(d) issued by, or guaranteed by, Australian local governments and Australian public sector entities other than those which have corporate status or operate on a commercial basis;

(e) issued by, or fully guaranteed by, a non-OECD country's central government and central bank and which have a residual maturity of over one year and are denominated in local currency and funded by liabilities in the same currency;

(f) issued by or collaterised by claims on, an international agency or regional development bank including the International Monetary Fund, the International Bank for Reconstruction and Development, the Bank for International Settlements and the Asian Development Bank;

(g) issued, guaranteed, first endorsed or accepted by an Australian ADI or a bank incorporated within the OECD or a non-OECD bank accorded the same credit risk weight as an OECD bank by the Australian Prudential Regulation Authority provided that such instruments do not qualify as capital of the issuing institution;

(h) issued, guaranteed, endorsed or accepted by a non-OECD bank and which have a residual maturity of one year or less provided that such instruments do not qualify as capital of the issuing institution; or

(i) issued by or guaranteed by OECD country, State and regional governments and OECD public sector entities.

"**Recognised Market Index**" means an index specified in Table A5.1.6 in Annexure 5 to this Schedule 1A.

"**Related/Associated Person**" means:

(a) a partner, director, employee, officer or consultant of a Market Participant or of a company which is a partner of a Market Participant;

(b) a person who is a member of the Immediate Family of a person referred to in paragraph (a);

(c) the trustee of a Family Trust of a person referred to in paragraph (a);

(d) an entity which is:

(i) controlled by a person referred to in paragraphs (a), (b) or (c) or any of those persons acting together; or

(ii) a corporation in which a person referred to in paragraphs (a) or (b) is beneficially entitled to more than 50% of the issued capital;

(e) an entity which is the holding company, or which is controlled by the holding company, of a Market Participant or of a company which is a partner of a Market Participant;

(f) a person who is a Substantial holder of a Market Participant or of a company which is a partner of a Market Participant;

(g) an associate of a Market Participant (as defined in each section of Part 1.2, Division 2 of the Corporations Act) or of a company which is a partner of a Market Participant; and

(h) a lender who is a party to an Approved Subordinated Loan Deed or a related entity or associate of that lender.

"**Related/Associated Person Balance**" is an amount owing to the Market Participant by a person who is a Related/Associated Person of the Market Participant and excludes an amount owing as a result of:

(a) the deposit with, loans to or other amounts owing from an Approved Deposit Taking Institution;

(b) the deposit of funds as a margin or deposit with a person licensed to trade or clear Futures or Options to the extent that those funds relate to an open position; or

(c) a transaction in a Financial Instrument under Annexure 1 to this Schedule 1A which is made on terms no more favourable to the Related/Associated Person than those on which it would be reasonable to expect the Market Participant to make if it had entered into the transaction on an arm's length basis, but not including sundry fees, interest or similar amounts owing on such transactions; or

(d) brokerage or similar amounts owing that were reported or created less than 30 days previously and which arose as a result of a third party clearing arrangement entered in to with a Clearing Participant that is a Related/Associated Person of the Market Participant.

"**Securities Lending and Borrowing**" means any transaction undertaken by a Market Participant under an Equity or Debt Instrument lending or borrowing agreement, a repurchase or reverse repurchase agreement or an agreement for the sale and buyback of Equity or Debt Instruments.

"**Substantial holder**" means a person who has or would have a substantial holding if Part 6C of the Corporations Act applied to that corporation.

"**Swap**" means a transaction in which two counterparties agree to exchange streams of payments over time on a predetermined basis.

"**Total Risk Requirement**" means the sum of:

(a) Operational Risk Requirement;

(b) Counterparty Risk Requirement;

(c) Large Exposure Risk Requirement;

(d) Position Risk Requirement;

(e) Underwriting Risk Requirement; and

(f) Non-Standard Risk Requirement,

however where an asset or liability is an Excluded Asset or Excluded Liability a risk requirement otherwise applicable under paragraphs (a) to (e) is not included.

"**Trading Day**" means a day on which a relevant exchange traded or over the counter market has been open for trading.

"**Underwriting**" means a commitment to take up Equity or Debt Instruments where others do not acquire or retain them under an underwriting agreement, sub underwriting agreement, or other similar agreement calculated using:

(a) the price stated in the Underwriting agreement; or

(b) in the case of new float where the price is not known, the indicative price, until the price is known.

"**Underwriting Risk Requirement**" is the absolute sum of the risk amounts calculated in accordance with Annexure 4 to this Schedule 1A.

Note: There is no penalty for this Rule.

S1A.1.2 Interpretation

(1) Schedule 1A must be interpreted and applied consistently across positions in the same Financial Instruments throughout a period covered by a return required under Part 9.2.

(2) References to dollar amounts are references to Australian dollar amounts.

(3) The Annexures to Schedule 1A form part of Schedule 1A and a reference to Schedule 1A in these Rules includes a reference to those Annexures.

Note: There is no penalty for this Rule.

Part S1A.2 Obligations of Market Participants

S1A.2.1 Core Capital, Liquid Capital and Total Risk Requirement

A Market Participant must ensure that its:

(a) Liquid Capital is at all times greater than its Total Risk Requirement; and

(b) Core Capital is at all times not less than $100,000,

Federal Register of Legislative Instruments F2013C00794

provided that in satisfying the requirement in paragraph (b), a Market Participant may satisfy the requirement in accordance with, and subject to, subrule S1A.2.4(8).

Maximum penalty: $1,000,000

S1A.2.3 Risk Requirements and Risk Amounts

(1) A Market Participant must calculate:

(a) its Operational Risk Requirement; and

(b) an operational risk amount, as the sum of:

(i) the amount of $100,000; and

(ii) 8% of the sum of the Market Participant's:

(A) Counterparty Risk Requirement;

(B) Position Risk Requirement; and

(C) Underwriting Risk Requirement.

(2) A Market Participant must calculate in accordance with Annexure 1 to this Schedule 1A:

(a) its Counterparty Risk Requirement; and

(b) a counterparty risk amount for each of its Positive Credit Exposures to a Counterparty for transactions in Financial Instruments referred in Annexure 1 to this Schedule 1A, except those transactions which relate to Excluded Assets.

(3) A Market Participant must calculate in accordance with Annexure 2 to this Schedule 1A:

(a) its Large Exposure Risk Requirement; and

(b) its large exposure risk amount for each:

(i) Counterparty; and

(ii) Equity Net Position and Debt Net Position relative to:

(A) Liquid Capital; and

(B) an issue or issuer.

(4) A Market Participant must calculate in accordance with Annexure 3 to this Schedule 1A:

(a) its Position Risk Requirement;

(b) a position risk amount for all positions in Financial Instruments, except those positions which are Excluded Assets; and

(c) a position risk amount for other assets and liabilities which are denominated in a currency other than Australian dollars except for those assets which are Excluded Assets.

(5) A Market Participant must calculate in accordance with Annexure 4 to this Schedule 1A:

(a) its Underwriting Risk Requirement; and

(b) an underwriting risk amount for each Underwriting.

(6) A Market Participant must calculate a Non-Standard Risk Requirement in accordance with Rule S1A.2.9.

Maximum penalty: $100,000

S1A.2.3A Authorisation

(1) A Market Participant must be authorised by ASIC in writing for each of the risk calculation methods it uses for the purposes of Rule S1A.2.3.

(2) An authorisation given by ASIC under subrule (1) will specify which risk calculation methods the Market Participant is authorised to use.

(3) A Market Participant must obtain an authorisation from ASIC under subrule (1) prior to the use of a particular risk calculation method.

(4) A Market Participant will only be authorised to use a particular risk calculation method under subrule (1) after having satisfactorily demonstrated its ability to calculate risk amounts under that method.

Maximum penalty: $100,000

S1A.2.4 Approved Subordinated Debt

(1) A Market Participant entering into a subordination arrangement may only include an amount owing under such an arrangement in its Liquid Capital if:

(a) the subordination arrangement has the prior approval of ASIC under subrules (2) and (3); and

(b) the amount is notified to and approved by ASIC prior to being drawn down under the subordination arrangement and complies with subrule (4) where relevant.

(2) ASIC will not approve a subordination arrangement unless in the opinion of ASIC:

(a) subject to subrule (6), the amount owing to the lender under the subordination arrangement will not be repaid until all other debts which the Market Participant owes to any other persons are repaid in full; and

(b) the obligation to pay any amount owing under the subordination arrangement is suspended if Rule S1A.2.1 is no longer complied with.

(3) ASIC will not approve a subordination arrangement unless the Market Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement.

(4) If a Market Participant is a partnership which has entered into an approved subordination arrangement under subrules (2) and (3) and there is a change in the composition of the Market Participant, then an amount owing under the previously approved subordination

arrangement must not be included in its Liquid Capital unless ASIC is of the opinion that this arrangement has been renewed or amended so as to ensure that all partners after the change in composition are bound by it.

(5) A Market Participant must comply with the terms of the Approved Subordinated Loan Deed and any associated agreement to which it, ASIC, and the lender are parties and must ensure the lender's compliance with these documents.

(6) Prior to its Bankruptcy, a Market Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASIC.

(7) ASIC will not withhold its approval under subrule (6) if in the opinion of ASIC:

(a) the Market Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on repayment; and

(b) the Market Participant's Core Capital is capable of continuing to be equal to or greater than the amount required under Rule S1A.2.1 when Approved Subordinated Debt is included under subrule (8).

(8) If a Market Participant does not hold sufficient Core Capital under paragraph S1A.2.1(b), then it may with the prior approval of ASIC include amounts owing under an approved subordination arrangement in calculating Core Capital for a 6 month period commencing on the date that the Market Participant first does not hold sufficient Core Capital.

(9) In forming an opinion as to whether a Market Participant is capable of continuing to meet the requirements in paragraphs (7)(a) and (b), ASIC may consider matters such as:

(a) the state of the overall market and the trend of the individual Market Participant's share of that market;

(b) the ability of the Market Participant to continue as a going concern for a period that may exceed 30 days;

(c) any waivers that exist at the time of the request; and

(d) the existence of any outstanding litigation.

Maximum penalty: $100,000

S1A.2.4A Excluded Assets

(1) Subject to subrule (2), where a Market Participant has an asset due from one entity (which would ordinarily be treated as an Excluded Asset) which is linked to an offsetting liability payable to another entity, the Market Participant may net the asset and liability so that only the net amount (if positive) is reported as an Excluded Asset.

(2) The Market Participant may only net an asset with a liability and report the net amount as an Excluded Asset under subrule (1) if the Market Participant:

(a) has obtained written authorisation from ASIC for the purposes of this Rule;

(b) has a documented, legally binding contract or agreement with the Counterparty to the liability that specifies that the liability cannot be enforced unless the asset is realised;

(c) continues to report the asset and liability on a gross basis in the balance sheet section of the Monthly Return or Partnership Monthly Return (as applicable) required by Rule 9.2.3;

(d) reports the net amount as an "Other Prescribed Asset" in the "Core Capital, Liquid Capital, Liquid Margin and Ratio" section of the Monthly Return or Partnership Monthly Return (as applicable) required by Rule 9.2.3; and

(e) includes the following details in the "Additional Comments" section of the Monthly Return or Partnership Monthly Return (as applicable) required by Rule 9.2.3:

The following assets and liabilities have been netted for the purpose of calculating the amount included in the Excluded Asset "other prescribed asset" line of the "Core Capital, Liquid Capital, Liquid Margin and Ratio" section of the capital liquidity return.

Asset—*describe the nature of the asset/s* $

less Liability—*describe the nature of the liability/s* $( )

Excluded Asset—other prescribed asset $ net amount

(3) A Market Participant must treat the following amounts as Excluded Assets if they remain outstanding for greater than 30 calendar days:

(a) Underwriting fees;

(b) fees due for managing a client portfolio;

(c) corporate advisory fees; and

(d) other sundry debtors.

Note: There is no penalty for this Rule.

S1A.2.5 Redeemable Preference Shares

(1) A Market Participant must not redeem any redeemable Preference Shares issued by it in whole or in part without the prior written approval of ASIC.

(2) ASIC will not withhold its approval under subrule (1) if in the opinion of ASIC the Market Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on redemption.

(3) In forming an opinion as to whether a Market Participant is capable of continuing to meet the requirement in subrule (2), ASIC may consider matters such as:

(a) the state of the overall market and the trend of the individual Market Participant's share of that market;

(b) the ability of the Market Participant to continue as a going concern for a period that may exceed 30 days;

(c) any waivers that exist at the time of the request; and

(d) the existence of any outstanding litigation.

Maximum penalty: $100,000

S1A.2.6 Guarantees and Indemnities

(1) A Market Participant may only give a guarantee or indemnity:

(a) for the purposes of these Rules, the ASX Operating Rules, the ASX Clear Operating Rules or the ASX Settlement Operating Rules;

(b) in the ordinary course of the conduct of its securities or derivatives business;

(c) outside the ordinary course of its securities or derivatives business if a maximum liability is specified in the guarantee or indemnity at the time it is entered into; or

(d) to settle legal proceedings that have been threatened or issued against it,

and must not give a cross-guarantee.

(2) For the purposes of paragraphs (1)(b) and (c), the expression "ordinary course of the conduct of its securities or derivatives business" includes, but is not limited to, a guarantee or indemnity given by a Market Participant to:

(a) a lessor for lease rental commitments on premises, computer equipment and other property, plant and equipment by the service company of the Market Participant where those premises and equipment are for use exclusively or predominantly by the Market Participant;

(b) financial institutions for withdrawal of funds by the Market Participant against uncleared cheques;

(c) ASIC to support the issuance of an Australian financial services licence to the Market Participant; and

(d) a lessor for lease rental payments on a residence for a member of staff, normally based overseas, who is temporarily located in Australia to perform their duties,

but would not normally include:

(e) charges, guarantees or indemnities given over the financial performance of a subsidiary or Related/Associated Person of the Market Participant such as a separately incorporated futures broker; and

(f) charges, guarantees or indemnities given to support Underwriting activities that are not booked in the Market Participant.

(3) A Market Participant that is a member of a consolidated group within the meaning of section 703-5 of the *Income Tax Assessment Act 1997* (Cth) must, when it first becomes a member of that group, report in the "Additional Comments" section of the next Monthly Return required by Rule 9.2.3:

(a) the date its group elected to become a consolidated group;

(b) the date it entered into a tax sharing agreement (if applicable);

(c) the date it entered into a tax funding agreement (if applicable); and

(d) any other information that may be relevant in assessing the Market Participant's financial position as a result of it being part of a consolidated group,

and any changes to these details must be reported in the "Additional Comments" section of subsequent Monthly Returns required by Rule 9.2.3.

Maximum penalty: $100,000

S1A.2.7 Records and Accounts

(1) A Market Participant must maintain records and working papers in sufficient detail to show continuous compliance with Rule S1A.2.1 for seven years.

(2) The records and working papers referred to in subrule (1) must, at a minimum:

(a) show the nature of the outstanding transactions and commitments for which the Market Participant was liable;

(b) disclose the financial position of the Market Participant at any point in time;

(c) detail and support the calculations required to quantify the Total Risk Requirement and demonstrate that the Market Participant was complying with the Risk Based Capital Requirements;

(d) permit the Market Participant to prepare a return required by these Rules using those records if so requested; and

(e) permit the Market Participant to reproduce a calculation of its Liquid Capital or Total Risk Requirement at the close of business on each day in the seven year period.

(3) A Market Participant must prepare its accounts and returns in accordance with accounting standards which are generally accepted in Australia, unless ASIC approves otherwise.

(4) A Market Participant must take any amounts arising from the marking-to-market of principal positions in Financial Instruments to the Market Participant's profit and loss account immediately and include those amounts in the Market Participant's overall accounting for taxation.

(5) A Market Participant must record a transaction in its accounts on the date on which it enters into an irrevocable commitment to carry out the transaction.

Maximum penalty: $100,000

S1A.2.8 Valuations and Foreign Currencies

(1) A Market Participant must mark to market each of its principal positions in Financial Instruments unless Schedule 1A provides otherwise:

(a) at least once every Business Day; and

(b) in the following manner:

(i) subject to subparagraphs (ii) to (v), a position must be valued at its closing market price:

(A) which is the current bid price for a long position; and

(B) which is the current offer price for a short position;

or at last price, closing price or mid price;

(ii) an Option or rights position may be valued using a value derived from an option pricing model approved by ASIC for use in the contingent loss matrix method;

(iii) an exchange traded Option position may be valued using the "fair value" published by a reputable independent information source, where the "fair value" source is used consistently across all exchange traded Option positions of the Market Participant at all times;

(iv) an Option or rights position which does not have a published market price under subparagraph (i) or which cannot be valued using an options pricing model under subparagraph (ii) or the "fair value" under subparagraph (iii) must be valued as follows:

(A) for a purchased Option or right, the In the Money amount multiplied by the quantity underlying the Option; and

(B) for a written Option, the sum of the In the Money amount multiplied by the quantity underlying the Option and the initial premium received for the Option;

(v) a Swap or a Forward Rate Agreement must be valued:

(A) having regard to the net present value of the future cash flows of the contract; and

(B) using current interest rates relevant to the periods in which the cash flows will arise.

(2) For the purposes of sub-subparagraph (1)(b)(iv)(B), if a written Option was In the Money at the time the contract was written, the In the Money amount for the purposes of this Rule may be taken to be the current In the Money amount less the In the Money amount at the time the contract was written.

(3) If a Market Participant holds a Financial Instrument denominated in a foreign currency then it:

(a) must calculate a risk amount for each risk type in that foreign currency; and

(b) convert the risk amount in paragraph (a) to Australian dollars at the Market Spot Exchange Rate,

in all cases other than where the Market Participant is calculating risk amounts for the purposes of Parts A3.18 to A3.22 of Annexure 3 to this Schedule 1A or where this Schedule 1A expressly provides otherwise.

Maximum penalty: $100,000

S1A.2.9 Unusual or Non-Standard Exposures

If a Market Participant has an exposure arising from a transaction which is not:

(a) specifically described in this Schedule 1A; or

(b) is not in a form which readily fits within this Schedule 1A,

the risk requirement of a Market Participant in relation to that exposure is the full market value of the transaction unless ASIC approves otherwise.

Note: There is penalty for this Rule.

S1A.2.9A Margin lending facilities

Where a Market Participant offers margin lending facilities to clients:

(a) the risk requirement for the exposure with respect to margin calls is:

(i) equal to 100% of the margin call that the Market Participant makes on a client, where that margin call has either not been paid by the client, or sufficient of the underlying securities have not been sold by the Market Participant to cover the margin call; and

(ii) applies from the time the margin payment was due; and

(b) where the client's actual gearing level exceeds the maximum permitted gearing level by more than 5%, the full amount needed to bring the loan balance back to the maximum permitted gearing level must be taken as the risk requirement for the exposure immediately, regardless of whether the Market Participant has made a margin call on the client.

Maximum penalty: $100,000

S1A.2.9B Hybrid ETFs

Where a Market Participant holds a principal position in a Hybrid ETF that contains a material percentage of assets other than physical Equity securities, physical Debt Instruments or property, the Market Participant must treat the position as a non-standard exposure and the risk requirement must be the full market value of the Hybrid ETF, unless ASIC approves otherwise.

Maximum penalty: $100,000

S1A.2.9C Other Managed Funds

Where a Market Participant has a principal position in an Other Managed Fund that contains a material percentage of assets other than physical Equity securities, physical Debt Instruments or property, the Market Participant must treat the principal position as a non-

standard exposure and the risk requirement must be the full market value of the Other Managed Fund, unless ASIC approves otherwise.

Maximum penalty: $100,000

S1A.2.10 Underwriting Register

A Market Participant must maintain a register of its Underwritings which records:

(a) the date of commencement, crystallisation and termination of each Underwriting and the parties to each Underwriting;

(b) the identity, number and price of the Equities or Debt Instruments the subject of each Underwriting;

(c) the amount underwritten by the Market Participant under each Underwriting; and

(d) any reduction in the amount underwritten under each Underwriting due to an amount being:

(i) sub-underwritten; or

(ii) received under a client placement,

and the date that this reduction occurs.

Maximum penalty: $100,000

Schedule 1B: NTA requirements

Part S1B.1 Interpretation

S1B.1.1 Definitions

In this Schedule 1B and in Chapter 9, unless the context otherwise requires:

"**Approved Subordinated Debt**" means an amount owing by a Market Participant under a subordination arrangement which is approved by ASIC under Part S1B.8.

"**Approved Subordinated Loan Deed**" means, in respect of a subordination arrangement, a deed which:

(a) is executed by the lender, the Market Participant and ASIC under seal or by such equivalent method expressly recognised under the Corporations Act;

(b) sets out details of the terms governing any subordinated debt regulated by the subordination arrangement or identifies the document which does so;

(c) contains those provisions required by ASIC including without limitation, provisions to the effect that:

(i) alterations to the subordinated loan deed or the terms or details of any subordinated debt regulated by the subordination arrangement cannot be made unless the agreement of all parties is obtained and the variation is executed in the manner required under paragraph (a);

(ii) ASIC must be satisfied that the Market Participant has made adequate arrangements to ensure that the NTA Requirements will be complied with and will continue to be complied with upon the maturity date of any loan for a fixed term;

(iii) ASIC must be given full particulars of any debt to be regulated by the subordination arrangement under the subordinated loan deed prior to such debt being created; and

(iv) prior to the Bankruptcy of the Market Participant, repayment of any subordinated debt regulated by the subordination arrangement can only occur in accordance with Rules S1B.8.5 and S1B.8.6; and

(d) contains specific acknowledgment by the lender of the matters set out in paragraphs S1B.8.2(a) and S1B.8.2(b).

"**Bankruptcy**" means in respect of an entity:

(a) the entity becomes an externally administered body corporate within the meaning of the Corporations Act;

(b) the entity becomes an individual who is an insolvent under administration within the meaning of the Corporations Act;

(c) a person takes control of the entity's property for the benefit of the entity's creditors because the entity is, or is likely to become, insolvent;

(d) the entity enters into an arrangement, composition or compromise with, or assignment for the benefit of, all of its creditors or any class of them; or

(e) anything analogous to, or having a substantially similar effect to the events specified in paragraphs (a) to (d) happens to the entity under the laws of any applicable jurisdiction.

Note: There is no penalty for this rule.

S1B.1.2 Application

This Schedule 1B applies to a Market Participant that has elected to comply with the NTA Requirements under Rules 8.3.1 to 8.3.3.

Note: There is no penalty for this rule.

Part S1B.2 Meaning and calculation of Net Tangible Assets (NTA)

S1B.2.1 Calculating a Market Participant's NTA

In this Schedule 1B, the "**NTA**" of a Market Participant is calculated as the sum of the values of the assets (both non-current and current) owned by the Market Participant less the sum of any liabilities (secured and unsecured) attaching to those assets or to the Market Participant.

Note: There is no penalty for this rule.

S1B.2.2 Excluding items from calculation

In calculating the values of the assets for the purposes of Rule S1B.2.1 any value attributable to the following must be excluded:

(a) any future tax benefit, goodwill, patent, trademark, participation rights granted by the Market Operator or a Related Body Corporate, and any preliminary expense;

(b) any debt owed to the Market Participant which is disputed or may otherwise be regarded as doubtful; and

(c) any asset which is not capable of being realised within 12 months on a going concern basis.

Maximum penalty: $100,000

S1B.2.3 Calculating liabilities

In calculating the sum of the liabilities for the purposes of Rule S1B.2.1:

(a) the sum must include a provision for the Market Participant's estimated liability for income tax and long service leave; and

(b) the sum must exclude Approved Subordinated Debt.

Maximum penalty: $100,000

Federal Register of Legislative Instruments F2013C00794

Part S1B.3 Minimum NTA requirement

S1B.3.1 Minimum NTA

A Market Participant must have at all times an NTA of at least $1,000,000.

Maximum penalty: $100,000

Part S1B.6 Records, accounts and returns

S1B.6.1 Market Participant must maintain records

Without limiting the Market Participant's obligations under Part 9.3, a Market Participant must maintain records and working papers in sufficient detail to show continuous compliance with this Schedule 1B for at least 7 years.

Maximum penalty: $100,000

Part S1B.8 Approved subordinated debt

S1B.8.1 Circumstances in which amounts owing under a subordination arrangement may be excluded from a Market Participant's liabilities

(1) A Market Participant entering into a subordination arrangement may only exclude an amount owing under such an arrangement from the sum of its liabilities for the purposes of calculating its NTA if:

(a) the subordination arrangement has the prior approval of ASIC under Rule S1B.8.2; and

(b) the amount is notified to and approved by ASIC prior to being drawn down under the subordination arrangement.

(2) ASIC will not approve an amount under paragraph (1)(b) if the Market Participant does not have at least $250,000 in paid-up capital.

(3) The maximum amount that ASIC will approve under paragraph (1)(b) is two times the amount of shareholders equity excluding Approved Subordinated Debt.

Maximum penalty: $100,000

S1B.8.2 Circumstances in which ASIC will not approve a subordination arrangement

ASIC will not approve a subordination arrangement unless in the opinion of ASIC:

(a) subject to Rule S1B.8.5, the amount owing to the lender under the subordination arrangement will not be repaid until all other debts which the Market Participant owes to any other persons are repaid in full; and

(b) the obligation to pay any amount owing under the subordination arrangement is suspended if Rule S1B.3.1 is no longer complied with.

Note: There is no penalty for this Rule

S1B.8.3 Execution of Approved Subordination Loan Deed

ASIC will not approve a subordination arrangement unless the Market Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement.

Note: There is no penalty for this Rule

S1B.8.4 Market Participant obligations

A Market Participant must comply with the terms of the Approved Subordinated Loan Deed and any associated agreement and must ensure the lender's compliance with these documents.

Maximum penalty: $100,000

S1B.8.5 Repayment of Amounts owing under an approved subordination arrangement

Prior to its Bankruptcy, a Market Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASIC.

Maximum penalty: $100,000

S1B.8.6 Circumstances in which ASIC will not withhold its approval for repayment

ASIC will not withhold approval under Rule S1B.8.5 if in the opinion of ASIC the Market Participant's NTA is capable of continuing, on repayment, to be greater than 150% of the minimum required under Rule S1B.3.1 above.

Note: There is no penalty for this Rule.

Annexure 1 to Schedule 1A: Counterparty Risk Requirement

Part A1.1 Counterparty Risk Requirement

A1.1.1 Nature of counterparty risk amount

(1) For each type of counterparty risk that gives rise to a Positive Credit Exposure, a counterparty risk amount:

(a) must be calculated in accordance with the methods set out in this Annexure 1; and

(b) may be reduced by a counterparty risk weighting in accordance with Part A1.8.

(2) For the purposes of subrule A1.2.2(1), a Positive Credit Exposure exists on a Client Balance regardless of whether the Client Balance is positive or negative.

A1.1.1A Treatment: Classical ETFs

(1) Subject to subrule (2), a Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in a Classical ETF.

(2) In the event of default in the settlement of a primary market transaction in Classical ETFs:

(a) in the case of a subscription for Classical ETF units, where the Market Participant transfers underlying securities and does not receive the corresponding Classical ETF units or some other cash consideration; or

(b) in the case of a redemption, where the Market Participant transfers Classical ETF units and does not receive the corresponding underlying securities, or some other cash consideration,

a counterparty risk amount must be calculated under the Free Delivery method from the time those assets or cash were due to be settled.

(3) A Market Participant is required to calculate a counterparty risk amount under this Annexure for all secondary market transactions in Classical ETF units.

A1.1.1B Treatment: Hybrid ETFs

(1) Subject to subrule (2), a Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in a Hybrid ETF.

(2) In the event of a default in the settlement of a primary market transaction in Hybrid ETFs:

Federal Register of Legislative Instruments F2013C00794

(a) in the case of a subscription for Hybrid ETF units, where the Market Participant transfers cash and does not receive the corresponding Hybrid ETF units; or

(b) in the case of a redemption, where the Market Participant transfers Hybrid ETF units and does not receive the corresponding cash,

a counterparty risk amount must be calculated under the Free Delivery Method from the time those assets or cash were due to be settled.

(3) A Market Participant is required to calculate a counterparty risk amount under this Annexure for all secondary market transactions in Hybrid ETF units.

A1.1.1C Treatment: Other Managed Funds

A Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in an Other Managed Fund.

Part A1.2 Methods

A1.2.1 Overview

There are separate methods for measuring counterparty risk amounts for each of the following transaction types:

Table A1.1: Method for measuring counterparty risk: Transaction type

Transaction Type			
Non Margined Financial Instrument	Free Delivery		Securities Lending and Borrowing
Margined Financial Instrument	OTC Derivative or a Warrant held as principal	Sub Underwritten Position	

A1.2.2 Non-margined Financial Instruments method

(1) For unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in this Annexure, the counterparty risk amount is 3% of the Client Balance, where this balance does not include trades which remain unsettled with the Counterparty for greater than 10 Business Days following the transaction date and regardless of whether the Counterparty is issuer or participant sponsored.

(2) A Market Participant may reduce the Client Balance by the amount of Financial Instruments held by the Market Participant on behalf of the Counterparty if they specifically relate to the sale trades pending settlement with the market or by the amount of collateral held by the Market Participant on behalf of the specific Counterparty if:

(a) the collateral is Liquid and only to the extent that it is Liquid;

(b) the collateral is unrelated to a particular or specific transaction and is not the securities underlying the Counterparty's purchase;

(c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;

(d) the collateral is valued at the mark to market value and offset on a transaction-by-transaction basis; and

(e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:

(i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

(ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in this Annexure, the counterparty risk amount for trades remaining unsettled for greater than 10 Business Days following the transaction date is at the choice of the Market Participant:

(a) either:

(i) 3% of the contract value; or

(ii) the excess of:

(A) the contract value over the market value of each Financial Instrument in the case of a client purchase; and

(B) the market value of each Financial Instrument over the contract value in the case of a client sale,

whichever is the greater; or

(b) 100% of the contract value for a client purchase or 100% of the market value for a client sale.

(4) A Market Participant may reduce the contract values and the excesses by the amount of collateral held by the Market Participant on behalf of the Counterparty if:

(a) the collateral is Liquid and only to the extent that it is Liquid;

(b) the collateral is unrelated to a particular or specific transaction and is not the securities underlying the client purchase;

(c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;

(d) the collateral is valued at the mark to market value and offset on a transaction by transaction basis; and

(e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:

(i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

(ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(5) For the purposes of subrule (2), the Market Participant may:

(a) adjust the Client Balance with respect to a specific buy transaction, by removing from the Client Balance that portion of the contract value that is covered by client funds held in a cash management account, where the Market Participant has sole and unconditional control over those funds, where a Market Participant that has the ability to sweep a client's account to pay for purchases may only reduce the counterparty risk amount prior to the settlement date if:

(i) the ability to sweep the client's account means that the funds are "locked" in favour of the Market Participant; or

(ii) the funds are actually removed from the cash management account;

(b) reduce the Client Balance by an amount held in the Market Participant's trust account if that trust money is held in relation to the unsettled transaction or as otherwise agreed by the client; and

(c) remove the value of scrip which is the subject of a sale transaction from the Client Balance where the selling client has the scrip in a participant sponsored account and the Market Participant has either "locked" that scrip from the client or has strong internal controls to prevent that client recalling the scrip prior to settlement.

(6) For the purposes of subrule (3), where the security underlying the trade becomes subject to:

(a) a trading halt, the last market value is acceptable in calculating the counterparty risk amount; or

(b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(7) A Market Participant need not include credit amounts included in a Client Balance where such amounts represent an amount of cash held in the Market Participant's trust and/or segregated account.

(8) A Market Participant that has calculated a counterparty risk amount for an unsettled trade under this method is not required to treat or disclose any amounts calculated as Excluded Assets.

(9) This method does not apply to OTC Derivatives but does apply to warrants which also may be covered by the method in Rule A1.2.6.

(10) Without limitation, a Market Participant must calculate a counterparty risk amount under this method in relation to a non-margined Financial Instrument in the following circumstances:

(a) where the Market Participant has entered into an on-market purchase or sale transaction as agent for a client (including where the client is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to that client from the time that the trade is executed;

(b) where the Market Participant has entered into an on-market purchase or sale transaction as agent for a client (including where the client is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is not the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to that client from the time that the clearer seeks recourse from the Market Participant for a client failing to settle its obligations with the Clearing Participant;

(c) where the Market Participant has entered into an on-market or off-market purchase or sale transaction as agent for two clients (including where either of the clients is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to the two clients from the time that the trade is executed;

(d) where the Market Participant has entered into an on-market or off-market purchase or sale transaction as agent for a client (including where the client is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is acting as principal on one side of the transaction and the Market Participant is not the clearer for that transaction, the Market Participant must calculate:

  (i) a counterparty risk amount on its exposure to its Clearing Participant from the time that the trade is executed until the clearer has settled; and

  (ii) a counterparty risk amount on its exposure to the client from the time that the clearer seeks recourse from the Market Participant for a client failing to settle its obligations with the Clearing Participant.

(e) where the Market Participant has entered into:

  (i) an on-market purchase or sale transaction as principal;

  (ii) an off-market client facilitation; or

  (iii) an off-market underwritten placement of existing shares via a book build,

Federal Register of Legislative Instruments F2013C00794

and does not clear its own trades, the Market Participant must calculate a counterparty risk amount on its exposure to its Clearing Participant from the time that the trade is executed until the clearer has settled;

(f) where the Market Participant acts as underwriter of an initial public offering or a placement of new shares, the Market Participant must calculate a counterparty risk amount on its exposure to each buying client from which it receives an application, from the time that the Market Participant pays the issuer until such time as the buying client pays the Market Participant;

(g) where the Market Participant executes an agency transaction in unlisted securities or through a foreign broker, the Market Participant must calculate a counterparty risk amount on its exposure to both Counterparties;

(h) where the Market Participant has trades sitting in a client suspense account, the Market Participant must treat each individual trade as a Client Balance and calculate a counterparty risk amount on each Client Balance, until the trade is actually booked to a client;

(i) where the Market Participant has amounts owing as a result of day trading losses, failed transactions fees or interest charged on failed trades, the Market Participant must include these amounts in the Client Balance and where the amount remains unsettled after 10 Business Days, the Market Participant must calculate a counterparty risk amount as 100% of the amount owing;

(j) where the Market Participant executes a transaction on behalf of another Market Participant or Clearing Participant which is trading as principal, then the executing participant must establish the entity that is trading as principal as a client and calculate a Client Balance for that entity;

(k) where the Market Participant executes a transaction on market with another Market Participant and the trade is removed from novation by the Market Participant and its Counterparty so that the Market Participant and its Counterparty can settle the trade directly or in another clearing house, the Market Participant must calculate a counterparty risk amount for its exposure to the Counterparty or the other clearing house;

(l) where the Market Participant executes a transaction that is reported to, but not registered with, the Approved Clearing Facility (and therefore not novated to the Approved Clearing Facility) and the transaction gives rise to a counterparty exposure for the Market Participant, the Market Participant must calculate a counterparty risk amount on its exposure to the Counterparty or client; and

(m) where a transaction:

(i) is executed in a deferred settlement market (where the normal settlement period is extended by the operator of the market for a particular security and the extension applies to all transactions in that security and all participants in that market); or

(ii) is a forward transaction (where the two parties to a transaction have agreed to a time for settlement that is later than the normal settlement period for that type of transaction),

and the Market Participant:

(iii) clears its own trades, the Market Participant must calculate a counterparty risk amount from the time the transaction is executed until the time the transaction is settled, even if the time until settlement date is greater than 30 days;

(iv) is not the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to the client from the time that the clearer seeks recourse from the Market Participant for a client failing to settle its obligations with the Clearing Participant.

(11) For the purposes of determining a Client Balance when dealing with a Fund Manager, the Market Participant's Counterparty is determined as follows:

(a) if the Market Participant is immediately provided with the underlying client details by the Fund Manager, or if the Market Participant has a standing instruction for the underlying client details to be provided, the Market Participant must treat the underlying client as the Counterparty;

(b) if the Market Participant books trades directly to the Fund Manager or its nominee company and the Fund Manager does not provide details of the underlying client, the Market Participant is entitled to treat the Fund Manager as the Counterparty.

A1.2.3 Free Delivery method

(1) For a Free Delivery in a Financial Instrument, the counterparty risk amount for the Counterparty is:

(a) 8% of that part of the contract value subject to a Free Delivery, where payment or delivery of the Financial Instrument which is the subject of a Free Delivery remains outstanding for less than 2 Business Days following the settlement date; and

(b) 100% of that part of the contract value subject to a Free Delivery, where payment or delivery of the Financial Instrument remains outstanding for greater than 2 Business Days following the settlement date.

For the purposes this subrule, "settlement date" means the date that the Market Participant makes the Free Delivery (that is, the day that the Market Participant settles with the client or Counterparty) and not the market settlement date.

(2) A Market Participant may reduce the contract value by the amount of collateral held by the Market Participant on behalf of the Counterparty if:

(a) the collateral is Liquid and only to the extent that it is Liquid;

(b) the collateral is unrelated to a particular or specific transaction and is not the securities underlying the client purchase;

(c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;

(d) the collateral is valued at the mark to market value and offset on a transaction by transaction basis; and

(e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:

(i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

(ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For the purposes of subrule (2), if the security lodged as collateral is subject to:

(a) a trading halt, the last market value may be used; and

(b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(4) Without limitation, the Market Participant must calculate a counterparty risk amount under this method where the Market Participant has applied for stock, allocation interest units or instalment receipts on behalf of clients and the stock, allocation interest units or instalment receipts are registered into the client's issuer or participant sponsored account prior to the client paying, from the time the Market Participant pays the issuer or issuer's agent until the time the client pays the Market Participant.

(5) Where a Market Participant makes a partial Free Delivery whereby:

(a) for a client purchase, the Market Participant delivers Financial Instruments to the client or Counterparty when the client or Counterparty has made a partial payment; or

(b) for a client sale, the Market Participant makes either full or part payment to the client or Counterparty when the client or Counterparty has not provided any or all of the particular Financial Instruments,

only the part of the contract value that the Market Participant has settled with the client or Counterparty but which the client or Counterparty has not yet settled with the Market Participant is included in the calculation under this method while the part of the contract value that the Market Participant has not yet settled with the client or Counterparty continues to form part of the Client Balance and continues to be subject to a counterparty risk amount under Rule A1.2.2.

A1.2.4 Securities Lending and Borrowing method

(1) For the purposes of this Rule, "**counterparty exposure**" means the amount by which the market value of Equity or Debt Instruments or cash given by the Market Participant to the Counterparty exceeds the market value of Equity or Debt Instruments or cash received by the Market Participant from the Counterparty.

(2) Counterparty exposure may be calculated on a net basis where the relevant transactions are subject to a written agreement that supports netting across different transactions.

(3) For a Securities Lending and Borrowing transaction, the counterparty risk amount for a Counterparty, from the transaction date is:

(a) zero, if across all Counterparties to Securities Lending and Borrowing transactions, the sum of each positive counterparty exposure is less than or equal to $10,000;

(b) either:

(i) 8% of the counterparty exposure, where:

(A) the Securities Lending and Borrowing is subject to a written agreement that supports netting across different transactions; and

(B) the value of the counterparty exposure is less than or equal to 15% of the market value of Equity or Debt Instruments or cash received by the Market Participant from the Counterparty; or

(ii) 8% of the amount equivalent to 15% of the market value of the Equity or Debt Instruments or cash received by the Market Participant from the Counterparty plus 100% of the amount of the difference between the counterparty exposure and 15% of the market value of Equity or Debt Instruments or cash received by the Market Participant from the Counterparty, where:

(A) the Securities Lending and Borrowing is subject to a written agreement that supports netting across different transactions; and

(B) the value of the counterparty exposure is greater than 15% of the market value of the Equity or Debt Instruments or cash received by the Market Participant from the Counterparty; or

(c) 100% of the counterparty exposure, if:

(i) paragraph (a) and paragraph (b) do not apply; or

(ii) if paragraph (b) does apply but the Market Participant elects to calculate the amount under this paragraph (c).

(4) For the purposes of this Rule, in determining the market value of securities given or received by the Market Participant, if the securities are subject to:

(a) a trading halt, the last market value may be used; and

(b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

A1.2.5 Margined Financial Instruments method

(1) For trades in Financial Instruments which are margined, the counterparty risk amount for a Counterparty:

(a) is the full value of the outstanding settlement amount, premium, deposit or margin call that the Counterparty is required to pay to the Market Participant, regardless of whether

or not the Market Participant is required to pay that amount to an exchange, clearing house or other entity;

(b) is the full value of the outstanding settlement amount, premium, deposit or margin call that is due from an entity with respect to client or house trades cleared by that entity; and

(c) commences at the time that amounts are normally scheduled for payment to the relevant exchange or clearing house.

(2) A Market Participant may reduce the unpaid settlement amount, premium, deposit or margin call by the amount of cash paid by the Counterparty or collateral held by the Market Participant on behalf of the Counterparty if:

(a) the collateral is Liquid and only to the extent that it is Liquid;

(b) the collateral is unrelated to a particular or specific transaction and is different to any cash or collateral paid to the relevant exchange or clearing house in respect to specific transactions;

(c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;

(d) the collateral is valued at the mark to market value; and

(e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the client or Counterparty in circumstances where:

(i) the Market Participant has established that the client or Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

(ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For the purposes of paragraph (1)(a):

(a) the obligation to calculate a risk amount for amounts owing from "normal agency clients" excluding other participants in the relevant market will be deemed to be from the time that amounts are normally scheduled for payment to the relevant exchange or clearing house, regardless of whether the Market Participant actually has to make a payment to the exchange or clearing house; and

(b) the obligation to calculate a risk amount for amounts owing from other participants in the relevant market will be deemed to be from the close of business on the day the payment is due to be received.

(4) For the purposes of paragraph (1)(b), where a Market Participant undertakes a trade as principal in an exchange traded Derivatives and does not clear its own trades, the Market Participant must calculate a counterparty risk amount on its exposure to its Clearing

Participant under this method that will equal the amount owed to the Market Participant by the clearer and will apply from close of business on the day the payment is due until the clearer has paid.

(5) For the purposes of subrule (2), if the security lodged as collateral is subject to:

(a) a trading halt, the last market value may be used; or

(b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

A1.2.6 OTC Derivatives and Warrants executed as principal method

(1) For an OTC Derivative or warrant held as principal, the counterparty risk amount for a Counterparty is:

(a) zero, for a written Option position where the premium due has been received in full;

(b) 100% of the premium for a written Option position where the premium due has not been received, from the time the Option is dealt until the premium is paid; and

(c) otherwise, 8% of the aggregate of the credit equivalent amount which is calculated as the sum of:

(i) a current credit exposure being the mark to market valuation of all contracts with a Positive Credit Exposure; and

(ii) a potential credit exposure being the product of the absolute value of a contract's nominal, notional or actual principal amount and the applicable potential credit exposure factor specified in Table A5.2.2 in Annexure 5 to Schedule 1A.

(2) A Market Participant may reduce the premium or credit equivalent amount by the amount of collateral held by the Market Participant on behalf of the Counterparty if:

(a) the collateral is Liquid and only to the extent that it is Liquid;

(b) the collateral is unrelated to a particular or specific transaction;

(c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;

(d) the collateral is valued at the mark to market value and where paragraph (1)(c) applies is deducted from the credit equivalent amount before multiplying the amount by 8%; and

(e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:

(i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

(ii) the agreement provides for the Market Participant to deal with that collateral in the event that the Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For the purposes of subrule (2), if the security lodged as collateral is subject to:

(a) a trading halt, the last market value may be used; or

(b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(4) For the purposes of calculating a current credit exposure under subparagraph (1)(c)(i):

(a) subject to paragraph (b), a calculation of a current credit exposure must be done on a transaction by transaction and Counterparty by Counterparty basis;

(b) where the Market Participant has more than one transaction of the same type with the same Counterparty, the Market Participant may net the positive and negative current credit exposures on those transactions, provided that:

(i) the Market Participant has a legally binding and enforceable netting agreement with the Counterparty that covers the relevant transactions; and

(ii) if, after netting, the current credit exposure to the Counterparty is negative, the Market Participant must calculate the current credit exposure as zero for the purpose of calculating the counterparty risk amount;

(c) the Market Participant may only net the positive and negative current credit exposures arising from transactions denominated in different currencies, where the netting agreement referred to in subparagraph (b)(i) allows for multi-currency netting;

(d) "**mark to market valuation**" means the market value for OTC Derivatives such as Options and warrants and the market to market gain/loss for OTC Derivatives where payments to/from the parties are based on changes in the price of the underlying product (for example, Swaps, forward foreign exchange); and

(e) in the case of a warrant transaction:

(i) if the warrant is subject to a trading halt (due to the underlying security being subject to a trading halt), the last market value may be used;

(ii) if the warrant is subject to suspension, the warrant should be treated as an Excluded Asset on the basis that it is not Liquid.

(5) For the purposes of calculating a potential credit exposure under subparagraph (1)(c)(ii):

(a) a potential credit exposure must be calculated on every transaction, including those transactions with a negative or zero current credit exposure;

(b) the potential credit exposures must not be netted; and

(c) in the case of an equity Option or warrant, the notional face value is the underlying number of shares multiplied by the strike price.

(6) For the purposes of subrule (1), "as principal" includes where the Market Participant enters into an off market facilitation role whereby the Market Participant "purchases" the

Derivatives contract from client A and "sells" it to client B and neither client A nor B are aware of the identity of the other.

(7) A Market Participant must calculate a counterparty risk amount under this method for transactions in OTC Derivatives and warrants including, but not limited to, transactions in:

(a) interest rate Options;

(b) foreign currency Options;

(c) single-currency interest rate Swaps;

(d) cross-currency interest rate Swaps;

(e) basis Swaps;

(f) Forward Rate Agreements; and

(g) forward foreign exchange contracts,

but is not required to calculate a counterparty risk amount under this method for transactions in foreign exchange contracts with an original maturity of 14 calendar days or less.

A1.2.7 Sub Underwritten Positions method

There is no Sub Underwritten Positions method at this time.

A1.2.8 Counterparty risk weighting

(1) Subject to subrules (2) to (6), a Market Participant may choose to calculate its counterparty risk amount in relation to a Counterparty as the counterparty risk amount calculated in accordance with Parts A1.2 to A1.7 multiplied by the counterparty risk weighting applicable for that Counterparty specified in Table A5.2.1 in Annexure 5 to Schedule 1A.

(2) A Market Participant can only calculate its counterparty risk amount for a Counterparty in accordance with subrule (1) above if it calculates the counterparty risk amount in this manner for that Counterparty consistently across all methods within this Annexure 1.

(3) For the purposes of calculating the counterparty risk amount in relation to a Counterparty that the Market Participant has classified as an Approved Institution under paragraph (a) of the definition of Approved Institution and that is a subsidiary or member of a group of companies or funds, the Market Participant may only apply the counterparty risk weighting for Approved Institutions specified in Table A5.2.1 in Annexure 5 to Schedule 1A to that counterparty risk amount where:

(a) the requirements of paragraph (a) of the definition of Approved Institution are met in relation to the individual subsidiary or member of the group (that is, the individual subsidiary or member must have net assets greater than $30 million);

(b) the Market Participant has a copy of the individual subsidiary or members' balance sheet that demonstrates that the individual subsidiary or member meets the requirements of paragraph (a); and

(c) after the documentation is first obtained by the Market Participant for the purposes of paragraph (b) the Market Participant reconfirms the classification of the Counterparty as an Approved Institution on an annual basis.

(4) For the purposes of calculating the counterparty risk amount in relation to a Counterparty that the Market Participant has classified as an Approved Institution under paragraph (b) of the definition of Approved Institution, the Market Participant may only apply the counterparty risk weighting for Approved Institutions specified in Table A5.2.1 in Annexure 5 to Schedule 1A to that counterparty risk amount where:

(a) the Market Participant has records demonstrating that the Counterparty is in fact regulated by a Recognised non-European Union Regulator or a Recognised European Union Regulator as specified in Tables A5.3.1 and A5.3.2 in Annexure 5 to Schedule 1A and that the Counterparty's ordinary business is the purchase and sale of Financial Instruments; and

(b) after the documentation is first obtained by the Market Participant for the purposes of paragraph (a) the Market Participant reconfirms the classification of the Counterparty as an Approved Institution on an annual basis.

(5) Where:

(a) an exposure to a Counterparty has been guaranteed by an Approved Deposit Taking Institution; and

(b) the guarantee referred to in paragraph (a) is provided to the Market Participant performing the counterparty risk calculation in writing and provides for direct, explicit, irrevocable and unequivocal recourse to the guarantor,

a counterparty risk weighting of 20% may be applied to the part of the exposure that is covered by the guarantee (the remainder, if any, must be weighted according to the risk weighting of the Counterparty).

(6) Subrule (5) does not apply to indirect guarantees (for example, a guarantee of a guarantee) and letters of comfort.

Annexure 2 to Schedule 1A: Large exposure risk requirement

Part A2.1 Counterparty large exposure risk requirement

A2.1.1 Nature of counterparty large exposure risk amount

The counterparty large exposure risk amount is the absolute sum of the individual counterparty large exposure risk amounts calculated using the method of calculation set out in this Annexure 2.

A2.1.2 Method

(1) The counterparty large exposure amount is:

(a) zero, if there are no exposures to a Counterparty in respect of transactions at the times specified in Table A2.1;

(b) zero, if there are aggregate exposures to a Counterparty in respect of transactions at the times specified in Table A2.1 and where these aggregate exposures are less than or equal to 10% of the Market Participant's Liquid Capital; or

(c) 100% of the counterparty risk amount for the exposure calculated in accordance with Annexure 1 to Schedule 1A, if there are aggregate exposures to a Counterparty in respect of transactions referred to in column 1 of Table A2.1 at the times specified in column 3 of Table A2.1 and where these aggregate exposures are greater than 10% of the Market Participant's Liquid Capital.

Table A2.1: Aggregate exposure to Counterparty by transaction type

Transaction Type	Subject to counterparty large exposure	Time of Exposure	Reference in Annexure 1
Non-Margined Financial Instrument	Yes	Greater than 10 Business Days after transaction date	Subrule A1.2.2(3)
Free Delivery	No	N/A	N/A
Securities Lending and Borrowing	Yes	Date the transaction is due to be closed out (that is, the day the Counterparty is scheduled to return the Market Participant's cash and/or securities and has failed to do so)	Rule A1.2.4
Margined Financial Instrument	Yes	24 hours after the time that amounts are normally scheduled for payment to the relevant exchange or clearing house	Rule A1.2.5

Transaction Type	Subject to counterparty large exposure	Time of Exposure	Reference in Annexure 1
OTC Derivative or Warrant held as principal	Yes	Date any payment or delivery is due under the transaction	Rule A1.2.6
Sub Underwritten Positions	No	N/A	N/A

(2) The counterparty large exposure risk amount calculated in respect of a transaction cannot exceed the maximum loss for that transaction.

(3) For the purposes of subrule (2), the maximum loss for:

(a) an agency purchase transaction in non-margined Financial Instruments is the contract value;

(b) an agency sale transaction in non-margined Financial Instruments is deemed to be the market value;

(c) a Securities Lending and Borrowing transaction is deemed to be the counterparty exposure calculated as the difference between the market value of securities or cash given by the Market Participant to the Counterparty and the market value of securities or cash received by the Market Participant from the Counterparty;

(d) for transactions in margined Financial Instruments is deemed to be the outstanding settlement amount, premium, deposit or margin call that is owed to the Market Participant

(e) for an OTC Derivative transaction in a written Option position is the full value of the premium owed to the Market Participant;

(f) for a transaction in a purchased Option or other OTC Derivative position is deemed to be the current credit exposure calculated under subparagraph A1.2.6(1)(c)(i), where the current credit exposure is recalculated on a daily basis while the transaction remains outstanding.

(4) To calculate aggregate exposures to a Counterparty, a Market Participant must:

(a) aggregate exposures to persons forming part of a Group of Connected Persons; and

(b) not include exposures other than Positive Credit Exposures specified in Table A2.1.

Part A2.2 Issuer large exposure risk requirement

A2.2.1 Nature of an issuer large exposure risk amount

The issuer large exposure risk amount is the absolute sum of the individual issuer large exposure risk amounts calculated from the transaction date using the method of calculation set out in this Annexure 2.

A2.2.2 Overview

(1) The issuer large exposure risk amount for an issuer is subject to two tests, measuring the net position relative to Liquid Capital and relative to the issuer.

(2) In calculating the issuer large exposure amounts for exposures to:

(a) equity positions, the method set out in Rule A2.3.1 applies;

(b) debt positions, the method set out in Rule A2.3.2 applies; and

(c) both equity positions and debt positions where no risk amount arises under Rule A2.3.1 or Rule A2.3.2, the method set out in Rule A2.3.3 applies.

(3) The methods referred to in subrule (2) are summarised in the Tables below:

Table A2.2: Issuer Large Exposure—Equity Positions

	Equity Method				
	Compared to Liquid Capital		**Compared to Issue**		**Risk amount**
Equity Net Position from transaction date	If equity net position is ≤25%, is a risk amount required? No	If equity net position is >25%, is a risk amount required? Yes (a)	If equity net position is ≤5%, is a risk amount required? No	If equity net position is >5%, is a risk amount required? Yes (b)	Take the greater of (a) and (b)

Table A2.3: Issuer Large Exposure—Debt Positions

	Debt Method				
	Compared to Liquid Capital		**Compared to Issue**		**Risk amount**
Debt Net Position from transaction date	If debt net position is ≤25%, is a risk amount required? No	If debt net position is >25%, is a risk amount required? Yes (a)	If debt net position is ≤10%, is a risk amount required? No	If debt net position is >10%, is a risk amount required? Yes (b)	Take the greater of (a) and (b)

Table A2.4: Issuer Large Exposure—Equity and Debt Positions

	Equity and Debt Method		
	Compared to Liquid Capital only		**Risk amount**
Equity Net Position and Debt Net Position from transaction date	If equity net position and debt net position is ≤25%, is a risk amount required? No	If equity net position and debt net position is >25%, is a risk amount required? Yes (c), but only if a zero amount has been calculated in Table A2.2 or Table A2.3	Take (c)

A2.2.3 Application

(1) An issuer large exposure risk amount does not arise in relation to:

(a) a Financial Instrument whose value is based on Government Debt Instrument or an interest rate;

(b) a Forward Rate Agreement;

(c) an interest rate or currency Swap;

(d) an interest rate leg of an equity Swap; and

(e) a Future on an index, an equity Swap based on an index or any other index-linked Derivative where that Future, equity Swap or index-linked Derivative is not broken down into its constituent positions by a Market Participant for the purposes of calculating a position risk amount.

(2) An issuer large exposure risk amount must be calculated in the following manner:

(a) the Equity leg of an equity Swap the value of which is based on the change in value of an individual Equity is treated as an exposure to the issuer of the Equity for the face value of the equity leg of the equity Swap;

(b) a Future or forward contract over:

(i) a Debt Instrument other than a Government Debt Instrument; or

(ii) an Equity,

is treated as an exposure to the underlying issuer for the face value of the Future or forward contract;

(c) a Future on a index, an equity Swap based on an index or any other index-linked Derivative (including a Classical ETF) where that Future, equity Swap or index-linked derivative is broken down into its constituent positions by a Market Participant for the purposes of calculating a position risk amount, is treated as an exposure to each underlying constituent position; and

(d) an Option or right over a Financial Instrument (other than a Financial Instrument referred to in subrule (1) above) is treated as an exposure at:

(i) the full value of the underlying position;

(ii) the delta weighted value of the underlying instrument generated by a model approved by ASIC under the contingent loss matrix method; or

(iii) the delta weighted value of the underlying instrument where a delta is published by a relevant exchange, clearing house or an independent market information source.

(3) Where a Market Participant has positions in Hybrid ETFs or Other Managed Funds:

(a) only the test against Liquid Capital (under subrule A2.3.1(2), A2.3.2(3) or A2.3.3(2)) needs to be applied to those positions; and,

(b) the test against Liquid Capital must be applied separately for each different Hybrid ETF or Other Managed Fund issued by the same issuer.

(4) Where a Market Participant:

(a) is not an active trader in bank bills;

(b) holds bank bills as a passive investment, with the intention that the bank bills be held to maturity; and

(c) calculates the position risk amount under subrule A3.11.2(3) as the face value of the bills multiplied by the appropriate standard method Position Risk Factor,

the Market Participant may also calculate its issuer large exposure risk amount for its position in bank bills using the face value of the bills.

(5) A delta weighted value under paragraph (2)(d) may be offset against the corresponding underlying instrument in calculating an Equity Net Position or Debt Net Position under Rules A2.3.1, A2.3.2 and A2.3.3.

Part A2.3 Methods

A2.3.1 Equity method

(1) A Market Participant's issuer large exposure risk amount in relation to an issuer is the greater of the following amounts:

(a) the risk amount calculated by comparing the Equity Net Position to Liquid Capital under subrule (2); and

(b) the risk amount/s calculated by comparing the Equity Net Position to the issue/s under subrule (3).

(2) If the absolute value of an Equity Net Position to an Issuer is greater than 25% of the Market Participant's Liquid Capital the risk amount is:

(a) 12% for each single Equity in a Recognised Market Index; and

(b) 16% for any other single Equity, of the amount in excess of 25% of Liquid Capital.

(3) If the absolute value of an Equity Net Position to an Individual Issue/s is greater than 5% of that issue, the risk amount/s is:

(a) 12% for each single Equity in a Recognised Market Index; and

(b) 16% for any other single Equity, of the amount in excess of 5% of the issue/s.

(4) For the purposes of subrule (2):

(a) "**Issuer**" means:

(i) in the case of principal positions in physical Equity securities, the entity that has issued those securities; and

(ii) in the case of Derivative positions, means the entity that has issued the securities underlying the Derivatives position and does not mean the Counterparty to the Derivative transaction; and

(b) the Equity Net Position to a particular Issuer is the aggregate of all Equity Net Positions for different issues of securities issued by that Issuer where:

(i) the Equity Net Positions relate to particular underlying instruments issued by a single Issuer (for example, ordinary shares, Preference Shares); and

(ii) Equity Net Positions for different instruments issued by a single Issuer must not be offset when calculating the total Equity Net Position to that issuer.

(5) For the purposes of subrule (3), the instruments in column 1 of Table A2.5 are considered to comprise the "Individual Issue" for a particular Equity product referred to in column 2:

Table A2.5: Individual Issues

"Individual Issue"	Equity Product	"Individual Issue" Detail
Ordinary shares	Ordinary shares	Ordinary shares on issue, as published by an information source.
	Exchange traded Options (ETOs)	The ordinary shares underlying the ETO, as published by an information source.
	Exchange traded warrants	The ordinary shares underlying the exchange traded warrant, as published by an information source.
	Exchange traded convertible notes that are treated as an Equity position for the purposes of the position risk calculation	Ordinary shares on issue, as published by an information source.
	Classical ETF (which is broken down into its constituent positions)	Ordinary shares on issue for each company in the stock index on which the classical ETF is based, as published by an information source.
	Futures or forward contracts over ordinary shares	The ordinary shares underlying the Futures or forward contracts, as published by an information source.

"Individual Issue"	Equity Product	"Individual Issue" Detail
Ordinary shares or Preference shares (depends on underlying)	Over the counter (OTC) Options over physical shares	The ordinary shares or Preference Shares (as applicable) underlying the OTC Option, as published by an information source.
	Equity Swap	The ordinary shares or Preference Shares (as applicable) underlying the Equity Swap, as published by an information source.
Preference shares	Preference Shares	Preference Shares on issue, as published by an information source. Where a company has issued more than one series of Preference Shares, each series should be considered to be a separate "individual issue" (for example, ABC 7% Preference Shares and ABC 7.1% Preference Shares need to be considered separately).
Company issued option series	Company issued Options	Company issued Option "series", as published by an information source. Each company Option "series" will have different terms and conditions (for example, if ABC has issued company Options expiring on 31/1/05 with a strike of $1 as well as company Options expiring on 31/3/05 with a strike of $1, these are two different "series" and need to be considered separately).

A2.3.2 Debt method

(1) A Market Participant's issuer large exposure risk amount in relation to an issuer is the greater of the following amounts:

(a) the risk amount calculated by comparing the Debt Net Position to Liquid Capital under subrule (3); and

(b) the risk amount/s calculated by comparing the Debt Net Position to the issue/s under subrule (4).

(2) In calculating the issuer large exposure risk amount under this method:

(a) an individual issue refers to an individual series or tranche of an individual series issued by an individual issuer;

(b) long and short positions may be offset across series for the purposes of determining large exposure to an issuer; and

(c) a large exposure to an individual issuer is the sum of all series issued by that issuer.

(3) If the absolute value of a Debt Net Position to an issuer is greater than 25% of the Market Participant's Liquid Capital, the risk amount is:

(a) the relevant standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A multiplied by the amount in excess of 25%; and

(b) if more than one series is held, the Position Risk Factor for the longest dated instrument should be applied to the excess over 25%.

(4) If the absolute value of a Debt Net Position to an individual issue/s is greater than 10% of that issue, the risk amount/s is:

(a) the relevant standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A multiplied by the excess over 10%; and

(b) if more than one series is held, the risk amount is the aggregate of the risk amounts calculated under paragraph (a) for each individual series.

A2.3.3 Equity and Debt method

(1) A Market Participant's issuer large exposure risk amount in relation to an issuer is based on the absolute sum of the Equity Net Positions and Debt Net Positions.

(2) If the absolute sum of the Equity Net Positions and Debt Net Positions is greater than 25% of a Market Participant's Liquid Capital, then the risk amount is the relevant standard method Position Risk Factor specified in Table A5.1.1 or Table A5.1.2 in Annexure 5 to Schedule 1A multiplied by the excess over 25% according to the following:

(a) if the Equity Net Positions represent the greatest proportion of the aggregate Net Position, the standard method Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A;

(b) if the Debt Net Positions represent the greatest proportion of the aggregate Net Position,

  (i) the relevant standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A; and

  (ii) if more than one series is held, the Position Risk Factor for the longest dated instrument; or

(c) if the Equity Net Position and Debt Net Positions are held in equal proportions, the greatest of the standard method Position Risk Factors specified in Tables A5.1.1 or A5.1.2 in Annexure 5 to Schedule 1A.

Annexure 3 to Schedule 1A: Position risk requirement

Part A3.1 Equity position risk amount

A3.1.1 Nature of equity position risk amount

The equity position risk amount in relation to a Market Participant's equity positions is the absolute sum of the individual position risk amounts for equity positions calculated for each country using the methods of calculation set out in this Annexure 3.

A3.1.2 Overview of methods

(1) The standard method and building block method are the two main methods for measuring the equity position risk amount. They are supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

(2) In calculating the equity position risk amount, the following methods must be used:

Table A3.1: Methods

Nature of Positions	Standard Method	Building Block Method	Contingent Loss Matrix Method	Margin Method	Basic Method	Arbitrage Method
Physical (not equity derivative)	Yes	Yes	Yes, in conjunction with positions in options	No	No	Yes, subject to certain condition
Non-option equity derivatives	Yes, if converted to equity equivalent positions	Yes, if converted to equity equivalent positions	Yes, in conjunction with positions in options	Yes, if exchange traded and margined and not calculated under any other method	No	Yes, if arising as a result of futures arbitrage strategy
Equity options	No	Yes, if satisfy relevant criteria and not permitted to use contingent loss matrix method	Yes. Pricing model must be approved by ASIC	Yes, if exchange traded and margined and not calculated under any other method	Yes, if not permitted to use contingent loss matrix method	No

(3) For the purposes of Parts A3.1 to A3.9, a right over an equity must be treated as an Option position.

Federal Register of Legislative Instruments F2013C00794

A3.1.2A Equity position risk amount

Without limitation, a Market Participant must calculate an equity position risk amount under this Annexure 3 in the following circumstances:

(a) where the Market Participant has entered into an on-market purchase or sale transaction as principal, the Market Participant will be required to calculate an equity position risk amount unless the trade is done for the purposes of unwinding an existing principal position;

(b) where the Market Participant has entered into an off-market purchase or sale and acts as principal on one side of the transaction, the Market Participant will be required to calculate an equity position risk amount from the time that the trade is executed until the trade is sold to the client;

(c) where the Market Participant agrees to buy stock as principal from its client and then seeks to close its principal position by selling the stock to other clients (an off-market client facilitation), the Market Participant will be required to calculate an equity position risk amount on the long Equity position from the time the trade is executed until the position is sold to the other clients (a position risk amount will continue to be required on any part of the position that is not closed out), regardless of whether the client facilitation is fully completed within the day;

(d) where the Market Participant conducts an off market underwritten placement of existing shares via a book build, the Market Participant will be required to calculate an equity position risk amount from the time that the deadline for the placement is reached, for any shares that have not been sold to buying clients by that time, where the position risk amount is based on the "final" price for the placement;

(e) where the Market Participant acts as underwriter of an initial public offering or a placement of new shares, the Market Participant will be required to calculate an equity position risk amount from the time that the closing date for applications is reached, on any shortfall in applications as at that date, where for the purposes of calculating the position risk amount, the "cost" or "subscription" price should be taken as the market value of the securities prior to their listing and trading; and

(f) where the Market Participant has applied for stock, allocation interest units or instalment receipts on behalf of clients and the Market Participant has been given a Firm Allocation and there is a shortfall once the public offer closes, the Market Participant will be required to calculate an equity position risk amount on the shortfall from the date that the Market Participant has outlaid the funds or the date that the public offer closes, whichever is later.

A3.1.2B Treatment—Securities subject to a trading halt or suspension

Where a Market Participant holds a principal position in a security that is subject to:

(a) a trading halt, the position does not have to be treated as an Excluded Asset (where the position otherwise meets the definition of Liquid) and a position risk amount must be calculated; and

(b) suspension, the position must be treated as an Excluded Asset on the basis that the security is not Liquid.

A3.1.2C Treatment—Classical ETFs

A Market Participant must take the following into account when calculating a position risk amount for a principal position in Classical ETF units:

(a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;

(b) principal positions in Classical ETFs commence at T_0 and the underlying risk variable is the market price of the Classical ETF unit;

(c) the Equity Equivalent of the Classical ETF is set out in Rule A3.8.5;

(d) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 to Schedule 1A; and

(e) if the Market Participant is unlikely to be able to liquidate its position in a Classical ETF within 30 days, taking into account factors including the size of its position and the volume of that Classical ETF traded in the market, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital.

A3.1.2D Treatment—Hybrid ETFs

A Market Participant must take the following into account when calculating a position risk amount for a principal position in units in a Hybrid ETF classified as Equities:

(a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;

(b) principal positions in Hybrid ETFs commence at T_0 and the underlying risk variable is the market price of the Hybrid ETF unit;

(c) a Hybrid ETF cannot be broken down into any notional positions in the underlying;

(d) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 to Schedule 1A; and

(e) if the Market Participant is unlikely to be able to liquidate its position in a Hybrid ETF within 30 days, taking into account factors including the size of its position and the volume of that Hybrid ETF traded in the market, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital.

A3.1.2E Treatment—Other Managed Funds

A Market Participant must take the following into account when calculating a position risk amount for a principal position in units Other Managed Fund classified as Equities:

(a) principal positions in Other Managed Funds commence at T_0 and the underlying risk variable is the market price of the Other Managed Fund unit;

(b) the Other Managed Fund cannot be broken down into any notional positions in the underlying;

(c) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 to Schedule 1A;

(d) if the Market Participant is unlikely to be able to liquidate its position in an Other Managed Fund within 30 days, taking into account factors including the size of its position relative to the size of the fund, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital; and

(e) if a daily price cannot be obtained and/or if the numbers of units on issue cannot be determined on a daily basis, the position must be treated as an Excluded Asset as it would not be possible to value the investment in accordance with the requirements of Rule S1A.2.8.

A3.1.2F Exchange traded CFDs

A Market Participant must take the following into account when calculating a position risk amount for a principal position in an exchange traded CFD classified as an Equity Derivative:

(a) principal positions in exchange traded CFDs commence at T_0;

(b) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 to Schedule 1A;

(c) if the Market Participant is unlikely to be able to liquidate its position in an exchange traded CFD within 30 days, taking into account factors including the size of its position and the volume of that exchange traded CFD traded in the market, it must treat that exchange traded CFD as an Excluded Asset and exclude the market value of that position from Liquid Capital.

Part A3.2 Standard method—Equity position risk

A3.2.1 Application

(1) Physical Equity positions may be included in the standard method.

(2) Equity Derivative positions other than Options may be included in the standard method if the positions are converted to Equity Equivalents according to Part A3.8.

(3) Equity Derivative positions which are Options may be included in the standard method only if they are purchased positions or if they are written positions which are exchange traded and subject to daily margin requirements and the purchased or written positions are:

(a) In the Money by at least the relevant standard method Position Risk Factor for the underlying position specified in Table A5.1.1 in Annexure 5 to Schedule 1A; and

(b) converted to Equity Equivalents according to Part A3.8.

Federal Register of Legislative Instruments F2013C00794

If the above criteria are not met, the Options must be treated under one of the option methods set out in Parts A3.4, A3.5 and A3.6.

A3.2.2 Method

The position risk amount for equity positions to which the standard method is applied is the absolute sum of the product of individual Equity Net Positions at the mark to market value and the applicable Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A.

Part A3.3 Building block method—Equity position risk

A3.3.1 Application

(1) Physical Equity and Equity Derivative positions may be included in the building block method if there are at least 5 long or 5 short Equity Net Positions in the one country and which are included in Recognised Market Indexes.

(2) Equity Derivative positions other than Options may be included in the building block method if the positions are converted to Equity Equivalents according to Part A3.8.

(3) Equity Derivative positions which are Options may be included in the building block method only if they are purchased positions or if they are written positions which are exchange traded and subject to daily margin requirements and the purchased or written positions are:

(a) In the Money by at least the relevant standard method Position Risk Factor for the underlying position specified in Table A5.1.1 in Annexure 5 to Schedule 1A; and

(b) converted to Equity Equivalents according to Part A3.8.

If the above criteria are not met, the Options must be treated under one of the option methods set out in Parts A3.4, A3.5 and A3.6.

A3.3.2 Method

(1) The position risk amount for equity positions to which the building block method is applied is the aggregate of a specific risk and a general risk amount for each Equity Net Position at the mark to market value.

(2) The specific risk amount is calculated as the aggregate of each Equity Net Position, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A. The aggregate is calculated by reference to the absolute value of each Equity Net Position.

(3) The general risk amount is calculated by:

(a) multiplying each Equity Net Position by the relevant general risk Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A; and

Federal Register of Legislative Instruments F2013C00794

(b) aggregating the results of these calculations. In aggregating these calculations, positive and negative signs (that is, long and short positions respectively) may be offset in determining the aggregate number.

The absolute value of this aggregate number is the general risk amount.

Part A3.4 Contingent loss matrix method—Equity position risk

A3.4.1 Application

(1) Equity Derivative positions which are Options together with physical Equity and other Equity Derivative positions may be included in the contingent loss matrix method but only if used in conjunction with an option pricing model approved by ASIC and only if the Market Participant is able to mark to market the physical Equities and Equity Derivative positions.

(2) A Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with:

(a) the technical specifications for its proposed pricing model;

(b) details concerning the parameters used in the proposed pricing model;

(c) details concerning the way in which the pricing model is integrated into the Market Participant's overall risk management systems; and

(d) details concerning the extent to which the Market Participant is able to automate the calculation of the contingent loss matrix.

(3) A Market Participant applying the contingent loss matrix method may use method 2 as set out in Rule A3.4.3 if there are 5 long or 5 short Equity Net Positions which are included in Recognised Market Indexes in any one country, otherwise it must use method 1 as set out in Rule A3.4.2.

A3.4.2 Method 1

(1) This method calculates the risk amount in one step for each underlying in a manner similar to the standard method.

(2) The position risk amount for equity positions to which this method is applied is the greatest loss arising from simultaneous prescribed movements in the closing market price of the underlying position and the option implied volatility.

(3) The prescribed movements are the Position Risk Factors for the standard method specified in Table A5.1.1 in Annexure 5 to Schedule 1A.

(4) A separate matrix must be constructed for each option portfolio and associated hedges in each country.

(5) Changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market price of the underlying position and implied option volatility as follows:

(a) the relevant Position Risk Factor is to be divided into seven equally spaced price shift intervals (including the current market price); and

(b) the relevant implied volatility Position Risk Factor is to be divided into three equally spaced volatility shift intervals (including the current market implied volatility).

(6) Each option portfolio is to be re-priced using the adjusted underlying position and volatility price as described in subrule (5). The value in each element of the contingent loss matrix will be the difference between the revalued option portfolio and the option portfolio calculated using the closing market price.

(7) The absolute value of the aggregate of the greatest loss for each matrix is the position risk amount.

A3.4.3 Method 2

(1) This method calculates the risk amount as the aggregate of a specific risk and a general risk amount for each underlying in a manner similar to the building block method.

(2) The specific risk amount is calculated as the aggregate of the delta weighted value of the underlying instrument calculated by the option pricing model approved by ASIC, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A.

(3) The general risk amount is calculated in the manner described in Rule A3.4.2 replacing subrules A3.4.2(3) and A3.4.2(7) as described below.

(4) The prescribed movements referred to in subrule A3.4.2(3) are replaced with the Position Risk Factors for the building block method specified in Table A5.1.1 in Annexure 5 to Schedule 1A.

(5) The position risk amount calculated in subrule A3.4.2(7) is replaced with the general risk amount which is the absolute value of the greatest loss in a single country matrix.

(6) A single country matrix is constructed by superimposing each separate matrix under subrule A3.4.2(4) so that the values in the corresponding matrix elements are netted to form a single value for each element.

Part A3.5 Margin method—Equity position risk

A3.5.1 Application

Equity Derivative positions which are exchange traded and have a positive Primary Margin Requirement must be included in the margin method if the Market Participant:

(a) has not been approved by ASIC to use the contingent loss matrix method; and

(b) is not permitted to use any of the other Methods set out in Rule A3.1.2.

A3.5.2 Method

The position risk amount for Equity Derivative positions under the margin method is 100% of the Primary Margin Requirement for those Equity Derivative positions as determined by the relevant exchange or clearing house multiplied by 4.

Part A3.6 Basic method—Equity position risk

A3.6.1 Application

Equity Derivative positions which are purchased (long) or written (short) Options may be included in the basic method.

A3.6.2 Method

(1) The position risk amount for a purchased Option is the lesser of:

(a) the mark to market value of the underlying equity position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.1 in Annexure 5 to Schedule 1A; and

(b) the mark to market value of the Option,

where:

(c) the market value of the Option should be calculated as the current price of the Option multiplied by the number of Options/number of shares underlying the Option; and

(d) the notional market value of the physical Equities position underlying the Option is calculated by taking the number of shares underlying the position multiplied by the current price of that stock.

(2) The position risk amount for a written Option is the mark to market value of the underlying equity position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.1 in Annexure 5 to Schedule 1A reduced by:

(a) any excess of the exercise value over the current market value of the underlying position in the case of a call Option, but limited to nil if it would otherwise be negative; or

(b) any excess of the current market value of the underlying position over the exercise value in the case of a put Option, but limited to nil if it would otherwise be negative.

Part A3.7 Arbitrage method—Equity position risk

A3.7.1 Application

Equity Derivative positions arising as a result of Futures arbitrage strategies may be included in the arbitrage method if the Market Participant has a position in:

(a) two Futures over similar indexes; or

(b) a Future over a broadly based index and a position in a matching physical basket,

and if the requirements set out below are satisfied.

A3.7.2 Method—similar indexes

(1) A Market Participant's position risk amount for a position in two Futures over similar indexes is 2% of the Equity Equivalent of one of the Futures over an index position at the mark to market value but only if the Market Participant:

(a) has an opposite position in a Future over the same index at a different date or in a different market; or

(b) has an opposite position in a Future at the same date in a different but similar index (where two indexes are similar if they contain sufficient common components that account for at least 70% of each index).

The position risk amount for the opposite Future position is nil.

(2) For the purposes of subrule (1), if the market value of each side of the arbitrage Futures position is different, the Market Participant must use the side that results in the higher position risk.

A3.7.3 Method—a broadly based index and a matching basket of the stocks from that index

(1) A Market Participant may calculate the position risk amount for a Future over an index and a position in a matching physical basket under one of two possible methodologies:

(a) the position in the Future over an index may be disaggregated into the notional physical positions and the position risk amount for these notional positions and the physical basket may then be calculated in accordance with the standard method or building block method for equity positions; or

(b) 2% of the mark to market value of the Future over the index if:

(i) the arbitrage trades have been specifically entered into and are separately monitored over the life of the arbitrage;

(ii) the mark to market value of the physical basket is greater than 80% and less than 120% of the mark to market value of the notional position in the Future over the index; and

(iii) the sum of the index weights of the individual positions in the required physical basket is greater than 70% of the Future over the index, where the required physical basket is calculated by:

(A) ranking all mark to market positions in the physical basket in ascending dollar value;

(B) converting each dollar value position to a percentage of the total dollar value of the physical basket; and

(C) adding the percentages in ascending order until the total of these percentages exceeds 70%.

(2) For the purposes of paragraph (1)(a):

(a) notional positions will equal the market value of the index Futures position multiplied by the weight of each stock in the index;

(b) the sum of all notional stock positions will then equal the market value of the Futures position; and

(c) each stock in the physical basket can be offset against the corresponding notional position in the corresponding stock.

Part A3.8 Calculation of Equity Equivalent positions—Equity position risk

A3.8.1 Swaps

(1) The Equity Equivalent for a Swap is two notional positions, one for each leg of the Swap under which:

(a) there is a notional long position in an Equity or Equity Derivative on the leg of the Swap on which an amount is received; and

(b) there is a notional short position in an Equity or Equity Derivative on the leg of the Swap on which an amount is paid.

If one of the legs of the Swap provides for payment or receipt based on some reference to a Debt Instrument or Debt Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Parts A3.10 to A3.17.

(2) For the purposes of subrule (1), the notional position is the mark to market value of the Equity positions underlying the Swap (that is, the number of shares underlying the Swap multiplied by the current market price of those shares).

A3.8.2 Options

The Equity Equivalent for an Option is:

(a) for purchased call Options and written put Options, a long position at the mark to market value of the underlying equity position, or in the case of an Option on an index

or physical basket the mark to market value of either the index, basket, or the notional position in the underlying; or

(b) for purchased put Options and written call Options, a short position at the mark to market value of the underlying equity position, or in the case of an Option on an index or physical basket, the mark to market value of either the index, basket, or the notional position in the underlying.

A3.8.3 Futures and forward contracts

The Equity Equivalent:

(a) for a Future and forward contract over a single Equity, is the mark to market value of the underlying; or

(b) for a Future and a forward contract over an index or a physical basket, is the mark to market value of either the index, basket, or the notional position in the underlying.

A3.8.4 Convertible notes

(1) The Equity Equivalent of a convertible note, is either:

(a) if the Market Participant:

(i) does not use the contingent loss matrix method;

(ii) the premium is In the Money by less than 10%, where premium in this context means the mark to market value of the convertible note less the mark to market value of the underlying Equity, expressed as a percentage of the mark to market value of the underlying Equity; and

(iii) there are less than 30 days to the conversion date,

the mark to market value of the underlying Equity; or

(b) if the Market Participant uses the contingent loss matrix method, as calculated according to that method,

but otherwise the convertible note (or, in the case of a convertible note which is evaluated in accordance with the procedure stated in paragraph (b) the debt component of the convertible note) must be treated as a debt position in accordance with Debt Equivalent requirements.

(2) For the purposes of subrule (1), the market value of the Equity is the value of the note if it is immediately converted to Equity at current market prices (that is, the conversion ratio times the number of notes times the current price of the issuer's Equity per share).

A3.8.5 Other positions—Classical ETFs

The Equity Equivalent of a Classical ETF is:

(a) the mark to market value of the classical ETF; or

(b) the mark to market value of the notional position in the underlying,

and any cash component of the Classical ETF should be treated as if it was a position in an Equity.

A3.8.5A Other positions—Exchange traded CFDs

(1) The Equity Equivalent for an exchange traded CFD over a single Equity, is the mark to market value of the underlying.

(2) The Equity Equivalent for an exchange traded CFD over an index or a physical basket, is the mark to market value of either the index, basket or the notional position in the underlying.

Part A3.9 Calculation of equity net positions—Equity position risk

A3.9.1 Equity net positions

(1) The equity net positions are either the long or short positions resulting from offsetting equity positions and Equity Equivalents calculated in the following way:

(a) A Market Participant may net a long position against a short position only where the positions are in the same actual instrument. This includes Equity Equivalent positions calculated in accordance with Part A3.8. For the purposes of this paragraph:

(i) depository receipts may be treated as if they are the same positions in the corresponding instrument and at the same value if:

(A) the positions in the depository receipt and underlying have been entered into as a specific arbitrage and have the certainty of a locked-in profit (or loss);

(B) the profit (or loss) in sub-subparagraph (A) is Liquid; and

(C) all conversion costs and foreign exchange costs are immediately provided and are separately monitored over the life of the arbitrage,

but otherwise must be valued at the current exchange rate; and

(ii) instalment receipts may be treated as if they are positions in the corresponding instrument.

(b) If the contingent loss matrix method is not used for Options, then an Option position can only be offset if it is In the Money by at least the standard method Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A applicable to the underlying position.

(2) For the purposes of subrule (1), a Market Participant:

(a) must not offset Securities Lending and Borrowing transactions against underlying long and short Equity net positions; and

(b) must treat any securities that have been lent out under a Securities Lending and Borrowing arrangement or that have been sold under a repurchase agreement as a principal position of the Market Participant and must calculate a position risk amount on

that position, notwithstanding that a counterparty risk amount must also be calculated under the Securities Lending and Borrowing method in Rule A1.2.4;

(c) may only offset positions in quoted securities issued by a listed entity and quoted on multiple exchanges where the securities quoted on multiple exchanges are identical;

(d) may only offset positions in listed stocks that are subject to a merger and which involve the conversion/exchange of scrip once it is legally certain the conversion/exchange will proceed.

Part A3.10 Debt position risk amount

A3.10.1 Nature of debt position risk amount

The debt position risk amount in relation to a Market Participant's debt positions is the absolute sum of the individual position risk amounts calculated for debt positions for each currency using the methods of calculation set out in this Annexure 3.

A3.10.2 Overview of methods

(1) The standard method and building block method are the two main methods for measuring the debt position risk amount. They are supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

(2) In calculating the debt position risk amount, the following methods must be used:

Table A3.2: Overview of methods

Nature of Positions	Standard Method	Building Block Method	Contingent Loss Matrix Method	Margin Method	Basic Method
Physical (not equity derivative)	Yes	Yes	Yes, in conjunction with positions in options	No	No
Non-option equity derivatives	No	Yes, if converted to equity equivalent positions	Yes, in conjunction with positions in options	Yes, if exchange traded and margined and not calculated under any other method	No
Equity options	No	Yes, if satisfy relevant criteria and not permitted to use contingent loss matrix method	Yes. Pricing model must be approved by ASIC	Yes, if exchange traded and margined and not calculated under any other method	Yes, if not permitted to use contingent loss matrix method

Federal Register of Legislative Instruments F2013C00794

A3.10.2A Treatment—Hybrid ETFs

A Market Participant must take the following into account when calculating a position risk amount for a principal position in units in Hybrid ETFs classified as Debt Instruments:

(a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;

(b) principal positions in Hybrid ETFs commence at T_0 and the underlying risk variable is the market price of the Hybrid ETF unit;

(c) a Hybrid ETF cannot be broken down into any notional positions in the underlying; and

(a) the Position Risk Factors to be applied are set out in Rule A5.1.2A; and

(b) if the Market Participant is unlikely to be able to liquidate its position in a Hybrid ETF within 30 days, taking into account factors including the size of its position and the volume of that Hybrid ETF traded in the market, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital.

A3.10.2B Treatment—Other Managed Funds

A Market Participant must take the following into account when calculating a position risk amount for a principal position in units in Other Managed Funds classified as Debt Instruments:

(a) principal positions in Other Managed Funds commence at T_0 and the underlying risk variable is the market price of the Other Managed Fund unit;

(b) the Other Managed Fund cannot be broken down into any notional positions in the underlying;

(c) the Position Risk Factors to be applied are set out in Rule A5.1.2B;

(d) if the Market Participant is unlikely to be able to liquidate its position in an Other Managed Fund within 30 days, taking into account factors including the size of its position relative to the size of the fund, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital; and

(e) if a daily price cannot be obtained and/or if the number of units on issue cannot be determined on a daily basis, the position must be treated as an Excluded Asset on the basis that it would not be possible to value the investment in accordance with the requirements of Rule S1A.2.8.

A3.10.2C Treatment—Cash management trusts

For the purposes of the calculation of a position risk amount, an investment in a cash management trust, even if offered by an Approved Deposit Taking Institution or its subsidiary:

(a) is not a deposit with the Approved Deposit Taking Institution where it is not capital guaranteed and is subject to investment risk;

(b) where the cash management trust meets the definition of a Hybrid ETF or Other Managed Fund, may be treated accordingly; and

(c) where the cash management trust does not meet the definition of a Hybrid ETF or Other Managed Fund, must be treated as an Excluded Asset.

A3.10.2D Treatment—Securities subject to trading halt or suspension

Where a Market Participant holds a principal position in a listed debt security that is subject to:

(a) a trading halt, the position does not have to be treated as an Excluded Asset (where the position otherwise meets the definition of Liquid) and a debt position risk amount must be calculated;

(b) suspension, the position must be treated as an Excluded Asset on the basis that the security is not Liquid.

A3.10.2E Treatment—Underwriting

Where a Market Participant Underwrites an issue of debt securities, the Market Participant:

(a) is not required to calculate a position risk amount on its exposure until the closing date for applications is reached; and

(b) must treat any shortfall in applications as at the closing date as a principal position and calculate a position risk amount on its exposure will need to be calculated from this time;

(c) for the purposes of calculating a position risk amount under paragraph (b), must use the "cost" or "subscription" price as the market value of the securities prior to their issue.

Part A3.11 Standard method—Debt position risk

A3.11.1 Application

Only physical Debt Instrument positions may be included in the standard method.

A3.11.2 Method

(1) Subject to subrule (3), the position risk amount for debt positions to which the standard method is applied is the absolute sum of the product of individual Debt Net Positions at the mark to market value and the applicable Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A.

(2) In determining the applicable Position Risk Factor for the purposes of subrule (1):

(a) the coupon applicable to the Debt Net Position will determine the time band and Position Risk Factor;

(b) the Position Risk Factors and time bands for any Debt Instrument that does not have a coupon (for example, zero coupon bonds and bank bills) will generally be the same as for bonds with a coupon of less than 3%;

(c) fixed rate instruments should be allocated to a time band on the basis of the residual term to maturity; and

(d) floating rate instruments should be allocated to a time band on the basis of the residual term to the next repricing date.

(3) Where a Market Participant:

(a) is not an active trader in bank bills; and

(b) holds bank bills as a passive investment, with the intention that the bank bills be held to maturity,

the Market Participant may calculate the position risk amount under this method as the face value of the bills multiplied by the applicable Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A.

PartA3.12 Building block method—Debt position risk

A3.12.1 Application

(1) Physical Debt Instrument positions may be included in the building block method.

(2) Debt Derivative positions other than Options may be included in the building block method if the positions are converted to Debt Equivalents according to Part A3.16.

(3) Debt Derivative positions which are Options may be included in the building block method only if they are purchased positions or if they are written positions which are exchange traded and subject to daily margin requirements and the purchased or written positions are:

(a) In the Money by at least the relevant standard method Position Risk Factor for the underlying position specified in Table A5.1.2 in Annexure 5 to Schedule 1A; and

(b) converted to Debt Equivalents according to Part A3.16.

If the above criteria are not met, the Options must be treated under one of the option methods referred to in Parts A3.13, A3.14 and A3.15.

(4) In determining the applicable Position Risk Factor for the purposes of this method:

(a) the coupon applicable to the Debt Net Position will determine the time band and Position Risk Factor;

(b) the Position Risk Factors and time bands for any Debt Instrument that does not have a coupon (for example, zero coupon bonds and bank bills) will generally be the same as for bonds with a coupon of less than 3%;

(c) fixed rate instruments should be allocated to a time band on the basis of the residual term to maturity; and

(d) floating rate instruments should be allocated to a time band on the basis of the residual term to the next repricing date.

A3.12.2 Method

(1) The position risk amount for debt positions to which the building block method is applied is the aggregate of a specific risk and a general risk amount for the Debt Net Position at the mark to market value.

(2) The specific risk amount is calculated as the aggregate of each Debt Net Position, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.3 in Annexure 5 to Schedule 1A. The aggregate is calculated by reference to the absolute value of each Debt Net Position.

(3) The general risk amount is calculated in accordance with:

(a) the maturity method under Rule A3.12.3; or

(b) the duration method under Rule A3.12.4.

The absolute value of this aggregate number is the general risk amount.

(4) For the purposes of subrule (2):

(a) subject to paragraph (b), where Futures or forwards comprise a range of deliverable instruments with different issuers, a Market Participant is only required to calculate a specific risk amount under this method on long positions in the Futures or forward contract; and

(b) a Market Participant is not required to calculate a specific risk amount under this method on its long positions in Futures on 90 day bank bills traded on Australian Securities Exchange Limited.

A3.12.3 General risk amount—maturity method

(1) To calculate the general risk amount based on the maturity method:

(a) allocate each Debt Net Position to the appropriate time band specified in Table A5.1.2 in Annexure 5 to Schedule 1A. Fixed rate instruments should be allocated according to the residual term to maturity and floating rate instruments according to the residual term to the next repricing date;

(b) aggregate the total long and total short Debt Net Positions in each time band;

(c) calculate a risk weighted long and short position by multiplying the gross long and gross short position in each time band by the relevant general risk Position Risk Factor for that band as specified in Table A5.1.2 in Annexure 5 to Schedule 1A. The sum of these, taking into account the sign, is the net position amount (NPA);

(d) in each time band, multiply the lesser of the risk weighted long and short positions as calculated in paragraph (1)(c) by the relevant time band matching factor (TBMF) as specified in Table A5.1.4 in Annexure 5 to Schedule 1A. The absolute sum of these is the time band amount (TBA);

(e) net the risk weighted long and short positions within each time band so that each time band has either a net long position or a net short position. Within each zone, as defined in Table A5.1.2 in Annexure 5 to Schedule 1A, aggregate the net long time band positions and the net short time band positions. Multiply the lesser of the resulting two totals in each of the zones by the relevant zone matching factor (ZMF) as specified in Table A5.1.4 in Annexure 5 to Schedule 1A. The absolute sum of these is the zone amount (ZA);

(f) net the aggregate risk weighted long and short positions in each time zone as calculated in paragraph (e). To the extent that an offset can be made between adjacent zones, multiply the lesser of the values by the adjacent zone matching factor (AZMF) as specified in Table A5.1.4 in Annexure 5 to Schedule 1A. The absolute sum of these is the adjacent zone amount (AZA);

(g) to the extent that an offset can be made between non-adjacent zones, multiply the lesser of the non-adjacent zone risk weighted Debt Net Positions by the non-adjacent zone matching factor (NAZMF) as specified in Table A5.1.4 in Annexure 5 to Schedule 1A. This is the non-adjacent zone amount (NAZA); and

(h) any residual position remaining following the calculation in paragraph (f) can be used to reduce the non-adjacent zone Debt Net Positions in paragraph (g).

(2) The overall general risk amount under the maturity method is then the absolute sum of the individual steps as follows:

(a) the net position amount (NPA);

(b) the time band amount (TBA);

(c) the zone amount (ZA);

(d) the adjacent zone amount (AZA); and

(e) the non-adjacent zone amount (NAZA).

A3.12.4 General risk amount—duration method

(1) The calculation of the general risk amount under the duration method is identical to that for the maturity method except that:

(a) instead of calculating positions under paragraph A3.12.3(1)(c), calculate the duration weight of each position by multiplying the market value of each position by the modified duration of the position and by the assumed yield change for the appropriate time band specified in Table A5.1.2 in Annexure 5 to Schedule 1A (the duration method building block method general risk Position Risk Factor);

(b) any reference in subrule A3.12.3(1) to Table A5.1.4 in Annexure 5 to Schedule 1A is to the relevant timeband matching factor (TBMF) for the duration method; and

(c) ASIC must first approve a Market Participant's use of this method.

(2) For the purposes of calculating the general risk amount under the duration method, where a particular Debt Instrument has a coupon that is identical to the discount rate, the Market Participant may use the annuity factor of the instrument as an accurate proxy for the full duration calculation.

Part A3.13 Contingent loss matrix method—Debt position risk

A3.13.1 Application

(1) Debt Derivative positions which are Options together with physical Debt Instruments and other Debt Derivatives may be included in the contingent loss matrix method but only if used in conjunction with an option pricing model approved by ASIC and only if the Market Participant is able to mark to market the physical Debt Instruments and Debt Derivative positions.

(2) A Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with:

(a) the technical specifications for its proposed pricing model;

(b) details concerning the parameters used in the proposed pricing model;

(c) details concerning the way in which the pricing model is integrated into the Market Participant's overall risk management systems; and

(d) details concerning the extent to which the Market Participant is able to automate the calculation of the contingent loss matrix.

(3) For the purposes of subrule (1), Physical Debt Instruments and other Debt Derivatives may only be included in the contingent loss matrix method if they are part of a portfolio that contains the Option position and are hedged by, or are hedging the Option position.

(4) For the purposes of subrule A3.13.3(5):

(a) Physical positions should be included in a matrix based on the time to maturity for a fixed rate instrument or based on the time to the next repricing date for a floating rate instrument and the specific risk calculation will be based on the residual term to final maturity, regardless of whether it is a fixed or floating rate instrument;

(b) Futures/forwards should be included in a matrix based on the time between the Futures/forward expiry and the maturity of the underlying instrument and the specific risk calculation will be based on the residual term of the Futures/forward contract plus the term of the underlying instrument;

(c) Options on Futures should be included in a matrix based on the time between the Futures expiry and the maturity of the underlying instrument and the specific risk calculation will be based on the residual term of the Option plus the term of the Futures contract plus the term of the underlying instrument;

(d) Options on an interest rate should be included in a matrix based on the term of the underlying interest rate and there is no specific risk charge on these instruments;

(e) Bond Options should be included in a matrix based on the time between the Option expiry and the maturity of the underlying bond, regardless of whether the bond is already in existence before the Option expires or whether the bond comes into existence when the Option expires and the specific risk calculation will be based on the residual term of the Option plus the residual term of the underlying bond from the time the Option expires;

(f) caps should be treated as a series of call Options (Caplets) on an interest rate (with the rate based on the Reset Period) where:

(i) the number of Caplets depends on the term of the cap; and

(ii) each Caplet should be included in a matrix based on the term of the interest rate (the Reset Period),

and there is no specific risk charge on these instruments;

(g) floors should be treated as a series of put Options (Floorlets) on an interest rate (with the rate based on the Reset Period) where:

(i) the number of Floorlets depends on the term of the floor; and

(ii) each Floorlet should be included in a matrix based on the term of the interest rate (the Reset Period),

and there is no specific risk charge on these instruments;

(h) Forward Rate Agreements should be included in a matrix based on the time between the settlement date and the maturity date of the Forward Rate Agreement or, in other words, the term of the agreed interest rate, and there is no specific risk charge on these instruments;

(i) Interest rate Swaps should be included in a matrix based on the residual term to maturity of the Swap and there is no specific risk charge on these instruments;

(j) Swaptions should be included in a matrix based on the time between the swaption expiry and the maturity of the Swap (that is, the term of the Swap) and there is no specific risk charge on these instruments.

(5) For the purposes of subrule A3.13.3(2):

(a) subject to paragraph (b) where Futures or forwards comprise a range of deliverable instruments with different issuers, a Market Participant is only required to calculate a specific risk amount under this method on long positions in the Futures or forward contract; and

(b) a Market Participant is not required to calculate a specific risk amount under this method on its long positions in Futures on 90 day bank bills traded on Australian Securities Exchange Limited.

(6) A Market Participant applying the contingent loss matrix method must use method 2 as set out in Rule A3.13.3.

A3.13.3 Method 2—maturity method

(1) This method calculates the risk amount as the aggregate of a specific risk, a general risk and a volatility risk amount for each underlying in a manner similar to the building block method—maturity method.

(2) The specific risk amount is calculated as the aggregate of each Debt Net Position or the delta weighted value of the underlying instrument calculated by the option pricing model approved by ASIC, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.3 in Annexure 5 to Schedule 1A.

(3) The general risk and volatility risk amounts are calculated as described below.

(4) The prescribed movements are the Position Risk Factors for the maturity building block method specified in Table A5.1.2 in Annexure 5 to Schedule 1A.

(5) A separate matrix must be constructed for each individual time band as specified in Table A5.1.2 in Annexure 5 to Schedule 1A.

(6) Changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market rate or price of the underlying position and option implied volatility as follows:

(a) the relevant Position Risk Factor is to be divided into seven equally spaced rate or price shift intervals (including the current market rate or price); and

(b) the relevant implied volatility Position Risk Factor is to be divided into three equally spaced volatility shift intervals (including the current market implied volatility).

(7) Each option portfolio is to be re-priced using the adjusted underlying price and volatility as described in subrule (6). The value in each element of the contingent loss matrix will be the difference between the revalued option portfolio and the option portfolio calculated using the closing market prices.

(8) The general risk amount is calculated by:

(a) identifying from each matrix the greatest loss along the directional axis;

(b) creating an equivalent notional position for each greatest loss which is:

  (i) a long position, if the greatest loss occurs for a decrease in the value of the underlying; and

  (ii) a short position otherwise;

(c) allocating each long and short position into the appropriate time band specified in Table A5.1.2 in Annexure 5 to Schedule 1A to form the risk weighted values;

(d) aggregating these long and short positions in each time band, taking into account the sign, to form the net position amount (NPA) referred to in paragraph A3.12.3(1)(c); and

(e) applying the principles referred to in paragraph A3.12.3(1)(d) to (h) and subrule A3.12.3(2).

(9) The volatility risk amount is calculated by:

(a) identifying from each matrix the greatest loss along the volatility axis; and

(b) taking the absolute value of the aggregate of the greatest loss for each matrix.

Part A3.14 Margin method—Debt position risk

A3.14.1 Application

Debt Derivative positions which are exchange traded and have a positive Primary Margin Requirement must be included in the margin method if the Market Participant:

(a) has not been approved by ASIC to use the contingent loss matrix method; and

(b) is not permitted to use any of the other methods referred to in Rule A3.10.2.

A3.14.2Method

The position risk amount for Debt Derivative positions under the margin method is 100% of the Primary Margin Requirement for those Debt Derivative positions as determined by the relevant exchange or clearing house in respect of each position multiplied by 4.

Part A3.15 Basic method—Debt position risk

A3.15.1 Application

Debt Derivative positions which are purchased (long) or written (short) Options may be included in the basic method.

A3.15.2 Method

(1) The position risk amount for a purchased Option is the lesser of:

(a) the mark to market value of the underlying debt position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.2 in Annexure 5 to Schedule 1A; and

(b) the mark to market value of the Option,

where:

(c) subject to paragraph (d), the notional market value of the physical position underlying the Option is the price the Market Participant would have to pay for the Debt Instrument underlying the Option if it were to take a long position in that instrument at current interest rates;

(d) where the Option is over a Futures contract over a physical Debt Instrument, the notional position should be in the physical Debt Instrument.

(2) The position risk amount for a written Option is the mark to market value of the underlying debt position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.2 in Annexure 5 to Schedule 1A reduced by:

(a) any excess of the exercise value over the current market value of the underlying position in the case of a call Option, but limited to nil if it would otherwise be negative; or

(b) any excess of the current market value of the underlying position over the exercise value in the case of a put Option, but limited to nil if it would otherwise be negative.

Part A3.16 Calculation of Debt Equivalent positions—Debt position risk

A3.16.1 Swaps

The Debt Equivalent for a Swap is two notional positions, one for each leg of the Swap under which:

(a) there is a notional long position in a Debt Instrument or Debt Derivative on the leg of the Swap on which interest is received with a maturity equal to either the next interest reset date for a floating rate payment or the maturity of the Swap for a fixed rate payment; and

(b) there is a notional short position in a Debt Instrument or Debt Derivative on the leg of the Swap on which interest is paid with a maturity equal to either the next interest reset date for a floating rate payment or the maturity of the Swap for a fixed rate payment.

If one of the legs of the Swap provides for payment or receipt based on some reference to an Equity or Equity Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Parts A3.1 to A3.9.

A3.16.2 Options

(1) The Debt Equivalent for an Option is:

(a) for purchased call Options or written put Options, a long notional position:

(i) in the underlying Debt Instrument, in the case of an Option over a single Debt Instrument, and at the mark to market value of the Debt Instrument and its residual maturity; or

(ii) in the Debt Instrument with the longest residual maturity, in the case of an Option over Debt Instruments or interest rate index, and at the mark to market value;

(b) for purchased put Options or written call Options, a short notional position:

(i) in the underlying Debt Instrument, in the case of an Option over a single Debt Instrument, and at the mark to market value of the Debt Instrument and its residual maturity; or

(ii) in the case of an Option over a debt or interest rate index, in the Debt Instrument with the longest residual maturity in the index, at the mark to market value of the index; and

(c) for purchased call Options or written put Options on a Future, a long notional position calculated under paragraph A3.16.3(1)(a) and for purchased put Options or written call Options on a Future, a short notional position calculated under paragraph A3.16.3(1)(b).

(2) For the purposes of subrule (1):

(a) the notional debt position in the case of an Option over a Swap is:

(i) long if exercise of the Option leads to the Market Participant receiving fixed rate payments under the Swap; and

(ii) short if exercise of the Option leads to the Market Participant paying fixed rate payments under the Swap; and

(b) the value of the notional position in the Debt Instrument will be:

(i) for an Option over a Debt Instrument, the current market value of that Debt Instrument and the maturity of the notional position in the Debt Instrument will be the term to maturity of the underlying Debt Instrument (and not the term to expiry of the Option);

(ii) for an Option over an interest rate, the current market value of a zero coupon Government Debt Instrument yielding the interest rate underlying the Option and the maturity of the notional position in the Debt Instrument will be the combined period of the term to expiry of the Option plus the term of the interest rate underlying the Option; and

(iii) for an Option over a Swap, the principal amount of the underlying Swap, the maturity of the notional position in the Debt Instrument will be the term to maturity of the underlying Swap and the notional position will have a coupon rate equal to the fixed rate of the underlying Swap.

A3.16.3 Futures, forwards and forward rate agreements and options on futures

(1) The Debt Equivalent for a Future, forward contract or Forward Rate Agreement is:

(a) if purchased, a combination of a long position in a notional Debt Instrument with a maturity equal to the combined term of the contract plus the term of the underlying Debt Instrument, and a short position in the notional Debt Instrument with a maturity equal to the term of the contract;

(b) if sold, a combination of a short position in a notional Debt Instrument with a maturity equal to the combined term of the contract plus the term of the underlying Debt Instrument, and a long position in the notional Debt Instrument with a maturity equal to the term of the contract;

(c) if over an index, a combination of a notional position in the instrument with the longest term, with a maturity equal to the combined term of the contract plus the term of that

Debt Instrument, and an opposite position in that Debt Instrument with a maturity equal to the term of the contract; and

(d) if a range of deliverable instruments can be delivered to fulfil the contract the Market Participant may elect which Debt Instrument goes into the time band in Table A5.1.2 in Annexure 5 to Schedule 1A, but should take account of any conversion factor for the purposes of calculating the position risk.

(2) For the purposes of subrule (1):

(a) a "purchased" position should be interpreted as meaning that the holder of the position is an investor and has bought a Futures or forward contract or has sold a Forward Rate Agreement; and

(b) a "sold" position should be interpreted as meaning that the holder of the position is a borrower and has bought a Forward Rate Agreement or sold a Futures or forward contract.

A3.16.4 Convertible Notes

The Debt Equivalent for a convertible note which is not within paragraphs A3.8.4(1)(a) or (b), is a position in a Debt Instrument.

A3.16.5 Basket or index products

The Debt Equivalent for a basket or index product, where there is a known weight for each component Debt Instrument, is a position in a portfolio of Debt Instruments with corresponding weights and if the basket or index is based on:

(a) Government Debt Instruments, then a zero specific risk Position Risk Factor should be used; and

(b) Qualifying Debt Instruments or other Debt Instruments, then the appropriate specific risk Position Risk Factor should be used.

A3.16.6 Income securities

Income securities should be treated as debt positions, not Equity positions, based on their market value. The Position Risk Factors to be applied under the standard method or the building block method will be based on the time until the next repricing date. The second column of time bands in Table A5.1.2 in Annexure 5 to Schedule 1A should be used.

Part A3.17 Calculation of debt net positions—Debt position risk

A3.17.1 Debt net position

(1) The debt net position is either the long or short position resulting from offsetting positions in Debt Instruments and Debt Derivatives in the following way:

(a) subject to paragraphs (c) and (d), short Debt Instrument and Debt Equivalent positions may be directly offset against long Debt Instrument and Debt Equivalent positions provided that the issuer, coupon, maturity are identical;

(b) if the contingent loss matrix method is not used for Options, then an Option position can only be offset if it is In the Money by at least the standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A applicable to the underlying position;

(c) a matched position in a Future or forward contract and its underlying may be offset provided that:

(i) the term to maturity of the Future or forward contract is included in the relevant time band specified in Table A5.1.2 in Annexure 5 to Schedule 1A;

(ii) where the Future or the forward contract comprises a range of deliverable instruments, offsetting of positions in the Future or forward contract and the underlying is only permissible when there is a readily identifiable underlying which is profitable for the short position holder to deliver; and

(iii) for a Future or forward contract where a Market Participant has a right to substitute cash settlement for physical delivery and the price at settlement is calculated with reference to a general market price indicator then no offset is allowed against the underlying; and

(d) to qualify for offsets across product groups, the positions must relate to the same underlying instrument type, be of the same nominal value, and:

(i) in relation to Futures, the offsetting positions and the notional or underlying instruments to which the Futures relate must be identical products and mature within 7 days of each other;

(ii) in relation to Swaps and Forward Rate Agreements the reference rate (for floating rate positions) must be identical and the coupon closely matched (within 15 basis points); and

(iii) in relation to Swaps, Forward Rate Agreements and forward contracts, the next interest fixing date, or, for fixed coupon positions or forward contracts, the residual maturity (or, where there is a call or put option in the relevant instrument, the effective maturity of the instrument) must correspond within the following limits:

(A) less than 1 month hence, same day;

(B) between one month and one year hence, within 7 days; and

(C) over one year hence, within 30 days.

(2) For the purposes of subrule (1), a Market Participant:

(a) must not offset Securities Lending and Borrowing transactions against underlying long and short Debt net positions; and

(b) must treat any securities that have been lent out under a Securities Lending and Borrowing arrangement or that have been sold under a repurchase agreement as a principal position of the Market Participant and calculate a position risk amount on that

position, notwithstanding that counterparty risk amount must also be calculated under the Securities Lending and Borrowing method in Rule A1.2.4.

A3.18 Foreign exchange position risk amount

A3.18.1 Nature of foreign exchange position risk amount

The foreign exchange position risk amount in relation to a Market Participant's foreign exchange positions is the absolute sum of the individual position risk amounts for foreign exchange positions calculated using the methods of calculation set out in this Annexure 3.

A3.18.2 Overview of Methods

(1) The standard method is the main method for measuring the foreign exchange position risk amount. The method is supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

(2) In calculating foreign exchange position risk amounts, the following methods must be used:

Table A3.1: Overview of Methods

Nature of Positions	Standard Method	Contingent Loss Matrix Method
Physical* (not foreign exchange derivatives)	Yes	Yes. In conjunction with positions in options
Non-option foreign exchange derivatives	Yes, if converted to foreign exchange equivalent positions	Yes. In conjunction with positions in options
Foreign Exchange Options	Yes, if satisfy relevant criteria and not permitted to use contingent loss matrix method	Yes, must be used for all written options. Pricing model must be approved by ASIC

* A physical position in Part A3.3 includes foreign currency assets and liabilities and Equity and Debt Instruments denominated in a foreign currency.

Part A3.19 Standard method—Foreign exchange position risk

A3.19.1 Application

(1) Foreign currency physical positions may be included in standard method.

(2) Foreign Exchange Derivative positions other than Options may be included in the standard method if the positions are converted to Foreign Exchange Equivalents according to Part A3.21.

(3) Foreign Exchange Derivative positions which are Options may be included in the standard method only if they are purchased positions and the purchased positions are converted to a Foreign Exchange Equivalent according to Part A3.21.

(4) If the above criteria are not met, the Options must be treated under the contingent loss matrix method set out in Part A3.20.

A3.19.2 Method

(1) The position risk amount for foreign exchange positions to which the standard method is applied is the greater of the absolute value of the aggregate of the converted:

(a) net open long position in foreign currencies; and

(b) net open short position in foreign currencies,

multiplied by the Position Risk Factor specified in Table A5.1.7 in Annexure 5 to Schedule 1A.

(2) Foreign Exchange Derivative positions which are purchased Options and are In the Money by at least the standard method Position Risk Factor specified in Table A5.1.7 in Annexure 5 to Schedule 1A, are to be converted to a Foreign Exchange Equivalent in accordance with Part A3.21 and included in the net open position in accordance with Part A3.22.

(3) Foreign Exchange Derivative positions which are purchased Options and are not In the Money by at least the standard method Position Risk Factor specified in Table A5.1.7 in Annexure 5 to Schedule 1A, are to be converted to a Foreign Exchange Equivalent in accordance with Part A3.21 and:

(a) where the resulting currency positions from the option increases the net open position in the currency if included, the position must be included in the net open position; and

(b) where the resulting currency positions from the option decreases the net open position in the currency if included, the position must be excluded in the net open position.

Part A3.20 Contingent loss matrix method—Foreign exchange position risk

A3.20.1 Application

(1) Foreign Exchange Derivative positions which are Options together with physical foreign exchange and other Foreign Exchange Derivative positions may be included in the contingent loss matrix method but only if used in conjunction with an option pricing model approved by ASIC and only if the Market Participant is able to mark to market the foreign exchange and Foreign Exchange Derivative positions.

(2) A Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with:

(a) the technical specifications for its proposed pricing model;

(b) details concerning the parameters used in the proposed pricing model;

(c) details concerning the way in which the pricing model is integrated into the Market Participant's overall risk management systems; and

(d) details concerning the extent to which the Market Participant is able to automate the calculation of the contingent loss matrix.

(3) Foreign Exchange Derivative positions which are written Options must be included in the contingent loss matrix method.

(4) Physical foreign exchange contracts and other Foreign Exchange Derivatives may only be included in the contingent loss matrix method where they are part of the portfolio that contains the Option position (that is, are either a hedge of the Options or where the Options are hedging the underlying physical position).

A3.20.2 Method

(1) The position risk amount for foreign exchange positions to which the contingent loss matrix method is applied is the greatest loss arising from simultaneous prescribed movements in the closing market rate of the underlying currency pairing and the option implied volatility.

(2) The prescribed movements are the Position Risk Factors for the standard method that are specified in Table A5.1.7 in Annexure 5 to Schedule 1A.

(3) A separate matrix must be constructed for each option portfolio and associated hedges in an individual currency pairing.

(4) Changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market exchange rate and option implied volatility as follows:

(a) the relevant Position Risk Factor is to be divided into seven equally spaced rate shift intervals (including the current market rate); and

(b) the implied volatility Position Risk Factor is to be divided into three equally spaced volatility shift intervals (including the current market implied volatility).

(5) Each option portfolio is to be re-priced using the adjusted underlying and volatility price as described in subrule (4). The value in each element of the contingent loss matrix will be the difference between the revalued option portfolio and the option portfolio measured using the closing market rates.

Part A3.21 Calculation of Foreign Exchange Equivalent positions—Foreign exchange position risk

A3.21.1 Options

The Foreign Exchange Equivalent for an Option is:

(a) for purchased call Options and written put Options, a long position at the notional face value of the underlying contract; and

(b) for purchased put Options and written call Options, a short position at the notional face value of the underlying contract.

A3.21.2 Futures

The Foreign Exchange Equivalent for a currency Future is the notional face value of the underlying contract.

A3.21.3 Forward contracts

The Foreign Exchange Equivalent for a forward contract including a future exchange associated with a cross currency Swap is at the discretion of the Market Participant either the:

(a) face value of the contract; or

(b) net present value of the contract.

A3.21.4 Other positions—Exchange traded CFDs

The Foreign Exchange Equivalent for an exchange traded CFD over an exchange rate or foreign currency is the notional face value of the underlying contract.

Part A3.22 Calculation of a converted net open position—Foreign exchange position risk

A3.22.1 Calculation of a converted net open position

(1) To calculate a net open position in a foreign currency, a Market Participant must aggregate in each currency all:

(a) Financial Instruments; and

(b) other assets and liabilities,

other than Excluded Assets and foreign exchange contracts hedging Excluded Assets.

(2) To convert a net open position to an equivalent Australian dollar amount a Market Participant must use:

(a) the Market Spot Exchange Rate; or

(b) in the case where a foreign currency asset or liability is specifically matched or hedged by a forward currency contract, the rate of exchange stated in the forward currency contract.

Annexure 4 to Schedule 1A: Underwriting Risk Requirement

The Underwriting Risk Requirement is zero.

Annexure 5 to Schedule 1A: Tables

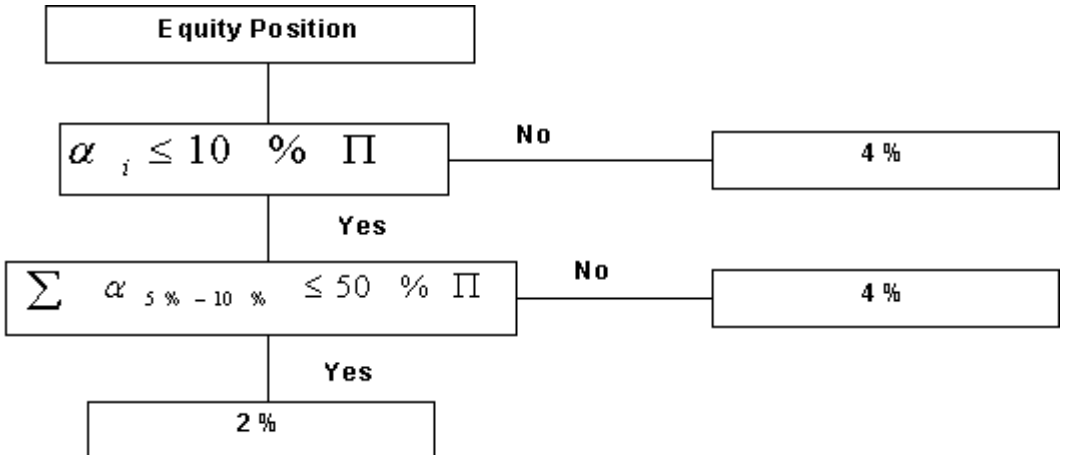
Part A5.1 Position Risk

Table A5.1.1: Equity Position Risk Factors—Recognised Market Index and Non Recognised Market Index

Position In:	Underlying						Option
	Recognised Market Index (see Table 1.6)			Non Recognised Market Index			Implied Volatility
	Standard Method	Building Block Method		Standard Method	Building Block Method		
		General Risk	Specific Risk		General Risk	Specific Risk	
Single Equity	12%	8%	4% [1]	16%	8%	8%	25%
Index	8% [2]	8%	0% [2]	16% [2]	8%	8%	25%

Notes:

1 The specific risk Position Risk Factor for a single Equity may be reduced to 2% if the variables in Rule A5.1.1A apply, where:



Π = gross value of each country portfolio

α_i = Net Position in equity *i*

$\alpha_{5\%-10\%}$ = Positions in individual equities that represent more than 5% and up to 10% of the gross value of the portfolio

Both of the "tests" noted in Rule A5.1.1A must be satisfied in order for the Position Risk Factors to be reduced to 2% for any equity position held. Hence if any one net position is greater than 10% of the gross value of each country portfolio then NO net position can have a position risk factor of 2%.

2 For positions not broken down into constituent Equities, otherwise the single Equity percentages apply.

A5.1.1A Reduction of specific risk Position Risk Factor

The specific risk Position Risk Factor for a single Equity in a Recognised Market Index can be reduced from 4% to 2% if:

(a) all Equity Net Positions in that country are less than or equal to 10% of the aggregate of the absolute values of all Equity Net Positions in that country portfolio, and

(b) the aggregate of the absolute values of all Equity Net Positions in that country that are individually more than 5% and up to and including 10% of the aggregate of the absolute values of all Equity Net Positions in that country portfolio is less than or equal to 50% of that aggregate.

Table A5.1.2: Debt Position Risk Factors (see also Table A5.1.3 below)

Time Band		Position Risk Factors—%					
Coupons		Standard Method			Building Block Method (General Risk)		
≥ 3%	< 3% (or Duration Method)	Gov't	Qualifying	Other	Zone	Maturity Method	Duration Method (assumed yield change)
0–1 mth	0–1 mth	0.00	0.25	8.00		0.00	1.00
1–3 mths	> 1–3 mths	0.20	0.45	8.20		0.20	1.00
> 3–6 mths	> 3–6 mths	0.40	0.65	8.40	1	0.40	1.00
> 6–12 mths	> 6–12 mths	0.70	1.70	8.70		0.70	1.00
- 2 yrs	> 1–1.9 yrs	1.25	2.25	9.25		1.25	0.90
> 2–3 yrs	> 1.9–2.8 yrs	1.75	3.35	9.75	2	1.75	0.80
> 3–4 yrs	> 2.8–3.6 yrs	2.25	3.85	10.25		2.25	0.75
> 4–5 yrs	> 3.6–4.3 yrs	2.75	4.35	10.75		2.75	0.75
> 5–7 yrs	> 4.3–5.7 yrs	3.25	4.85	11.25		3.25	0.70
> 7–10 yrs	> 5.7–7.3 yrs	3.75	5.35	11.75		3.75	0.65
> 10–15 years	> 7.3–9.3 yrs	4.50	6.10	12.50		4.50	0.60
> 15–20 years	> 9.3–10.6 yrs	5.25	6.85	13.25	3	5.25	0.60
20+ years	> 10.6–12 yrs	6.00	7.60	14.00		6.00	0.60
	12–20 yrs	8.00	9.60	16.00		8.00	0.60
	20+ yrs	12.50	14.10	20.50		12.50	0.60
Option Implied Volatility—All Debt Positions		25%					

Notes:

1 In using Table A5.1.2 for any Debt Derivative, a Market Participant must use the Position Risk Factors specified in the 'government' column unless the value of the Debt Derivative is derived from:

(a) a Qualifying Debt Instrument, in which case the Market Participant must use the Position Risk Factors specified in the 'qualifying' column; or

(b) a non-Government Debt Instrument, in which case the Market Participant must use the Position Risk Factors specified in 'other' column.

2 For calculation purposes, where a time band refers to the period "1.9 years" for example, this may be interpreted as being equal to 1.9 x 365 days.

A5.1.2A Position Risk Factors: Hybrid ETFs that are classified as Debt

The Position Risk Factors to be applied to a principal position in units in Hybrid ETFs classified as Debt Instruments are:

(a) as specified in Table A5.1.2 where the assets underlying the Hybrid ETF can be specifically identified, up to a maximum of 16% (standard method) or 8% for general risk and 8% for specific risk (building block method—maturity method). The Position Risk Factor is to be selected from Table A5.1.2 based on the following:

(i) the time bands for coupon < 3% must be used;

(ii) the time band chosen should be based on the average investment term and if it can be identified that more than 80% of the assets underlying the Hybrid ETF by value fall in a particular time band, the Position Risk Factor for that time band may be applied to the entire position;

(iii) subject to subparagraph (iv), the standard method 'other' column (or the 'other' column in Table A5.1.3 for specific risk if the building block method is used) should generally be used; and

(iv) if the Market Participant can identify that any assets underlying the Hybrid ETF satisfy the definition of Qualifying Debt Instrument, the 'qualifying' column can be used for that portion of the fund on a proportional basis to the individual holding and the 'other' column must be used for the remainder of the position; and

(b) in all other instances, where the assets underlying the Hybrid ETF cannot be specifically identified, 16% (standard method) or 8% for general risk and 8% for specific risk (building block method—maturity method).

A5.1.2B Position Risk Factors: Other Managed Funds that are classified as Debt

The Position Risk Factors to be applied to a principal position in units in Other Managed Funds classified as Debt Instruments are:

(a) as specified in Table A5.1.2 where the assets underlying the Other Managed Funds can be specifically identified, up to a maximum of 16% (standard method) or 8% for general risk and 8% for specific risk (building block method—maturity method). The Position Risk Factor is to be selected from Table A5.1.2 based on the following:

(i) the time bands for coupon < 3% must be used;

(ii) the time band chosen should be based on the average investment term. If it can be identified that more than 80% of the assets underlying the Other Managed Fund by value fall in a particular time band, the Position Risk Factor for that time band may be applied to the entire position;

(iii) subject to paragraph (iv), the standard method 'other' column (or the 'other' column in Table A5.1.3 for specific risk if the building block method is used) should generally be used; and

(iv) if the Market Participant can identify that any assets underlying the other managed fund satisfy the definition of Qualifying Debt Instrument, the 'qualifying' column can be used for that portion of the fund on a proportional basis to the individual holding and the 'other' column must be used for the remainder of the position; and

(b) in all other instances, where the assets underlying the Other Managed Fund cannot be specifically identified, 16% (standard method) or 8% for general risk and 8% for specific risk (building block method—maturity method).

Table A5.1.3: Debt Building Block Method—Specific Risk Position Risk Factors

Government		Qualifying			Other
0–12 mths	**over 12 mths**	**0–6 mths**	**6–24 mths**	**over 24 mths**	
0.00%	0.00%	0.25%	1.00%	1.60%	8.00%

Table A5.1.4: Debt Building Block Method—General Risk Time Band Matching Factors (TBMF)

	Matching Factor	
	Maturity Method	**Duration Method**
Same time band (TBMF)	10%	5%
Zone 1 (ZMF)	40%	40%
Zone 2 (ZMF)	30%	30%
Zone 3 (ZMF)	30%	30%
Positions in adjacent zones (AZMF)	40%	40%
Positions spanning Zone 1 and Zone 3 (NAZMF)	100%	100%

Table A5.1.5: Rated Investment Grades

	Minimum Ratings	
	Securities	**Money Market Obligations**
For all issuers		
Moody's Investor Services	Baa3	P3
Standard & Poors Corporation	BBB-	A3
Fitch IBCA Ltd	BBB-	F-3
For all banks, building societies and subsidiaries of banks (not otherwise eligible as Qualifying Debt Instruments)		
Thomson Financial Bank Watch	BBB-	TBW-3
For Canadian Issuers		
Canadian Bond Rating Service	B++low	A-3
Dominion Bond Rating Service	BBB low	R-2
For Japanese Issuers		
Japan Credit Rating Agency Ltd	BBB-	J-2
Nippon Investor Services Inc	BBB-	a-3
The Japan Bond Research Institute	BBB-	A-2
Mikuni & Co	BBB	M-3
Fitch Investors Services Inc	BBB-	F-3
For United States Issuers		
Duff & Phelps Inc	BBB-	3
Fitch Investors Services Inc	BBB-	F-3

Table A5.1.6: Recognised Market Indexes

Country	Index	Country	Index
Australia	S&P/ASX 200	Netherlands	EOE 25
Austria	ATX	Spain	IBEX 35
Belgium	BEL 20	Sweden	OMX
Canada	TSE 35	Switzerland	SMI

Country	Index	Country	Index
France	CAC 40	UK	FTSE 100
Germany	DAX	UK	FTSE mid-250
Hong Kong	Hang Seng	USA	S&P 500
Italy	MIB 30		
Japan	Nikkei 225		

Table A5.1.7: Foreign Exchange Position Risk Factors

	Standard Method
Foreign Exchange Spot and Forward—All Currencies	8%
Options Implied Volatility—All Currencies	25%

Part A5.2 Counterparty Risk

Table A5.2.1: Risk Weightings

Counterparty	Counterparty Risk Weighting
Central Banks in countries that are members of the OECD	0%
Central and State Governments in countries that are members of the OECD where the Central or State Government Counterparty is guaranteed by the Government or receives appropriations from government revenue	10%
Banks Local Governments in countries that are members of the OECD Approved Deposit Taking Institutions (other than Banks) ASX Market Participants that comply with the Risk Based Capital Requirements ASX Clear Participants that comply with the equivalent requirements under the Clearing Rules	20%
Approved Institutions ASX Market Participants that comply with the NTA Requirements ASX Clear Participants that comply with the equivalent requirements under the Clearing Rules	50%

Counterparty	Counterparty Risk Weighting
Other, including: • Central Banks, Central, State and Local Governments in countries that are not members of the OECD • all public trading enterprises in Australia which have corporate status, operate on a commercial basis or operate on a not-for-profit basis	100%

Table A5.2.2: Potential Credit Exposure Factors

Remaining Time to Maturity	Equity	Debt	Foreign Exchange
One year or less	6.0%	0.0%	1.0%
Over one year to 5 years	8.0%	0.5%	5.0%
Over 5 years	10.0%	1.5%	7.5%

Part A5.3 Other

Table A5.3.1: Recognised Non European Regulator

Country	Regulator
Australia	Australian Securities Exchange Limited
Canada	Alberta Stock Exchange Montreal Exchange Toronto Stock Exchange Vancouver Stock Exchange Investment Dealers Association of Canada
Hong Kong	Hong Kong Monetary Authority Hong Kong Securities and Futures Commission
Japan	Financial Services Agency
Singapore	Monetary Authority of Singapore Stock Exchange of Singapore
South Africa	Bond Exchange of South Africa Johannesburg Stock Exchange South African Futures Exchange

Country	Regulator
United States	Securities and Exchange Commission Commodity and Futures Trading Commission

Table A5.3.2: Recognised European Regulator

Country	Regulator
Austria	Bundesministerium für Finanzen (Federal Ministry of Finance, Banking, Stock Exchange and Capital Market Supervision) Bundes-Wertpapieraufsicht (Austrian Securities Authority)
Belgium	Commission Bancaire et Financière
Finland	Financial Supervision Authority
France	Comité des établissements de crédit et des enterprises d'investissements
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
Greece	The Bank of Greece The Capital Market Commission
Iceland	Central Bank of Iceland
Ireland	Central Bank of Ireland
Italy	Banca d'Italia
Liechtenstein	Dienstelle für Bankennaufsicht
Luxembourg	Institute Monetaire Luxemborgeois
Netherlands	Securities Board of the Netherlands
Norway	Kredittilsynet (the Banking, Insurance and Securities Commission of Norway
Portugal	Banco de Portugal (Central Bank)
Spain	Banco de Espana (for Banks and Credit Institutions) Comision Nacional del Mercado de Valores
United Kingdom	Financial Services Authority