



ASIC

Australian Securities & Investments Commission

ASIC Market Integrity Rules (ASX 24 Market) 2010

Volume 1

This compilation was prepared on 8 May 2013 taking into account amendments up to ASIC Market Integrity Rules (ASX 24 Market) Amendment 2013 (No. 1). See the Notes at the end of these Rules.

Volume 1 contains Chapters 1 to 7.

Volume 2 contains the Schedule (Forms 1 to 8) and the Notes.

Contents

Chapter 1: Introduction.....	3
Part 1.1 Preliminary	3
Part 1.2 Waiver	4
Part 1.3 Notice, notification and service of documents	5
Part 1.4 Interpretation	6
Chapter 2: The Market Participants	11
Part 2.1 Notification	11
Part 2.2 Supervision and risk management.....	11
Part 2.3 Account reconciliation obligations	21
Part 2.4 Foreign Participants	26
Chapter 3: Trading principles	28
Part 3.1 Trading principles for Orders entered on the Trading Platform	28
Part 3.2 Strategy Trading.....	35
Part 3.3 Pre-negotiated business orders	35
Part 3.4 Trading principles for Block Trades	37
Part 3.5 Trading principles for Exchange For Physical transactions ..	38
Chapter 4: The Market Operator	40
Part 4.1 Provision of surveillance and supervision data by the Market Operator	40
Part 4.2 Provision of information about Market Participants	41
Chapter 5: Capital requirements	42
Part 5.1 Interpretation	42
Part 5.2 Capital requirements	43
Chapter 6: Accounts and audit	44
Part 6.1 Interpretation	44
Part 6.2 Financial statements	44
Chapter 7: Margins and right of Close Out.....	48
Part 7.1 Interpretation	48
Part 7.2 Obligations for Trading Participants	49

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 24 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 and procedures

(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 person 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 system

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 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

“**Acquire**” has the meaning given by section 9 of the Corporations Act.

“**Approved Foreign Bank**” has the meaning given by regulation 1.0.02 of the Corporations Regulations.

“**Approved Securities**” means those securities described as approved securities by the Market Operator under the Market Operating Rules.

“**ASIC**” means the Australian Securities and Investments Commission.

“**ASIC Act**” means the *Australian Securities and Investments Commission Act 2001* (Cth).

“**ASX Clear**” means ASX Clear (Futures) Pty Limited (ACN 050 615 864).

“**Australian Financial Services Licence**” means a licence granted under section 913B of the Corporations Act.

“**Block Trade**” means any Trade which is executed via the Block Trade Facility.

“**Block Trade Facility**” means the facility provided by the Market Operator for Trading Contracts and referred to in the Market Operating Rules as the Block Trade Facility.

“**Block Trade Order**” means an Order in a Contract prescribed by the Market Operator which must be executed via the Block Trade Facility.

“**Business Day**” has the meaning given by section 9 of the Corporations Act.

“**Call**” means the demand for payment of a sum of money made upon a Client.

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

“**Clearing Rules**” means operating rules:

- (a) as the term is defined in section 761A of the Corporations Act; and
- (b) made by ASX Clear.

“**Client**” means in relation to a Market Participant, any person, partnership or Corporation on behalf of whom the Market Participant enters, Acquires or Disposes of a Futures Contract or Option Contract, or on whose behalf the Market Participant proposes to enter, Acquire or Dispose of a Futures Contract or Option Contract or from whom the Market Participant accepts instructions to enter, Acquire or Dispose of Futures Contracts or Option Contracts.

“**Client Account**” means an account of a Client.

“**Client Trade**” means a Trade of a Market Participant held on behalf of a Client.

“**Close Out**” means to extinguish an Open Position by matching it with an offsetting Open Position and effecting the settlement of each such Open Position against the other.

“**Contract**” means a contract entered, Acquired or Disposed of on the Market or capable of being entered, Acquired, or Disposed of on the Market.

“**Corporation**” has the meaning given by section 9 of the Corporations Act.

“**Corporations Act**” means the *Corporations Act 2001* (Cth).

“**Corporations Regulations**” means the *Corporations Regulations 2001* (Cth).

“**Cover**” means cash and/or Approved Securities as determined by the Market Operator and held by a Market Participant against a Client’s liability from time to time.

“**Deal**”, “**Deal In**” or “**Dealing**” or cognate expressions has the meaning given by section 766C of the Corporations Act.

“**Director**” has the meaning given by section 9 of the Corporations Act.

“**Dispose**” has the meaning given by Chapter 7 of the Corporations Act.

“**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.

“**Error Trade**” means a Trade transacted in error.

“Exchange For Physical” means a transaction where:

- (a) a bona fide physical transaction in a commodity or instrument is completed and physical delivery takes place at the time of the transaction or is intended by both parties to take place at a later time; and
- (b) at or about the same time a Contract, opposite in effect, is entered, Acquired or Disposed of by a Market Participant or two Market Participants, for the same or similar quantity or amount of the commodity or a substantially similar commodity or instrument between Market Participants, on behalf of the parties to the physical transaction.

“Expression of Interest” means an enquiry made to a Market Participant either:

- (a) to obtain the current best bid and/or offer in a particular Contract; or
- (b) to enquire as to the volume that may be obtained at a given price;

but is not a firm Order to buy or sell.

“Financial Products” has the meaning given by Division 3 of Part 7.1 of the Corporations Act.

“Futures Contract” means a Contract designated as a “Futures Contract” by the Market Operator in the Market Operating Rules.

“House Account” means any account other than a Client Account.

“House Trade” means any Trade other than a Client Trade.

“In Writing” means written, typed, printed or lithographed, or partly one and partly another and including any other mode of representing or reproducing words in a visible form, including electronically produced, displayed and recorded matter.

“Initial Margin” means the amount which a Market Participant requires to be paid by a Client in respect of a Futures Contract entered into or proposed to be entered into on behalf of a Client.

“Margin” means Initial Margin and Variation Margin.

“Market” means the market operated by the Market Operator under the *Australian Market Licence (Australian Securities Exchange Limited) 2002*.

“Market Operator” means Australian Securities Exchange Limited (ACN 000 943 377).

“Market Operating Rules” means the Operating Rules of the Market.

“Market Participant” means a participant in the Market admitted under the Market Operating Rules.

“Minimum Volume Threshold” means the threshold determined by the Market Operator under the Market Operating Rules, being the minimum number of lots in respect of each Contract.

“**Month**” means calendar month.

“**Open Position**” An open position exists where the obligations under a Contract held by a party, which has not been closed out are yet to be performed and will refer as the context requires either to an open position as defined by the Clearing Rules held by a Clearing Participant or to such an open position which is held by a Market Participant on the instructions of a client, including open positions held, where applicable on markets other than the Market.

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

“**Option**” or “**Option Contract**” means an Option over:

- (a) a Futures Contract or a number of Futures Contracts; or
- (b) an Option over an Underlying Physical,

as listed by the Market Operator.

“**Order**” means an instruction to enter into a Contract, or an instruction to amend or cancel a prior instruction to enter into a Contract.

“**Order System**” means a software application, satisfactory to the Market Operator, for entering Orders into the Trading Platform through a Terminal.

“**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.

“**Pre-Opening Phase**” has the meaning given by the Market Operating Rules.

“**Principal Trader**” has the meaning given by the Market Operating Rules.

“**Related Body Corporate**” has the meaning given by section 9 the Corporations Act.

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

“**Roll Business**” means trading a position from the nearest delivery month to an equivalent position in a different delivery month.

“**Rules**” means these Market Integrity Rules.

“**Strategy Trade**” means a Trade designated by the Market Operator as a strategy trade under the Market Operating Rules.

“**Terminal**” means an automated Order entry interface through which an Order System routes Orders to the Trading Platform.

“**Trade**” and similar expressions means “trade” as defined in section 9 of the Corporations Act.

“**Trading Day**” means a day on which the Market is open for Trading.

“**Trading Participant**” has the meaning given by the Market Operating Rules.

“Trading Platform” means a facility made available by the Market Operator to Market Participants for the entry of trading messages, the matching of Orders, the advertisement of invitations to Trade and the reporting of transactions.

“Underlying Physical” means the asset, instrument, index, reference rate or any other thing, excluding a Futures Contract, whose price movement determines the value of the Contract.

“Variation Margin” means the difference between the value of a Futures Contract or Option Contract as shown in the Contract, and the value of that Contract at any given time.

Chapter 2: The Market Participants

Part 2.1 Notification

A Market Participant must notify ASIC as soon as practicable upon becoming aware that the Market Operator or a regulatory agency is investigating and/or has instituted proceedings against it.

Maximum penalty: \$100,000

Part 2.2 Supervision and risk management

2.2.1 Limits and connections

(1) Limits

A Market Participant must demonstrate prudent risk management procedures, including, but not limited to:

- (a) set and document appropriate pre-determined Order and/or position limits on each of its Client Accounts, including a volume per Order limit, an aggregate loss limit and an aggregate net session limit, based on the Market Participant's analysis of the Clients' financial resources or other relevant factors;
- (ab) set and document appropriate pre-determined Order and/or position limits on each of its House Accounts, including a volume per Order limit, an aggregate loss limit and an aggregate net session limit, based on the Market Participant's analysis of its financial resources or other relevant factors;
- (b) set and document maximum price change limits;
- (c) the limits determined in Rules 2.2.1(1)(a), (ab) and (b) must be input by a Market Participant's risk manager into Trading Platform account maintenance and will be established as preset accounts;
- (d) limit setting capability must exist in the Market Participant's Order System which reflects prudent account risk management and the Order System must have Order rejection capability where Orders are in excess of limit parameters set by the Market Participant;
- (e) the Market Participant may amend the pre-determined Order and/or position limit based on the Market Participant's analysis of the Clients' financial resources (in the case of a Client Account) or its financial resources (in the case of a House Account) or other relevant factors;
- (f) Orders in excess of the agreed pre-determined limits must be rejected by the Market Participant's Order System and may be rejected by the Trading Platform.

(2) Connections

- (a) Any Market Participant who has permitted its Client to connect to a Terminal will be responsible under these Rules for any Orders entered through the Terminal by the Client.
- (ab) Any Market Participant who has connected to a Terminal for the purposes of Trading for a House Account will be responsible under these Rules for any Orders entered through the Terminal.
- (b) ASIC may at any time by notice to a Market Participant, require a Market Participant to terminate a connection referred to in paragraph (a) or (ab) either generally or in relation to a particular individual, Client, system or device or class of system or device.
- (c) As soon as a Market Participant receives notification under Rule 2.2.1(2)(b), it must promptly take all steps necessary to terminate such connection.

(3) Obligations prior to Client connection

Prior to permitting any Client to connect to a Terminal the Market Participant must:

- (a) satisfy itself that the Client has the necessary skills, facilities and procedures to operate such a facility;
- (b) satisfy itself that the Client understands the risks and obligations attached to the use of such a facility;
- (c) ensure that each Order so placed, and any Order System complies with the Rules;
- (d) provide appropriate controls on the connection of its Clients and its staff to such systems;
- (e) provide appropriate controls on the access to passwords of its Clients and its staff to such systems; and
- (f) ensure appropriate controls are implemented for the security of its Clients' premises and physical access of its Clients and its staff to such systems.

(4) Obligations in relation to proprietary connection

Prior to connecting to a Terminal for the purpose of Trading for a House Account, and at all times while connected to a Terminal for the purpose of Trading for a House Account, a Market Participant must:

- (a) have the necessary skills, facilities and procedures to operate such a facility;
- (b) understand the risk and obligations attached to the use of such a facility;
- (c) ensure that each Order so placed, and any Order System, complies with the Rules;
- (d) provide appropriate controls on the access to passwords of the Market Participant and its Employees to such systems; and
- (e) ensure appropriate controls are implemented for the security of its premises and physical access of the Market Participant and its Employees to such systems.

(5) Transitional

A Market Participant that is a Market Participant on the date this Rule 2.2.1(5) commences, is not required to comply with this Rule 2.2.1 in relation to its House Accounts, until a period of three (3) months has passed from the date Rule 2.2.1(5) commences.

Maximum penalty: \$1,000,000

2.2.2 Concentration of risk

(1) A Market Participant other than a Principal Trader must not permit any one Client to represent such a percentage of the Trading by the Market Participant as may prejudice or diminish the ability of the Market Participant to meet its obligations under these Rules and at law.

(2) For the purposes of this Rule 2.2.2, “Client” includes all persons, partnerships and Corporations related to, associated with or affiliated with the Client or otherwise financially dependent upon the Client.

Maximum penalty: \$100,000

2.2.3 Prohibited employment

(1) A Market Participant must not employ any person who has been a Market Participant (or a Director, partner, Employee or Representative of a Market Participant) if that person has to the knowledge of the first mentioned Market Participant taken part or been concerned in any failure to comply with:

- (a) these Rules or market integrity rules on substantially the same terms as and modelled on these Rules, which failure has been found to have occurred by ASIC;
- (b) the Market Operating Rules, which failure has been found to have occurred by the Market Operator; or
- (c) the operating rules in force prior to the commencement of these Rules, which failure has been found to have occurred by the Market Operator prior to commencement of these Rules.

(2) For the purposes of this Rule 2.2.3 the words “to employ” and cognate expressions include agreeing or arranging with a person for that person to act as the Market Participant’s Representative to advise or solicit instructions from other persons or to Trade, on the Market Participant’s behalf in relation to Dealings in Contracts.

Maximum penalty: \$1,000,000

2.2.4 Order records and accounting records

(1) Client Orders

A Market Participant, other than a Principal Trader, must maintain internal records of instructions received from Clients and Trades executed for Clients for a period of not less than five (5) years from the date of the Trade, containing the following information:

- (a) the nature of the instructions received, including information about: the commodity, the name of the market, delivery Month, buy or sell, number of lots and price/limit;
- (b) the Client name/account number and Client ID;
- (c) the person who gave the instructions;
- (d) the time and date of receipt of the instructions, and the person who received the instructions;
- (e) the time and date of transmission of the instructions, and the person who transmitted the instructions; and
- (f) the time and date of execution of the instructions, and the person who executed the instructions.

(2) Proprietary Orders

A Market Participant must maintain records of its Representatives' Trading for a House Account for a period of not less than five (5) years from the date of a Trade, containing the following information:

- (a) the time and date of receipt of instructions;
- (b) the nature of the instructions received;
- (c) the person who received the instructions;
- (d) the time and date of transmission of those instructions, and the person who transmitted the instructions; and
- (e) the time and date of execution of those instructions, and the person who executed the instructions.

(3) Error Trades

A Market Participant must maintain a separate record of all Error Trades for a period of not less than five (5) years from the date of a Trade, containing the following information:

- (a) a description of the Trade including the deal number supplied by the Market Operator (if any);
- (b) the name of the Representative responsible for the Error Trade;
- (c) the name of the Representative responsible for the execution of the Trade;
- (d) a detailed explanation as to how the Trade occurred, including details of the original Client Order (if any) which precipitated the error;
- (e) any subsequent action taken by the Market Participant in relation to that Trade; and

- (f) the financial result of the Trade.
- (4) Accounting records
 - (a) A Market Participant must maintain such accounting records as correctly record and explain the transactions of the Market Participant and the financial position of the Market Participant.
 - (b) In relation to Calls, a Market Participant must at all times maintain such accounting records as accurately indicate in respect of each Call for Initial Margin or Variation Margin made upon Clients:
 - (i) the date and time at which such Call was received;
 - (ii) the amount of such Call;
 - (iii) the extent to which the Call was payable by reason of:
 - (A) Trading undertaken by the Market Participant on its own account or an account of a related corporation; and
 - (B) Trading undertaken by the Market Participant for Clients, so that the amount of any such Call is apportioned accordingly;
 - (iv) the extent to which the Call was met from:
 - (A) monies in the Clients' segregated account; and
 - (B) other sources (specifying those sources and the amount satisfied from each such source); and
 - (c) the date and time at which such Call was met.

Maximum penalty: \$100,000

2.2.5 Client documentation

(1) Subject to Rule 2.2.5(2), a Market Participant must have in force, prior to the commencement of Trading for a Client, a duly signed agreement with that Client, containing minimum terms to the following effect:

- (a) Client to provide information

In relation to the Client's Trading on the Market, the Client will upon the Market Participant's request, provide all information and documentation relevant to that Trading, to the Market Participant and the Market Participant is authorised by the Client to provide the information and documentation to ASIC.

- (b) Margins

Unless the Market Participant is performing executing business only and the Client has an agreement in place with a Clearing Participant, or is otherwise exempted under these Rules, an acknowledgment by the Client that:

- (i) the Market Participant may Call for payment of Margin such money or property (or Call for the lodgement of Approved Securities in lieu thereof) as the Market

Participant, in its absolute discretion, feels is necessary to protect itself from the personal obligation incurred by Dealing in Contracts on behalf of the Client.

- (ii) should the Client fail to meet the Call (or lodge Approved Securities) then the Market Participant may (without prejudice to any other rights or powers under the agreement) and without creating an obligation to do so, Close Out, without notice, all or some of the Client's Contracts.
 - (iii) the time for payment of Margins is of the essence and if no other time is stipulated by the Market Participant prior to Calling a Margin then the Client is required to comply within twenty-four (24) hours.
 - (iv) liability to pay the Initial Margin accrues at the time the Trade is executed regardless of when a Call is made.
 - (v) liability to pay Variation Margin accrues at the time the Margin comes into existence regardless of when a Call is made.
 - (vi) the Client is responsible to pay in cash any deficit owing to the Market Participant after closure and that if the Client defaults in payment of such deficit, the Market Participant may realise any securities held by the Market Participant and apply the proceeds against that deficiency.
- (c) Tape recordings
- An acknowledgment by the Client that the Client's telephone conversations with the Market Participant can be recorded by the Market Participant. The Client is to be given the right to listen to any recording in the event of a dispute or anticipated dispute.
- (d) Right to refuse to Deal
- An acknowledgment by the Client that the Market Participant reserves the right to refuse to Deal on behalf of the Client in relation to any Dealings in Contracts (other than Closing Out existing Open Positions held in the Market Participant's account on behalf of the Client) or limit the number of Open Positions held on behalf of the Client or both. The Market Participant will inform the Client of any refusal at or before the time of the Client placing the Order or as soon as possible thereafter.
- (e) Termination and Closing Out
- An acknowledgment that:
- (i) without affecting any existing obligations or liabilities, either the Client or the Market Participant may terminate the agreement at any time by giving the other notice In Writing to that effect;
 - (ii) upon termination of the Client agreement that unless otherwise agreed In Writing the Market Participant will Close Out all the Client's Futures Contracts and Close Out, abandon or exercise any Options not yet exercised.

(2) Exception

Rule 2.2.5(1) does not apply:

- (a) to a Principal Trader;

- (b) where the Client is another Market Participant, and the Market Operating Rules provide that an agreement containing the terms of Rule 2.2.5(1) is deemed to have been entered and come into effect immediately upon the Market Participant accepting the first instruction from the Client to enter a Contract; or
- (c) where the Market Participant is performing execution business only and has an agreement in place with the Client that incorporates the provisions set out in the International Uniform Brokerage Execution Services (“Give-Up”) Agreement 2008 (both client and trader versions).

Maximum penalty: \$100,000

2.2.6 Clients’ segregated account obligations

A Market Participant, who holds Client monies, must comply with the following:

- (a) Client money
 - (i) All money received by the Market Participant from its Clients or by a person acting on behalf of the Client under these Rules or the Market Operating Rules must be deposited in an account maintained by the Market Participant and designated as a Clients’ segregated account.
 - (ii) If the account is operated outside Australia and the law in force in the jurisdiction where it is maintained requires the account to be designated in a particular way, the Market Participant must designate the account in that way.
 - (iii) Where omnibus accounts are operated by a Market Participant (e.g. on behalf of another broker), a House Account and Client Account are to be maintained separately at all levels in the chain to the clearing and settlement facility level.
 - (iv) A Market Participant must not net off the Client Account against the House Account.
- (b) Type of money to be paid into an account

Only the following monies are permitted to be paid into a Clients’ segregated account:

 - (i) all money received by the Market Participant from its Client or by a person acting on behalf of its Client;
 - (ii) interest on the amount from time to time standing to the credit of the account;
 - (iii) interest or other similar payments on an investment, and the proceeds of the realisation of an investment; and
 - (iv) any other money as required by the Rules or Market Operating Rules or the law to be paid by the Market Participant into a Clients’ segregated account.
- (c) When money must be paid into an account

The money must be paid into a Clients’ segregated account on the day it is received by the Market Participant, or on the next Business Day.

(d) Permitted withdrawal

Withdrawals from a Clients' segregated account made in any of the following circumstances are permissible:

- (i) paying Margins and the settling of Dealings;
- (ii) making a payment to, or in accordance with the written direction of, a person entitled to the money;
- (iii) defraying brokerage and other proper charges;
- (iv) paying to the Market Participant money to which the Market Participant is entitled, whether at law or under the Rules or Market Operating Rules; and
- (v) making a payment that is otherwise authorised by law.

(e) Payment to another Australian Financial Services licensee

- (i) If payment referred to in Rule 2.2.6(e)(ii) is made by the Market Participant to the holder of an Australian Financial Services Licence, the Market Participant must ensure that Australian Financial Services licensee is notified, at the same time as the payment is made or as soon as practicable after, that the money:
 - (A) has been withdrawn from an account of the Market Participant maintained for Rule 2.2.6; and
 - (B) should be paid into an account of the Australian Financial Services licensee maintained for Rule 2.2.6.
- (ii) If the Australian Financial Services licensee who receives the payment in Rule 2.2.6(e)(i) is also a Market Participant, it must, not later than the day after it receives the payment, pay the money received into an account maintained by it for Rule 2.2.6.

(f) Requirement to deposit additional monies in Clients' segregated account

- (i) Where five (5) clear Business Days (inclusive of the day of the Call) after a Call has been made on a Client for Initial Margin or Variation Margin in accordance with the Market Operating Rules, or such Call should have been made in accordance with the Market Operating Rules, the Call which was or should have been made has not been satisfied by payment of monies into a Clients' segregated account or lodgement of Cover, then the Market Participant must pay into the Clients' segregated account an amount of money not less than either:
 - (A) the liability of the Client under such a Call; or
 - (B) the amount which the Market Participant would be obliged to Call the Client on the day after five (5) clear Business Days (inclusive of the day of the Call) has elapsed, whichever is the lesser.
- (ii) Subject to Rule 2.2.6(f) such monies may only be withdrawn in accordance with Rule 2.2.6(d) and only after such monies have been received by the Market Participant.
- (iii) The Market Participant must pay into the Clients' segregated account after five (5) clear Business Days, any amount (which has not been met by the Client), which

arises as a result of debit balances of a Client resulting from realised losses or otherwise.

(g) Prohibited agreements

A Market Participant is prohibited from making any agreement with a Client that the Client's money is not to be held or does not need to be held in a segregated account for the benefit of the Client.

(h) Permissible investments

Where a Market Participant invests money from a Client's segregated account, the following kinds of investments may be made:

- (i) investment in any manner in which trustees are for the time being authorised by law to invest trust funds;
- (ii) investment on deposit with an eligible money market dealer;
- (iii) investment on deposit at interest with:
 - (A) an Australian ADI; or
 - (B) an Approved Foreign Bank;
- (iv) the acquisition of cash management trust interests;
- (v) investment in a security issued or guaranteed by the Commonwealth or a State or Territory;
- (vi) investment on deposit with a licensed clearing and settlement facility; or
- (vii) an investment in accordance with the specific direction of a Client.

(i) Monies invested

Where a Market Participant invests money from a Client's segregated account then:

- (i) the Market Participant must, prior to investing any amount, obtain the Client's written agreement to the following matters:
 - (A) the making of the investment;
 - (B) how earnings on the investment are to be dealt with;
 - (C) how the realisation of the investment is to be dealt with;
 - (D) how any losses made on the investment are to be dealt with; and
 - (E) the fee (if any) that the Market Participant proposes to charge for the investment; and
- (ii) such investment must be readily realisable and no less than fifty per cent (50%) of monies invested must be on twenty-four (24) hour call.

(j) Separation of Market Participants' Trading liabilities from Clients' Trading liabilities

A Market Participant must not use a Client's segregated account to meet any Initial Margin or Variation Margin liabilities which relate to Trading by that Market Participant on its own behalf or on behalf of a related corporation.

(k) Accounting records for withdrawals

A Market Participant must at all times maintain such accounting records as accurately indicate each withdrawal from a Clients' segregated account.

(l) Definition of Client

For the purposes of Rule 2.2.6, "Client" excludes a Related Body Corporate or a division of the Market Participant.

(m) Property

(i) For the purposes of Rule 2.2.6(m), "property" includes credit facilities and securities.

(ii) On the receipt of property, a Market Participant must:

(A) deposit the property in safe custody on or before the next Business Day after the property is received or deposited;

(B) create and maintain the following records:

(I) date property received/deposited in safe custody; and

(II) particulars of the property so deposited.

(iii) A Market Participant must keep Client property segregated from the Market Participant's own property and Market Participants must be able to liquidate Client property as soon as practicable when required.

(iv) A Market Participant must not use property held in safe custody to satisfy a Market Participant's debt.

Maximum penalty: \$1,000,000

2.2.7 Mandatory recording of information by Market Participants

(1) Recording by Market Participant

(a) Each Market Participant dealing with Clients must record, via telephone lines and/or other electronic device, at its own expense, all conversations with Clients and other parties relating to Client instructions.

(b) Each Market Participant must ensure that internal desks transmit all Orders to the futures desks in such a way that instructions are recorded via a telephone line or other electronic device.

(c) Should circumstances arise where a Client has placed instructions in a manner where there is no electronic or other record, the Market Participant must ensure that the Client's instructions are recorded in some manner.

(d) Recordings and records maintained under Rule 2.2.7 must be retained for a minimum three (3) Month period.

(e) Where the Representative of the Market Participant having the relevant conversation is doing so from outside Australia, under an arrangement whereby the Market Participant arranges for other Representatives of the global group to take Orders on behalf of the

Market Participant during certain hours each Trading Day (“rolling the book”), the Market Participant must maintain recordings and records for the period which is customary for regulated intermediaries conducting similar Trades in that jurisdiction to retain such records.

- (f) Market Participants must ensure that all equipment used to record, including electronic devices, is functional at all times.
- (g) For the purposes of this Rule 2.2.7 in respect of a Market Participant which is a Corporation, a “Client” includes a Related Body Corporate or a division of the Market Participant—which is separate from the Market Participant’s futures division.

Maximum penalty: \$100,000

2.2.8 Supervisory procedures

(1) 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.

(2) A Market Participant that is a Market Participant on the date this Rule 2.2.8 commences, is not required to comply with this Rule 2.2.8 until a period of three (3) months has passed from the date Rule 2.2.8 commences.

Maximum Penalty: \$1,000,000

Part 2.3 Account reconciliation obligations

2.3.1 Application of Part

(1) This Part applies to a Market Participant who holds Client monies.

(2) For the purposes of this Part:

“**ASX Clear**” means ASX Clear Pty Limited.

“**ASX Clear (Futures)**” means ASX Clear (Futures) Pty Limited.

“**ASX**” means ASX Limited (ACN 008 624 691).

“**Client**” excludes a Related Body Corporate or a division of the Market Participant.

“**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 (Futures) in relation to transactions in futures contracts.

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

“**Deposits with an ASX 24 Market Participant**” means the total amount of third-party client funds paid to another Market Participant.

“**Deposits with an ASX Participant**” means the total amount of third-party client funds paid to a participant of ASX 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, in respect of transactions in futures contracts dealt on any exchange, the total amount of money received from:

- (a) any director, or officer, of the Market Participant; and
- (b) any employee of the Market Participant.

“**Total Deposits**” in Rule 2.3.2 means the sum of Rules 2.3.2(2)(c)(i)–(ix); and in Rule 2.3.3 means the sum of Rules 2.3.3(3)(c)(i)–(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 Director/Employee Monies.

“**Variation**” means Total Third Party Client Monies less Total Deposits.

2.3.2 Daily reconciliation of client funds

(1) Subject to Rule 2.3.2(3), a Market Participant must perform an accurate reconciliation, by 7.00 pm on the Business Day after the Business 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 under Rule 2.2.6 and the corresponding balance as recorded in the Market Participant’s accounting records.

(2) The reconciliation referred to in Rule 2.3.2(1) must set out:

- (a) the date to which the reconciliation relates;

- (b) for both the day of the reconciliation and the prior day, the dollar amounts of:
 - (i) Total Futures Client Monies;
 - (ii) Director/Employee Monies; and
 - (iii) Total Third Party Client Monies;
 - (c) for both the day of the reconciliation and the prior day, the dollar amounts of:
 - (i) Clients' Segregated Account at Bank;
 - (ii) Deposits with ASX Clear (Futures) Client Account;
 - (iii) Deposits with ASX Clear Client Account;
 - (iv) Deposits with ASX Clear (Futures) Clearing Participant;
 - (v) Deposits with ASX Clear Participant;
 - (vi) Deposits with an ASX24 Market Participant;
 - (vii) Deposits with an ASX Market Participant;
 - (viii) Deposits with an Overseas Broker;
 - (ix) funds invested in accordance with section 981C(a) of the Corporations Act; and
 - (x) Total Deposits;
 - (d) the dollar amount of the Variation for both the day of the reconciliation and the prior day;
 - (e) the percentage amount of the Variation for both the day of the reconciliation and the prior day;
 - (f) an explanation of the reason for a Variation, if the dollar amount of the Variation is more than, or less than, zero; and
 - (g) where the movement in Total Futures Client Monies is greater than 20% from the prior day, an explanation of the reason.
- (3) A Market Participant does not need to comply with Rule 2.3.2 until 1 January 2012.

Maximum penalty: \$1,000,000

2.3.3 Monthly reconciliation of client' funds

- (1) Subject to Rule 2.3.3(5), a Market Participant must perform an accurate reconciliation of the aggregate balance held by it at the close of business on the last Business Day of each calendar month in clients' segregated accounts maintained under Rule 2.2.6 and the corresponding balance as recorded in the Market Participant's accounting records.
- (2) The reconciliation referred to in Rule 2.3.3(1) must be given to ASIC by the last Business Day of the calendar month following the calendar month to which the reconciliation relates.
- (3) The reconciliation referred to in Rule 2.3.3(1) must set out:
 - (a) the date to which the reconciliation relates;

- (b) for both the last Business Day of the month of the reconciliation and the last Business Day of the prior month, the dollar amounts of:
 - (i) Total Futures Client Monies;
 - (ii) Director/Employee Monies; and
 - (iii) Total Third Party Client Monies;
- (c) for both the last Business Day of the month of the reconciliation and the last Business Day of the prior month, the dollar amounts of:
 - (i) Clients' Segregated Account at Bank;
 - (ii) Deposits with ASX Clear (Futures) Client Account;
 - (iii) Deposits with ASX Clear Client Account;
 - (iv) Deposits with ASX Clear (Futures) Clearing Participant;
 - (v) Deposits with ASX Clear Participant;
 - (vi) Deposits with an ASX 24 Market Participant;
 - (vii) Deposits with an ASX Market Participant;
 - (viii) Deposits with an Overseas Broker;
 - (ix) funds invested in accordance with section 981C(a) of the Corporations Act; and
 - (x) Total Deposits;
- (d) the dollar amount of the Variation for both the last Business Day of the reconciliation and the last Business Day of the prior month;
- (e) the percentage amount of the Variation for both the last Business Day of the month of the reconciliation and the last Business Day of the prior month;
- (f) an explanation of the reason for a Variation, if the dollar amount of the Variation is more than, or less than, zero; and
- (g) where the movement in Total Futures Client Monies is greater than 20% from the last Business Day of the prior month, an explanation of the reason.

(4) A reconciliation created for the purposes of this Rule 2.3.3 must contain a statement signed by a Director or a person authorised in writing by a Director, stating that the signatory believes, and has no reason not to believe, that the reconciliation is accurate in all respects.

(5) A Market Participant does not need to comply with Rule 2.3.3(1) until 1 January 2012.

Note: Rule 2.3.3(5) means the first reconciliation required to be given to ASIC under Rule 2.3.3 is for the calendar month ended 31 January 2012, and it must be given to ASIC by 29 February 2012.

Maximum penalty: \$1,000,000

2.3.4 Obligation to notify ASIC about daily 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 2.3.2;

- (b) according to a reconciliation performed under Rule 2.3.2, Total Deposits is less than Total Third Party Client Monies; or
- (c) if it is unable to reconcile its clients' segregated accounts under Rule 2.3.2.

Maximum penalty: \$100,000

2.3.5 Annual declarations for clients' funds

(1) A Market Participant must prepare and give to ASIC within 3 months of the end of the financial year of the Market Participant:

- (a) a directors' declaration containing the information set out in Form 1 Part 1 of these Rules, authorised in the manner specified in Rule 2.3.5(2); and
- (b) an auditor's report containing the information set out in Form 1 Part 2 of these Rules, signed by a partner or director of the audit firm.

(2) For the purposes of this Rule, a directors' declaration must be authorised by:

- (a) 2 directors of the Market Participant whose names appear in the declaration; or
- (b) 1 director ('first director') of the Market Participant and 1 representative of the Market Participant, whose names appear in the declarations, where the representative has been authorised by the board or by a director other than the first director.
- (c) 2 representatives of the Market Participant whose names appear in the declaration and who have been authorised by the board or each authorised by a different director of the Market Participant to give the declaration.

Maximum penalty: \$1,000,000

2.3.6 Scope of audits

(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 Rule 2.3.5(1)(b).

(2) A Market Participant must:

- (a) not impose any limitation on the extent of any audit required under Rule 2.3.5(1)(b); 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 under Rule 2.3.5(1)(b).

Maximum penalty: \$100,000

Part 2.4 Foreign Participants

2.4.1 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 Australian Financial Services Licence.

(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.

(3) A Foreign Market Participant that is a Market Participant on the date this Rule 2.4.1 commences, is not required to comply with this Rule 2.4.1 until a period of three (3) months has passed from the date Rule 2.4.1 commences.

Maximum penalty: \$1,000,000

Chapter 3: Trading principles

Part 3.1 Trading principles for Orders entered on the Trading Platform

3.1.1 Expressions of Interest

(1) A Market Participant must not enter an Order into the Trading Platform based on an Expression of Interest without first confirming with the Client that that Expression of Interest is a firm Order to buy or sell.

(2) For the purposes of Rule 3.1.1(1), in respect of a Market Participant which is a Corporation, a “Client” includes a Related Body Corporate or a division of the Market Participant—which is separate from the Market Participant’s futures division.

Maximum penalty: \$100,000

3.1.2 Market manipulation and misleading acts or practices regarding price

(1) A Market Participant must not engage in price manipulation of a Contract.

(2) A Market Participant must not engage in any misleading act or practice regarding the price of a Contract.

(3) For the purposes of this Rule 3.1.2 “manipulation and misleading acts or practices regarding the price of a Contract” is conduct including any artificial attempts to raise, lower or maintain the Contract price or to give a false impression of active Trading, any attempt to artificially influence the closing price, any attempt to affect a settlement price by artificial Trading on the Market, or buying and selling into the Market with the sole intent of making volume appear more than it really is.

Maximum penalty: \$1,000,000

3.1.3 Entering Orders without an intent to Trade

(1) A Market Participant must not enter Orders where there does not exist an intent to Trade.

(2) For the purposes of this Rule 3.1.3, circumstances which indicate that there does not exist an intent to Trade include:

- (a) Orders which are entered at price limits substantially higher or lower than the previous settlement price of the specific Contract, or alternatively, entered with unusually large volume levels; or
- (b) placement, modification and cancellation of Orders during the Pre-Opening Phase, which are entered with intent to affect the opening price of any Futures or Options Contract.

Maximum penalty: \$1,000,000

3.1.4 Orders to be transmitted as soon as received

(1) Subject to Rules 3.1.4(3), 3.3.1(1) and 3.4.1(b), a Market Participant must transmit Orders to the Trading Platform as soon as they are received.

(2) Rule 3.1.4(1) applies to Orders that can, in accordance with Client instructions, be immediately transmitted to the Trading Platform and include “limit” and “market” Orders.

(3) Exceptions to Rule 3.1.4(1) are:

- (a) Orders that cannot be transmitted to the Trading Platform such as “market on close”, “stop loss” or “market if touched”;
- (b) “at best” Orders, provided these Orders are transmitted to the Trading Platform at such time as the Market Participant forms the view that the best price may be achieved; and
- (c) Orders where Client instructions preclude immediate transmission unless those instructions would cause the Market Participant to breach these Rules.

Maximum penalty: \$100,000

3.1.5 Orders to be transmitted and executed in the sequence received

(1) Subject to Rules 3.1.5(2), 3.3.1(1) and 3.4.1(b) a Market Participant must:

- (a) transmit Orders in the sequence in which they are received;
- (b) not leave an Order in the Trading Platform and then promote another Client Order to take the place of a cancelled Client Order;
- (c) not promote an Order to take the place of a cancelled Client Order;
- (d) reduce the volume of an aggregated Order by the amount remaining of a cancelled Order where a Client cancels an Order which was part of the aggregated Order; and
- (e) not engage in broking or offering of a favourable queue position.

(2) Orders may be transmitted and executed outside of the sequence in which they are received where Orders are aggregated under Rule 3.1.6.

Maximum penalty: \$1,000,000

3.1.6 Aggregation of Orders

(1) Subject to Rules 3.3.1(1) and 3.4.1(d), a Market Participant must not aggregate Orders for entry into the Trading Platform unless permitted under Rule 3.1.6(2).

(2) The only types of Orders which, when received, may be aggregated for placement into the Trading Platform, are:

- (a) all futures or options Orders received when the Market is neither open, nor in the Pre-Opening Phase;
- (b) spread or custom market Orders received during the Pre-Opening Phase of the Market;

- (c) all futures or options Orders received and recorded at exactly the same time;
- (d) Orders that, by definition, cannot be entered upon receipt, for example “market on open” or “market on close”; and
- (e) Orders negotiated under Part 3.3 of these Rules (pre-negotiated business).

Maximum penalty: \$1,000,000

3.1.7 Disclosure

(1) Subject to Rules 3.3.1(1)(b) and 3.4.1(c), a Market Participant must not disclose any information about Orders or Expressions of Interest unless where otherwise permitted or required under these Rules or the law or exempted under Rule 3.1.7(2).

(2) No Market Participant may disclose to another party information (including Expressions of Interest) which is not generally available, or should not reasonably be considered to be generally available, to Market Participants. Only details of Orders and Expressions of Interest that have been disclosed on the Trading Platform may be disclosed to Clients.

(3) The disclosure of information about a Client’s Order, where the Order has been entered into the Trading Platform, but not at a level that is visible to other Market Participants is disclosure of information which is not generally available, nor reasonably considered to be generally available.

(4) For the purposes of Rule 3.1.7, “Order” is an instruction to Deal or Trade on behalf of a Client or an intention to deal or Trade by a party dealing proprietary business.

Maximum penalty: \$1,000,000

3.1.8 Withholding Orders

(1) Subject to Rules 3.3.1(1)(a) and 3.4.1(b), a Market Participant must not withhold an Order with an intent to obtain a counterparty or counterparties.

(2) A Market Participant must not withhold two or more Orders with the intent to avoid trading with the Market.

Maximum penalty: \$1,000,000

3.1.9 Withdrawing Orders

A Market Participant must not withdraw Orders in whole or in part for the benefit of another person.

Maximum penalty: \$100,000

3.1.10 Pre-arrangement

Subject to Rules 3.3.1(1)(b) and 3.4.1(a), a Market Participant must not arrange the details of a potential Trade between two or more parties unless Market Participants have been made generally aware of all relevant details of the potential Trade, or unless specifically permitted otherwise under these Rules.

Maximum penalty: \$100,000

3.1.11 Trading to the exclusion of others

A Market Participant must not execute or attempt to execute Trades with the intent to exclude other Market Participants or their Representatives.

Maximum penalty: \$100,000

3.1.12 Wash Trades

(1) Subject to Rule 3.1.12(2), a Market Participant must not allow Trades to occur such that both sides of the Trade are on behalf of the same account (a “wash Trade”).

(2) Rule 3.1.12(1) does not prohibit:

- (a) a transaction where both sides are taken by the same Market Participant where the ultimate Clients are different;
- (b) a transaction where both sides are by the same entity but acting in different capacities; and
- (c) a transaction where each side is for a different division of the same Market Participant entity which is Trading separately and for different purposes.

(3) Subject to Rules 3.1.12 (4) and (5), a Market Participant must report to ASIC all breaches of Rule 3.1.12(1) in the following circumstances:

- (a) Where a wash Trade:
 - (i) is of 50 lots or more in volume;
 - (ii) is not or does not appear to be inadvertent; and
 - (iii) where a wash Trade does not relate to the following Market Contracts:
 - (A) 30 Day Interbank Cash Rate futures
 - (B) 90 Day Bank Accepted Bills futures
 - (C) 3 Year Commonwealth Treasury Bond futures
 - (D) 10 Year Commonwealth Treasury Bond futures
 - (E) SPI 200 Index futures; or
 - (iv) where a Market Participant’s Client with direct market access has executed a wash Trade and the Client intended to cross the Trade.

- (b) Where a Market Participant breaches Rule 3.1.12(1):
- (i) A Market Participant must maintain a register in respect of any wash Trade executed under their mnemonic, recording details of breaches of Rule 3.1.12(1) that were not reported to ASIC under Rule 3.1.12(3) (a “wash Trade register”).
 - (ii) Information to be maintained in the wash Trade register includes:
 - (A) time and date of Trade execution;
 - (B) deal number and full Order details;
 - (C) an explanation as to why/how the Trade occurred; and
 - (D) details of any subsequent action taken by the Market Participant.

(4) A Market Participant is not required to report a wash Trade to ASIC where a Client with direct market access has inadvertently executed a wash Trade and the Market Participant has processes in place to review, and reviews in accordance with those processes, the actions of the Client to ensure the Trade was inadvertent and subsequently records the details required by Rule 3.1.12(3)(b) on its wash Trade register.

(5) Where an error results in a Market Participant allocating both sides of a Trade to its error account, the Market Participant is not required to report this as a wash Trade to ASIC but must record the Trade on its wash Trade register.

Maximum penalty: \$100,000

3.1.13 Acting in accordance with Client instructions and Client’s best interests

- (1) A Market Participant must:
- (a) act on behalf of a Client only in accordance with that Client’s instructions, unless to do so would be contrary to the Rules;
 - (b) not act in a manner which has, or is intended to have, a detrimental effect, on the Client’s best interests.

(1A) A Market Participant must give priority to the Client’s instructions where there is a conflict between the Client’s interests and the Market Participant’s interests.

(2) For the purposes of Rule 3.1.13, a “Client” of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from that Market Participant’s futures division.

Maximum penalty: \$100,000

3.1.14 Personal account Trading

(1) A person must not initiate a Trade on any Market in any Contract for that person’s account where that person has or is likely to have knowledge or information about any Client

Orders of any Market Participant to Trade, or instructions to Trade, in the same or similar commodity.

(2) For the purpose of this Rule 3.1.14, a person has Traded for that person's account if that person Trades for any entity, person or account:

- (a) in which that person has a beneficial interest, including a Market Participant's House Account in which the person has a financial interest; or
- (b) in which that person might by exercise of some discretion have a beneficial interest, including a Market Participant's House Account in which the person has, or may have, a financial interest; or
- (c) over which that person exercises any control (other than an account of the Market Participant of which the person is a Director, partner or Employee where such control is exercised in that capacity); or
- (d) which is a Corporation in whose shares that person has a "Relevant Interest" as that term is defined by the Corporations Act; or
- (e) which is that person's relative or a relative's account in which that person has a financial interest.

(3) For the purposes of this Rule 3.1.14:

- (a) a "Client" of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from the Market Participant's futures division;
- (b) "a person having a financial interest in an account" includes any benefit which that person may enjoy as the result of the operation of that account, or Trading under that account; and
- (c) a "relative" of a person refers to spouse, parents, son, daughter, brother, sister, grandparents, grandchildren, aunts and uncles.

Maximum penalty: \$100,000

3.1.15 Dual Trading prohibition

(1) A Market Participant's Representative must not initiate a Trade for any Market Participant's House Account in a Contract, where that Representative is holding or is likely to hold the Market Participant's Client Orders to Trade, or for any reason is likely to have knowledge or information of the Market Participant's Client Orders to Trade, in the same or similar commodity unless permitted under Rule 3.1.15(3).

(2) Conflict management

A Market Participant must ensure that Employees initiating Trading for Client Orders cannot initiate Trades for the Market Participant's House Account and that an Employee who initiates Trades for the Market Participant's House Account will not be privy to information concerning Client Orders.

(3) A Market Participant which executes a Trade to cover an Error Trade is not in breach of Rule 3.1.15(1).

(4) In Rule 3.1.15:

- (a) “Client” includes a Related Body Corporate or a division of the Market Participant which is separate from that Market Participant’s futures division.
- (b) “House Account” means an account operated by a Market Participant for principal Dealing only. It excludes Dealings by the Market Participant on behalf of a Corporation related to the Market Participant or another division within that Market Participant’s Corporation which is separate from its futures division.
- (c) “initiate” means that the Employee originates an Order to Trade in a Futures or Options Contract.
- (d) “similar commodity” includes, without limitation:
 - (i) in the case of an interest rates based Contract, all other interest rate based Contracts and,
 - (ii) in the case of an SPI contract, individual share futures Contracts.

Maximum penalty: \$1,000,000

3.1.16 Trades to be allocated in sequence of Order receipt

(1) Subject to Rule 3.1.16(3) a Market Participant and its Representative must allocate Trades to Clients in the sequence in which the Orders are received.

(2) For the purposes of this Rule 3.1.16 “a Client” of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from that Market Participant’s futures division.

(3) A Market Participant may allocate out of sequence where:

- (a) Orders are aggregated under Rule 3.1.6;
- (b) the Market Participant uses either of the following pro-rata methods:
 - (i) volume weighted average method; or
 - (ii) percentage basis;
- (c) the Market Participant has advised, In Writing, each Client whose Orders may be allocated out of sequence under this Rule, nominating the pro-rata method selected under Rule 3.1.16(3)(b); and
- (d) the Market Participant has retained a record of the advice sent to the Client under Rule 3.1.16(3)(c) while the Client remains a Client of the Market Participant and for a period of five (5) years after that Client ceases to be a Client of the Market Participant.

(4) A Market Participant must notify ASIC In Writing prior to adopting or changing its policy of allocating Orders on one of the pro-rata methods set out in Rule 3.1.16(3)(b).

Maximum penalty: \$100,000

3.1.17 Post-allocation prohibition

(1) A Market Participant must not offer and/or allocate Trades to a Client unless those Trades have been obtained under instructions previously obtained from that Client.

(2) For the purposes of this Rule 3.1.17 a “Client” of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from that Market Participant’s futures division.

Maximum penalty: \$1,000,000

Part 3.2 Strategy Trading

(1) A Market Participant must maintain a record of all Strategy Trades, for a period of five (5) years.

(2) Market Participants must allocate each leg of a Strategy Trade to the same account.

Maximum penalty: \$100,000

Part 3.3 Pre-negotiated business orders

3.3.1 Pre-negotiated business

(1) Where a Market Participant receives an instruction from a Client which can be executed as pre-negotiated business, the Market Participant may:

- (a) withhold transmission of the instructions in order to solicit Orders from Clients and other Market Participants;
- (b) disclose details of Clients’ instructions; and
- (c) aggregate Orders received from Clients in satisfaction or part satisfaction of the originating Client Order.

(2) For the purposes of this Rule 3.3.1(1) “pre-negotiated business” refers to Orders involving Contracts which have been:

- (a) permitted to be pre-negotiated in the Market Operating Rules; and
- (b) are in numbers of Contracts greater than or equal to the number designated by the Market Operator.

Note: There is no penalty for this Rule.

3.3.1A Entry of orders

(1) If counterparties have been solicited by a Market Participant pursuant to Rule 3.3.1(1)(a), the Market Participant must:

- (a) make an enquiry through the message facility of the Trading Platform for a market in that contract month or strategy;
- (b) wait until the period of time prescribed by the Market Operator in the Market Operating Rules, or in the procedures to the Market Operating Rules, has elapsed since the entry of the enquiry or, if no such time is prescribed, 30 seconds; and
- (c) then immediately enter the Order on the Trading Platform for execution.

(2) An enquiry under Rule 3.3.1A(1)(a) must:

- (a) specify all information that is material to the pricing and trading of the orders to be executed;
- (b) where applicable, include a description of the contract, class and series of the option(s) that will form the strategy;
- (c) where applicable, include a description of the intended trade using common market terminology; and
- (d) if the trade involves a ratio of futures or options and/or a delta hedge, information that explicitly specifies the ratio, delta and the price basis for the hedge in the underlying commodity, as applicable.

(3) Where a Market Participant (“**first Market Participant**”) holds opposing Orders at a specific price, and a bid or offer is entered in the Market by another Market Participant (“**other Market Participant**”) following the message sent under Rule 3.3.2(1)(a) that is at the same or better price than the opposing Orders held by the first Market Participant, the first Market Participant must give priority to trading against the bid or offer entered by the other Market Participant.

Maximum penalty: \$100,000

3.3.2 Client authorisation

Before entering a pre-negotiated business Order on behalf of a Client under Rule 3.3.1, a Market Participant must be authorised In Writing by the Client to do so either specifically or generally. The authorisation must state that the Client authorises Orders to be pre-negotiated on the Client’s behalf.

Maximum penalty: \$100,000

3.3.3 Definition of Client

(1) For the purpose of this Part 3.3 in respect of any Market Participant that is a Corporation, a “Client” includes a Related Body Corporate or a division of the Market Participant which is separate from the Market Participant’s futures division.

(2) For the purposes of Trading out of a Trade allocated to a Market Participant that is an Error Trade, the Market Participant’s futures division is classified as a Client.

Note: There is no penalty for this Rule.

Part 3.4 Trading principles for Block Trades

3.4.1 Participant entitlements

Where a Market Participant receives a Block Trade Order from a Client, the Market Participant may:

- (a) solicit counterparties to the Block Trade Order amongst other Market Participants;
- (b) withhold transmission of the Block Trade Order in order to solicit those counterparties;
- (c) disclose those details of the Block Trade Order as authorised by the Clients; and
- (d) aggregate Orders where each Order is greater than or equal to the Minimum Volume Threshold for that Contract.

Note: There is no penalty for this Rule.

3.4.2 Prohibitions

(1) Market Participants must not aggregate separate Orders in order to meet Minimum Volume Thresholds.

(2) Market Participants must not use the Block Trade Facility to execute Roll Business.

Maximum penalty: \$100,000

3.4.3 Unfilled Block Trade Orders

(1) Subject to Rule 3.4.3(2), where counterparties have been solicited under Rule 3.4.1(a) and the Block Trade Order remains unfilled, then the Block Trade Order may revert to an Order.

(2) The Orders solicited from counterparties referred to in Rule 3.4.3(1) must not be entered into the Trading Platform unless a period of 60 seconds has elapsed from the entry of the originating Block Trade Order.

Note: There is no penalty for this Rule.

3.4.4 Client authorisation

Before executing a Block Trade Order on behalf of a Client a Market Participant must be authorised In Writing by the Client to do so either specifically or generally and such authorisation must include an acknowledgment by the Client that:

- (a) the price quoted for the Block Trade Order may or may not be the prevailing market price;
- (b) the price at which the Block Trade is executed will not be used in establishing the price of a Contract when it is settled in accordance with the Market Operating Rules;
- (c) Block Trades shall have no impact on the Trading Platform market data; and
- (d) Block Trades will be separately reported to the Market.

Maximum penalty: \$100,000

Part 3.5 Trading principles for Exchange For Physical transactions

3.5.1 Prohibitions

No Exchange For Physical transaction may be effected:

- (a) where the parties to each side of the physical transaction are the same or are acting on behalf of the same person; or
- (b) where both sides of the Futures Contract are taken out by the same Market Participant on its own account or are taken out on behalf of the same Client.

Maximum penalty: \$100,000

3.5.2 Evidence of physical transaction

(1) Subject to Rule 3.5.2(2) where either a Market Participant or its Client is a party to an Exchange For Physical transaction, the Market Participant must ensure that evidence of the physical transaction, as set out in the Market Operating Rules, is obtained by the Market Participant.

(2) The requirements under Rule 3.5.2(1) can alternately be met by undertaking the following procedures:

- (a) retaining and maintaining an updated list of Representatives authorised to register Exchange For Physical Transactions on behalf of the Market Participant;
- (b) obtaining and retaining executed copies of a Client undertaking which contains undertakings from the Client including that the Client will provide to the Market Participant full details of the physical transaction (including documentary evidence) which attach to Exchange For Physical transactions effected by the Market Participant on behalf of the Client; and
- (c) requesting appropriate physical evidence on an “as needs basis” from the Client if the Market Participant is required to demonstrate compliance with this Rule.

Maximum penalty: \$100,000

3.5.3 Client authorisation

Before executing an Exchange For Physical Order on behalf of a Client, a Market Participant must be authorised In Writing by the Client to do so either specifically or generally.

Maximum penalty: \$100,000

Chapter 4: The Market Operator

Part 4.1 Provision of surveillance and supervision data by the Market Operator

4.1.1 Data provision to assist surveillance of activities and conduct on the Market

(1) Data to assist surveillance of activities and conduct on Market

The Market Operator must deliver to ASIC, or to a service provider nominated by ASIC and notified to the Market Operator in accordance with Rule 4.1.2, all data items as generated on or by its Trading Platform, being:

- (a) Order price and volume entries;
- (b) Order modifications;
- (c) Order cancellations;
- (d) trade price and volume entries;
- (e) trade type;
- (f) “Firm ID” and “Trader ID” code or other broker number and identifier code, where available;
- (g) information as containing details of the Contracts traded through the Trading Platform, being:
 - (i) contract codes;
 - (ii) time stamps on all Order entries, trades, amendments, cancellations and deletions;
 - (iii) unique order and deal (or trade) identifier data;
 - (iv) Order type;
 - (v) Order characteristics; and
 - (vi) such additional data items or fields notified by ASIC to the Market Operator under Rule 4.1.2 and which are generated on or by the Market Operator’s Trading Platform, but a Market Operator is not required to provide those additional data items or fields unless they are generated on or by the Market Operator’s Trading Platform.

(2) Format requirements

The data required by Rule 4.1.1(1) must be in such format as ASIC notifies the Market Operator in accordance with Rule 4.1.2.

(3) Delivery requirements

The data required by Rule 4.1.1(1) must be delivered by the Market Operator to ASIC or its nominated service provider in a manner and/or to a location notified by ASIC to the Market Operator in accordance with Rule 4.1.2.

Maximum penalty: \$1,000,000

4.1.2 Notification

A notification by ASIC to the Market Operator of:

- (a) a service provider nominated under Rule 4.1.1(1);
- (b) additional data items or fields under Rule 4.1.1(1)(g)(vi);
- (c) format under Rule 4.1.1(2); or
- (d) a manner and/or location of delivery under Rule 4.1.1(3);

must be in writing and allow the Market Operator a reasonable period to comply.

Note: There is no penalty for this Rule.

Part 4.2 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; and
- (c) Market Participant type, being:
 - (i) Trading Participant; or
 - (ii) Principal Trader.

Maximum penalty: \$100,000

Chapter 5: Capital requirements

Part 5.1 Interpretation

5.1.1 Definitions

In this Chapter:

“Approved Subordinated Debt” means an amount owing by a Trading Participant which is payable at a time or by instalments approved by ASIC and is to the satisfaction of ASIC effectively subordinated so that any right of the creditor in question to receive payment in the case of bankruptcy of or any composition or compromise with creditors by or appointment of a trustee in bankruptcy or in the case of liquidation, liquidator in respect of the Trading Participant or the partners or any of them is extinguished to such an extent as will ensure payment or provision for payment in full of all claims of all other present and future creditors of the Trading Participant in priority to the claim of the subordinated creditors and in respect of which a Subordinated Loan Deed has been executed under seal by the Trading Participant, the lender and ASIC.

“NTA” means the sum of the values of the assets (both fixed and current) owned by the Trading Participant or prospective Trading Participant as the case may be (such value being the lower of cost or market) less the sum of any liabilities (secured and unsecured) attaching to those assets or to the Trading Participant or prospective Trading Participant generally (and in the case of a partnership then attaching to the partners).

The values of assets for the purpose of this definition shall not include the value attributed to any future tax benefits, goodwill, patent, trademark, participation rights granted by the Market Operator, a commitment provided in accordance with the Clearing Rules or any asset used to secure that commitment, preliminary expense or other items of a like nature which are regarded in current accounting practice as intangible or the value attributed to any debt owed to the Trading Participant which is disputed or may otherwise be regarded as doubtful or the value of any asset which is not capable of being realised within 12 months on a going concern basis. Liabilities shall include provision for estimated liability for income tax, long service leave and any other contingency for which provision is properly made in current accounting practice. Liabilities may, if ASIC so approves, having regard to all the circumstances, exclude Approved Subordinated Debt.

“NTA Requirements” means the requirements that a Trading Participant, other than a Principal Trader, must ensure at all times that the value of the NTA is not less than one million dollars (\$1,000,000).

“Subordinated Loan Deed” means a deed which contains provisions including (without limitation):

- (a) that its terms are not to be varied without the agreement in writing of all parties;

- (b) that the lender's rights to receive interest and principal payments pursuant to the loan are subordinated at all times to other creditors;
- (c) that repayment of the loan in whole or in part is subject to the approval of ASIC, which shall not be given unless it is satisfied that the Trading Participant will, after repayment, be able to comply with the NTA Requirements; and
- (d) that the obligation to repay the loan and to pay interest will be suspended for the duration of any period in which the level of the Trading Participant's Net Tangible Assets falls below the minimum required by the Rules.

Part 5.2 Capital requirements

5.2.1 NTA Requirements

A Trading Participant must at all times comply with the NTA Requirements, unless:

- (a) the Trading Participant is only a Principal Trader; or
- (b) the Trading Participant is a Clearing Participant and complies with the capital requirements under the Clearing Rules.

Maximum penalty: \$1,000,000

Chapter 6: Accounts and audit

Part 6.1 Interpretation

6.1.1 Application of Rules

This Chapter does not apply to:

- (a) a Trading Participant that is only approved as a Principal Trader; or
- (b) a Trading Participant that is also a Clearing Participant.

Part 6.2 Financial statements

6.2.1 Reporting to ASIC

(1) A Trading Participant must prepare and give to ASIC:

- (a) financial statements, as set out in Rule 6.2.1(2), by the time set out in that Rule, which give a true and fair view of the financial position and performance of the business and which are prepared in accordance with accounting standards and principles which are generally accepted in Australia;
- (b) directors' declarations as set out in Rule 6.2.1(2) by the time set out in Rule 6.2.1(2); and
- (c) auditor's reports as set out in Rule 6.2.1(2) by the time set out in Rule 6.2.1(2).

(2) For the purposes of Rules 6.2.1(1)(a), (b) and (c), the financial statements, directors' declarations and auditor's reports to be given to ASIC, and the time by which they must be given, are:

- (a) within 3 months of the end of the financial year of a Trading Participant:
 - (i) an electronic copy of the Trading Participant's statutory accounts, including a directors' declaration and audit report as required under the laws of the Trading Participant's home jurisdiction;
 - (ii) an audited annual NTA return containing the information in, and in the form set out in, Form 2 of these Rules;
 - (iii) directors' declarations containing the information in, and in the form set out in Form 3 Parts 1 and 2 of these Rules, authorised in the manner specified in Rule 6.2.1(7); and
 - (iv) annual audit reports containing the information (as applicable) in, and in the form set out in Form 4 Parts 1 and 2 of these Rules, signed by a partner or director of the audit firm; and

- (b) within 10 Business Days of the end of each calendar month:
 - (i) a monthly NTA return containing the information in, and in the form set out in, Form 5 of these Rules as at the last day of the preceding calendar month; and
 - (ii) a directors' declaration relating to the monthly NTA return in the form set out in Form 6 of these Rules, authorised in the manner specified in Rule 6.2.1(7).

Note: Rule 6.2.1(9) provides that for the calendar months August through to December 2011 a market participant may comply with Rule 6.2.1(2)(b) by lodging the return and declaration required by the Rule by the end of the calendar month following the month to which the return relates. Monthly returns for January 2012 onwards must be given to ASIC within 10 business days of the end of a calendar month.

(3) If a Trading Participant becomes aware that its NTA has fallen below the minimum level required by Rule 5.2.1, the Trading Participant must:

- (a) notify ASIC, in writing, immediately upon becoming so aware, and specifying the level to which its NTA has fallen; and
- (b) give to ASIC:
 - (i) within 24 hours of becoming aware that its NTA has fallen below the minimum level required by Rule 5.2.1, a summary NTA return containing the information in, and in the form set out in, Form 7 of these Rules; and
 - (ii) within 24 hours of becoming aware that its NTA has fallen below the minimum level required by Rule 5.2.1, a directors' declaration relating to the summary NTA return given under Rule 6.2.1(3)(b)(i) in the form set out in Form 6 of these Rules, authorised in the manner specified in Rule 6.2.1(7).

(4) If the NTA of a Trading Participant falls below 150% of the minimum level required by Rule 5.2.1, the Trading Participant must give to ASIC:

- (a) within 5 Business Days of the NTA falling below 150% of the minimum level required by Rule 5.2.1, a summary NTA return containing the information in, and in the form set out in, Form 7 of these Rules; and
- (b) within 5 Business Days of the NTA falling below 150% of the minimum level required by Rule 5.2.1, a directors' declaration relating to the summary NTA return given under Rule 6.2.1(4)(a) in the form set out in Form 6 of these Rules, authorised in the manner specified in Rule 6.2.1(7).

(5) If the NTA of a Trading Participant decreases by more than 20% since the last notification given to ASIC under this Rule, the Trading Participant must give to ASIC:

- (a) within 5 Business Days of the decrease, a summary NTA return containing the information in, and in the form set out in, Form 7 of these Rules; and
- (b) within 5 Business Days of the decrease, a directors' declaration relating to the summary NTA return given under Rule 6.2.1(5)(a) in the form set out in Form 6 of these Rules, authorised in the manner specified in Rule 6.2.1(7).

(6) A Trading Participant must, if requested by ASIC in writing, give ASIC an ad hoc NTA return for the period specified in ASIC's request, containing the information in, and in the

form set out in Form 8 to these Rules and a directors' declaration relating to the ad hoc NTA return in the form set out in Form 6 of these Rules, authorised in the manner specified in Rule 6.2.1(7), within 24 hours of receipt of ASIC's request.

(7) For the purposes of this Rule, a directors' declaration must be authorised by:

- (a) 2 directors of the Trading Participant whose names appear in the declaration; or
- (b) 1 director ('first director') of the Trading Participant and 1 representative of the Trading Participant, whose names appear in the declarations, where the representative has been authorised by the board or by a director other than the first director; or
- (c) 2 representatives of the Trading Participant whose names appear in the declaration and who have been authorised by the board or each authorised by a different director of the Trading Participant to give the declaration.

(8) A Trading Participant may comply with:

- (a) Rule 6.2.1(2)(a)(ii) (audited annual NTA return);
- (b) Form 3 Part 1 of Rule 6.2.1(2)(a)(iii) (directors' declaration in relation to audited annual NTA return);
- (c) Rule 6.2.1(2)(b)(i) and (ii) (monthly NTA return and directors' declaration);
- (d) Rule 6.2.1(3)(b)(i) and (ii) (summary NTA return and directors' declaration if NTA falls below minimum level);
- (e) Rule 6.2.1(4)(a) and (b) (summary NTA return and directors' declaration if NTA falls below 150% of minimum level)
- (f) Rule 6.2.1(5)(a) and (b) (summary NTA return and directors' declaration if NTA decreases by more than 20% since last notification to ASIC); and
- (g) Rule 6.2.1(6) (ad hoc NTA return and directors' declaration if ASIC makes a written request for that information)

by submitting the information required to be given to ASIC to the electronic return lodgement and monitoring system maintained by the Market Operator. For the avoidance of doubt, other information and documents required to be given to ASIC by Rule 6.2.1 may not be given to ASIC in that way.

(9) For the calendar months August, September, October, November and December 2011 a Trading Participant may comply with Rule 6.2.1(2)(b) by lodging the return and declaration required by that Rule by the end of the calendar month following the month to which the return relates.

Maximum penalty: \$1,000,000

6.2.2 Scope of audits

(1) A Trading 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 Rule 6.2.1(1)(c).

(2) A Trading Participant must:

- (a) not impose any limitation on the extent of any audit required under Rule 6.2.1(1)(c);
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 Trading Participant's nominee companies must be included in the audit under Rule 6.2.1(1)(c).

Maximum penalty: \$100,000

Chapter 7: Margins and right of Close Out

Part 7.1 Interpretation

7.1.1 Definitions

In this Chapter:

“**Approved Ratings Agency**” means a credit rating agency holding an Australian Financial Services Licence authorising it to give general advice by issuing a credit rating.

“**Approved Securities**” means securities appearing on the list below for which the Trading Participant has, and is able to demonstrate, direct control over and authority to liquidate:

- (a) a letter of credit or guarantee in favour of the Trading Participant issued in documentary form by an Australian ADI or by a foreign bank with at least a short term investment grade credit rating from an Approved Ratings Agency (provided that the Australian ADI or foreign bank is not the Client);
- (b) a letter of credit or guarantee in favour of the Trading Participant issued by the New South Wales Treasury Corporation, the Queensland Treasury Corporation or the Tasmanian Public Finance Corporation;
- (c) not more than 75% of the market value of shares in one or more of the top 100 Australian companies listed on an Australian stock exchange approved under the Corporations Act, measured by market capitalisation at the time the Cover was lodged;
- (d) not more than 70% of the market value of shares in one or more of the top 10 listed New Zealand companies, measured by market capitalisation at the time the Cover was lodged;
- (e) not more than 90% of the market value of Australian government securities that have a residual maturity of over 1 year;
- (f) not more than 95% of the market value of Australian government securities that have a residual maturity of under 1 year;
- (g) for a trading participant trading on a foreign Financial Market, not more than 90% of the market value of foreign government securities that have a residual maturity of under 12 months if;
 - (i) the security is approved by that foreign Financial Market;
 - (ii) the security is acceptable as Cover by a futures broker of that country; and
 - (iii) the country has a Standard & Poor’s long-term and short-term credit rating for sovereigns of AAA and A-1 respectively;
- (h) not more than 95% of the market value of bills of exchange accepted or endorsed by an Australian ADI (provided the Australian ADI is not the Client); and
- (i) not more than 95% of the market value of Negotiable Certificates of Deposit issued by an Australian ADI (provided the Australian ADI is not the Client).

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

“**Clearing Facility**” means ASX Clear (Futures) Pty Ltd (ACN 050 615 864)

“**Initial Margin**” means the amount which a Trading Participant requires to be paid by a Client in respect of a Futures Contract entered into or proposed to be entered into on behalf of a Client.

“**Variation Margin**” means the difference between the value of a Futures Contract or Option Contract as shown in the contract, and the value of that contract at any given time.

Part 7.2 Obligations for Trading Participants

7.2.1 Margin obligations

A Trading Participant, other than a Principal Trader, must comply with the margin obligations in this Part.

Maximum penalty: \$1,000,000

7.2.2 Calling Initial Margin

(1) As soon as possible after the execution of the Client’s instructions, a Trading Participant must Call at least the minimum Initial Margin that is determined from time to time under the Clearing Rules.

(2) In calculating the amount of Initial Margin, a Trading Participant must not offset the Initial Margin on another Contract due by the Client to the Trading Participant unless that other Contract is for the opposite position in the same delivery month and in respect of the same commodity.

(3) Nothing in Rule 7.2.2(1) prevents a Trading Participant from Calling an amount higher than the minimum Initial Margin referred to in Rule 7.2.2(1).

(4) A Trading Participant must not accept anything but cash in satisfaction of Initial Margin from a Client, unless the Trading Participant has agreed to accept and has received Cover by way of Approved Securities.

7.2.3 Calling Variation Margin

(1) Subject to Rule 7.2.3(2), a Trading Participant must Call Variation Margin from the Client when the Client has a net debit Variation Margin Position, unless the Client is a Clearing Participant and the Contracts are registered with the Clearing Facility in the name of that Clearing Participant.

(2) Where the amount of a Call in Rule 7.2.3(1) would be \$1,000 or less, the making of such a Call shall be at the discretion of the Trading Participant.

7.2.4 Liability for Margins

A Trading Participant's Client agreement must provide that:

- (a) liability of the Client for the Initial Margin shall arise upon execution of the instructions given by the Client, irrespective of the time when the Call is made; and
- (b) liability for Variation Margin shall arise at the same time as the Variation Margin comes into existence, irrespective of the time when any Call is made.

7.2.5 Satisfaction of Calls for Margin

(1) A Trading Participant's Client agreement must provide that Calls for Initial Margin and Variation Margin must be satisfied by payment unless the Trading Participant agrees to accept and receives, in lieu of payment, Approved Securities.

(2) A Trading Participant's Client agreement must provide that:

- (a) if the Trading Participant receives Approved Securities in accordance with Rule 7.2.5(1), such Approved Securities shall be retained by the Trading Participant until such time as the liability of the Client is extinguished either by the relevant contracts being Closed Out or payment being made by a Buyer or delivery in accordance with the Rules being effected by a Seller; and
- (b) if the liability of the Client is not extinguished, as set out in Rule 7.2.5(2)(a), then the Approved Securities may be realised by the Trading Participant and the proceeds applied against that liability.

(3) A Trading Participant must ensure liability of a Client for Initial Margin is Covered at all times.

7.2.6 Time for payment of Margins

(1) Where a Call is made for Initial or Variation Margin, the Trading Participant must stipulate the time for payment or lodgement of Approved Securities, which must not be greater than:

- (a) 24 hours if the Client's address is within Australia; or
- (b) 48 hours if the Client's address is outside Australia.

(2) Subject to Rules 7.2.6(4) and 7.2.10, a Trading Participant must not provide credit for a Client beyond the periods specified in Rules 7.2.6(1)(a) and (b).

(3) A Trading Participant's Client agreement must provide that time shall be of the essence in respect of payment or lodgement under this Part 7.2.

(4) A Trading Participant will not be in breach of Rule 7.2.6(2) where the Trading Participant exercises a reasonable discretion to not Close Out in accordance with Rule 7.2.8(3).

7.2.7 Spread Margins

(1) Where a Trading Participant holds a Spread position on behalf of a Client, the Trading Participant must Call an Initial Margin of not less than the amount for that Spread determined by the Clearing Facility.

(2) When one leg of a Spread is in the first delivery (spot) month, the Initial Margin required on that leg must not be less than the amount required by the Clearing Facility on the first delivery (spot) month, and the other leg of the Spread must attract the normal Initial Margin requirements.

7.2.8 Obligation of Close Out

(1) Subject to Rule 7.2.8(3), where a Client is in default by failing to pay a Call (or lodge Approved Securities) within the time stipulated under Rule 7.2.6(1), a Trading Participant must, immediately upon expiry of that time period, Close Out to the extent necessary to counter the Call, all or any existing Open Positions in any Market held by the Trading Participant on account of the Client.

(2) A Trading Participant's Client Agreement must provide that the Trading Participant shall not be liable to the Client for any loss sustained by the Client as a result of the Trading Participant Closing Out in accordance with Rule 7.2.8(1).

(3) A Trading Participant shall not be obliged to Close Out futures positions in accordance with Rule 7.2.8(1) where the Trading Participant exercises a reasonable discretion to not Close Out having regard to:

- (a) the expertise and financial status of the Client;
- (a) any genuine attempts by the Client to meet the Call within the time prescribed; and
- (b) whether relevant actions or omissions of third parties resulted in the Client failing to pay the Call.

7.2.9 Margin Requirements—Trading on Financial Markets other than Markets operated by the Market Operator, Margin Action Book and Margin Default Register

(1) Where a Trading Participant is Dealing in Contracts on behalf of Clients on Financial Markets which are not Markets operated by the Market Operator, the Trading Participant must comply with any margin obligations contained in the rules of that Financial Market.

(2) Where the rules of a Financial Market referred to in Rule 7.2.9(1) do not contain any margin obligations, the Trading Participant must comply with the margin obligations set out in this Part when Dealing in Contracts on behalf of Clients on that Financial Market as if it were dealing in Contracts on behalf of Clients on the Market.

(3) A Trading Participant must ensure that it has procedures in place to determine the Initial Margin and Variation Margin Calls are being made as soon as possible after the execution of

the Client's instructions, including, but not limited to, the maintenance of a Margin Action Book and a Margin Default Register.

(4) For the purposes of Rule 7.2.9(3), a “**Margin Action Book**” is a document recording, without limitation, the following information about action taken in relation to Margin Calls:

- (a) Client name;
- (b) amount of Call required;
- (c) time and date Client contacted;
- (d) Client response; and
- (e) date funds received.

(5) For the purposes of Rule 7.2.9(3), a “**Margin Default Register**” is a document recording, without limitation, the following information in relation to non-receipt of Margin payments:

- (a) Client name;
- (b) amount of the Call;
- (c) time and date of the initial Call and any subsequent Calls;
- (d) details of escalation and other relevant steps taken by the Trading Participant;
- (e) details of whether the Trading Participant closed out the Client's positions and, if not, the reasons why the Trading Participant has not done so, having regard to Rule 7.2.8(3); and
- (f) date and amount of funds received or details of action taken by the Client.

7.2.10 Credit lines

A Trading Participant must not accept credit lines for payment of margins unless:

- (a) the Trading Participant is an Australian ADI and:
 - (i) the monies are lent by a separate credit division of the Australian ADI;
 - (ii) such monies are lent in accordance with normal credit policy of the Australian ADI; and
 - (iii) the facility is used to pay obligations for Initial and Variation Margins and that such obligations are met by actual payment into the clients' segregated account of the Trading Participant through a direct call on the facility; or
- (b) the credit is provided to Clients of the Trading Participant by a related entity of the Trading Participant to meet Initial Margins and Variation Margins and:
 - (i) the related entity's core business activity is the provision of credit to Clients; and
 - (ii) the related entity is not a subsidiary of the Trading Participant.

7.2.11 Notifying ASIC

(1) A Trading Participant must advise ASIC, in writing, as soon as a Call has not been met by a Client and the Trading Participant has not closed out the Client's positions.

(2) Subject to any reasonable discretion exercised by the Trading Participant in accordance with Rule 7.2.8(3), the notification referred to in Rule 7.2.11(1) must be given as soon as there is any doubt to a reasonable person that the funds will not arrive from the Client.