

ASIC MARKET INTEGRITY RULES (ASX 24 MARKET) 2010

EXPLANATORY STATEMENT

Prepared by the Australian Securities and Investments Commission

Corporations Act 2001

The Australian Securities and Investments Commission (ASIC) makes the *ASIC Market Integrity Rules (ASX 24 Market) 2010* (the *Market Integrity Rules*) under subsection 798G(1) of the *Corporations Act 2001* (the *Act*).

Subsection 798G (1) of the Act provides that ASIC may, by legislative instrument, make rules that deal with:

- (a) the activities or conduct of licensed markets;
- (b) the activities or conduct of persons in relation to licensed markets;
- (c) the activities or conduct of persons in relation to financial products traded on licensed markets.

Subsection 798G(1) is inserted by Schedule 1 of the *Corporations Amendment (Financial Market Supervision) Act 2010* (the *Amending Act*).

On 24 August 2009, the Australian Government announced that it had decided to transfer the responsibility for supervision of Australia's domestic licensed financial markets from market operators to ASIC. The Amending Act gave effect to this decision and received Royal Assent on 25 March 2010. On 8 July 2010, the commencement date for Schedule 1 to the Amending Act was fixed by proclamation as 1 August 2010 (the *Commencement Date*).

These Market Integrity Rules apply to the market (the *Market*) operated by Australian Securities Exchange Limited (the *Market Operator*) under Australian Market Licence (Australian Securities Exchange Limited) 2002.

The main purpose of the Market Integrity Rules is to promote market integrity, protect investors and enable ASIC to perform the functions contemplated by the transfer of real-time supervision of the ASX 24 Market (previously known as the SFE Market).

The Market Integrity Rules are based on a subset of the SFE Market Rules that were in existence prior to the Commencement Date (the *pre-commencement SFE Market Rules*). The split between the pre-commencement SFE Market Rules and the Market Integrity Rules was agreed between ASIC and the SFE Market Operator. The main guiding principles in splitting the pre commencement SFE Market Rules were that:

- (a) existing operational and mechanical style rules, including the core operational functioning of SFE Market, should be the responsibility of the Market Operator;
- (b) admission of participants should be the responsibility of the Market Operator;
- (c) rules relating to market integrity should be the responsibility of ASIC;
- (d) rules that assist the real-time monitoring of trading and market conduct should be the responsibility of ASIC; and

(e) rules relating to general participant conduct, including participant conduct with clients, should be the responsibility of ASIC.

To ensure market certainty and minimise impact on participants on the Commencement Date, ASIC has, to the extent possible, maintained the substance of the regulatory regime embodied in the pre-commencement SFE Market Rules on which the Market Integrity Rules are based. Amendments were made to the drafting of those rules to reflect the transfer of supervisory responsibility for those rules to ASIC, and to incorporate material from the Procedures, Determinations and Practice Notes of the pre commencement SFE Market Rules.

Details of the Rules are contained in the Attachment.

Public consultation on the Rules was conducted in February and March 2010. A number of submissions were received, including submissions from industry groups and market operators. Most of the issues raised in the submissions were of a technical nature and have been addressed in the drafting of the final Rules to the extent possible. In addition to those changes, the Rules were amended to take into account:

- (a) the incorporation into the Rules of additional detail and obligations contained in the Procedures, Determinations and Practice Notes of the pre-commencement SFE Market Rules (for example, in relation to clients' segregated accounts obligations, wash trades, and transmission and allocation of orders).
- (b) the need for consistency of interpretive and preliminary provisions between the Rules and the ASIC Market Integrity Rules (ASX Market) 2010;
- (c) the inclusion of additional Rules about providing data and information to ASIC that apply to the Market Operator only; and
- (d) the inclusion of an additional rule, which reflects a pre-commencement SFE Market Rule, relating to concentration of risk that provides that participants shall not permit any one client to represent such a percentage of the trading by the participant as may prejudice or diminish the ability of the participant to meet its obligations.

Section 798G provides that the Rules are a legislative instrument for the purposes of the *Legislative Instruments Act 2003*.

Subsection 798G(2) of the Act provides that market integrity rules may include a penalty amount for a rule. A penalty amount must not exceed \$1,000,000. The penalty amount set out below a Market Integrity Rule is the penalty amount for that Market Integrity Rule.

The Rules will commence on the later of the day they are registered on the Federal Register of Legislative Instruments or the Commencement Date.

ATTACHMENT

Chapter 1: Introduction

Part 1.1 Preliminary

1.1.1 Enabling legislation

Rule 1.1.1 provides the enabling legislation for these Rules is subsection 798G(1) of the Corporations Act.

1.1.2 Title

Rule 1.1.2 provides that the title for these Rules is *ASIC Market Integrity Rules (ASX 24 Market) 2010*.

1.1.3 Commencement

Rule 1.1.3 provides that the 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*.

The commencement of Schedule 1 of the *Corporations Amendment (Financial Market Supervision) Act* has been fixed by proclamation as 1 August 2010.

1.1.4 Scope of these Rules

Rule 1.1.4 provides that the Market Integrity 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.

1.1.5 Entities that must comply with these Rules

Rule 1.1.5 specifies the entities that the following entities must comply with the Market Integrity Rules, being:

- (a) the Market Operator;
- (b) Market Participants; and
- (c) Other Regulated Entities;

as specified in each Rule.

1.1.6 Conduct by officers, employees or agents

Rule 1.1.6(a) provides that, in the Market Integrity Rules, conduct engaged in on behalf of a person by an officer, Employee, or other agents of the person is deemed to have been

engaged in by the person. Rule 1.1.6(b) provides that in these Rules, conduct engaged in on behalf of a person by any other person at the direction or with the consent or agreement (express or implied) of an officer, employee or other agent of the person, is deemed to have been engaged in by the person.

Rule 1.1.6 reflects Rule 1.1.6 of the *ASIC Market Integrity Rules (ASX Market) 2010* which in turn reflects Rule 2.4.2 of the ASX Market Rules that were in existence prior to the Commencement Date (the *pre-commencement ASX Market Rules*).

1.1.7 State of mind of a person

Subrule 1.1.7 (1) provides that, 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 had that state of mind.

Subrule 1.1.7(2) provides that, 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.

Rule 1.1.7 reflects Rule 1.1.7 of the *ASIC Market Integrity Rules (ASX Market) 2010* which in turn reflects Rule 2.4.3 of the pre-commencement ASX Market Rules.

Part 1.2 Waiver

1.2.1 Waiver of Rules and procedures

Subrule 1.2.1(1) provides that ASIC may relieve any person or class of persons from the obligation to comply with a provision of the Rules, either generally or in a particular case or category, and either unconditionally or subject to such conditions as ASIC thinks fit. Subrule 1.2.1(2) provides that if any conditions on a waiver are imposed, all of the conditions must be complied with for the waiver to be effective. Subrule 1.2.1(3) provides that ASIC may withdraw a waiver in writing at any time. Subrules 1.2.1(4) to (6) provide that a waiver, conditions on a waiver and a request by a person for a waiver must be in writing.

Rule 1.2.1 reproduces Rule 1.2.1 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule 2.4.3.

1.2.2 Compliance with conditions

Rule 1.2.2 provides that failure to comply with a condition imposed under Rule 1.2.1 is a contravention of this Rule.

Rule 1.2.2 reproduces Rule 1.2.2 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule 1.5.2.

1.2.3 Period during which relief applies

Rule 1.2.3 provides that 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.

Rule 1.2.3 reproduces Rule 1.2.3 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule 1.5.4.

1.2.4 Register

Subrule 1.2.4(1) provides that ASIC may establish and maintain a register for recording details of relief granted under Rule 1.2.1 and sets out the details that may be entered in the register. Subrule 1.2.4(2) provides that ASIC may publish the register.

Rule 1.2.4 reproduces Rule 1.2.4 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule 1.5.5.

Part 1.3 Notice, notification and service of documents

1.3.1 Market participant to have email

Rule 1.3.1 provides that a Market Participant must acquire and maintain an operating email system for the purposes of receiving notices under the Market Integrity Rules.

Rule 1.3.1 reproduces Rule 1.3.1 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule 1.6.4.

1.3.2 Methods of giving notice in writing

Rule 1.3.2 specifies the methods by which ASIC may give notice under the Market Integrity Rules

Rule 1.3.2 reproduces Rule 1.3.2 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule Procedure 1.6.2.

Part 1.4 Interpretation

1.4.1 References to time

Rule 1.4.1 provides that in the Market Integrity Rules a reference to time is to the time in Sydney, Australia.

Rule 1.4.1 reproduces Rule 1.4.1 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule Procedure 2.1(k).

1.4.2 Words and expressions defined in the Corporations Act

Rule 1.4.2 provides that words and expressions defined in the Corporations Act will unless otherwise defined or specified in the Market Integrity Rules or the contrary intention appears, have the same meaning in the Market Integrity Rules.

Rule 1.4.2 reproduces Rule 1.4.2 of the *ASIC Market Integrity Rules (ASX Market) 2010*, which in turn reflects pre-commencement ASX Market Rule 2.2.1.

1.4.3 Definitions

Rule 1.4.3 provides definitions for terms used in the Rules. ASIC has adopted a number of definitions from the SFE Operating Rules, with minor drafting amendments. These are "Acquire", "Approved Foreign Bank", "Approved Securities", "ASX Clear", "Australian Financial Services Licence", "Block Trade", "Block Trade Facility", "Block Trade Order", "Business Day", "Call", "Clearing Participant", "Clearing Rules", "Client", "Client Account", "Client Trade", "Close Out", "Contract", "Corporation", "Corporations Act", "Cover", "Deal", "Deal In", "Dealing", "Director", "Dispose", "Employee", "Error Trade", "Exchange For Physical", "Expression of Interest", "Futures Contract", "House Account", "House Trade", "In Writing", "Initial Margin", "Margin", "Market", "Market Operating Rules", "Market Participant", "Minimum Volume Threshold", "Month", "Open Position", "Operating Rules", "Option or Option Contract", "Order System", "Pre-Opening Phase", "Related Body Corporate", "Representative", "Strategy Trade", "Terminal", "Trade", "Trading Day", "Trading Participant", "Trading Platform", "Underlying Physical", "Variation Margin".

There are new definitions for "Corporations Regulations", "Market Operator", "Order", "Other Regulated Entities" and "Principal Trader".

Chapter 2: The Market Participants

Part 2.1 Notification

Part 2.1 provides that 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.

Part 2.1 reflects pre-commencement SFE Market Rule 2.2.10(c).

Part 2.2 Risk management

Rule 2.2.1 Client limits and Client connections

Subrule 2.2.1(1) provides that a Market Participant must demonstrate certain prudent risk management procedures in respect of client limits. The subrule sets out a non-exhaustive list of risk management procedures.

Subrule 2.2.1(2) provides that a Market Participant who has permitted its Client to connect to a Terminal is responsible for any orders entered through the Terminal by the Client. ASIC may, by notice to a Market Participant require a Market Participant to terminate such connection.

Subrule 2.2.1(3) sets out the obligations a Market Participant must meet prior to permitting any Client to connect to a Terminal.

Rule 2.2.1 reflects pre-commencement SFE Market Rule 2.2.13 (a) other than those relating position limits, which remain in the rules of the Market Operator.

Rule 2.2.2 Concentration of risk

Subrule 2.2.2 (1) provides that 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 the Rules and at law.

Subrule 2.2.2 (2) clarifies the meaning of the word "client" in to Rule 2.2.2.

Rule 2.2.2 reflects pre-commencement SFE Market Rule 2.2.20 *Concentration of risk*.

Rule 2.2.3 Prohibited employment

Paragraph 2.2.3 (a) prohibits a Market Participant from employing a person if that person has to the knowledge of the Market Participant taken part or been concerned in any failure to comply with the Market Integrity Rules or the Operating Rules of the Market.

Paragraph 2.2.3 (b) clarifies the meaning of the words "to employ" and cognate expressions in Rule 2.2.3.

Rule 2.2.3 reflects pre-commencement SFE Market Rule 2.2.22 *Prohibited employment*, amended to reflect the rules relating to the market to which notification relates are now the Market Integrity Rules as well the operating rules of the Market Operator.

Rule 2.2.4 Order records and accounting records

Subrule 2.2.4 (1) provides that, for client orders, a Market Participant, other than a Principal Trader, must maintain internal records of client instructions and trades, and specifies the information that those records must contain.

Subrule 2.2.4 (2) provides that, a Market Participant must maintain certain records of its Representatives' trading for a House Account and specifies the information that the records must contain.

Subrule 2.2.4 (3) provides that a Market Participant must maintain a separate record of all Error Trades and specifies the information that the record must contain.

Subrule 2.2.4 (4) provides that a Market Participant must maintain such accounting records as correctly record and explain the transactions and financial position of the Market Participant, and sets out specific information which must be contained in accounting records in relation to calls. .

Rule 2.2.4 reflects pre-commencement SFE Market Rule 2.2.23 *Order Records and Accounting Records* and pre-commencement SFE Market Rule Procedure 2.2.23.

Rule 2.2.5 Client documentation

Paragraph 2.2.5(a) requires a Market Participant to have in force, prior to the commencement of trading for Clients, a duly signed agreement with each of its Clients and specifies the minimum terms for the agreement.

Paragraph 2.2.5(b) sets out circumstances where Rule 2.2.5(a) does not apply.

Rule 2.2.5 reflects those aspects of pre-commencement SFE Market Rule 2.2.25 *Client documentation* which are not remaining in the Market Operator's rules, and incorporates aspects of pre-commencement SFE Market Rule Procedure 2.2.25.

Rule 2.2.6 Clients' segregated account obligations

Rule 2.2.6 sets out the obligations of a Market Participant who holds Client monies in relation to Clients' segregated accounts.

Paragraph 2.2.6(l) clarifies the meaning of "Client" in Rule 2.2.6.

Paragraph 2.2.6(m) clarifies the meaning of "Property" in Rule 2.3.6 (m) and imposes obligations on a Market Participant in relation to the handling of Property.

Rule 2.2.6 reflects pre-commencement SFE Market Rule 2.2.26 *Clients' Segregated Account Obligations* and sections 6-8 of pre-commencement SFE Market Rule Procedure 2.2.26.

Rule 2.2.7 Mandatory recording of information by Market Participants

Rule 2.2.7 sets out obligations on a Market Participant in relation to the recording of all conversations with Clients and other parties relating to Client instructions.

Paragraph 2.2.7(g) clarifies the meaning of "Client" in Rule 2.2.7.

Rule 2.2.7 reflects pre-commencement SFE Market Rule 2.2.28 *Mandatory Recording of Information by the Exchange and its Participants*, and sections 1, 2 and 4 of pre-commencement SFE Market Rule Procedure 2.2.28, excluding pre-commencement subrule 2.2.28(b) *Recording by the Exchange*, which remains in the Market Operator's rules.

Chapter 3: Trading principles

3.1 Trading principles for Orders entered on the Trading Platform

3.1.1 Expressions of Interest

Subrule 3.1.1(1) prohibits a Market Participant from entering an order into the Trading Platform based on an Expression of Interest, without first confirming with the client that the Expression of Interest is a firm order to buy or sell.

Subrule 3.1.1(2) clarifies the meaning of "Client" in Rule 3.1.1

Rule 3.1.1 reflects pre-commencement SFE Market Rule 3.1.1 *Expressions of Interest* (d) and (e).

3.1.2 Market manipulation and misleading acts or practices regarding price

Rule 3.1.2 prohibits a Market Participant from engaging in price manipulation or engaging in any misleading act or practice regarding the price of a Contract.

Rule 3.1.2 reflects pre-commencement SFE Market Rules 3.3.2 *Market Manipulation* and 3.3.3 *Misleading Acts or Practices Regarding Price*.

3.1.3 Entering Orders without an intent to Trade

Subrule 3.1.3(1) prohibits a Market Participant from entering orders where there does not exist an intent to Trade.

Subrule 3.1.3(2) provides circumstances which indicate that there does not exist intent to Trade for the purposes of Rule 3.1.3.

Rule 3.1.3 reflects pre-commencement SFE Market Rule 3.1.6 *Entering Orders without an Intent to Trade* and sections 1 and 2 of pre-commencement SFE Market Rule Procedure 3.1.6.

3.1.4 Orders to be transmitted as soon as received

Subrule 3.1.4(1) provides that a Market Participant must transmit orders to the Trading Platform as soon as they are received.

Subrule 3.1.4 (2) sets out the types of orders to which Subrule 3.1.4 (1) applies.

Subrule 3.1.4 (3) sets out exceptions to subrule 3.1.4 (1).

Rule 3.1.4 reflects pre-commencement SFE Market Rule 3.1.7 *Orders to be Transmitted as Soon as Received* and pre-commencement SFE Market Rule Procedure 3.1.7.

3.1.5 Orders to be transmitted and executed in the sequence received

Subrule 3.1.5(1) provides that a Market Participant must transmit orders into the trading platform in the sequence in which they are received, must not leave an order in the trading platform and then promote another client order to take the place of a cancelled order, must not promote an order to take the place of a cancelled client order, reduce the volume of an aggregated order by the amount remaining of a cancelled order and not engage in broking or offering a favourable queue position.

Subrule 3.1.5(2) provides that orders may be transmitted and executed outside of the sequence in which they are received where Orders are aggregated under Rule 3.1.6.

Subule 3.1.5(1) reflects pre-commencement SFE Market Rule 3.1.8. *Orders to be Transmitted and Executed in the Sequence Received*, and pre-commencement SFE Market Rule Procedure 3.1.8. The discretion conferred on the Market Operator by pre-commencement SFE Market Rule 3.1.8 has been omitted. .

3.1.6 Aggregation of Orders

Subrule 3.1.6(1) provides that a Market Participant must not aggregate orders for entry into the Trading Platform unless permitted under Rule 3.1.6 (2). This subrule is also subject to Rules 3.3.1 (1) and 3.4.1 (d), which deal with aggregation of orders in the context of pre-negotiated business and Block Trading, respectively.

Subrule 3.1.6 (2) sets out the type of orders which may be aggregated for placement into the Trading Platform.

Rule 3.1.6 reflects pre-commencement SFE Market Rule 3.1.9 *Aggregation of Orders* and section 1 of pre-commencement SFE Market Rule Procedure 3.1.9. The discretion

conferred on the Market Operator by pre-commencement SFE Market Rule 3.1.9 has been omitted.

3.1.7 Disclosure

Subrule 3.1.7(1) provides that a Market Participant must not disclose any information about orders unless otherwise permitted or required under the Market Integrity Rules or the law, or pursuant to Rule 3.1.7 (2). Subrule 3.1.7(1) is also subject to Rules 3.3.1 (1) (b) and 3.4.1 (c), which deal with disclosure in the context of pre-negotiated business and Block Trading, respectively.

Subrule 3.1.7(2) provides that no Market Participant may disclose to another party information which is not generally available, or should not reasonably be considered to be generally available, to Market Participants, and that only details of Orders that have been disclosed on the Trading Platform may be disclosed to Clients.

Subrule 3.1.7(3) provides that 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.

Subrule 3.1.7(4) clarifies the meaning of "order" in Rule 3.1.7.

Rule 3.1.7 reflects paragraphs (a) and (b) of pre-commencement SFE Market Rule 3.1.10 *Disclosure* and sections 1 and 4 of pre-commencement SFE Market Rule Procedure 3.1.10.

3.1.8 Withholding Orders

Rule 3.1.8 provides that a Market Participant must not withhold an order with an intent to obtain a counterparty or counterparties. Rule 3.1.8 is subject to paragraphs 3.3.1(1)(a) and 3.4.1(b), which deal with withholding of orders in the context of pre-negotiated business and Block Trading, respectively

Rule 3.1.8 reflects pre-commencement SFE Market Rule 3.1.11 *Withholding Orders*.

3.1.9 Withdrawing Orders

Rule 3.1.9 provides that a Market Participant must not withdraw orders for the benefit of another person.

Rule 3.1.9.10 reflects pre-commencement SFE Market Rule 3.1.12 *Withdrawing Orders*.

3.1.10 Pre-arrangement

Subrule 3.3.10(1) provides that 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 the Rules. Subrule 3.3.10(1) is subject to Rules 3.3.1(1)(b) and 3.4.1(a), dealing with the disclosure of details of orders in the context of pre-negotiated business and Block Trading, respectively.

Subrule 3.3.10(2) permits Market Participants arrange the details of a potential trade where Orders being aggregated under Rule 3.1.6.

Subrule 3.1.10(1) reflects pre-commencement SFE Market Rule 3.1.13 *Pre-arrangement* and pre-commencement SFE Market Rule Procedure 3.1.13.

3.1.11 Trading to the exclusion of others

Rule 3.1.11 provides that a Market Participant must not execute or attempt to execute Trades with the intent to exclude other Market Participants or their Representatives.

Rule 3.1.11 reflects pre-commencement SFE Market Rule 3.1.14 *Trading to the Exclusion of Others*.

3.1.12 Wash Trades

Subrule 3.1.12(1) provides that 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”).

Subrule 3.1.12 (2) sets out exceptions to the prohibition in subrule 3.1.12(1)..

Subrule 3.1.12(3) requires a Market Participant to report to ASIC breaches of Rule 3.1.12(1), requires a Market Participant to maintain a “wash Trade register”, and sets out the information to be recorded in that wash trade register.

Subrule 3.1.12(4) sets out circumstances in which a Market Participant is not required to report to ASIC under subrule 3.1.12(3).

Subrule 3.1.12(5) provides that 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 a wash Trade to ASIC but must record the Trade on its wash Trade register.

Rule 3.1.12 reflects pre-commencement SFE Market Rule 3.1.15 *Wash Trades*, and sections 1, 2, 3 and 4 of pre-commencement SFE Market Rule Procedure 3.1.15.

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

Subrule 3.1.13(1) provides that a Market Participant must act on behalf of a Client only in accordance with that Client's instructions, unless to do so would be contrary to the Rules, and prohibits a Market Participant from acting in a manner which has, or is intended to have, a detrimental effect, on the Client's best interests.

Subrule 3.3.13(2) clarifies the meaning of "Client" in Rule 3.1.14.

Rule 3.1.13 reflects pre-commencement SFE Market Rule 3.1.16 *Acting in Accordance with Client Instructions and Client’s Best Interests*.

3.1.14 Personal account Trading

Subrule 3.1.14(1) prohibits a person from trading 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.

Subrule 3.1.14(2) sets circumstances in which a person shall be deemed to have traded for that person's account for the purposes of subrule 3.1.14(1)..

Subrule 3.1.14(3) clarifies the meaning of "Client", "a person having a financial interest in an account" and "relative" in Rule 3.1.14.

Rule 3.1.14 reflects pre-commencement SFE Market Rule 3.1.17 *Personal Account Trading*, and section 4(iv) of pre-commencement SFE Market Rule Procedure 3.1.17.

3.1.15 Dual Trading prohibition

Subrule 3.1.15(1) provides that Market Participant's Representative shall 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).

Subrule 3.1.15(2) provides that 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.

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

Subrule 3.1.15 (4) clarifies the meaning of "Client", "House Account", "Initiate", "Related Corporation" and "Similar Commodity" in Rule 3.1.15.

Subrule 3.1.15 (1) reflects pre-commencement SFE Market Rules 3.1.18(a),(c) and (d), and sections 2, 4 and 5 of pre-commencement SFE Market Rule Procedures 3.1.18.

3.1.16 Trades to be allocated in sequence of Order receipt

Subrule 3.1.16(1) provides that, 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.

Subrule 3.1.16(2) clarifies the meaning of "Client" in Rule 3.1.16.

Subrule 3.1.16(3) sets out the circumstances in which a Market Participant may allocate out of sequence, and the two pro-rata methods of allocating they may use. Subrule 3.1.16(3) also provides that a Market Participant must advise each Client whose Orders may be allocated out of sequence, nominating the pro-rata method selected, and retain a record of the advice sent to the Client for the period set out in the subrule.

Subrule 3.1.16(4) provides that a Market Participant must notify ASIC prior to adopting or changing its policy of allocating Orders using one of the pro rata methods set out in subrule 3.1.16(3)..

Subrule 3.1.16 reflects paragraphs (a) and (b) of pre-commencement SFE Market Rule 3.1.19 *Trades to be Allocated in Sequence of Order Receipt*, and pre-commencement SFE Market Rules Procedure 3.1.9 (4) and 3.1.9 (9). The discretion conferred on the Market Operator by pre-commencement SFE Market Rule 3.1.19(a) has been omitted.

3.1.17 Post-allocation prohibition

Subrule 3.1.17(1) provides that 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.

Subrule 3.1.17(2) clarifies the meaning of "Client" in Rule 3.1.17.

Rule 3.1.17 reflects pre-commencement SFE Market Rule 3.1.20 *Post-Allocation Prohibition*.

Part 3.2 Strategy Trading

Part 3.2(1) provides that a Market Participant must maintain a record of all Strategy Trades, for a period of five years.

Part 3.2(2) provides that Market Participants must allocate each leg of a Strategy Trade to the same account.

Part 3.2(1) reflects paragraphs (a) and (b) of pre-commencement SFE Market Rule 3.2.2 *Strategy Trades*.

Part 3.3 Pre-negotiated business orders

3.3.1 Pre-negotiated business

Subrule 3.3.1(1) sets out actions that a Market Participant may take where the Market Participant receives an instruction from a Client which can be executed as pre-negotiated business.

Subrule 3.3.1(2) clarifies the meaning of "pre-negotiated business" in Rule 3.3.1.

Rule 3.3.1 reflects pre-commencement SFE Market Rule 3.3.3 *Participant Entitlements* and pre-commencement SFE Market Rule 3.3.2 *Exchange to Prescribe Contracts*.

3.3.2 Client authorisation

Rule 3.3.2 provides that, before entering a pre-negotiated business Trade on behalf of a Client, a Market Participant must be authorised In Writing by the Client to do so.

Rule 3.3.2 reflects pre-commencement SFE Market Rule 3.3.8 *Client Authorisation*.

3.3.3 Definition of Client

Rule 3.3.3 clarifies the meaning of "Client" in to Part 3.3.

Rule 3.3.3 reflects pre-commencement SFE Market Rule 3.3.9 *Definition of Client*.

Part 3.4 Trading principles for Block Trades

3.4.1 Participant entitlements

Rule 3.4.1 sets out actions that a Market Participant may take where the Market Participant receives a Block Trade Order from a Client.

Rule 3.4.1 reflects pre-commencement SFE Market Rule 3.4.3 *Participant Entitlements*.

3.4.2 Prohibitions

Rule 3.4.1 provides that Market Participants cannot aggregate separate Orders in order to meet Minimum Volume Thresholds.

Rule 3.4.1 reflects paragraph (a) of pre-commencement SFE Market Rule 3.4.4 *Prohibitions*.

3.4.3 Unfilled Block Trade Orders

Subrule 3.4.3(1) provides that, 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.

Subrule 3.4.3(2) provides that 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.

Subrule 3.4.3 reflects paragraph (a) of pre-commencement SFE Market Rule 3.4.5 *Unfilled Block Trade Orders*, and pre-commencement SFE Market Rule 3.3.2 *Exchange to Prescribe Contracts*.

3.4.4 Client authorisation

Rule 3.4.4 provides that before executing a Block Trade Order on behalf of a Client a Market Participant must be authorised by the Client to do so. Rule 3.4.4 also sets out the acknowledgements by the Client that such authorisation must include.

Rule 3.4.4 reflects pre-commencement SFE Market Rule 3.4.9 *Client Authorisation*.

Part 3.5 Trading principles for Exchange For Physical transactions

3.5.1 Prohibitions

Rule 3.5.1 prohibits an exchange for a physical transaction in certain circumstances.

Rule 3.5.1 reflects paragraphs (a) and (b) of pre-commencement SFE Market Rule 3.5.2 *Prohibitions*.

3.5.2 Evidence of physical transaction

Subrule 3.5.2(1) requires a Market Participant to ensure that evidence of physical transactions is obtained by the Market Participant.

Subrule 3.5.2(2) provides an alternative procedure by which the requirements under Rule 3.5.2(1) can be met.

Subrule 3.5.2 reflects pre-commencement SFE Market Rule 3.5.9(a) and section 6 of pre-commencement SFE Market Rule Procedure 3.5.9.

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

Subrule 4.1.1(1) sets out the data the Market Operator must deliver to ASIC or to a service provider nominated by ASIC to assist surveillance of activities and conduct on the Market.

Subrule 4.1.1(2) provides that the data required by Rule 4.1.1(1) must be in such format as ASIC notifies the Market Operator.

Subrule 4.1.1(2) provides that the data required by Rule 4.1.1(1) must be delivered in a manner and/or to a location notified by ASIC to the Market Operator.

4.1.2 Notification

Rule 4.1.2 provides that certain notifications by ASIC to the Market Operator must be in writing, and allow the Market Operator a reasonable period to comply.

Part 4.2 Provision of information about Market Participants

Part 4.2 requires the Market Operator to maintain certain information about each Market Participant and advise ASIC in writing of any changes which are made to that information.