

ASIC MARKET INTEGRITY RULES (APX MARKET) 2013 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 (APX Market) 2013* (the **new APX MIRs**) under subsection 798G(1) of the *Corporations Act 2001* (the **Act**). Capitalised terms used in this Explanatory Statement (e.g. “Market Participant”) are defined in the new APX MIRs.

1. Enabling Legislation

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.

The new APX MIRs set out the market integrity rules that apply to:

- (a) the activities and conduct of the financial market (the **APX market**) operated by Asia Pacific Exchange Limited (**APX**);
- (b) the activities or conduct of persons in relation to the APX Market;
- (c) the activities or conduct of persons in relation to financial products traded on the APX Market.

The new APX MIRs also revoke the *ASIC Market Integrity Rules (APX Market) 2010* (the **2010 APX MIRs**) that set out the market integrity rules that have applied to the APX market since 1 August 2010.

Details of the new APX MIRs are contained in the Attachment A.

2. Background and purpose

APX is the holder of *Australian Market Licence (Asia Pacific Exchange Limited) 2004* authorising it to operate a financial market in securities and managed investment products. APX commenced operation of its market on 20 January 2005. The market ceased operation on 30 June 2008.

On 1 August 2010, as part of the transfer of responsibility for market supervision from Australian market licence holders to ASIC, ASIC made the 2010 APX MIRs. The 2010 APX MIRs were based on a subset of the APX Business Rules that were in existence prior to 1 August 2010. However, at the time the 2010 APX MIRs were made, and to date, the APX market has not been operating. APX now proposes to recommence operating.

When APX recommences operating ASIC must be able to appropriately supervise the activities and conduct of APX, its market participants and the activities or conduct of persons in relation to financial products traded on the APX market (see s798G of the Act). One of ASIC's primary means of supervising this conduct is through market integrity rules that apply to the APX market.

APX will recommence operating with a new trading system (with the capacity for Automated Order Processing being available in the short term), new APX Business Rules and new APX Listing Rules. APX intends to provide trading services similar to those of ASX Limited (**ASX**) and Chi-X Australia Pty Ltd (**Chi-X**).

The 2010 APX MIRs were drafted based on the APX market's previous business model, trading system and Business Rules and are not suitable for a market that provides trading services similar to those provided on the ASX and Chi-X markets. Accordingly, ASIC proposes to modernise the 2010 APX MIRs to ensure that when the APX market recommences operations, it does so with a set of market integrity rules (among other things) that reflect the nature of its intended trading services. The 2010 APX MIRs will be revoked, and the new APX MIRs will be made under s798G of the Act.

The new APX MIRs are modelled on the *ASIC Market Integrity Rules (Chi-X Australia Market) 2011 (Chi-X MIRs)*, which in turn were modelled on the *ASIC Market Integrity Rules (ASX Market) 2010 (ASX MIRs)*. The new APX MIRs differ from the Chi-X MIRs only as far as is necessary to reflect the operational differences between Chi-X and APX. That is, unlike Chi-X, APX is a listing market and offers trading services in products listed on its market, and trades executed on the APX market are not subject to central clearing.

The rationale for this approach in developing the new APX MIRs is to:

- (a) contribute to a level playing field between APX, ASX and Chi-X in respect of the requirements placed on participants of each of these markets;
- (b) minimise the opportunity for regulatory arbitrage by participants;
- (c) assist participants of the APX, ASX and Chi-X markets to comply with regulatory obligations under the market integrity rules; and
- (d) contribute to efficiency in supervision and enforcement of the market integrity rules by ASIC because the same standards of conduct will be applied.

The new APX MIRs impose obligations on participants of the APX Market (**APX participants**) that are also imposed by the Chi-X and ASX MIRs on participants of those markets, in relation to trading in equities, including requirements in relation to:

- (a) management structure;
- (b) insurance;
- (c) responsible executives;
- (d) designated trading representatives (**DTRs**);
- (e) client relationships;
- (f) trading and general record keeping;
- (g) business connections;
- (h) automated order processing; and
- (i) minimum capital.

The new APX MIRs also impose obligations on the APX market operator, similar to those imposed on Chi-X and ASX market operators under the Chi-X MIRs and ASX MIRs including:

- (a) providing a data feed from the APX trading platform to ASIC or its nominated surveillance system provider (to become a live data feed after an appropriate transitional period which is expected to be approximately 12 months); and
- (b) providing details of the identity of APX participants to ASIC.

Due to the differences in the ASX market compared to the Chi-X market and APX market, certain rules that appear in the ASX MIRs do not appear in the Chi-X MIRs or in the new APX MIRs. For ease of reference, the numbering is the same across all rule books.

Where an APX participant is also an ASX participant or a Chi-X participant, a number of reporting exemptions will apply (see new APX MIRs 2.1.2(4) (Notification of management structure), 2.2.3(6) (Notification of amount and period of insurance cover), 5.6.6A (AOP certification) and 9.2.6 (Capital reporting requirements)).

The new APX MIRs are in three volumes: Volume 1 contains market integrity rules, and Volumes 2 and 3 contain the capital forms associated with the capital market integrity rules in Volume 1.

3. Consultation

In February 2013, ASIC undertook a targeted consultation on its proposal to revoke the 2010 APX MIRs and replace them with the new APX MIRs. Feedback was sought from relevant stakeholders being APX, ASX, Chi-X, Australian Financial Markets Association (*AFMA*), Stockbrokers Association of Australia (*SAA*), National Stock Exchange of Australia Limited (*NSX*) and SIM Venture Securities Exchange Ltd (*SIMVSE*).

ASIC received written submissions from APX, SAA, and Chi-X, and a combined response from NSX and SIMVSE. Stakeholders have been supportive of the proposed new APX MIRs being modelled on the existing Chi-X MIRs, primarily because this approach minimises duplication of obligations for participants of multiple Australian markets.

In finalising the new APX MIRs for consent, ASIC has taken into account the feedback received. In particular, in our targeted consultation letter, ASIC had proposed to apply the enhanced Automated Order Processing (*AOP*) rules¹ from commencement of the new APX MIRs. In response to feedback received, ASIC will instead now amend the new APX MIRs (by way of an amending instrument) to apply the enhanced AOP rules with effect from 26 May 2014. The transitional period to comply with the enhanced AOP rules will give greater lead time for APX market participants and ensuring a level playing field for participants of APX, ASX and Chi-X. Other matters raised in submissions were of a technical nature and these have been addressed in the final drafting of the new APX MIRs. Other than these matters, the new APX MIRs were finalised without substantial amendments.

ASIC has also consulted at length on the Chi-X and ASX MIRs on which the new APX MIRs in modelled, through:

- (a) CP 131 Proposed *ASIC Market Integrity Rules—ASX and SFE Markets*, released 26 February 2010;
- (b) CP 145 *Australian equity market structure: Proposals*, released 4 November 2010;
- (c) CP 148 *Proposed market integrity rules: Chi-X market*, released 4 March 2011;
- (d) CP 161 *Proposed ASIC market integrity rules for capital and related requirements: ASX, ASX 24 and Chi-X markets*, released 3 June 2011.
- (e) CP 166 *Market integrity rules: non-AFS licensee foreign participants and consequential amendments*, Released 17 August 2011;
- (f) CP 168 *Australian equity market structure: Further proposals*, released 20 October 2011;

¹ The market integrity rules relating to Automated Order Processing in Chapter 5 of the ASX and Chi-X MIRs will be amended from 26 May 2014 to enhance the controls participants must have in place when using Automated Order Processing, and to make changes to review and notification requirements. The ASX and Chi-X MIRs will be amended from 26 May 2014 to enhance the rules that apply to AOP: see *ASIC Market Integrity Rules (ASX Market) Amendment 2012 (No. 3)* and the *ASIC Market Integrity Rules (Chi-X Australia Market) 2012 (No. 3)*.

- (g) CP 179 *Australian market structure: Draft market integrity rules and guidance*, released 28 June 2012.
- (h) CP 184 *Australian market structure: Draft market integrity rules and guidance on automated trading*, released 13 August 2012; and
- (i) Meetings with stakeholders and information sessions for members of AFMA, the Financial Services Council (*FSC*) and the Stockbrokers Association of Australia (*SAA*).

4. Penalties

Subsection 798G(1) of the Act provides that market integrity rules are legislative instruments 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 new APX MIR is the penalty amount for that new APX MIR.

The proposed penalty amounts for the new APX MIRs are consistent with the penalty amounts for the equivalent ASX and Chi-X MIRs. As with the 2010 APX MIRs, the disciplinary framework outlined in Regulatory Guide 216 *Markets Disciplinary Panel* will apply to the new APX MIRs.

5. Commencement of Market Integrity Rules (APX)

The Market Integrity Rules (APX) will commence on the day after the instrument is registered under the *Legislative Instruments Act 2003*.

6. Statement of Compatibility with Human Rights

A Statement of Compatibility of Human Rights is included in this Explanatory Statement at [Attachment B](#).

7. Regulation impact statement

The Office of Best Practice Regulation (OBPR) has assessed the ASIC Market Integrity Rules (APX) as having a minor impact and confirmed that no further analysis, in the form of a Regulatory Impact Statement is required.

ATTACHMENT A

Except where otherwise specified, each new APX MIR described in Attachment A is modelled on the ASX and Chi-X MIR with the same rule number.

Chapter 1 Introduction

Part 1.1 Preliminary

Rule 1.1.1 – Enabling legislation

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

Rule 1.1.2 – Title

Rule 1.1.2 provides that the title for the Rules is *ASIC Market Integrity Rules (APX Market) 2013*.

Rule 1.1.2A – Revocation

Rule 1.1.2A provides that the *ASIC Market Integrity Rules (APX Market) 2010* are revoked. These Rules replace the *ASIC Market Integrity Rules (APX Market) 2010* as the market integrity rules that apply to the activities or conduct of the APX Market.

Rule 1.1.3 – Commencement

Rule 1.1.3 provides for the Rules to commence the day after the instrument is registered under the *Legislative Instruments Act 2003*.

Rule 1.1.4 – Scope of these Rules

Rule 1.1.4 provides that the Rules apply to:

- (a) the activities or conduct of the APX Market;
- (b) the activities or conduct of persons in relation for the APX Market;
- (c) the activities or conduct of persons in relation to Financial Products traded on the APX Market.

Rule 1.1.5 – Entities that must comply with these Rules

Rule 1.1.5 provides that the following entities must comply with the Rules:

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

as specified in each Rule.

Rule 1.1.6 – Conduct by officers, Employees or agents

Paragraph 1.1.6(a) provides that in the Rules, conduct engaged in on behalf of a person by officers, Employees or other agents of the person is deemed to have been engaged in by the person.

Paragraph 1.1.6(b) provides that in the 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 1.1.7 – State of mind of a person

Subrule 1.1.7(1) provides that, if for the purposes of the 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 by whom the conduct was engaged in 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.

Part 1.2 – Waiver

Rule 1.2.1 – Waiver of Rules

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) and (5) provide that a waiver, conditions on a waiver and a request by a person for a waiver must be in writing.

Subrule 1.2.1(6) provides that ASIC may publish notice of a waiver.

Rule 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 Rule 1.2.2.

Rule 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 the Rules may apply.

Rule 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.

Part 1.3 – Notice, notification and service of documents

Rule 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 Rules.

Rule 1.3.2 – Methods of giving notice in writing

Rule 1.3.2 provides for methods by which ASIC may give a notice under the Rules.

Part 1.4 – Interpretation

Rule 1.4.1 – References to time

Rule 1.4.1 provides that in the Rules, references to time are to the time in Sydney, Australia.

Rule 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 Rules or the contrary intention appears, have the same meaning in the Rules.

Rule 1.4.3 – Definitions

Rule 1.4.3 provides definitions for terms used in the Rules which reflect Market Integrity Rules (ASX) and Market Integrity Rules (Chi-X), amended as relevant for the APX Market. Rule 1.4.3 also includes additional definitions for the following terms, as relevant for the APX Market:

- “APX”
- “APX Announcements Office”
- “APX Market”
- “APX Market Transaction”
- “APX Product”
- “Chi-X Australia Market Integrity Rules”
- “Chi-X Australia Participant”
- “Market Listing Rules”
- “Relevant Settlement Participant”
- "Settlement Agent"

Chapter 2 – Participants and Representatives

Part 2.1 – Management requirements

Rule 2.1.1 – Management structure

Subrule 2.1.1(1) provides that a Market Participant must have appropriate management structures in place to ensure that:

- (a) it has operations and processes in place that are reasonably designed, implemented, and that function, so as to achieve compliance by the Market Participant with the Rules and the Market Operating Rules;
- (b) the design, implementation, functioning and review of those operations and processes are subject to the supervision of one or more Responsible Executives; and
- (c) each Responsible Executive has sufficient seniority and authority within the Market Participant to exert control, leadership, influence and supervision over those operations and processes.

Subrule 2.1.1(2) provides that the Market Participant must keep accurate records of its management structure and its allocation of responsibilities among its Responsible Executives.

Rule 2.1.2 – Notification of management structure

Subrules 2.1.2(1) and (2) provide that an existing Market Participant must give to ASIC a document that sets out its management structure and its allocation of responsibilities among its Responsible Executives within 10 Business Days of the Commencement Date and a new Market Participant must give to ASIC such a document within 10 Business Days of becoming a Market Participant.

Subrule 2.1.2(3) provides that a Market Participant must notify ASIC in writing within 10 Business Days of any significant change in its management structure and its allocation of responsibilities among its Responsible Executives shown in that document.

Subrule 2.1.2(4) provides that a Market Participant is not required to notify ASIC under subrules 2.1.2(1) and (2) and is taken for the purposes of subrule 2.1.2(3) to have given ASIC a document under subrule 2.1.2(1) and (2), where at the time the obligation to comply the subrule would arise, all of the following are satisfied:

- (a) the Market Participant is also an ASX Participant or a Chi-X Australia Participant;
- (b) the Market Participant has given ASIC a document or set of documents that complies with either ASX Market Integrity Rule 2.1.2 or Chi-X Australia Market Integrity Rule 2.1.2;
- (c) the Market Participant proposes to rely on the document or set of documents referred to in paragraph (b) for the purposes of complying with these Rules; and
- (d) the Market Participant notifies ASIC in writing:
 - (i) that the Market Participant proposes to rely on the document or set of documents referred to in paragraph (b) for the purposes referred to in paragraph (c); and
 - (ii) of any significant change in the management structure or its allocation of its responsibilities among its Responsible Executives shown in that document or those documents.

Subrule 2.1.2(4) aims to minimise duplication of regulatory obligations with respect to participants of APX that are also participants of the ASX or Chi-X markets.

Rule 2.1.3 – Supervisory procedures

Rule 2.1.3 provides that 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 the Rules, the Market Operating Rules and the Corporations Act.

Rule 2.1.4 – Persons involved in the business – Good fame and character requirement

Rule 2.1.4 provides that a Market Participant must ensure that any Employee or other person who is or will be involved in the business of the Market Participant in connection with the Market and, in the case of a body corporate, each director or Controller, is of good fame and character and high business integrity having regard to the matters set out in the Rule.

Rule 2.1.5 – Unprofessional Conduct

Rule 2.1.5 provides that a Market Participant must not engage in Unprofessional Conduct and must ensure that its Responsible Executives do not engage in Unprofessional Conduct. "Unprofessional Conduct" is defined in Rule 1.4.3.

Rule 2.1.6 – Responsibility for individuals involved in business

Rule 2.1.6 provides that a Market Participant is responsible for all actions and omissions of its Employees.

Part 2.2 – Insurance and information requirements

Rule 2.2.1 – Insurance requirements - Obligation to have insurance

Rule 2.2.1 provides that, subject to Rule 2.2.2, a Market Participant must have and maintain professional indemnity or equivalent insurance where the Market Participant acts for any person other than itself or a Related Body Corporate. The insurance must be adequate having regard to the matters set out in the Rule and must include insurance against a breach of duty the Market Participant owes in a professional capacity, whether owed in contract or otherwise at law, arising from any act or omission of the Market Participant and its Employees.

Rule 2.2.2 – Insurance requirements - Insurance with Related Body Corporate

Rule 2.2.2 provides that a Market Participant must provide to ASIC the information specified in the Rule in relation to professional indemnity or equivalent insurance provided by a Related Body Corporate of the Market Participant, by no later than 10 Business Days after the issue or renewal of the insurance.

Rule 2.2.3 – Insurance requirements - Notification of amount and period of cover

Subrules 2.2.3(1), (2) and (5) provide that a Market Participant must, within 10 Business Days of the Commencement Date or within 10 Business Days of becoming a Market Participant (whichever occurs later), notify ASIC of the amount and period of its insurance cover under Rule 2.2.1 and give ASIC a copy of the certificate of insurance. Under subrule 2.2.3(3), a Market Participant must, following the issue or renewal of a professional indemnity or equivalent insurance policy, notify ASIC of the amount and period of cover and give to ASIC a copy of the certificate of insurance.

Subrule 2.2.3(4) provides that the Market Participant must renew the cover with effect from no later than its expiry to comply with Rule 2.2.1.

Subrule 2.2.3(6) provides that a Market Participant is not required to comply with subrule (1), (2) or (5) where, at the time the obligation to comply with the relevant subrule would arise, all of the following are satisfied:

- (a) the Market Participant is also an ASX Participant or a Chi-X Australia Participant;
- (b) the Market Participant has a professional indemnity (or equivalent) insurance policy that complies with either ASX Market Integrity Rule 2.2.1 or Chi-X Australia Market Integrity Rule 2.2.1;
- (c) the Market Participant proposes to rely on the policy referred to in paragraph (b) for the purposes of complying with Rule 2.2.1 of these Rules, without change to the amount or nature of the cover; and
- (d) the Market Participant notifies ASIC in writing that the Market Participant proposes to rely on the policy referred to in paragraph (b) for the purposes referred to in paragraph (c), without change to the amount or nature of the cover.

Subrule 2.2.3(6) minimises duplication in regulatory obligations for participants of the APX Market that are also participants of ASX and/or Chi-X, provided certain criteria contained in the subrule is met.

Rule 2.2.4 – Insurance requirements - Notification of claims

Rule 2.2.4 provides that, in relation to any liability or potential liability of the type referred to in Rule 2.2.1, a Market Participant must immediately notify ASIC of any notification to its insurer of any claim, potential claim or circumstance that might give rise to a claim. Rule 2.2.4 also specifies information that must be included in such a notification to ASIC.

Rule 2.2.5 – Information Requirements—Obligation to notify of legal proceedings

Rule 2.2.5 provides that a Market Participant must immediately notify ASIC and the Market Operator when the Market Participant becomes aware that it will commence, or have legal proceedings commenced against it, in the circumstances set out in the Rule.

Part 2.3 – Responsible Executives

Rule 2.3.1 – Appointment or resignation of Responsible Executives

Subrule 2.3.1(1) provides that a Market Participant must notify ASIC within 10 Business Days if the Market Participant appoints a new Responsible Executive, or if a person ceases to be a Responsible Executive of the Market Participant.

Subrule 2.3.1(2) provides that a Market participant must not appoint a person as a Responsible Executive unless the person has skills, knowledge and experience that are appropriate having regard to the supervisory role that the person will perform as a Responsible Executive in the business of the Market Participant and satisfies the requirements of being a Responsible Executive under the ASX Market Integrity Rules and/or the Chi-X Market Integrity Rules or has satisfied the examination and Compliance Education requirements set out in the Rule.

Subrule 2.3.1(3) provides, for the purposes of subparagraph (2)(c)(i), that ASIC may approve, in writing, one or more examinations that, in the opinion of ASIC, assess knowledge and competency in the application of the provisions of the Rules, the Market Operating Rules and the Corporations Act that govern the operation of the Market and are relevant to the role performed by Responsible Executives.

Rule 2.3.2 – Ongoing Responsibilities of Market Participants in relation to Responsible Executives

Rule 2.3.2 provides that a Market Participant must ensure that each of its Responsible Executives supervises the design and implementation activities and the functioning and review of the operations and processes referred to in Rule 2.1.1 for the Relevant Activities of that Responsible Executive and is accountable to the Market Participant for the effective design, implementation, functioning and review of those operations and processes.

Rule 2.3.3 – Annual review and representation to Market Participant

Subrule 2.3.3(1) provides that a Market Participant must ensure that each of its Responsible Executives:

- (a) maintains the currency of his or her knowledge of the Rules, the Market Operating Rules and the Corporations Act related to the business that the Market Participant conducts in the APX Market;
- (b) performs an annual review, in accordance with the Rule, of the supervision and control procedures involved in the business of the Market Participant;
- (c) determines whether, based on the annual review, the controls over the operations and processes of the Relevant Activities have been and continue to be reasonably designed, implemented and functioning to achieve compliance by the Market Participant with the Rules and Market Operating Rules; and

- (d) provides an annual representation, in accordance with the Rule, as to whether the controls over the operations and processes of the Relevant Activities have been, and continue to be, reasonably designed, implemented and functioning to achieve compliance by the Market Participant with the Market Operating Rules and the Rules.

Subrule 2.3.3(2) provides that the Market Participant must retain copies of the annual representation and documentation on which it is based for 7 years.

Rule 2.3.4 – Continuing education requirements for Responsible Executives

Rule 2.3.4 sets out obligations on Market Participants in relation to the Compliance Education Requirements for their Responsible Executives.

Rule 2.3.5 – Annual continuing education and compliance self-assessment

Subrules 2.3.5(1) and (2) set out obligations on Market Participants to provide an annual self-assessment concerning compliance with certain requirements of the Rules in relation to their Responsible Executives.

Subrule 2.3.5(3) provides that the Market Participant must retain copies of the records on which the notification is based for 7 years.

No Part 2.4

Part 2.4 of the Market Integrity Rules (ASX) is not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Part 2.4 is intentionally not included.

Part 2.5 – Designated Trading Representatives (DTRs)

Rule 2.5.1 – Trading in a Trading Platform

Rule 2.5.1 provides that a Market Participant must ensure that all trading in a Trading Platform by the Market Participant is carried out either by DTRs or in accordance with the Automated Order Processing Requirements.

Rule 2.5.2 – Market Participant must have a DTR

Rule 2.5.2 provides that a Market Participant must have at least one DTR.

Rule 2.5.3 – DTRs may submit Trading Messages

Rule 2.5.3 provides that a Market Participant must ensure that only its DTRs submit Trading Messages into the Trading Platform through the Market Participant's system, unless the trading is conducted in accordance with the Automated Order Processing Requirements.

Rule 2.5.4 – Responsibility of Market Participant

Rule 2.5.4 provides that a Market Participant is responsible for the accuracy of details, the integrity and bona fides of all Trading Messages containing their unique identifier that are submitted into the Trading Platform, regardless of whether a DTR of the Market Participant was involved in their submission.

Rule 2.5.5 – DTR criteria

Paragraphs 2.5.5(a), (b) and (c) provide that a Market Participant must ensure that each of its DTRs is a Representative of the Market Participant authorised to deal in the Products in respect of which the DTR submits orders on behalf of the Market Participant, is suitably qualified and experienced to deal in those Products and has demonstrated knowledge of the Dealing Rules and relevant practices of the Market Operator.

Subparagraph 2.5.5(d)(i) provides that a Market Participant must ensure that each of its DTRs does not execute any order in a Trading Platform for or on behalf of, or which will directly or indirectly benefit the DTR or associates or Relatives of the DTR, without the prior written approval of the Market Participant. Subparagraph 2.5.5(d)(ii) provides that a Market Participant must ensure that each of its DTRs does not intentionally take advantage of a situation arising as a result of a breakdown, malfunction or error.

Rule 2.5.6 – Market Participant must allocate unique identifier

Rule 2.5.6 provides that a Market Participant must allocate a unique identifier to each DTR of the Market Participant.

Rule 2.5.7 – Records -DTRs

Rule 2.5.7 provides that a Market Participant must maintain a record of the name, contact details and DTR identifier of each of its DTRs while the person remains a DTR of a Market Participant and must maintain a record of that information for a period of 7 years from the date the person ceases to be a DTR of the Market Participant.

Part 2.6 – Foreign Participants

Rule 2.6.1 – Minimum presence requirements

Rule 2.6.1 provides that a Market Participant (*Foreign Market Participant*) that is a foreign entity and does not hold an AFSL 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, before entering into a transaction on the APX market.

The deed must provide 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 APX Market or in relation to Financial Products traded on the APX 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.

Chapter 3 – Client relationships

Part 3.1 – Clients trading in products for first time

Rule 3.1.1 – Documents to be given to a client

Rule 3.1.1 provides that, before accepting an order from a person to enter into a Market Transaction, a Market Participant must give the person, in addition to all of the documents which the Market Participant is required to give the person in respect of the Market Transaction under the Corporations Act, all of the documents the Market Participant is required to give the person in respect of the Market Transaction under Part 3.1 of the Rules.

No Rule 3.1.2

Market Integrity Rule (ASX) 3.1.2 is not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rule 3.1.2 is intentionally not included.

Rule 3.1.3 – Information to be given to a client: Execution arrangements

Rule 3.1.3 provides that, before accepting an Order from a person to enter into a Market Transaction, if the Market Participant does not have Trading Permission to execute that Market Transaction, the Market Participant must give the person a document which clearly discloses the execution arrangements in place for that Market Transaction. Rule 3.1.3 specifies, without limitation, information that must be included in that document.

Rule 3.1.4 – Information to be given to a client: Clearing arrangements

Subrule 3.1.4(1A) provides that Rule 3.1.4 only applies where there is a Clearing Facility through which Market Transactions are cleared. Subrule 3.1.4A(1A) is a new subrule has been included to reflect that at the time the APX Market commences operation it will not have clearing arrangements.

Subrule 3.1.4(1) provides that, before accepting an order from a Client to enter into a Market Transaction, if the Market Participant:

- (a) is not a Clearing Participant, who is permitted under the Clearing Rules to clear the Market Transaction; or
- (b) is a Clearing Participant who is permitted under the Clearing Rules to clear that Market Transaction, but has an arrangement with another Clearing Participant to clear that Market Transaction, and such transaction is cleared under the arrangement,

the Market Participant must give the Client a document which clearly discloses the clearing arrangements in place for that Market Transaction.

Subrule 3.1.4(2) specifies, without limitation, information that must be included in the document that discloses the clearing arrangements.

Rule 3.1.4A – Information to be given to a client: Settlement arrangements

Subrule 3.1.4A(1) provides that, before accepting an order from a Client to enter into a Market Transaction, if the Market Participant:

- (a) is not a Settlement Participant, who is permitted under the Settlement Rules to settle the Market Transaction; or
- (b) is a Settlement Participant who is permitted under the Settlement Rules to settle that Market Transaction, but has an arrangement with a Settlement Agent to settle that Market Transaction, and such transaction is settled under the arrangement,

the Market Participant must give the Client a document which clearly discloses the Settlement arrangements in place for that Market Transaction.

Subrule 3.1.4A(2) specifies, without limitation, information that must be included in the document that discloses the settlement arrangements.

Rule 3.1.4A is a new rule that has been included to reflect that at the time the APX Market commences operations it will have settlement arrangements that are not interposed by clearing arrangements.

No Rules 3.1.5 to 3.1.8

Market Integrity Rules (ASX) 3.1.5 to 3.1.8 are not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rules 3.1.5 to 3.1.8 are intentionally not included.

Rule 3.1.9 – Client Agreement for Partly Paid Securities

Subrule 3.1.9(1) provides that a Market Participant must, before entering into a Market Transaction in respect of Partly Paid Securities on behalf of a Retail Client, enter into a written agreement with the Client under which the Market Participant discloses, and the Client acknowledges the matters set out in the Rule.

Subrule 3.1.9(2) provides that a Market Participant is not required to enter into an agreement under subrule (1) before entering into a Market Transaction to sell Partly Paid Securities.

Rule 3.1.10 – Other terms of Client Agreements

Rule 3.1.10 provides that, for the avoidance of doubt, a Client Agreement may include other disclosures, acknowledgements, terms and conditions agreed between the Market Participant and the Client, or required to be included under the Market Operating Rules, provided they are not inconsistent with the requirements in Rule 3.1.9.

Rule 3.1.11 – Market Participant to keep copy of Client Agreement and disclosures

Rule 3.1.11 provides that the Market Participant must retain a copy of each Client Agreement and any disclosures made under Part 3.1 of the Rules for at least 7 years following the date on which the Client Agreement, or the arrangement the subject of the disclosure, is terminated.

No Rules 3.1.12 and 3.1.13

Market Integrity Rules (ASX) 3.1.12 and 3.1.13 are not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rules 3.1.12 and 3.1.13 are intentionally not included.

Part 3.2 – Trading as Principal

Rule 3.2.1 Application

Rule 3.2.1 provides that Part 3.2 applies where a Market Participant enters into a Market Transaction with a Client as Principal, except where the Client is a Market Participant or a participant or member of a Recognised Overseas Exchange.

Rule 3.2.2 – Disclosure and consent

Rule 3.2.2 provides that, before entering into a Market Transaction as Principal with a Client, the Market Participant must disclose, or have previously disclosed, in accordance with paragraph 991E(1)(c) of the Corporations Act, that it is acting, or may act, as Principal and have obtained the consent of the Client, in accordance with paragraph 991E(1)(d) of the Corporations Act.

Rule 3.2.3 – Confirmation must include disclosure

Rule 3.2.3 provides that, when a Market Participant enters into a Market Transaction with a client as Principal, the confirmation issued by the Market Participant under Rule 3.4.1 in respect of the Market Transaction must state that the Market Participant entered into the transaction as Principal and not as agent.

Rule 3.2.4 – Brokerage and commission

Subrule 3.2.4(1) prohibits a Market Participant, when entering into a Market Transaction as Principal on its own behalf with a Client, from charging the client brokerage, commission or any other fee except in the circumstances specified in the Rule.

Subrule 3.2.4(2) provides that a Market Participant must keep a written record of any consent given by a Wholesale Client under paragraph (1)(b), and send a copy of the record to that Wholesale Client as soon as practicable.

Rule 3.2.5 – Extended meaning of dealing as Principal

Rule 3.2.5 provides that, except where a Market Participant is dealing as a trustee of a trust in which the Market Participant has no direct or indirect beneficial interest, a reference in Part 3.2 of the Rules to a Market Participant dealing or entering into a Market Transaction as Principal, includes a reference to the Market Participant entering into a Market Transaction on its own behalf or on behalf of any of the persons specified in paragraphs 3.2.5(1)(a) to (e).

Rule 3.2.6 – Register of persons who are regarded as Principal

Rule 3.2.6 imposes an obligation on the Market Participant to keep a register of the persons referred to in paragraphs 3.2.5(1)(a) to (e).

Part 3.3 – Client instructions

Rule 3.3.1 – Market Participant restrictions

Rule 3.3.1 sets out restrictions on a Market Participant when accepting or executing instructions from a Client, entering into and arranging a Market Transaction for a Client and allocating Market Transactions to a Client's account.

Rule 3.3.2 – Excessive trading

Rule 3.3.2 provides that a Market Participant must not enter into Market Transactions on a Managed Discretionary Account for a Retail Client where the size or frequency of the Market Transactions may be considered excessive having regard to the factors specified in the Rule.

Part 3.4 – Reporting to clients

Rule 3.4.1 – Confirmations – form and timing

Subrule 3.4.1(1) provides that a Market Participant must, subject to Rule 3.4.3, give a confirmation to a client in respect of each Market Transaction entered into on a Client's instructions or a Client's Managed Discretionary Account.

Subrule 3.4.1(2) provides that a Market Participant must send to, or cause to be sent to, the Client a confirmation in writing, electronically or in another form permitted by ASIC, as soon as practicable after the Market Participant enters into the Market Transaction.

Subrule 3.4.1(3) sets out requirements that the confirmation must meet.

Rule 3.4.2 – Confirmations – accumulation and price averaging

Rule 3.4.2 sets out the circumstances in which a Market Participant may accumulate Market Transactions on a single confirmation and specify the volume weighted average price for those Market Transactions.

Rule 3.4.3 – Confirmations – clients other than Retail Clients

Rule 3.4.3 provides that a Market Participant is not required to comply with Rule 3.4.1 in respect of a client that is not a Retail Client provided the Market Participant has notified the client of certain matters before entering a Trading Message on the client's behalf.

Part 3.5 – Client Money and Property

Rule 3.5.1 – Trust accounts APX Market Transactions

Rule 3.5.1 provides that a Market Participant must establish one or more clients' trust accounts for money received by the Market Participant in connection with dealings in APX Products.

No Rule 3.5.2

Market Integrity Rule (ASX) 3.5.2 is not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rule 3.5.2 is intentionally not included.

Rule 3.5.3 – Bank accounts to be with Australian ADI

Rule 3.5.3 provides that all money received by a Market Participant which the Corporations Act requires the Market Participant to deposit in a clients' segregated account or in a clients' trust account must be deposited in an account with an Australian ADI in Australia (which has been rated by an Approved Ratings Agency as being at least short term investment grade) unless:

- (a) the money is received by the Market Participant in another country and the Market Participant deposits the money in a clients' segregated account or clients' trust account with a branch of an Australian ADI with such a rating in that country; or
- (b) Rule 3.5.4 applies.

Rule 3.5.4 – Approved foreign banks

Rule 3.5.4 sets out the circumstances in which ASIC may approve foreign banks at which Market Participants may open clients' segregated accounts or clients' trust accounts for the handling of money received for a person in another country or for a person who is resident in another country and invests money held in clients' segregated accounts or clients' trust accounts in another country.

Rule 3.5.5 – Change of rating or approval of ADI

Rule 3.5.5 provides that, if the Market Participant has a clients' segregated account or a clients' trust account with an Australian ADI which ceases to have the rating referred to in Rule 3.5.3 or with a foreign bank which ceases to be a bank approved under Rule 3.5.4, the Market Participant must transfer the balance of the relevant account to an entity which meets the requirements of Rule 3.5.3 or Rule 3.5.4, as applicable.

No Rules 3.5.6 to 3.5.8

Market Integrity Rules (ASX) 3.5.6 to 3.5.8 are not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rules 3.5.6 to 3.5.8 are intentionally not included.

Rule 3.5.9 – Reconciliation of trust accounts

Rule 3.5.9 provides that a Market Participants must perform daily and weekly reconciliations of clients' trust accounts in accordance with the Rule.

Rule 3.5.10 – Obligation to notify ASIC in respect of reconciliation

Rule 3.5.10 provides that a Market Participant must notify ASIC where a reconciliation has not been performed in accordance with the Rules or, as a result of a reconciliation, the deficiencies specified in the Rule are identified.

Rule 3.5.11 – Schedule of trust accounts

Rule 3.5.11 provides that each Market Participant must by no later than 5 Business Days after 31 March, 30 June, 30 September and 31 December in each year cause to be prepared a schedule as at those dates showing the respective amounts held in the Market Participant's trust account on behalf of clients together with the names of the particular client in respect of each amount.

Part 3.6 – Prohibition of advice to client

Rule 3.6.1 – Definitions used in this Part 3.6

Rule 3.6.1 provides that, for the purposes of Part 3.6, "Client" includes a shareholder in a company which constitutes the Market Participant.

Rule 3.6.2 Market Participant possesses information that is not generally available

Rule 3.6.2 provides that, where, as a result of its relationship to a Client, a Market Participant is in possession of information that is not generally available in relation to a Financial Product and which would be likely to materially affect the price of that Financial Product if the information was generally available, that Market Participant must not give any advice to any other Client of a nature that would damage the interest of either of those Clients.

Rule 3.6.3 – Chinese Walls in place

Rule 3.6.3 provides that, for the purposes of Rule 3.6.2, a Market Participant is not regarded as having possession of information that is not generally available in relation to a Financial Product where the Market Participant has Chinese Walls in place as described in the Rule and the person advising the Client is not in possession of that information.

Rule 3.6.4 – Certain actions do not constitute giving advice

Rule 3.6.4 provides that, for the purposes of Rule 3.6.2, a Market Participant or an Employee or partner of a Market Participant advising a Client that the Market Participant is precluded from giving the Client advice will not be regarded as giving advice.

Chapter 4 – Records

Part 4.1 – Trading records

Rule 4.1.1 - Records of dealings for clients

Subrule 4.1.1(1) provides that Rule 4.1.1 applies to a Market Participant who receives instructions to enter into a Market Transaction on behalf of a client, whether or not a Trading Message corresponding to those instructions is entered into or matched on a Trading Platform.

Subrule 4.1.1(2) provides that, subject to Rule 4.1.7 and in addition to complying with the requirements of the Corporations Act to the extent that those requirements apply to dealing in the APX Market, the Market Participant must maintain sufficiently detailed records of the matters set out in the Rule, including particulars of the instructions and the name of the Client and any other persons involved in passing on the instructions.

Rule 4.1.2 – Records of dealings on Own Account

Subrule 4.1.2(1) provides that Rule 4.1.2 applies to a Market Participant that makes a decision, or gives instructions to enter into a Market Transaction on its Own Account, whether or not the Market Transaction is executed.

Subrule 4.1.2(2) provides that subject to Rule 4.1.8 and in addition to complying with the requirements of the Corporations Act to the extent that those requirements apply to dealing in the APX Market, the Market Participant must maintain sufficiently detailed records of the matters set out in the Rule, including particulars of the instructions and the name of any other persons involved in passing the instructions.

Rule 4.1.3 – Records to be made immediately

Rule 4.1.3 provides that a Market Participant must make the records referred to in Rules 4.1.1, 4.1.2, 4.1.7 and 4.1.8 immediately after the event to which they relate and record the time of the relevant event.

Rule 4.1.4 – Records to be retained for prescribed period

Rule 4.1.4 provides that a Market Participant must retain the records referred to in Rules 4.1.1, 4.1.2, 4.1.7 and 4.1.8 for 7 years from the date the record is made.

Rule 4.1.5 – Certain records maintained by the Market Operator

Rule 4.1.5 provides that certain of its obligations of a Market Participant under Rules 4.1.1 and 4.1.2 may be met by relying on records maintained electronically as set out in Rule 4.1.6.

Rule 4.1.6 – Conditions for reliance on the Market Operator records

Subrule 4.1.6(1) sets out the circumstances in which a Market Participant may:

- (a) when dealing for clients, satisfy certain of its obligations in relation to Rule 4.1.1; and
- (b) when dealing on its Own Account, satisfy certain of its obligations in relation to Rule 4.1.2,

by relying on records maintained by the Market Operator.

Subrule 4.1.6(1) provides that the Market Participant may only rely on the records maintained by the Market Operator to the extent permitted by subrule 4.1.6(2).

Subrule 4.1.6(2) sets out, for the purposes of subrule (1), the specific obligations which may be met by relying on specific records maintained by the Market Operator.

Rule 4.1.7 – Records of dealings for clients by a Market Participant who instructs another Market Participant to execute the dealings

Rule 4.1.7 provides that a Market Participant that instructs another Market Participant to enter into a Market Transaction on behalf of a person need not comply with the requirements of Rule 4.1.1(2)(e) to (i) and must maintain sufficiently detailed records in respect of such instruction showing the particulars set out in the Rule.

Rule 4.1.8 – Records of dealings on its Own Account by a Market Participant who instructs another Market Participant to execute the dealings

Rule 4.1.8 provides that a Market Participant that instructs a Market Participant to enter into a Market Transaction on its behalf need not comply with the requirements of Rule 4.1.2(2)(c) to (f) in respect of that instruction and must maintain sufficiently detailed records in respect of such instruction showing the particulars set out in the Rule.

Rule 4.1.9 – Records regarding Authorised Persons

Rule 4.1.9 provides that a Market Participant must maintain records, for a period of 7 years from the date a person ceases to be an Authorised Person, of:

- (a) the name and contact details of the Authorised Person, and if that Authorised Person is an agent of another person, the details of that other person; and
- (b) the security arrangements regarding access by the Authorised Person to a computer or other device connected to the Market Participant's Open Interface Device and its location or if not fixed, the method of identifying the computer or other device.

No Rule 4.1.10

Market Integrity Rule (ASX) 4.1.10 is not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rule 4.1.10 is intentionally not included.

Part 4.2 – Records - General

Rule 4.2.1 General recordkeeping requirements

Subrule 4.2.1(1) provides that a Market Participant must maintain accurate records in sufficient detail to show particulars of the matters specified in the Rule, including transactions by the Market Participant with or for the account of specified persons, the Market Participant's income, assets and liabilities and all APX Products which are the property of the Market Participant or for which the Market Participant or any nominee controlled by the Market Participant is accountable.

Subrules 4.2.1(2) to (4) set out requirements in relation to APX Products held by the Market Participant for safe custody or as security for loans or advances made by the Market Participant.

Rule 4.2.2 – Client complaints—Records of complaints and correspondence

Subrule 4.2.2(1) provides that a Market Participant must keep the following records of complaints received from clients:

- (a) a copy of all written complaints;
- (b) a copy of all written correspondence between the Market Participant and the clients and a written summary of any oral communication in connection with a written complaint; and
- (c) any correspondence or documents relating to the resolution of a complaint through any complaints resolution scheme.

Subrule 4.2.2(2) provides that a Market Participant must keep those records in respect of a complaint for at least five years from the date of the last correspondence in respect of that complaint.

Part 4.3 Access to Records

Rule 4.3.1 – Records to be in writing and in English

Subrule 4.3.1(1) provides that a Market Participant must keep all of the records it is required to maintain under Chapter 4 of the Rules, in writing and in the English language or in a manner which will enable them to be readily accessible by ASIC and readily converted into writing in the English language.

Subrule 4.3.1(2) provides that a Market Participant must, if directed by ASIC in writing to do so, convert records maintained under Chapter 4 of the Rules into writing and into English.

Subrule 4.3.1(3) provides that a Market Participant must comply with a direction given under subrule (2) by the time specified by ASIC when giving the direction.

Rule 4.3.2 – Records kept outside of Australia

Subrule 4.3.2(1) provides that, if the records which a Market Participant is required to maintain under Chapter 4 of the Rules are kept outside Australia:

- (a) the Market Participant must send, or cause to be sent, to Australia records which will enable true and fair financial statements to be prepared; and

- (b) the Market Participant must, if directed by ASIC in writing to do so, produce any of its records in Australia.

Subrule 4.3.2(2) provides that a Market Participant must comply with a direction given by ASIC under paragraph (1)(b) by the time specified by ASIC when giving the direction.

Chapter 5 Trading

Part 5.1 - Client order priority

Rule 5.1.1 Application and meaning of dealing on "Own Account"

Rule 5.1.1 defines the meaning of a Market Participant dealing on its "own account" in relation to APX Products.

Rule 5.1.2 Exceptions

Rule 5.1.2 provides for types of orders that are not regarded as orders on a Market Participant's Own Account.

Rule 5.1.3 - Fairness and priority in dealing

Rule 5.1.3 provides that a Market Participant must deal fairly and in due turn with:

- (a) clients' orders; and
- (b) a client order and an order on its Own Account.

Rule 5.1.4 – Relevant factors

Subrule 5.1.4(1) sets out factors that are relevant in considering whether Rule 5.1.3 has been complied with, including where the Market Participant acts in accordance with its instructions and gives preference to orders of a client over orders on the Market Participant's own account as set out in the Rule.

Subrules 5.1.4(2) and (3) provide for the meaning of giving preference to an order of a client over an order on the Market Participant's Own Account for the purposes of paragraph (1)(c).

Subrule 5.1.4(4) provides that a Market Participant must keep a record of any consent given by a client for the purposes of paragraph (1)(c).

Rule 5.1.5 - Fairness and priority in allocation

Rule 5.1.5 provides that a Market Participant must allocate Market Transactions fairly.

Rule 5.1.6 – Relevant factors

Rule 5.1.6 sets out factors that are relevant in considering whether Rule 5.1.5 has been complied with, including the client's instructions and where Market Transactions are allocated in sequence and in accordance with the disclosed allocation policy of the Market Participant.

Rule 5.1.7 - Unexecuted order in Equity Market Products - Market Participant not to make Bids or Offers

Rule 5.1.7 provides that, if a Market Participant has or receives an Order to buy or sell an APX Product underlying a Derivatives Market Contract in the Underlying Market which may materially affect:

- (a) the market price of the APX Product in the Underlying Market; or
- (b) the level of an Underlying Index, the level of which is calculated by reference to the value of that APX Product and other Products,

the Market Participant must not make Bids or Offers to enter into an Options Market Transaction over that APX Product as Principal until the order in the APX Product has been executed in the Underlying Market.

Rule 5.1.8 – Allocation policy and Automated Client Order Processing Crossings—Disclosure to Client

Subrule 5.1.8(1) provides that a Market Participant must, when requested to do so by a Client, disclose to the Client its allocation policy and the fact that the Client's orders may match opposite orders in a Trading Platform:

- (a) by the same Market Participant, resulting in a Crossing and entitling the Market Participant to commission from both sides of the transaction; and
- (b) on behalf of the same Market Participant dealing as Principal.

Subrule 5.1.8(2) provides that a Market Participant must keep a record of such disclosure.

Part 5.2 Business connections between Market Participants

Rule 5.2.1 - Connections requiring ASIC consent

Rule 5.2.1 provides that a Market Participant must not, without the prior written consent of ASIC, have business connections with other Market Participants of the kind set out in the Rule.

Rule 5.2.2 – Access to records

Rule 5.2.2 provides that, where ASIC gives written consent under Rule 5.2.1, ASIC may impose on one or both of the Market Participants involved conditions concerning access by common Controllers or Employees to records of those Market Participants including, without limitation, the records of orders received by the Market Participants.

No Part 5.3

Part 5.3 of the Market Integrity Rules (ASX) is not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Part 5.3 is intentionally not included.

Part 5.4 – Transactions by connected persons (including persons connected with other Market Participants)

Rule 5.4.1 – Application

Rule 5.4.1 provides that in Part 5.4, a reference to a connected person is a reference to the following persons:

- (a) an Employee;
- (b) a company controlled by an Employee; and

- (c) a Controlled Trust (other than a trust controlled by an Immediate Family of an employee or a trust in relation to which an Immediate Family of an Employee is a trustee or holds more than 50% of the whole beneficial interest).

Rule 5.4.2 – Internal consent required for trading by connected person

Subrule 5.4.2(1) provides that a Market Participant must not enter into a Market Transaction by or for the account of its "connected persons", whether the Market Transaction is conducted through that Market Participant or through another Market Participant, unless the Market Transaction has been approved by a Responsible Executive, director or partner of the Market Participant or a person with written delegation for that responsibility from a Responsible Executive, director or partner other than the Employee concerned.

Subrules 5.4.2(2) to (5) set out the requirements in relation to the approval and confirmation of the Market Transaction.

Part 5.5 – Participant's trading infrastructure

Rule 5.5.1 – Knowledge of Market Participant

Rule 5.5.1 provides that, if a Trading Message embedded with a Market Participant's unique identifier is submitted, the Trading Message is taken for all purposes under the Rules to have been submitted in a Trading Platform by or with the knowledge of the Market Participant.

Rule 5.5.2 – Organisational and technical resources

Rule 5.5.2 provides that a Market Participant must have and maintain the necessary organisational and technical resources to ensure that:

- (a) Trading Messages submitted by the Market Participant do not interfere with:
 - (i) the efficiency and integrity of the APX Market; or
 - (ii) the proper functioning of a Trading Platform; and
- (b) the Market Participant complies at all times with the Rules and the Market Operating Rules.

Rule 5.5.3 Trading management arrangements

Rule 5.5.3 provides that a Market Participant must have arrangements in place so that at all times the Market Participant can determine the origin of all orders and Trading Messages, including the information set out in the Rule.

Rule 5.5.4 Trading management arrangements - Records

Rule 5.5.4 provides that a Market Participant must maintain records of the matters referred to in Rule 5.5.3 for a period of 7 years from the date of the Trading Message to which the matters relate.

Part 5.6 – Automated order processing – Filters, conduct and infrastructure

Rule 5.6.1 – Responsible use of system for Automated Order Processing

Rule 5.6.1 provides that a Market Participant which uses its system for Automated Order Processing must at all times:

- (a) have appropriate automated filters, in relation to Automated Order Processing; and
- (b) ensure that such use does not interfere with:

- (i) the efficiency and integrity of the APX Market ; or
- (ii) the proper functioning of any Trading Platform.

Rule 5.6.2 – Authorised persons for Automated Client Order Processing

Rule 5.6.2 provides that a Market Participant which uses its system for Automated Client Order Processing must also have procedures in place to ensure that each Authorised Person has demonstrated to the Market Participant knowledge of the order entry system of the Market Participant and of the Dealing Rules, directions, decisions and requirements of the Market Operator relevant to the type of order submission facilities given to the Authorised Person by the Market Participant.

Rule 5.6.3 Automated Order Processing System requirements

Rule 5.6.3 provides that a Market Participant which uses its system for Automated Order Processing must ensure that the system has in place organisational and technical resources, trading management arrangements, and security arrangements as described in the Rule.

Rule 5.6.4 Review of documentation and systems prior to use of Automated Order Processing system

Rule 5.6.4 provides that, subject to Rule 5.6.6A, before using their system for Automated Order Processing, a Market Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, perform a review of the Market Participant's policies, procedures, system design documentation, including the Market Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters, and other relevant documentation concerning the Market Participant's compliance with Part 5.6 of the Rules.

Rule 5.6.5 Representations as to organisational and technical resources, trading management arrangements and security arrangements, prior to use of Automated Order Processing system

Subrule 5.6.5(1) provides that, subject to Rule 5.6.6A, before using their system for Automated Order Processing, the Market Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, obtain written representations that their Automated Order Processing system meets the requirements of each of paragraphs 5.6.3(a), (b) and (c).

Subrule 5.6.5(2) sets out requirements in relation to who must provide the representations and what must be included in the representations.

Rule 5.6.6 Certification of Automated Order Processing System

Subrule 5.6.6(1) provides that, subject to Rule 5.6.6A, before using their system for Automated Order Processing, a Market Participant must:

- (a) give a written certification to ASIC that includes the matters set out at subrule (2); and
- (b) receive a written confirmation from ASIC that the certification complies with subrule (2).

Subrule 5.6.6(2) sets out what must be included in the written certification given by the Market Participant to ASIC.

Subrule 5.6.6(3) provides that at least two directors of the Market Participant must sign and date the written certification.

Rule 5.6.6A Application of Rules 5.6.4, 5.6.5 and 5.6.6 to Market Participants that are ASX Participants or Chi-X Participants

Rule 5.6.6A provides that a Market Participant is not required to comply with Rules 5.6.4, 5.6.5 and 5.6.6 with respect to an Automated Order Processing system where, at the time the obligation to comply with those Rules would arise, all of the following are satisfied:

- (a) the Market Participant is also an ASX Participant or a Chi-X Australia Participant;
- (b) the Market Participant has complied with ASX Market Integrity Rules 5.6.4, 5.6.5 and 5.6.6 or Chi-X Australia Market Integrity Rules 5.6.4, 5.6.5 and 5.6.6 with respect to the Automated Order Processing system it uses for the purposes of submitting orders to the ASX Market or Chi-X Market;
- (c) the Market Participant proposes to use the Automated Order Processing system referred to in paragraph (b) for the purposes of submitting orders to the APX Market;
- (d) the Market Participant treats the proposed use of the Automated Order Processing system referred to in paragraph (b) for the purposes referred to in paragraph (c) as a material change to the organisational or technical resources employed to comply with Rule 5.6.3; and
- (e) before implementing the change, the Market Participant:
 - (i) undertakes the review required by Rule 5.6.8;
 - (ii) provides the further certification as required by Rule 5.6.10; and
 - (iii) receives a written confirmation from ASIC that the certification complies with Rule 5.6.10.

Rule 5.6.6A has been inserted to minimise duplication of regulatory obligations for participants of both APX and either ASX and/or Chi-X markets with respect to Rules 5.6.4 to 5.6.6.

Rule 5.6.7 Material changes

Subrule 5.6.7(1) provides that, if a Market Participant who uses its system for Automated Order Processing under the Rules proposes to make a material change to any of the organisational or technical resources employed to comply with Rule 5.6.3, the Market Participant must immediately notify ASIC of the proposed change.

Subrule 5.6.7(2) provides that the Market Participant must, before implementing the change, undertake a review as required by Rule 5.6.8 and provide, at the option of ASIC, a confirmation as required by Rule 5.6.9 or a further certification as required by Rule 5.6.10. A Market Participant must also, before implementing the change, receive a written confirmation from ASIC that the confirmation or certification complies with Rule 5.6.9 or 5.6.10, as applicable.

Rule 5.6.8 Material change review

Rule 5.6.8 provides that, before making a material change to any of the organisational or technical resources employed to comply with Rule 5.6.3, the Market Participant must, for the purposes of providing the confirmation referred to in Rule 5.6.9 or the further certification referred to in Rule 5.6.10, ensure that an appropriately qualified person performs a review of the material changes to the Automated Order Processing system, the Market Participant's policies, procedures, system design documentation, including the Market Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters and other relevant documentation concerning the Market Participant's compliance with Part 5.6 of the Rules.

Rule 5.6.9 Material change confirmation

Subrule 5.6.9(1) sets out requirements in relation to a material change confirmation provided under Rule 5.6.7, including a description of the material changes and a confirmation from an appropriately qualified person as specified in the Rule.

Subrule 5.6.9(2) provides that the confirmation must include the name of the person making the confirmation and be signed and dated by that person.

Rule 5.6.10 Material change further certification

Subrule 5.6.10(1) sets out requirements in relation to a material change further certification provided under Rule 5.6.7, including a description of the material changes and a confirmation from an appropriately qualified person as specified in the Rule.

Subrule 5.6.10(2) provides that the confirmation must include the name of the person making the confirmation and be signed and dated by that person.

Rule 5.6.11 Further certification

Subrule 5.6.11(1) provides that a Market Participant must, if directed by ASIC in writing to do so, provide a further certification in a form acceptable to ASIC from an appropriately qualified person acceptable to ASIC as to compliance by the Market Participant with the Automated Order Processing Requirements.

Subrule 5.6.11(2) provides that a Market Participant must comply with a direction under subrule (1) within the time specified in the direction.

Rule 5.6.12 – Limitations on Automated Order Processing

Subrule 5.6.12(1) provides that Rule 5.6.12 applies where ASIC reasonably considers that:

- (a) a Market Participant is not complying with the Automated Order Processing Requirements; or
- (b) it is otherwise appropriate to direct a Market Participant to take the actions referred to in subrule (2).

Subrule 5.6.12(2) provides that a Market Participant must, if directed to do so by ASIC, cease conducting Automated Order Processing until ASIC is satisfied that the Market Participant complies with the Automated Order Processing Requirements, or immediately suspend, limit or prohibit the conduct of Automated Order Processing in respect of one or more Authorised Persons or clients, Automated Client Order Processing, Automated Order Processing, or one or more APX Products.

Part 5.7 – Manipulative trading

Rule 5.7.1 - False or misleading appearances

Paragraph 5.7.1(a) provides that a Market Participant must not make a Bid or Offer, or deal in any APX Products as Principal, with the intention of creating a false or misleading appearance of active trading in any APX Product or with respect to the market for, or the price of, any APX Product. Paragraph 5.7.1(a) also provides that a Market Participant must not make a Bid or Offer, or deal in any APX Products as Principal, if that Bid, Offer or dealing has the effect, or is likely to have the effect, of creating a false or misleading appearance of active trading in any APX Product or with respect to the market for, or the price of, any APX Product.

Paragraph 5.7.1(b) provides that a Market Participant must not make a Bid or Offer, or deal in any APX Products on account of any other person where:

- (a) the Market Participant intends to create a false or misleading appearance of active trading in any APX Product or with respect to the market for, or the price of, any APX Product;
- (b) the Market Participant is aware that the person intends to create a false or misleading appearance of active trading in any APX Product or with respect to the market for, or the price of, any APX Product; or

- (c) taking into account the circumstances of the Order, a Market Participant ought reasonably suspect that the person has placed the Order with the intention of creating a false or misleading appearance of active trading in any APX Product or with respect to the market for, or the price of, any APX Product.

Rule 5.7.2 Circumstances of Order

Rule 5.7.2 provides, for the purposes of Rule 5.7.1, that a Market Participant, in considering the circumstances of the Order, must have regard to the matters set out in the Rule.

Rule 5.7.3 – Obligations apply to Automated Order Processing

Rule 5.7.3 provides that a Market Participant must also comply with Part 5.7 in respect of Orders the subject of Automated Order Processing.

No Part 5.8

Part 5.8 of the Market Integrity Rules (ASX) is not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Part 5.8 is intentionally not included.

Part 5.9 – Fair and orderly markets

Rule 5.9.1 – Market must remain fair and orderly

Rule 5.9.1 provides that a Market Participant must not do anything which results in a market for an APX Product not being both fair and orderly, or fail to do anything where that failure has that effect.

Rule 5.9.2 – Representative must be available

Rule 5.9.2 provides that a Market Participant must ensure that a Representative of the Market Participant is available to receive communications from other Market Participants or from the Market Operator during the times on a Trading Day set out in the Rule, unless otherwise determined in writing by ASIC and notified to the Market Participant.

Rule 5.9.3 – Must not take advantage of breakdown or malfunction

Rule 5.9.3 provides that a Market Participant must not take advantage of a situation arising as a result of a breakdown or malfunction in the Market Operator's procedures or systems or an error in any Trading Message submitted by the Market Operator.

Part 5.10 – Dealing in APX Products

Rule 5.10.1 Market Participants may not deal in APX Products for which Official Quotation will be sought

Rule 5.10.1 provides that, except as permitted in Rule 5.10.2, a Market Participant is prohibited, either in its own office or elsewhere, from making quotations or dealing in a new issue or placement of APX Products (except Loan Securities):

- (a) made for the purpose of qualifying a company for admission to the Official List; or
- (b) for which Official Quotation will be sought,

until those APX Products have been granted Official Quotation.

Rule 5.10.2 When Market Participants may deal in APX Products for which Official Quotation will be sought

Rule 5.10.2 sets out the circumstances in which, notwithstanding Rule 5.10.1 but subject to any other provisions of the Rules and the Market Operating Rules, a Market Participant may deal in APX Products to which Rule 5.10.1 applies.

Rule 5.10.3 Dealings in Securities for which Official Quotation will not be sought

Rule 5.10.3 provides that a Market Participant may deal in new Securities issued by a listed entity for which Official Quotation will not be sought 24 hours after that entity has advised the APX Market of the details of the issue.

Rule 5.10.4 Dealings in APX Products suspended from Official Quotation

Rule 5.10.4 provides that a Market Participant must not deal in APX Products which have been suspended from quotation or trading.

Rule 5.10.5 Disclosure of shortfall—Must disclose to Client

Rule 5.10.5 provides that a Market Participant, an Employee or a director of a Market Participant or a company which is a partner of a Market Participant who or which will be required to acquire APX Products as underwriter or sub-underwriter must not offer such APX Products to clients unless:

- (a) they first inform the clients concerned of the closing date of the issue or offering of the APX Products and the reasons for the acquisition; or
- (b) the offer to the client is made more than 90 days from the closing date.

Rule 5.10.6 Expenses—Reimbursement for out-of-pocket expenses

Rule 5.10.6 provides that where a Market Participant seeks out-of-pocket expenses involved in the purchase or sale of APX Products, the Market Participant must not cover that charge by an increase or reduction in the price of the APX Products.

Rule 5.10.7 Nominee holdings—Restrictions on when an Equity Security can be recorded in the name of a nominee company

Subrule 5.10.7(1) provides that a Market Participant must not cause the ownership of an Equity Security of which it is not the beneficial owner to be registered in its own name or in the name of its partners, directors or Employees.

Subrule 5.10.7(2) provides that a Market Participant may only cause the ownership of an Equity Security referred to in subrule (1) to be registered in the name of a nominee company which meets the requirements of the Rule.

Part 5.11 – Suspicious activity reporting

Rule 5.1.1 Notification requirement

Rule 5.11.1(1) is the core Suspicious Activity Reporting obligation. Rule 5.11.1(1) provides that, subject to Rules 5.11.1(2), if a Market Participant has reasonable grounds to suspect that:

- (a) a person (“the Insider”) has placed an order into or entered into a transaction on the Market in relation to a financial product while in possession of inside information

(within the meaning of section 1042A of the Act), whether or not the Market Participant is aware of:

- (i) the identity of the Insider; or
 - (ii) all of the details of the order or transaction; or
- (b) a transaction or an order transmitted to a Trading Platform has or is likely to have the effect of:
- (i) creating an artificial price for trading in financial products on the Market;
 - (ii) maintaining at a level that is artificial (whether or not it was previously artificial) a price for trading in financial products on the Market;
 - (iii) creating, or causing the creation of, a false or misleading appearance of active trading in financial products on the Market; or
 - (iv) creating, or causing the creation of, a false or misleading appearance with respect to the market for, or the price for trading in, financial products on the Market,
- whether or not the Market Participant is aware of:
- (v) the intention of any party to the transaction or order; or
 - (vi) all of the details of the transaction or order,
- the Market Participant must, as soon as practicable, notify ASIC in writing of the details of the transaction or order (to the extent known to the Market Participant) and the reasons it suspects the matter set out in paragraphs (a) and/or (b).

Rule 5.11.1(1) requires a Market Participant to notify ASIC in writing as soon as practicable of details of the transaction or order and the reasons for suspecting the matters set out in subparagraph (a) or (b). The matters set out in subparagraphs (a) and (b) ("Reportable Matters") may indicate market misconduct of a kind known in the market as 'insider trading', 'front running' and 'market manipulation'.

Rule 5.11.1(2) provides that a Market Participant is not required to notify ASIC under Rule 5.11.1(1) if the Market Participant has reported the information that would otherwise be required to be contained in the notification to ASIC under Rule 5.11.1(1) to the Australian Transaction Reports and Analysis Centre ('AUSTRAC') under section 41 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* or under section 16 of the *Financial Transaction Reports Act 1988* ('AML Reporting Legislation').

A Market Participant may have an obligation under AML Reporting Legislation to submit a suspicious matter report ('SMR') to AUSTRAC in certain circumstances. Many of these circumstances may also give rise to reasonable grounds to suspect that there is a Reportable Matter that must be notified to ASIC under Rule 5.11.1(1). ASIC has access to SMRs lodged with AUSTRAC. To avoid double-reporting, Rule 5.11.1(2) provides that, where a Market Participant has reported information to AUSTRAC under AML Reporting Legislation, it is not required to notify ASIC of the same information under Rule 5.11.1(1).

Rule 5.11.2 - Confidentiality

Rule 5.11.2 provides that a Market Participant who notifies ASIC under Rule 5.11.1(1) must not disclose that the notification was made, or the information contained in the notification, to any person other than for the purposes of seeking legal advice or as required by law. This Rule does not preclude a Market Participant from communicating that it has obligations under Rule 5.11.1, generally, or from communicating to a client or trader that it has concerns about the conduct of that person, which may constitute an offence under the law or which may expose the Market Participant to risk.

Part 5.12 – Identification of short sales

Rule 5.12.1 – Identification of short sales

Rule 5.12.1 is the core Short Sale Tagging obligation. Rule 5.12.1 provides that a Market Participant must:

- (a) include in a Reportable Short Sale Order transmitted to the Market, the number of Section 1020B Products that the seller will vest in the buyer under the relevant Securities Lending Arrangement; and
- (b) include in a report of a Reportable Short Sale Transaction, provided to the Market Operator under Market Operating Rules, the number of Section 1020B Products that the seller will vest in the buyer under the relevant Securities Lending Arrangement.

Rule 5.12.2 – Compliance start date

Rule 5.12.2 provides that a Market Participant is not required to comply with Rule 5.12.1 until 10 March 2014. This is the same date on which ASX and Chi-X Participants must start complying with the Short Sale Tagging obligation under the ASIC Market Integrity Rules (ASX) and (Chi-X).

Chapter 6 - Takeovers

Part 6.1 Market Bid – Announcements by Market Participant

Rule 6.1.1 Announcement of Market Bid

Subrule 6.1.1(1) provides that a Market Participant acting on behalf of a Bidder in relation to a Market Bid for APX Products must announce the bid to the APX Market in accordance with subrule (2). Subrule 6.1.1(2) sets out information that must be included in the announcement, including information about the Bid Class and the Offer Period.

Rule 6.1.2 Announcement of variations to Market Bid

Rule 6.1.2 provides that a Market Participant acting on behalf of a Bidder in relation to a Market Bid must announce to the APX Market, in writing:

- (a) an increase to the price offered for APX Products in the Bid Class;
- (b) an extension to the Offer Period;
- (c) a withdrawal of the Market Bid;
- (d) any other variation to the Market Bid in accordance with the Corporations Act; or
- (e) if the Market Participant ceases to act on behalf of the Bidder.

Part 6.2 Acquisition of APX Products during the Bid Period

Rule 6.2.1 Acquisition of APX Products by Bidder

Subrule 6.2.1(1) provides that Rule 6.2.1 applies to both Market Bids and Off-Market Bids.

Subrule 6.2.1(2) provides that a Market Participant acting on behalf of a Bidder must not offer to buy on behalf of the Bidder APX Products in the Bid Class On-Market during the Bid Period for a price that varies from the consideration offered under the Takeover Bid unless and until an announcement has been made to the APX Market. Subrule 6.2.1(3) provides that, for the purposes of subrule (2), the announcement must be made in writing, by facsimile or electronic delivery to the Market Operator.

Rule 6.2.2 Acquisition of APX Products by another Bidder

Subrule 6.2.2(1) provides that, where APX Products are subject to a Market Bid, a Market Participant acting on behalf of another Bidder, must not buy the APX Products in the Bid Class of the Target on

behalf of that Bidder unless and until the Market Participant has announced in accordance with subrule (2):

- (a) a Market Bid on behalf of the person pursuant to Rule 6.1.1; or
- (b) an increase in the price offered under a Market Bid for the APX Products pursuant to Rule 6.1.2.

Subrule 6.2.2(2) provides that, for the purposes of subrule (1), the announcement must be made in writing, by facsimile or electronic delivery to the Market Operator.

Part 6.3 Market Participant Acting for Bidder or Issuer

Rule 6.3.1 Market Participant to advise seller if acting for Bidder or Issuer

Rule 6.3.1 provides that, where a Market Participant:

- (a) has an order from the Bidder in relation to an Off-Market Bid;
- (b) has made an announcement to the APX Market on behalf of a Bidder to acquire APX Products under a Market Bid; or
- (c) acts for a company involved in a buy-back under Chapter 2J of the Corporations Act conducted on a APX Market,

the Market Participant must not accept, or transact, an order to sell APX Products in the Bid Class referred to in paragraph (a) or subject to the announcement referred to in paragraph (b) or subject to the buy-back referred to in paragraph (c) unless the Market Participant:

- (d) advises the seller that it is acting for the Bidder or that it is acting for the company involved in the buy-back and is thus unable to give the seller advice in respect of the proposed sale; and
- (e) does not give the seller any advice in respect of the proposed sale.

Part 6.4 Limitations on Crossings outside Trading Hours during a Takeover Bid Or Scheme

Rule 6.4.1 Crossings outside of Trading Hours in APX Products

Subrule 6.4.1(1) provides that, during the Offer Period under a Takeover Bid or Scheme, a Market Participant must not effect a Crossing of the type set out in subrule (2) in a class of APX Products where the Crossing is at a price which is at or below the offer price for that class of APX Products.

Subrule 6.4.1(2) provides that, for the purposes of subrule (1), the type of Crossing is a Crossing (other than a Special Crossing) that is effected outside of Trading Hours and reported to the Market Operator.

No Rules 6.4.2 and 6.4.3

Market Integrity Rules (ASX) 6.4.2 and 6.4.3 are not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rules 6.4.2 and 6.4.3 are intentionally not included.

Part 6.5 Prohibited Transactions during Offer Period

Rule 6.5.1 Special Crossings and specified other Crossings in APX Products

Rule 6.5.1 provides that a Market Participant must not effect a Special Crossing and a Crossing entered into other than by the matching of Orders in an Order Book of any APX Products of an Issuer during a Bid Period for a Takeover Bid or Scheme for the APX Products of the Issuer.

No Rules 6.5.2 to 6.5.4

Market Integrity Rules (ASX) 6.5.2 to 6.5.4 are not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rules 6.5.2 to 6.5.4 are intentionally not included.

Part 6.6 Limitations on Crossings during buy-back conducted On-Market

Rule 6.6.1 Special Crossing and specified other Crossings in APX Products on behalf of Issuer

Rule 6.6.1 provides that a Market Participant must not effect a Special Crossing and a Crossing entered into other than by the matching of Orders on an Order book of any APX Product of an Issuer, on behalf of that Issuer during the term of a buy-back offer conducted on a APX Markets by that Issuer.

No Rules 6.6.2 and 6.6.3

Market Integrity Rules (ASX) 6.6.2 and 6.6.3 are not relevant for the APX Market. For the purpose of consistency in numbering with the Market Integrity Rules (ASX), Rules 6.6.2 and 6.6.3 are intentionally not included.

Chapter 7 – Rules applying to the Market Operator

Part 7.1 Data feeds

Rule 7.1.1 – Provision of data from the Trading Platform

Subrule 7.1.1(1)(a) requires the Market Operator to deliver a by 5.00pm on each Trading Day an electronic file containing the items set out in subrule 7.1.1(2) to ASIC or its nominated service provider. Subrule 7.1.1(1)(b) provides that, from 12 months after APX begins to operate the APX Market in accordance with section 13(1) of APX's Australian market licence, the Market Operator must deliver, or procure delivery of, a live feed of the electronic data items set out in Subrule 7.1.1(1)(b) as generated on or by its Trading Platform to ASIC or to a service provider nominated by ASIC and notified to the Market Operator in accordance with Rule 7.1.2.

Subrule 7.1.1(2) specifies the data and fields of information required to be delivered.

Subrule 7.1.1(3) requires that the electronic data must be delivered in such format as ASIC notifies the Market Operator.

Subrule 7.1.1(4) requires the Market Operator to comply with any data security requirements notified by ASIC and, if requested by ASIC, to redeliver the information if there is a disruption to the telecommunications link through which delivery takes place. Subrule 7.1.1(5) requires the Market Operator to deliver the electronic data to ASIC or its nominated service provider in a manner and to a location notified by ASIC to the Market Operator.

Rule 7.1.2- Notification

Rule 7.1.2 provides that ASIC may notify the Market Operator of the following details, and changes to these details on provision of a reasonable period of notice to the Market Operator:

- (a) a service provider to whom the live feed of information should be sent;
- (b) additional data items generated on or by the Market Operator's Trading Platform which are not specifically referred to in Rule 7.1.1;
- (c) any data format requirements;

- (d) any data security requirements or requests for redelivery of the data; or
- (e) any requirements around the manner and location of delivery.

Part 7.2 Information

Rule 7.2.1 Provision of information about Market Participants

Rule 7.2.1 requires the Market Operator to advise ASIC in writing of changes to specified information about its Market Participants. The information includes:

- (a) changes to its Market Participant names (Rule 7.2.1(a));
- (b) changes to the unique identifiers used by the Market Operator to identify trading activities of its Market Participants (Rule 7.2.1(b)); and
- (c) changes to the types of Market Participant, including any changes to the types of products the Market Participants are permitted to trade on the Market (Rule 7.2.1(c)).

Chapter 8 Capital Requirements

Part 8.1 Preliminary

Rule 8.1.1 – Definitions

Rule 8.1.1 provides definitions for terms used in Chapters 8 and 9. Rule 8.1.1 provides definitions for:

- “Approved Clearing Facility”;
- “Capital Requirements”; and
- “Risk Based Capital Requirements”.

Part 8.2 Application

Rule 8.2.1 Market Participant to comply with Risk Based Capital Requirements

Rule 8.2.1 provides that a Market Participant must at all times comply with the Risk Based Capital Requirements in Schedule 1A, unless:

- (a) the Market Participant is only a Principal Trader; or
- (b) the Market Participant is a Clearing Participant of an Approved Clearing Facility and complies with the capital requirements under the Clearing Rules.

Chapter 9 Accounts and Audit

Part 9.1 Application of Rules

Rule 9.1.1 – Principal Traders and Clearing Participants

Rule 9.1.1 provides that Chapter 9 does not apply to:

- (a) a Market Participant that is only approved as a Principal Trader;
- (b) a Market Participant that is a Clearing Participant of an Approved Clearing Facility and complies with the capital requirements under the Clearing Rules.

Part 9.2 Risk Based Capital Requirements—Reporting

Rule 9.2.1 Risk Based Capital Requirements—Ad hoc Return on Request by ASIC

Rule 9.2.1 provides that a Market Participant that is required to comply with the Risk Based Capital Requirements in Schedule 1A must, if requested to do so by ASIC, provide ASIC with an “Ad Hoc” or “Summary” return (as set out in Forms 1 and 2 in Schedule 1C to the Rules), within the time specified by ASIC in the request.

Rule 9.2.2 Core Capital or Liquid Capital below minimum

Subrule 9.2.2(1) provides that a Market Participant that is required to comply with the Risk Based Capital Requirements in Schedule 1A must notify ASIC immediately if its:

- (a) Core Capital is at any time less than the minimum amount required by paragraph S1A.2.1(b) (i.e. \$100,000); or
- (b) Liquid Capital divided by its Total Risk Requirement is equal to or falls below 1.2.

Subrule 9.2.2(2) provides that a Market Participant must provide ASIC with an “Ad Hoc” or “Summary” return (as set out in Forms 1 and 2 in Schedule 1C to the Rules), disclosing the amount of its Liquid Margin:

- (a) no later than one Business Day after notifying ASIC under subrule 9.2.2(1); and
- (b) from then on, either:
 - (i) by 10am on the first Business Day of each week, showing the financial position of the Market Participant on the last Business Day of the prior week, for so long as the amount referred to in paragraph 9.2.2(1)(b) is equal to or less than 1.2 but greater than 1.1; and
 - (ii) by 10am on each Business Day, showing the financial position of the Market Participant on the prior Business Day, for so long as the amount referred to in paragraph 9.2.2(1)(b) is 1.1 or less.

Subrule 9.2.2(3) provides that the returns must be authorised by one director or partner of the Market Participant.

Subrules 9.2.2(1) and (2) are subject to the exemption set out in Rule 9.2.6.

Rule 9.2.3 Monthly Return

Rule 9.2.3 provides that a Market Participant that is required to comply with the Risk Based Capital Requirements in Schedule 1A must prepare and deliver to ASIC within 10 Business Days of the end of each calendar month, a “Monthly” return” (as set out in Part 1 of Form 3A in Schedule 1C for a corporation and Part 1 of Form 3B in Schedule 1C for a partnership). The return must be accompanied by a declaration (as set out in Part 2 of Form 3A in Schedule 1C for a corporation and Part 2 of Form 3B in Schedule 1C for a partnership).

Rule 9.2.3 is subject to the exemption set out in Rule 9.2.6.

9.2.4 Audited Annual Return

Subrule 9.2.4(1) provides that a Market Participant that is required to comply with the Risk Based Capital Requirements in Schedule 1A must prepare and deliver to ASIC within 3 months (for a corporation) or 2 months (for a partnership) following the end of the Market Participant’s financial year:

- an “Annual Audited Return” (as set out in Part 1 of Form 4A in Schedule 1C for a corporation and Part 1 of Form 4B in Schedule 1C for a partnership);

- a declaration to the Annual Audited Return (as set out in Part 2 of Form 4A in Schedule 1C for a corporation and Part 2 of Form 4B in Schedule 1C for a partnership);
- an auditors' report on the Annual Audited Return (as set out in Form 5 in Schedule 1C);
- a "Key Risks and Internal Systems statement" (as set out in Form 6 in Schedule 1C);
- the Market Participants' statutory accounts and group structure chart.

Subrule 9.2.4(2) provides that if the financial year end of the Market Participant is other than 30 June, the Market Participant must notify ASIC of its financial year end.

Subrules 9.2.4(1) and (2) are subject to the exemption set out in Rule 9.2.6.

9.2.5 Partnership Statutory Declaration

Rule 9.2.5 provides that a Market Participant that is a partnership must give to ASIC, within 10 Business Days after the end of June and December each year, for each partner of the Market Participant, a declaration (the "Partnership Statutory Declaration") in the form set out in Form 7 in Schedule 1C to the Rules, signed by the partner to which the Partnership Statutory Declaration relates and witnessed in accordance with the instructions included on the Partnership Statutory Declaration.

Rule 9.2.5 is subject to the exemption set out in Rule 9.2.6.

9.2.6 Double Reporting Exemption for Dual APX/Chi-X or APX/ASX Participants

Rule 9.2.6 provides an exemption to an APX Market Participants that is also an ASX Participant or a Chi-X Participant, from giving ASIC a return (and related forms), where the Market Participant has given ASIC the equivalent return (and related forms) required under the equivalent ASX Market Integrity Rule and Chi-X Australia Market Integrity Rule.

The exemption does not apply to the Ad Hoc and Summary Returns required by Rule 9.2.1.

Rule 9.2.6 ensures that a participant of multiple markets does not have to complete multiple reports.

Part 9.3

There is no Part 9.3. (Note: Part 9.3 in the ASX Market Integrity Rules relates to futures transactions.)

Part 9.4 General

Rule 9.4.1 Alternate Director

Rule 9.4.1 provides that where a Market Participant has appointed an alternate director in accordance with section 201K of the Corporations Act and the constitution of the Market Participant, the alternate director may authorise or sign the Forms referred to in Part 9.2 of the Rules only if the Market Participant has provided ASIC with:

- (a) the details of the appointment of the alternate director; and
- (b) a statement that the Market Participant's constitution permits the appointment of the alternate director.

Part 9.5 Scope of audits

Rule 9.5.1 Market Participant to assist auditor

Rule 9.5.1 provides that a Market Participant must give its auditor access to its premises and Employees and all records, documents, explanations and other information required by the auditor in respect of any audit conducted under Part 9.2 of the Rules. A Market Participant must:

- (a) not impose any limitation on the extent of any audit required under Part 9.2; 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.

The records of each of the Market Participant's nominee companies must be included in the audit.

Schedule 1A: Capital Liquidity Requirements

Part S1A.1 Definitions and Interpretation

Rule S1A.1.1 Definitions and Interpretation

Rule S1A.1.1 provides definitions of terms used in Schedule 1A and in Chapter 9. Rule S1A.1.1 includes definitions for:

- "Approved Deposit Taking Institution";
- "Approved Institution";
- "Approved Subordinated Debt";
- "Approved Subordinated Loan Deed";
- "ASX Clear";
- "ASX Clear Operating Rules";
- "ASX Operating Rules"
- "ASX Settlement";
- "ASX Settlement Operating Rules";
- "Bankruptcy";
- "CFD";
- "Chi-X Australia Operating Rules"
- "Classical ETF";
- "Client Balance";
- "Core Capital";
- "Counterparty";
- "Counterparty Risk Requirement";
- "Debt Derivative";
- "Debt Equivalent";
- "Debt Instrument";
- "Debt Net Position"
- "Derivative";
- "Equity";
- "Equity Derivative";
- "Equity Equivalent"
- "Equity Net Position"
- "Excluded Asset";
- "Excluded Liability";
- "Family Trust";
- "Financial Asset Revaluation Reserves";
- "Financial Instrument";
- "Foreign Exchange Derivative";
- "Foreign Exchange Equivalent";
- "Forward Rate Agreement";

- “Free Delivery”;
- “Fund Manager”;
- “Future”;
- “Government Debt Instrument”;
- “Group of Connected Persons”;
- “Hybrid ETF”;
- “Immediate Family”;
- “In the Money”;
- “Large Exposure Risk Requirement”;
- “Liquid”;
- “Liquid Capital”;
- “Liquid Margin”;
- “Market Spot Exchange Rate”;
- “Non-Standard Risk Requirement”;
- “OECD”;
- “Operational Risk Requirement”;
- “Option”;
- “OTC Derivative”;
- “Other Managed Fund”;
- “Position Risk Factors”;
- “Position Risk Requirement”;
- “Positive Credit Exposure”;
- “Preference Share”;
- “Primary Margin Requirement”;
- “Qualifying Debt Instruments”;
- “Recognised Market Index”;
- “Related/Associated Person”;
- “Related/Associated Person Balance”;
- “Securities Lending and Borrowing”;
- “Substantial holder”;
- “Swap”;
- “Total Risk Requirement”;
- “Trading Day”;
- “Underwriting”; and
- “Underwriting Risk Requirement”.

Rule S1A.1.2 Interpretation

Rule S1A.1.2 sets out interpretation provisions for the purposes of Schedule 1A.

Part S1A.2 Obligations of Market Participants

Rule S1A.2.1 Core Capital, Liquid Capital and Total Risk Requirement

Rule S1A.2.1 provides that a Market Participant must ensure that its:

- (a) Liquid Capital is at all times greater than its Total Risk Requirement; and
- (b) Core Capital is at all times not less than \$100,000.

A Market Participant may satisfy the minimum Core Capital requirement in paragraph S1A.2.1(b) in accordance with, and subject to, subrule S1A.2.4(8), which provides for a Market Participant to

include certain amounts owing under an approved subordination arrangement in its Core Capital with ASIC's approval.

Rule S1A.2.3 Risk Requirements and Risk Amounts

Obligation to calculate an Operational Risk Requirement and operational risk amount

Subrule S1A.2.3(1) provides that a Market Participant must calculate:

- (a) its Operational Risk Requirement; and
- (b) an operational risk amount, as the sum of:
 - (i) the amount of \$100,000; and
 - (ii) 8% of the sum of the Market Participant's Counterparty Risk Requirement, Position Risk Requirement and Underwriting Risk Requirement.

Obligation to calculate a Counterparty Risk Requirement and counterparty risk amount

Subrule S1A.2.3(2) provides that a Market Participant must calculate in accordance with Annexure 1:

- (a) its Counterparty Risk Requirement; and
- (b) a counterparty risk amount for each of its Positive Credit Exposures to a Counterparty for transactions in Financial Instruments referred in Annexure 1, except those transactions which relate to Excluded Assets.

Obligation to calculate a Large Exposure Risk Requirement and a large exposure risk amount

Subrule S1A.2.3(3) provides that a Market Participant must calculate in accordance with Annexure 2:

- (a) its Large Exposure Risk Requirement; and
- (b) its large exposure risk amount for each:
 - (i) Counterparty; and
 - (ii) Equity Net Position and Debt Net Position relative to Liquid Capital and relative to an issue or issuer.

Obligation to calculate Position Risk Requirement and position risk amounts

Subrule S1A.2.3(4) provides that a Market Participant must calculate in accordance with Annexure 3:

- (a) its Position Risk Requirement;
- (b) a position risk amount for all positions in Financial Instruments, except those positions which are Excluded Assets; and
- (c) a position risk amount for other assets and liabilities which are denominated in a currency other than Australian dollars except for those assets which are Excluded Assets.

Obligation to calculate Underwriting Risk Requirement and underwriting risk amounts

Subrule S1A.2.3(5) provides that a Market Participant must calculate in accordance with Annexure 4:

- (a) its Underwriting Risk Requirement; and
- (b) an underwriting risk amount for each Underwriting.

Obligation to calculate Non-Standard Risk Requirement

Subrule S1A.2.3(6) provides that a Market Participant must calculate a Non-Standard Risk Requirement in accordance with Rule S1A.2.9.

Rule S1A.2.3A Authorisation

Rule S1A.2.3A provides for authorisation by ASIC of a Market Participant for each of the risk calculation methods it uses for the purposes of Rule S1A.2.3. A Market Participant will only be authorised to use a risk calculation method after having satisfactorily demonstrated its ability to calculate risk amounts under that method.

Rule S1A.2.4 Approved Subordinated Debt

Inclusion of amounts owing under a subordination arrangement in Liquid Capital

Subrule S1A.2.4(1) provides that a Market Participant entering into a subordination arrangement may only include an amount owing under such an arrangement in its Liquid Capital if:

- (a) the subordination arrangement has the prior approval of ASIC under subrules S1A.2.4(2) and (3); and
- (b) the amount is notified to and approved by ASIC prior to being drawn down under the subordination arrangement and complies with subrule S1A.2.4(4) where relevant.

Approval of subordination arrangements by ASIC

Subrule S1A.2.4(2) provides that ASIC will not approve a subordination arrangement unless in the opinion of ASIC:

- (a) subject to subrule S1A.2.4(6), the amount owing to the lender under the subordination arrangement will not be repaid until all other debts which the Market Participant owes to any other persons are repaid in full; and
- (b) the obligation to pay any amount owing under the subordination arrangement is suspended if S1A.2.1 (minimum Core Capital and Liquid Capital) is no longer complied with.

Subrule S1A.2.4(3) provides that ASIC will not approve a subordination arrangement unless the Market Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement. The minimum terms of the Approved Subordinated Loan Deed are set out in Rule S1A.1.1.

Approved subordination arrangement where change in composition of partnership

Subrule S1A.2.4(4) provides that if a Market Participant is a partnership has entered into an approved subordination arrangement under subrules S1A.2.4(2) and (3) and there is a change in the composition of the Market Participant, then an amount owing under the previously approved subordination arrangement must not be included in its Liquid Capital unless ASIC is of the opinion that this arrangement has been renewed or amended so as to ensure that all partners after the change in composition are bound by it.

Market Participant must comply with terms of Approved Subordinated Loan Deed

Subrule S1A.2.4(5) provides that a Market Participant must comply with the terms of the Approved Subordinated Loan Deed and any associated agreement to which it, ASIC, and the lender are parties and must ensure the lender's compliance with these documents.

ASIC approval required for repayment of amount owing under an approved subordination arrangement

Subrule S1A.2.4(6) provides that prior to its Bankruptcy, a Market Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASIC. Subrule S1A.2.4(7) provides that ASIC will not withhold its approval under subrule S1A.2.4(6) if in the opinion of ASIC:

- (a) the Market Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on repayment; and
- (b) the Market Participant's Core Capital is capable of continuing to be equal to or greater than the amount required under Rule S1A.2.1 when Approved Subordinated Debt is included under subrule S1A.2.4(8).

Subrule S1A.2.4(9) provides for matters that ASIC may consider in forming an opinion as to whether a Market Participant is capable of continuing to meet the requirements in paragraphs S1A.2.4(7)(a) and (b).

Market Participant may not include Approved Subordinated Debt in its Core Capital

Subrule S1A.2.4(8) provides that, if a Market Participant does not hold sufficient Core Capital under paragraph S1A.2.1(b), then it may with the prior approval of ASIC include amounts owing under an approved subordination arrangement in calculating Core Capital for a 6 month period commencing on the date that the Market Participant first does not hold sufficient Core Capital.

Rule S1A.2.4A Excluded Assets

Netting of offsetting asset and liability

S1A.2.4A(1) provides for the netting of an asset due from one entity with an offsetting liability payable to another entity, so that only the net amount (if the net amount is positive) is reported as an Excluded Asset.

Subrule S1A.2.4A(2) provides that the Market Participant may only net an asset with a liability and report the net amount as an Excluded Asset under subrule S1A.2.4A(1) if the Market Participant:

- (a) has obtained written authorisation from ASIC for the purposes of the Rule;
- (b) has a documented, legally binding contract or agreement with the Counterparty to the liability that specifies that the liability cannot be enforced unless the asset is realised;
- (c) reports the asset, liability and net amount in its "Monthly" return in accordance with the requirements of the Rule.

Excluded Assets

Subrule S1A.2.4A(3) provides that a Market Participant must treat Underwriting fees, fees due for managing a client portfolio, corporate advisory fees and other sundry debtors as Excluded Assets if they remain outstanding for greater than 30 calendar days.

Rule S1A.2.5 Redeemable Preference Shares

Rule S1A.2.5 provides that a Market Participant must not redeem any redeemable Preference Shares issued by it in whole or in part without the prior written approval of ASIC. ASIC will not withhold its approval if in the opinion of ASIC the Market Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on redemption. ASIC may take certain matters into consideration in forming an opinion as to whether a Market Participant is capable of continuing to meet the requirement.

Rule S1A.2.6 Guarantees and Indemnities

Market Participant may only give guarantee or indemnity in certain circumstances

Subrule S1A.2.6(1) provides that a Market Participant may only give a guarantee or indemnity:

- (a) for the purposes of these Rules, the ASX Market Integrity Rules, the Market Operating Rules, the Chi-X Australia Operating Rules, the ASX Operating Rules, the ASX Clear Operating Rules or the ASX Settlement Operating Rules;
- (b) in the ordinary course of the conduct of its securities or derivatives business;
- (c) outside the ordinary course of its securities or derivatives business if a maximum liability is specified in the guarantee or indemnity at the time it is entered into; or
- (d) to settle legal proceedings that have been threatened or issued against it,

and must not give a cross-guarantee.

Subrule S1A.2.6(2) provides for the meaning of the expression “ordinary course of the conduct of its securities or derivatives business” for the purposes of subrule S1A.2.6(1).

Market Participant that is a member of a consolidated tax group

Subrule S1A.2.6(3) provides that a Market Participant that is a member of a consolidated group within the meaning of section 703-5 of the *Income Tax Assessment Act 1997* must, when it first becomes a member of that group, report certain information in its next “Monthly” return and any changes to these details must be reported in subsequent “Monthly” returns.

Rule S1A.2.7 Records and Accounts

Requirement to maintain records and working papers

Subrule S1A.2.7(1) provides that a Market Participant must maintain records and working papers in sufficient detail to show continuous compliance with Rule S1A.2.1 for seven years. Subrule S1A.2.7(2) provides that these records and working papers must, at a minimum:

- (a) show the nature of the outstanding transactions and commitments for which the Market Participant was liable;
- (b) disclose the financial position of the Market Participant at any point in time;
- (c) detail and support the calculations required to quantify the Total Risk Requirement and demonstrate that the Market Participant was complying with the Risk Based Capital Requirements;
- (d) permit the Market Participant to prepare a return required by these Rules using those records if so requested; and
- (e) permit the Market Participant to reproduce a calculation of its Liquid Capital or Total Risk Requirement at the close of business on each day in the seven year period.

Accounts

Subrule S1A.2.7(3) provides that a Market Participant must prepare its accounts and returns in accordance with accounting standards which are generally accepted in Australia unless ASIC approves otherwise.

Subrule S1A.2.7(4) provides that a Market Participant must take any amounts arising from the marking-to-market of principal positions in Financial Instruments to the Market Participant’s profit and loss account immediately and include those amounts in the Market Participant’s overall accounting for taxation.

Subrule S1A.2.7(5) provides that a Market Participant must record a transaction in its accounts on the date on which it enters into an irrevocable commitment to carry out the transaction. Generally, this would mean transaction/execution date and not settlement date.

Rule S1A.2.8 Valuations and Foreign Currencies

Valuation

Paragraph S1A.2.8(1)(a) provides that a Market Participant must mark to market each of its principal positions in Financial Instruments unless Schedule 1A provides otherwise, at least once every Business Day.

Paragraph S1A.2.8(1)(b) provides for the manner in which the Market Participant must mark to market each of its principal positions in Financial Instruments. Under subparagraph S1A.2.8(1)(b)(i), a position must be valued at its closing market price (for a long position, the current bid price and for a short position, the current offer price) or at the last price, closing price or mid price. Paragraphs S1A.2.8(1)(b)(ii) to (iv) provide for alternative approaches to valuing Options or rights positions and Swaps or Forward Rate Agreements. Subrule S1A.2.8(2) provides for the calculation of the “In the Money” amount for the purposes of the alternative approach set out in sub-subparagraph S1A.2.8(1)(b)(iv)(B).

Foreign currencies

Subrule S1A.2.8(3) provides that if a Market Participant holds a Financial Instrument denominated in a foreign currency then it:

- (a) must calculate a risk amount for each risk type in that foreign currency; and
- (b) convert the risk amount in paragraph (a) to Australian dollars at the Market Spot Exchange Rate, in all cases other than where the Market Participant is calculating risk amounts for the purposes of Parts A3.18 to A3.22 of Annexure 3 or where Schedule 1A expressly provides otherwise.

Rule S1A.2.9 Unusual or Non-Standard Exposures

Rule S1A.2.9 provides that, if a Market Participant has an exposure arising from a transaction which is not specifically described in Schedule 1A or is not in a form which readily fits within Schedule 1A, the risk requirement of a Market Participant in relation to that exposure is the full market value of the transaction unless ASIC approves otherwise.

Rule S1A.2.9A Margin lending facilities

Rule S1A.2.9A provides that where a Market Participant offers margin lending facilities to clients:

- (a) the risk requirement for the exposure with respect to margin calls is:
 - (i) equal to 100% of the margin call that the Market Participant makes on a client, where that margin call has either not been paid by the client, or sufficient of the underlying securities have not been sold by the Market Participant to cover the margin call; and
 - (ii) applies from the time the margin payment was due; and
- (b) where the client’s actual gearing level exceeds the maximum permitted gearing level by more than 5%, the full amount needed to bring the loan balance back to the maximum permitted gearing level must be taken as the risk requirement for the exposure immediately, regardless of whether the Market Participant has made a margin call on the client.

Rule S1A.2.9B Hybrid ETFs

Rule S1A.2.9B provides that where a Market Participant holds a principal position in a Hybrid ETF that contains a material percentage of assets other than physical Equity securities, physical Debt Instruments or property, the Market Participant must treat the position as a non-standard exposure and the risk requirement must be the full market value of the Hybrid ETF unless ASIC approves otherwise.

Rule S1A.2.9C Other Managed Funds

Rule S1A.2.9C provides that where a Market Participant has a principal position in an Other Managed Fund that contains a material percentage of assets other than physical Equity securities, physical Debt Instruments or property, the Market Participant must treat the principal position as a non-standard exposure and the risk requirement must be the full market value of the Other Managed Fund unless ASIC approves otherwise.

Rule S1A.2.10 Underwriting Registers

Rule S1A.2.10 provides that a Market Participant must maintain a register of its Underwritings which records:

- (a) the date of commencement, crystallisation and termination of each Underwriting and the parties to each Underwriting;
- (b) the identity, number and price of the Equities or Debt Instruments the subject of each Underwriting;
- (c) the amount underwritten by the Market Participant under each Underwriting; and
- (d) any reduction in the amount underwritten under each Underwriting due to an amount being:
 - (i) sub-underwritten; or
 - (ii) received under a client placement,

and the date that this reduction occurs.

Schedule 1B

There is no Schedule 1B. (Note: Schedule 1B in the ASX Market Integrity Rules relates to futures transactions.)

Annexure 1 to Schedule 1A: Counterparty Risk Requirement

Part A1.1. Counterparty risk requirement

The principle of the counterparty risk requirement is that where a client or Counterparty owes the Market Participant money, the Market Participant must hold capital against the financial loss that the Market Participant would incur in the event that the client or Counterparty were to default on their obligations. This principle applies to all markets the Market Participant transacts business in.

Rule A1.1.1 Nature of counterparty risk amount

Subrule A1.1.1(1) provides that, for each type of counterparty risk that gives rise to a Positive Credit Exposure, a counterparty risk amount:

- (a) must be calculated in accordance with the methods set out in Annexure 1; and
- (b) may be reduced by a counterparty risk weighting in accordance with Part A1.8 of Annexure 1.

Subrule A1.1.1(2) provides that, for the purposes of the Non-margined Financial Instruments method, a Positive Credit Exposure exists on a Client Balance regardless of whether the Client Balance is

positive (i.e. the client or Counterparty has net purchased securities) or negative (i.e. the client or Counterparty has net sold securities). In the case of net sold securities, a Positive Credit Exposure arises from the obligation of a client or Counterparty to deliver securities that have been sold.

Rule A1.1.1A Treatment: Classical ETFs

Primary Market Subscription for/Redemption of Units

Subrule A1.1.1A(1) provides that, subject to subrule A1.1.1A(2), a Market Participant is not required to calculate a counterparty risk amount under Annexure 1 in relation to a subscription for or redemption of a unit in a Classical ETF.

Subrule A1.1.1A(2) provides that, in the event of default in the settlement of a primary market transaction in Classical ETFs:

- (a) in the case of a subscription for Classical ETF units, where the Market Participant transfers underlying securities and does not receive the corresponding Classical ETF units or some other cash consideration; or
- (b) in the case of a redemption, where the Market Participant transfers Classical ETF units and does not receive the corresponding underlying securities, or some other cash consideration,

a counterparty risk amount must be calculated under the Free Delivery method from the time those assets or cash were due to be settled.

Secondary market

Subrule A1.1.1A(3) provides that a Market Participant is required to calculate a counterparty risk amount under Annexure 1 for all secondary market transactions in Classical ETF units.

Rule A1.1.1B Treatment: Hybrid ETFs

Primary Market Subscription for/Redemption of Units

Subrule A1.1.1B(1) provides that, subject to subrule A1.1.1B(2), a Market Participant is not required to calculate a counterparty risk amount under Annexure 1 in relation to a subscription for or redemption of a unit in a Hybrid ETF.

Subrule A1.1.1B(2) provides that, in the event of a default in the settlement of a primary market transaction in Hybrid ETFs:

- (a) in the case of a subscription for Hybrid ETF units, where the Market Participant transfers cash and does not receive the corresponding Hybrid ETF units; or
- (b) in the case of a redemption, where the Market Participant transfers Hybrid ETF units and does not receive the corresponding cash,

a counterparty risk amount must be calculated under the Free Delivery Method from the time those assets or cash were due to be settled.

Secondary Market

Subrule A1.1.1B(3) provides that a Market Participant is required to calculate a counterparty risk amount under Annexure 1 for all secondary market transactions in Hybrid ETF units.

Rule A1.1.1C Treatment: Other Managed Funds

Rule A1.1.1C provides that a Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in an Other Managed Fund.

Part A1.2 Methods

Rule A1.2.1 Overview and Table A1.1 Method for measuring counterparty risk: Transaction type

Rule A1.2.1 provides that there are separate methods for measuring counterparty risk amounts for each of the transaction types set out in Table A1.1 (Non-Margined Financial Instruments, Free Delivery, Securities Lending and Borrowing, Margined Financial Instrument, OTC Derivative or Warrant held as principal and Sub-Underwritten Position).

Rule A1.2.2 Non-margined Financial Instruments method

The principle of the Non-margined Financial Instruments method is that the Market Participant must calculate a counterparty risk amount for those non-margined securities transactions in which a Market Participant acts as agent for a client or, in certain circumstances, as principal for itself and where a Client Balance arises.

Trades remaining unsettled for $\leq$ 10 Business Days

Counterparty risk amount

Subrule A1.2.2(1) provides that, for unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in Annexure 1, the counterparty risk amount is 3% of the Client Balance, where this balance does not include trades which remain unsettled with the Counterparty for greater than 10 Business Days following the transaction date and regardless of whether the Counterparty is issuer or participant sponsored.

Market Participant may reduce Client Balance

Subrule A1.2.2(2) provides that a Market Participant may reduce the Client Balance by the amount of Financial Instruments held by the Market Participant on behalf of the Counterparty if they specifically relate to the sale trades pending settlement with the market, or by the amount of collateral held by the Market Participant on behalf of the specific Counterparty. The collateral must be Liquid, unrelated to a particular or specific transaction (i.e. not the securities underlying the Counterparty's purchase), under the control of the market participant and valued at the mark to market value. The collateral arrangement must be evidenced in writing by a legally binding agreement and the Market Participant may only apply the collateral in accordance with the collateral agreement.

Subrule A1.2.2(5) provides, for the purposes of subrule A1.2.2(2), for specific circumstances in which the Market Participant may reduce the Client Balance with respect to money held in a cash management or trust account, or scrip held in a participant sponsored account.

Trades remaining unsettled for $>$ 10 Business Days

Counterparty risk amount

Subrule A1.2.2(3) provides that, for unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in Annexure 1, the counterparty risk amount for trades remaining unsettled for greater than 10 Business Days following the transaction date is at the choice of the Market Participant:

- (a) either:
 - (i) 3% of the contract value; or
 - (ii) the excess of:
 - (A) the contract value over the market value of each Financial Instrument in the case of a client purchase; and
 - (B) the market value of each Financial Instrument over the contract value in the case of a client sale,
 whichever is the greater; or
- (b) 100% of the contract value for a client purchase or 100% of the market value for a client sale.

Market Participant may reduce the contract values and excesses

Subrule A1.2.2(4) provides that a Market Participant may reduce the contract values and the excesses by the amount of collateral held by the Market Participant on behalf of the Counterparty. The collateral must be Liquid, unrelated to a particular or specific transaction (i.e. not the securities underlying the Counterparty's purchase), under the control of the Market Participant and valued at the mark to market value. The collateral arrangement must be evidenced in writing by a legally binding agreement and the Market Participant may only apply such collateral in accordance with the collateral agreement.

Securities subject to trading halt

Subrule A1.2.2(6) provides that, for the purposes of subrule A1.2.2(3), where the security underlying a trade that remains unsettled for greater than 10 Business Days becomes subject to a trading halt, the last market value is acceptable in calculating the counterparty risk amount. Where the security becomes subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

Amounts held in Market Participant's trust and/or segregated account

Subrule A1.2.2(7) provides that a Market Participant need not include credit amounts included in a Client Balance where such amounts represent an amount of cash held in the Market Participant's trust and/or segregated account.

Counterparty risk amounts not required to be treated or disclosed as Excluded Assets

Subrule A1.2.2(8) provides that, without limitation, a Market Participant that has calculated a counterparty risk amount for an unsettled trade under the Non-Margined Financial Instruments method is not required to treat or disclose any amounts calculated as Excluded Assets.

Method does not apply to OTC Derivatives but does apply to warrants

Subrule A1.2.2(9) provides that the non-margined financial instruments method does not apply to OTC Derivatives but does apply to warrants which also may be covered by the method in Rule A1.2.6.

Circumstances in which Market Participant must calculate a counterparty risk amount under this method

Subrule A1.2.2(10) provides for circumstances in which a Market Participant must calculate a counterparty risk amount under the Non-Margined Financial Instruments method. The transactions set out in subrule A1.2.2(10) are transactions that are normally associated with client business.

Determining the Market Participant's Counterparty when dealing with a Fund Manager

Subrule A1.2.2(11) provides that for the purposes of determining a Client Balance when dealing with a Fund Manager, the Market Participant's Counterparty is determined as follows:

- (a) if the Market Participant is immediately provided with the underlying client details by the Fund Manager, or if the Market Participant has a standing instruction for the underlying client details to be provided, the Market Participant must treat the underlying client as the Counterparty;
- (b) if the Market Participant books trades directly to the Fund Manager or its nominee company and the Fund /manager does not provide details of the underlying client, the Market Participant is entitled to treat the Fund Manager as the Counterparty.

Rule A1.2.3 Free Delivery method

The principle of the Free Delivery method is that where a Market Participant has made a Free Delivery the Market Participant is required to hold a greater amount of capital than is required under the Non-Margined Financial Instruments method.

A Free Delivery occurs where:

- (a) in the case of a client purchase, the Market Participant has delivered the stock to the client or Counterparty but the client or Counterparty has not yet paid the Market Participant (or has only partially paid the Market Participant) or;
- (b) in the case of a client sale, the Market Participant has paid the client or Counterparty (in whole or in part) but the client or Counterparty has not yet provided any of the stock (or has only provided some of the stock).

Counterparty risk amount

Subrule A1.2.3(1) provides that, for a Free Delivery in a Financial Instrument, the counterparty risk amount for the Counterparty is:

- (a) 8% of that part of the contract value subject to a Free Delivery, where payment or delivery of the Financial Instrument which is the subject of a Free Delivery remains outstanding for less than 2 Business Days following the settlement date; and
- (b) 100% of that part of the contract value subject to a Free Delivery, where payment or delivery of the Financial Instrument remains outstanding for greater than 2 Business Days following the settlement date,

where "settlement date" means the date that the Market Participant makes the Free Delivery (that is, the day that the Market Participant settles with the client or Counterparty) and not the market settlement date.

Market participant may reduce the contract value

Subrule A1.2.3(2) provides that a Market Participant may reduce the contract value by the amount of collateral held by the Market Participant on behalf of the Counterparty. The collateral must be Liquid, unrelated to a particular or specific transaction (i.e. not the securities underlying the Counterparty's purchase), under the control of the Market Participant and valued at the mark to market value. The collateral arrangement must be evidenced in writing by a legally binding agreement and the Market Participant may only apply such collateral in accordance with the collateral agreement.

Subrule A1.2.3(3) provides that, for the purposes of valuing the collateral, if the security lodged as collateral is subject to a trading halt, the last market value may be used. If the security lodged as collateral is subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

Circumstances in which Market Participant must calculate a counterparty risk amount under this method

Subrule A1.2.3(4) provides that the Market Participant must calculate a counterparty risk amount under the Free Delivery method where the Market Participant has applied for stock, allocation interest units or instalment receipts on behalf of clients and the stock, allocation interest units or instalment receipts are registered into the client's issuer or participant sponsored account prior to the client paying, from the time the Market Participant pays the issuer or issuer's agent until the time the client pays the Market Participant.

Partial Free Delivery

Subrule A1.2.3(5) provides that where a Market Participant makes a partial Free Delivery as set out in the Rule, only the part of the contract value that the Market Participant has settled with the client or Counterparty but which the client or Counterparty has not yet settled with the Participant is included in the calculation under the Free Delivery method while the part of the contract value that the Market Participant has not yet settled with the client or Counterparty continues to form part of the Client Balance and continues to be subject to a counterparty risk amount under the Non-Margined Financial Instruments method.

Rule A1.2.4 Securities Lending and Borrowing method

The principle of this method is that where Securities Lending and Borrowing arrangements require the Market Participant to give the Counterparty securities with a market value, or cash, in excess of the market value of securities, or cash, received by the Market Participant from the Counterparty, this method requires the Market Participant to hold capital against that excess.

Meaning of counterparty exposure

Subrule A1.2.4(1) provides that, for the purposes of this Rule, counterparty exposure means the amount by which the market value of Equity or Debt Instruments or cash given by the Market Participant to the Counterparty exceeds the market value of Equity or Debt Instruments or cash received by the Market Participant from the Counterparty.

Netting of Counterparty exposures

Subrule A1.2.4(2) provides that the Counterparty exposure may be calculated on a net basis where the relevant transactions are subject to a written agreement that supports netting across different transactions.

Counterparty risk amount

Paragraph A1.2.4(3)(a) provides that, for a Securities Lending and Borrowing transaction, the counterparty risk amount for a Counterparty from the transaction date is zero, if across all Counterparties to Securities Lending and Borrowing transactions, the sum of each positive counterparty exposure is less than or equal to \$10,000.

Paragraph A1.2.4(3)(b) provides for two different calculations of the counterparty risk amount where the Securities Lending and Borrowing is subject to a written agreement that supports netting across different transactions, depending on whether the value of the counterparty exposure is less than or equal to, or greater than, 15% of the market value of the Equity or Debt Instruments or cash received by the Market Participant from the Counterparty.

Paragraph A1.2.4(3)(c) provides that, for a Securities Lending and Borrowing transaction, the counterparty risk amount for a Counterparty from the transaction date is 100% of the counterparty exposure, if paragraphs A1.2.4(3)(a) and (b) do not apply, or if paragraph A1.2.4(3)(b) does apply but the Market Participant elects to calculate the amount under paragraph A1.2.4(3)(c).

Securities subject to a trading halt or suspension

Subrule A1.2.4(4) provides that, for the purposes of the Securities Lending and Borrowing method, in determining the market value of securities given or received by the Market Participant, if the securities are subject to a trading halt, the last market value may be used. If the securities are subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

Rule A1.2.5 Margined Financial Instruments method

The principle of the Margined Financial Instruments method is that where amounts are owed to the Market Participant by clients in respect of transactions in margined instruments for both end of day and intra-day margin calls, the Market Participant is required to hold capital equal to those amounts.

Counterparty risk amount

Subrule A1.2.5(1) provides that, for trades in Financial Instruments which are margined, the counterparty risk amount for a Counterparty:

- (a) is the full value of the outstanding settlement amount, premium, deposit or margin call that the Counterparty is required to pay to the Market Participant, regardless of whether or not the Market Participant is required to pay that amount to an exchange, clearing house or other entity;
- (b) is the full value of the outstanding settlement amount, premium, deposit or margin call that is due from an entity with respect to client or house trades cleared by that entity;
- (c) commences at the time that amounts are normally scheduled for payment to the relevant exchange or clearing house.

Market Participant may reduce the unpaid settlement amount, premium, deposit or margin call

Subrule A1.2.5(2) provides that a Market Participant may reduce the unpaid settlement amount, premium, deposit or margin call by the amount of cash paid by the Counterparty or collateral held by the Market Participant on behalf of the Counterparty. The collateral must be Liquid, unrelated to a particular or specific transaction (and different to any cash or collateral paid to the relevant exchange or clearing house in respect to specific transactions), under the control of the Market Participant and valued at the mark to market value. The collateral arrangement must be evidenced in writing by a legally binding agreement and the Market Participant may only apply such collateral in accordance with the collateral agreement.

Timing of calculation of risk amount

Subrule A1.2.5(3) provides that for the purposes of paragraph A1.2.5(1)(a):

- (a) the obligation to calculate a risk amount for amounts owing from “normal agency clients” excluding other participants in the relevant market will be deemed to be from the time that amounts are normally scheduled for payment to the relevant exchange or clearing house, regardless of whether the Market Participant actually has to make a payment to the exchange or clearing house; and
- (b) the obligation to calculate a risk amount for amounts owing from other participants in the relevant market will be deemed to be from the close of business on the day the payment is due to be received.

Market Participant trading as principal

Subrule A1.2.5(4) provides that for the purposes of paragraph A1.2.5(1)(b), where a Market Participant undertakes a trade as principal in an exchange traded Derivatives and does not clear its own trades, the Market Participant must calculate a counterparty risk amount on its clearer under this method that will equal the amount owed to the Market Participant by the clearer and will apply from close of business on the day the payment is due until the clearer has paid.

Securities subject to a trading halt or suspension

Subrule A1.2.5(5) provides that for the purposes of reducing the unpaid settlement amount, premium, deposit or margin call, if the security lodged as collateral is subject to a trading halt, the last market value may be used. If the security is subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

Rule A1.2.6 OTC Derivatives and Warrants executed as principal method

The principle of the OTC Derivatives and warrants method is that a capital charge applies from the transaction date on all OTC Derivative transactions and all purchased warrant transactions which are executed by the Market Participant as principal.

Counterparty risk amount

Subrule A1.2.6(1) provides that for an OTC Derivative or warrant held as principal, the counterparty risk amount for a Counterparty is:

- (a) zero, for a written Option position where the premium due has been received in full;
- (b) 100% of the premium for a written Option position where the premium due has not been received, from the time the Option is dealt until the premium is paid; and
- (c) otherwise, 8% of the aggregate of the credit equivalent amount which is calculated as the sum of:
 - (i) a current credit exposure being the mark to market valuation of all contracts with a Positive Credit Exposure; and
 - (ii) a potential credit exposure being the product of the absolute value of a contract's nominal, notional or actual principal amount and the applicable potential credit exposure factor specified in Table A5.2.2 in Annexure 5.

Subrule A1.2.6(6) provides that for the purposes of subrule A1.2.6(1), "as principal" includes where the Market Participant enters into an off market facilitation role whereby the Market Participant "purchases" the Derivatives contract from client A and "sells" it to client B and neither client A nor B are aware of the identity of the other.

Collateral arrangements

Subrule A1.2.6(2) provides that a Market Participant may reduce the premium or credit equivalent amount by the amount of collateral held by the Market Participant on behalf of the Counterparty. The collateral must be Liquid, unrelated to a particular or specific transaction, under the control of the Market Participant and valued at the mark to market value. The collateral arrangement must be evidenced in writing by a legally binding agreement and the Market Participant may only apply such collateral in accordance with the collateral agreement.

Subrule A1.2.6(3) provides that, in determining the market value of securities lodged as collateral by the Market Participant, if the securities are subject to a trading halt, the last market value may be used.

If the securities are subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

Calculation of current credit exposure – netting and mark to market valuation

Subrule A1.2.6(4) makes provision, for the purposes of calculating a current credit exposure under subparagraph A1.2.6(1)(c)(i), for netting of positive and negative current credit exposures on transactions of the same type with the same Counterparty. Subrule A1.2.6(4) also provides for the meaning of “mark to market valuation” of an OTC Derivative or warrant, including where a warrant is subject to a trading halt, for the purposes of calculating a current credit exposure under subparagraph A1.2.6(1)(c)(i).

Calculation of potential credit exposure – netting and mark to notional face value

Subrule A1.2.6(5) provides that for the purposes of calculating a potential credit exposure under subparagraph A1.2.6(1)(c)(ii):

- (a) a potential credit exposure must be calculated on every transaction, including those transactions with a negative or zero current credit exposure;
- (b) the potential credit exposures must not be netted; and
- (c) in the case of an equity Option or warrant, the notional face value is the underlying number of shares multiplied by the strike price.

Transactions to which this method applies

Subrule A1.2.6(7) provides for specific OTC Derivatives and warrants transactions for which a Market Participant must calculate a counterparty risk amount under the OTC Derivatives and warrants executed as principal method, and also provides that a Market Participant is not required to calculate a counterparty risk amount under this method for transactions in foreign exchange contracts with an original maturity of 14 calendar days or less.

Rule A1.2.7 Sub Underwritten Positions method

There is no Sub Underwritten Positions method at this time. Refer to Annexure 4 for further details.

Rule A1.2.8 Counterparty risk weighting

Market Participant may choose to apply counterparty risk weighting

Subrule A1.2.8(1) provides that a Market Participant may choose to calculate its counterparty risk amount in relation to a Counterparty as the counterparty risk amount calculated in accordance with Parts A1.2 to A1.7 multiplied by the counterparty risk weighting applicable for that Counterparty specified in Table A5.2.1 in Annexure 5.

Market Participant must apply counterparty risk weighting consistently

Subrule A1.2.8(2) provides that a Market Participant can only calculate its counterparty risk amount for a Counterparty in accordance with subrule A1.2.8(1) if it calculates the counterparty risk amount in this manner for that Counterparty consistently across all methods within Annexure 1.

Counterparty risk amount for Approved Institutions

Subrule A1.2.8(3) provides that, for the purposes of calculating the counterparty risk amount in relation to a Counterparty that the Market Participant has classified as an Approved Institution under paragraph (a) of the definition of Approved Institution and that is a subsidiary or member of a group

of companies or funds, the Market Participant may only apply the counterparty risk weighting for Approved Institutions specified in Table A5.2.1 in Annexure 5 to that counterparty risk amount where the requirements of paragraph (a) of the definition are met in relation to the individual subsidiary or member of the group (that is, the individual subsidiary or member must have net assets greater than \$30 million) and the Market Participant has a copy of the individual subsidiary or members' balance sheet that demonstrates that the individual subsidiary or member meets the requirements of paragraph (a). The Market Participant must reconfirm the classification of the Counterparty as an Approved Institution on an annual basis.

Subrule A1.2.8(4) provides that, for the purposes of calculating the counterparty risk amount in relation to a Counterparty that the Market Participant has classified as an Approved Institution under paragraph (b) of the definition of Approved Institution, the Market Participant may only apply the counterparty risk weighting for Approved Institutions specified in Table A5.2.1 in Annexure 5 to that counterparty risk amount where the Market Participant has records demonstrating that the Counterparty is in fact regulated by a Recognised non-European Union Regulator or a Recognised European Union Regulator as specified in Tables A5.3.1 and A5.3.2 in Annexure 5 and that the Counterparty's ordinary business is the purchase and sale of Financial Instruments. The Market Participant must reconfirm the classification of the Counterparty as an Approved Institution on an annual basis.

Subrule A1.2.8(5) provides that, were:

- (a) an exposure to a Counterparty has been guaranteed by an Approved Deposit Taking Institution; and
- (b) the guarantee referred to in paragraph (a) is provided in writing to the Market Participant performing the counterparty risk calculation and provides for direct, explicit, irrevocable and unequivocal recourse to the guarantor,

a counterparty risk weighting of 20% may be applied to the part of the exposure that is covered by the guarantee (the remainder, if any, must be weighted according to the risk weighting of the Counterparty).

Subrule A1.2.8(6) provides that subrule A1.2.8(5) does not apply to indirect guarantees (for example, a guarantee of a guarantee) and letters of comfort.

Annexure 2 to Schedule 1A: Large Exposure Risk Requirement

The principle of the Large Exposure Risk Requirement is that a Market Participant is required to hold additional capital where the Market Participant has a large counterparty exposure or a large principal position in securities issued by a single issuer relative to its Liquid Capital or relative to the total value of securities on issue.

Part A2.1 Counterparty large exposure risk requirement

The principle of the Counterparty Large Exposure Risk Requirement is that additional capital is required where a Market Participant has an exposure to a Counterparty (being the aggregate of exposures to persons forming part of a Group of Connected Persons) that is large relative to the Market Participant's capital and is with respect to an unsettled transaction that has passed its normal settlement date.

Rule A2.1.1 Nature of counterparty large exposure risk amount

Rule A2.1.1 provides that the counterparty large exposure risk amount is the absolute sum of the individual counterparty large exposure risk amounts calculated using the method of calculation set out in Annexure 2.

Rule A2.1.2 Method and Table A2.1: Aggregate exposure to Counterparty by transaction type

Counterparty large exposure risk amount

Subrule A2.1.2(1) provides that the counterparty large exposure amount is zero, if there are no exposures to a Counterparty in respect of transactions at the times specified in Table A2.1 or if the aggregate exposures to a Counterparty in respect of transactions at the times specified in Table A2.1 are less than or equal to 10% of the Market Participant's Liquid Capital.

If there are aggregate exposures to a Counterparty in respect of transactions referred to in column 1 of Table A2.1 at the times specified in column 3 of Table A2.1 and these aggregate exposures are greater than 10% of the Market Participant's Liquid Capital, the counterparty large exposure amount is 100% of the counterparty risk amount for the exposure calculated in accordance with Annexure 1.

Table A2.1 sets out the transaction types and time of exposure for the purposes of subrule A2.1.2(1).

Maximum loss

Subrule A2.1.2(2) provides that the counterparty large exposure risk amount calculated in respect of a transaction cannot exceed the maximum loss for that transaction. Subrule A2.1.2(3) sets out, for the purposes of subrule A2.1.2(2), the maximum loss for certain kinds of transactions.

Aggregate exposures

Subrule A2.1.2(4) provides that, to calculate aggregate exposures to a Counterparty, a Market Participant must:

- (a) aggregate exposures to persons forming part of a Group Of Connected Persons; and
- (b) not include exposures other than Positive Credit Exposures specified in Table A2.1.

Part A2.2 Issuer large exposure risk requirement

The principle of the issuer Large Exposure Risk Requirement is that a Market Participant is required to hold additional capital where the Market Participant has an exposure to an individual issuer that is large relative to the Participant's capital or with respect to the value of the relevant securities on issue.

Rule A2.2.1 Nature of an issuer large exposure risk amount

Rule A2.2.1 provides that the issuer large exposure risk amount is the absolute sum of the individual issuer large exposure risk amounts calculated from the transaction date using the method of calculation set out in this Annexure 2.

Rule A2.2.2 Overview

Issuer large exposure risk amount

Subrule A2.2.2(1) provides that the issuer large exposure risk amount for an issuer is subject to two tests, measuring the net position relative to Liquid Capital and relative to the issuer.

Method for calculating issuer large exposure amounts for exposures

Subrule A2.2.2(2) provides that, in calculating the issuer large exposure amounts for exposures to:

- (a) equity positions, the method set out in Rule A2.3.1 applies;
- (b) debt positions, the method set out in Rule A2.3.2 applies; and

- (c) both equity positions and debt positions where no risk amount arises under Rule A2.3.1 or Rule A2.3.2, the method set out in Rule A2.3.3 applies.

Tables summarising methods for calculating issuer large exposure amounts

Subrule A2.2.2(3) provides that the methods referred to in subrule A2.2.2(2) are summarised in Tables A2.2, A2.3 and A2.4.

Table A2.2 summarises the method in Rule A2.3.1 for calculating issuer large exposure risk amounts for exposures to equity positions. Table A2.3 summarises the method in Rule A2.3.2 for calculating issuer large exposure risk amounts for exposures to debt positions. Table A2.4 summarises the method in Rule A2.3.3 for calculating issuer large exposure risk amounts for exposures to debt and equity positions.

Rule A2.2.3 Application

Instruments in relation to which an issuer large exposure risk amount does not arise

Subrule A2.2.3(1) provides for certain instruments in relation to which an issuer large exposure risk amount does not arise.

Calculation of issuer large exposure risk amount

Subrule A2.2.3(2) provides for the treatment of certain instruments as exposures to certain issuers at a particular value, for the purposes of the issuer large exposure risk amount.

Application to positions in Hybrid ETFs or Other Managed Funds

Subrule A2.2.3(3) provides that, where a Market Participant has positions in Hybrid ETFs or Other Managed Funds, only the test against Liquid Capital (under subrule A2.3.1(2), A2.3.2(3) or A2.3.3(2)) needs to be applied to those positions. The test against Liquid Capital must be applied separately for each different Hybrid ETF or Other Managed Fund issued by the same issuer.

Application to positions in bank bills

Subrule A2.2.3(4) provides that a Market Participant may calculate its issuer large exposure risk requirement for its position in bank bills using the face value of the bills where the Market Participant holds bank bills as a passive investment (that is, is not an active trader in bank bills) and has calculated the position risk amount under the Equity position risk standard method using the face value of the bills.

Offset of delta weighted value

Subrule A2.2.3(5) provides that a delta weighted value under paragraph A2.2.3(2)(d) may be offset against the corresponding underlying instrument in calculating an Equity Net Position or Debt Net Position under Rules A2.3.1, A2.3.2 and A2.3.3.

Part A2.3 Methods

Rule A2.3.1 Equity method

The principle of the Equity method is that Market Participant is required to calculate an issuer large exposure risk amount where the Market Participant has an Equity-based principal position that is deemed to be large relative to the Participant's Liquid Capital or to the market value of the security on issue.

Equity method - Issuer large exposure risk amount

Subrule A2.3.1(1) provides that a Market Participant's issuer large exposure risk amount in relation to an issuer is the greater of the following amounts:

- (a) the risk amount calculated by comparing the Equity Net Position to Liquid Capital under subrule A2.3.1(2); and
- (b) the risk amount/s calculated by comparing the Equity Net Position to the issue/s under subrule A2.3.1(3).

Equity method – Exposure to issuer relative to Liquid Capital

Subrule A2.3.1(2) provides that if the absolute value of an Equity Net Position to an Issuer is greater than 25% of the Market Participant's Liquid Capital the risk amount is 12% for each single Equity in a Recognised Market Index and 16 % for any other single Equity, of the amount in excess of 25% of Liquid Capital.

Equity method – Exposure to an Individual Issue relative to total amount on issue

Subrule A2.3.1(3) provides that, if the absolute value of an Equity Net Position to an Individual Issue/s is greater than 5% of that issue, the risk amount/s is 12% for each single Equity in a Recognised Market Index and 16% for any other single Equity, of the amount in excess of 5% of the issue/s.

Meaning of “Issuer” and Equity Net position to a particular Issuer

Subrule A2.3.1(4) provides for the meaning of “Issuer” for the purposes of subrule A2.3.1(2). The Equity Net Position to a particular Issuer is the aggregate of all Equity Net Positions for different issues of securities issued by that Issuer where the Equity Net Positions relate to particular underlying instruments issued by a single Issuer (for example, ordinary shares, Preference Shares). Equity Net Positions for different instruments issued by a single Issuer must not be offset when calculating the total Equity Net Position to that issuer.

Meaning of “Individual Issue”

Subrule A2.3.1(5) provides that, for the purposes of subrule A2.3.1(3), the instruments in column 1 of Table A2.5 are considered to comprise the “Individual Issue” for a particular Equity product referred to in column 2 of Table A2.5.

Rule A2.3.2 Debt method

The principle of the Debt method is that the Market Participant is required to calculate an issuer large exposure risk amount where the Market Participant has a Debt-based principal position that is deemed to be large relative to the Market Participant's Liquid Capital or to the value of each individual series on issue.

Debt method – Issuer large exposure risk amount

Subrule A2.3.2(1) provides that a Market Participant's issuer large exposure risk amount in relation to an issuer is the greater of the following amounts:

- (c) the risk amount calculated by comparing the Debt Net Position to Liquid Capital under subrule A2.3.2(3); and
- (d) the risk amount/s calculated by comparing the Debt Net Position to the issue/s under subrule A2.3.2(4).

Debt method-Meaning of “individual issue”, offsetting of long and short positions, large exposure

Subrule A2.3.2(2) provides that, in calculating the issuer large exposure risk amount under the debt method:

- (a) an individual issue refers to an individual series or tranche of an individual series issued by an individual issuer;
- (b) long and short positions may be offset across series for the purposes of determining large exposure to an issuer; and
- (c) a large exposure to an individual issuer is the sum of all series issued by that issuer.

Debt method-Exposure to Issuer Relative to Liquid Capital

Subrule A2.3.2(3) provides that, if the absolute value of a Debt Net Position to an issuer is greater than 25% of the Market Participant’s Liquid Capital, the risk amount is:

- (a) the relevant standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 multiplied by the amount in excess of 25%; and
- (b) if more than one series is held, the Position Risk Factor for the longest dated instrument should be applied to the excess over 25%.

Debt method-Exposure to Series Relative to Total Amount on Issue

Subrule A2.3.2(4) provides that, if the absolute value of a Debt Net Position to an individual issue/s is greater than 10% of that issue, the risk amount/s is:

- (a) the relevant standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 multiplied by the excess over 10%; and
- (b) if more than one series is held, the risk amount is the aggregate of the risk amounts calculated under subparagraph (i) for each individual series.

Rule A2.3.3 Equity and Debt method

The principle of this method is that a Market Participant may have Equity Net Position/s and Debt Net Position/s in securities issued by a particular issuer that individually do not represent a large exposure, that may be large relative to Liquid Capital when considered in aggregate (i.e. greater than 25% of Liquid Capital).

Equity and debt method-Exposure to Issuer Relative to Liquid Capital

Subrule A2.3.3(1) provides that a Market Participant’s issuer large exposure risk amount in relation to an issuer is based on the absolute sum of the Equity Net Positions and Debt Net Positions.

Equity and debt method-Position Risk Factors

Subrule A2.3.3(2) provides that if the absolute sum of the Equity Net Positions and Debt Net Positions is greater than 25% of a Market Participant’s Liquid Capital, then the risk amount is the relevant standard method Position Risk Factor specified in Table A5.1.1 or Table A5.1.2 in Annexure 5 multiplied by the excess over 25%. The Position Risk Factors are selected according to whether the Equity Net Positions or Equity Debt Positions represent the greatest proportion of the aggregate Net Position or are held in equal proportions.

Annexure 3 to Schedule 1A: Position Risk Requirement

The principle of the Position Risk Requirement is that a Market Participant is required to hold additional capital where the Market Participant has principal or proprietary positions in Financial Instruments, as those positions are exposed to market risk (that is, the risk of financial loss arising from an adverse movement in the market rates and prices used to value the Financial Instruments).

Part A3.1 Equity position risk amount

Annexure 3 sets out various methods that Market Participants may use in calculating position risk amounts with respect to principal positions in Equity securities and Equity Derivatives. The absolute sum of the position risk amounts calculated for Equity-based principal positions is a component of the overall Position Risk Requirement calculation.

Rule A3.1.1 Nature of equity position risk amount

Rule A3.1.1 provides that the equity position risk amount in relation to a Market Participant's equity positions is the absolute sum of the individual position risk amounts for equity positions calculated for each country using the methods of calculation set out in Annexure 3.

Rule A3.1.2 Overview of methods

Standard method and building block method are the two main methods

Subrule A3.1.1(1) provides that the standard method and building block method are the two main methods for measuring the equity position risk amount. They are supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

Methods to be used based on nature of positions

Subrule A3.1.1(2) provides that in calculating the equity position risk amount, the methods set out in Table A3.1 must be used. Table A3.1 sets out the methods that should be used depending on the Financial Instruments in which principal positions are taken.

Right over an equity must be treated as an Option position

Subrule A3.1.1(3) provides that, for the purposes of Parts A3.1 to A3.9 of Annexure 3, a right over an equity must be treated as an Option position.

Rule A3.1.2A Equity Position risk amount

Market Participant must calculate position risk amount in certain circumstances

Rule A3.1.2A provides that, without limitation, a Market Participant must calculate a position risk amount under Annexure 3 in relation to transactions of the kind set out in the Rule.

Rule A3.1.2B Treatment—Securities subject to a trading halt or suspension

Rule A3.1.2B provides that where a Market Participant holds a principal position in a security that is subject to a trading halt, the position does not have to be treated as an Excluded Asset (where the position otherwise meets the definition of Liquid) and a position risk amount must be calculated. If the security is subject to a suspension, the position must be treated as an Excluded Asset on the basis that the security is not Liquid.

Rule A3.1.2C Treatment—Classical ETFs

Rule A3.1.2C provides that a Market Participant must take the following into account when calculating a position risk amount for a principal position in Classical ETF units:

- (a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;
- (b) principal positions in Classical ETFs commence at T_0 and the underlying risk variable is the market price of the Classical ETF unit;
- (c) the Equity Equivalent of the Classical ETF is set out in Rule A3.8.5;
- (d) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5; and
- (e) if the Market Participant is unlikely to be able to liquidate its position in a Classical ETF within 30 days, taking into account factors including the size of its position and the volume of that Classical ETF traded in the market, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital.

Rule A3.1.2D Treatment—Hybrid ETFs

Rules A3.1.2D provides that a Market Participant must take the following into account when calculating a position risk amount for a principal position in units in a Hybrid ETF classified as Equities:

- (a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;
- (b) principal positions in Hybrid ETFs commence at T_0 and the underlying risk variable is the market price of the Hybrid ETF unit;
- (c) a Hybrid ETF cannot be broken down into any notional positions in the underlying;
- (d) the Position Risk Factors to be applied are set out in Table A5.1.1. in Annexure 5;
- (e) if the Market Participant is unlikely to be able to liquidate its position in a Hybrid ETF within 30 days, taking into account factors including the size of its position and the volume of that Hybrid ETF traded in the market, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital.

Rule A3.1.2E Treatment—Other Managed Funds

Rule A3.1.2E provides that a Market Participant must take the following into account when calculating a position risk amount for a principal position in units Other Managed Fund classified as Equities:

- (a) principal positions in Other Managed Funds commence at T_0 and the underlying risk variable is the market price of the Other Managed Fund unit;
- (b) the Other Managed Fund cannot be broken down into any notional positions in the underlying;
- (c) the Position Risk Factors to be applied are set out in Table A5.1.1. in Annexure 5;
- (d) if the Market Participant is unlikely to be able to liquidate its position in an Other Managed Fund within 30 days, taking into account factors including the size of its position relative to the size of the fund, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital;
- (e) if a daily price cannot be obtained and/or if the numbers of units on issue cannot be determined on a daily basis, the position must be treated as an Excluded Asset as it would not be possible to value the investment in accordance with the requirements of Rule S1A.2.8.

Rule A3.1.2F Exchange traded CFDs

Rule A3.1.2F provides that a Market Participant must take the following into account when calculating a position risk amount for a principal position in an exchange traded CFD classified as an Equity Derivative:

- (a) principal positions in exchange traded CFDs commence at T_0 ;
- (b) the Position Risk Factors to be applied are set out in Table A5.1.1. in Annexure 5;
- (c) if the Market Participant is unlikely to be able to liquidate its position in an exchange traded CFD within 30 days, taking into account factors including the size of its position and the volume of that exchange traded CFD traded in the market, it must treat that exchange traded CFD as an Excluded Asset and exclude the market value of that position from Liquid Capital.

Part A3.2 Standard method—Equity position risk

Rule A3.2.1 Application

Positions that may be included in the standard method

Subrule A3.2.1(1) provides that physical Equity positions may be included in the standard method.

Subrule A3.2.1(2) provides that Equity Derivative positions other than Options may be included in the standard method if the positions are converted to Equity Equivalents according to Part A3.8.

Subrule A3.2.1(3) provides that Equity Derivative positions which are Options may be included in the standard method only if they are purchased positions or if they are written positions which are exchange traded and subject to daily margin requirements and the purchased or written positions are:

- (a) In the Money by at least the relevant standard method Position Risk Factor for the underlying position specified in Table A5.1.1, Annexure 5; and
- (b) converted to Equity Equivalents according to Part A3.8,

otherwise, the Options must be treated under one of the option methods set out in Parts A3.4, A3.5 and A3.6.

Rule A3.2.2 Method

Position risk amount: Equity position risk standard method

Rule A3.2.2 provides that the position risk amount for equity positions to which the standard method is applied is the absolute sum of the product of individual Equity Net Positions at the mark to market value and the applicable Position Risk Factor specified in Table A5.1.1 in Annexure 5.

Part A3.3 Building block method—Equity position risk

Rule A3.3.1 Application

Positions that may be included in the building block method

Subrule A3.3.1(1) provides that Physical Equity and Equity Derivative positions may be included in the building block method if there are at least 5 long or 5 short Equity Net Positions in the one country and which are included in Recognised Market Indexes.

Subrule A3.3.1(2) provides that Equity Derivative positions other than Options may be included in the building block method if the positions are converted to Equity Equivalents according to Part A3.8.

Subrule A3.3.1(3) provides that Equity Derivative positions which are Options may be included in the building block method only if they are purchased positions or if they are written positions which are exchange traded and subject to daily margin requirements and the purchased or written positions are:

- (a) In the Money by at least the relevant standard method Position Risk Factor for the underlying position specified in Table A5.1.1, Annexure 5; and
- (b) converted to Equity Equivalents according to Part A3.8,

otherwise, the Options must be treated under one of the option methods set out in Parts A3.4, A3.5 and A3.6.

Rule A3.3.2 Method

Position risk amount: Equity position risk building block method

Subrule A3.3.2(1) provides that the position risk amount for equity positions to which the building block method is applied is the aggregate of a specific risk and a general risk amount for each Equity Net Position at the mark to market value.

Specific risk measures the market risk on the position associated with factors that are specific to the issuer of the underlying Equity security and that are unlikely to impact the general market, while general risk measures the market risk on the position associated with the general volatility in Equity market prices.

Specific risk amount

Subrule A3.3.2(2) provides that the specific risk amount is calculated as the aggregate of each Equity Net Position, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.1 in Annexure 5. The aggregate is calculated by reference to the absolute value of each Equity Net Position.

General risk amount

Subrule A3.3.2(3) provides that the general risk amount is calculated by multiplying each Equity Net Position by the relevant general risk Position Risk Factor specified in Table A5.1.1 in Annexure 5 and then aggregating the results of these calculations. In aggregating these calculations, positive and negative signs (that is, long and short positions respectively) may be offset in determining the aggregate number. The absolute value of this aggregate number is the general risk amount.

Part A3.4 Contingent loss matrix method—Equity position risk

The contingent loss matrix method involves preparing a matrix that shows the gains and losses on an option portfolio (a portfolio that contains Options, other Equity Derivatives or physical positions in a particular underlying security or index or basket of securities) that would arise if certain adjustments were made to the underlying market prices and volatility.

Rule A3.4.1 Application

Positions that may be included in the contingent loss matrix method

Subrule A3.4.1(1) provides that Equity Derivative positions which are Options together with physical Equity and other Equity Derivative positions may be included in the contingent loss matrix method but only if used in conjunction with an option pricing model approved by ASIC and only if the Market Participant is able to mark to market the physical Equities and Equity Derivative positions.

Market Participant must provide ASIC with details of option pricing model

Subrule A3.4.1(2) provides that a Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with certain information about its proposed pricing model and the Market Participant's ability to automate the calculation of the contingent loss matrix.

Use of method 1 or method 2

Subrule A3.4.1(3) provides that a Market Participant applying the contingent loss matrix method may use method 2 as set out in Rule A3.4.3 if there are 5 long or 5 short Equity Net Positions which are included in Recognised Market Indexes in any one country, otherwise it must use method 1 as set out in Rule A3.4.2.

Rule A3.4.2 Method 1

Position risk amount calculated in one step for each underlying

Rule A3.4.2 sets out Method 1. Method 1 calculates the risk amount in one step for each underlying in a manner similar to the standard method.

The position risk amount for equity positions to which Method 1 is applied is the greatest loss arising from simultaneous prescribed movements in the closing market price of the underlying position and the option implied volatility.

A separate matrix must be constructed for each option portfolio and associated hedges in each country.

Changes in value of option portfolio to be analysed in fixed range

Changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market price of the underlying position and implied option volatility.

The Position Risk Factors prescribed for the standard method for Equities as set out in Table A5.1.1 in Annexure 5 are used to adjust the current market price of the underlying equity security at 7 equally spaced intervals. The intervals represent no change to the current market price, 3 equally spaced cumulative increases to the current market price and 3 equally spaced cumulative decreases to the current market price.

The current market Option volatility is to be adjusted by the prescribed Position Risk Factor from Table A5.1.1 in Annexure 5 in a similar manner, except that the relevant implied volatility Position Risk Factor is to be divided into 3 equally spaced volatility shift intervals (including the current market implied volatility), with no intermediate adjustments.

The absolute value of the aggregate of the greatest loss for each matrix is the position risk amount.

Rule A3.4.3 Method 2

Position risk amount calculated as aggregate of specific and general risk amounts

Rule A3.4.3 sets out Method 2. Method 2 calculates the risk amount as the aggregate of a specific risk and a general risk amount for each underlying in a manner similar to the building block method.

As noted above, specific risk measures the market risk on the position associated with factors that are specific to the issuer of the underlying Equity security and that are unlikely to impact the general market, while general risk measures the market risk on the position associated with the general volatility in Equity market prices.

The specific risk amount is calculated as the aggregate of the delta weighted value of the underlying instrument calculated by the option pricing model approved by ASIC, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.1 of Annexure 5.

The general risk amount is calculated in the manner described in Method 1, replacing the Position Risk Factors for the standard method with the Position Risk Factors for the building block method, and the position risk amount with the general risk amount which is the absolute value of the greatest loss in a single country matrix.

A single country matrix is constructed by superimposing each separate matrix (for each option portfolio and associated hedges in each country) so that the values in the corresponding matrix elements are netted to form a single value for each element.

Part A3.5 Margin method—Equity position risk

Rule A3.5.1 Application

Rule A3.5.1 provides that Equity Derivative positions which are exchange traded and have a positive Primary Margin Requirement must be included in the margin method if the Market Participant:

- (a) has not been approved by ASIC to use the contingent loss matrix method; and
- (b) is not permitted to use any of the other Methods set out in Rule A3.1.2 of this Annexure 3.

Rule A3.5.2 Method

Rule A3.5.2 provides that the position risk amount for Equity Derivative positions under the margin method is 100% of the Primary Margin Requirement for those Equity Derivative positions as determined by the relevant exchange or clearing house multiplied by 4.

Part A3.6 Basic method—Equity position risk

Rule A3.6.1 Application

Rule A3.6.1 provides that Equity Derivative positions which are purchased (long) or written (short) Options may be included in the basic method.

Rule A3.6.2 Method

Purchased Option

Subrule A3.6.2(1) provides that the position risk amount for a purchased Option is the lesser of:

- (a) the mark to market value of the underlying equity position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.1, Annexure 5; and
- (b) the mark to market value of the Option.

Written Option

Subrule A3.6.2(2) provides that the position risk amount for a written Option is the mark to market value of the underlying equity position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.1, Annexure 5 reduced by:

- (a) any excess of the exercise value over the current market value of the underlying position in the case of a call Option, but limited to nil if it would otherwise be negative; or
- (b) any excess of the current market value of the underlying position over the exercise value in the case of a put Option, but limited to nil if it would otherwise be negative.

Part A3.7 Arbitrage method—Equity position risk

A3.7.1 Application

Rule A3.7.1 provides that Equity Derivative positions arising as a result of Futures arbitrage strategies may be included in the arbitrage method if the Market Participant has a position in:

- (a) two Futures over similar indexes; or
- (b) a Future over a broadly based index and a position in a matching physical basket,

and if the requirements set out in Rule A3.7.2 and A3.7.3 are satisfied.

Rule A3.7.2 Method—similar indexes

Subrule A3.7.2(1) provides that a Market Participant's position risk amount for a position in two Futures over similar indexes is 2% of the Equity Equivalent of one of the Futures over an index position at the mark to market value but only if the Market Participant:

- (a) has an opposite position in a Future over the same index at a different date or in a different market; or
- (b) has an opposite position in a Future at the same date in a different but similar index (where two indexes are similar if they contain sufficient common components that account for at least 70% of each index).

The position risk amount for the opposite Future position is nil.

Subrule A3.7.2(2) provides that, for the purposes of subrule (1), if the market value of each side of the arbitrage Futures position is different, the Market Participant must use the side that results in the higher position risk.

Rule A3.7.3 Method—a broadly based index and a matching basket of the stocks from that index

Rule A3.7.3 provides that a Market Participant may calculate the position risk amount for a Future over an index and a position in a matching physical basket under one of two possible methodologies.

The first method involves disaggregating the position in the Future over an index into the notional physical positions and then calculating the position risk amount for these notional positions and the physical basket in accordance with the standard method or building block method for equity positions.

The second method involves calculating the position risk amount on the position in the Future over an index. The second method can only be used if the arbitrage trades have been specifically entered into to profit from pricing anomalies between the Futures and the physical markets. The arbitrage position must be separately monitored over the life of the arbitrage. The mark to market value of the physical basket must be greater than 80% and less than 120% of the mark to market value of the notional position in the Future over the index and the sum of the index weights of the individual positions in the required physical basket is greater than 70% of the Future over the index, where the required physical basket is calculated in accordance with the Rule.

Part A3.8 Calculation of Equity Equivalent positions—Equity position risk

Rule A3.8.1 Swaps

Subrule A3.8.1(1) provides that the Equity Equivalent for a Swap is two notional positions, one for each leg of the Swap under which:

- (a) there is a notional long position in an Equity or Equity Derivative on the leg of the Swap on which an amount is received; and
- (b) there is a notional short position in an Equity or Equity Derivative on the leg of the Swap on which an amount is paid.

If one of the legs of the Swap provides for payment or receipt based on some reference to a Debt Instrument or Debt Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Parts A3.10 to A3.17 of Annexure 3.

Subrule A3.8.1(2) provides, for the purposes of subrule A3.8.1(1), the notional position is the mark to market value of the Equity positions underlying the Swap (the number of shares underlying the Swap multiplied by the current market price of those shares).

Rule A3.8.2 Options

Rules A3.8.2 provides that the Equity Equivalent for an Option is:

- (a) for purchased call Options and written put Options, a long position at the mark to market value of the underlying equity position, or in the case of an Option on an index or physical basket the mark to market value of either the index, basket, or the notional position in the underlying; or
- (b) for purchased put Options and written call Options, a short position at the mark to market value of the underlying equity position, or in the case of an Option on an index or physical basket, the mark to market value of either the index, basket, or the notional position in the underlying.

Rule A3.8.3 Futures and forward contracts

Rule A3.8.3 provides that the Equity Equivalent:

- (a) for a Future and forward contract over a single Equity, is the mark to market value of the underlying;
- (b) for a Future and a forward contract over an index or a physical basket, is the mark to market value of either the index, basket, or the notional position in the underlying.

Rule A3.8.4 Convertible notes

Subrule A3.8.4(1) provides that the Equity Equivalent of a convertible note, is either:

- (a) if the Market Participant:
 - (i) does not use the contingent loss matrix method;
 - (ii) the premium is in the money by less than 10%, where premium in this context means the mark to market value of the convertible note less the mark to market value of the underlying Equity, expressed as a percentage of the mark to market value of the underlying Equity; and
 - (iii) there are less than 30 days to the conversion date;the mark to market value of the underlying Equity; or

- (b) if the Market Participant uses the contingent loss matrix method, as calculated according to that method,

but otherwise the convertible note (or, in the case of a convertible note which is evaluated in accordance with the procedure stated in paragraph (b) the debt component of the convertible note) must be treated as a debt position in accordance with Debt Equivalent requirements.

Subrule A3.8.4(2) provides that, for the purposes of subrule A3.8.4(1), the market value of the Equity is the value of the note if it is immediately converted to Equity at current market prices (that is, conversion ratio times the number of notes times the current price of the issuer's Equity per share).

Rule A3.8.5 Other positions—Classical ETFs

Rule A3.8.5 provides that the Equity Equivalent of a Classical ETF is:

- (a) the mark to market value of the classical ETF; or
- (b) the mark to market value of the notional position in the underlying,

and any cash component of the Classical ETF should be treated as if it was a position in an Equity.

Rule A3.8.5A Other positions—Exchange traded CFDs

Subrule A3.8.5A(1) provides that the Equity Equivalent for an exchange traded CFD over a single Equity, is the mark to market value of the underlying.

Subrule A3.8.5A(2) provides that the Equity Equivalent for an exchange traded CFD over an index or a physical basket, is the mark to market value of either the index, basket or the notional position in the underlying.

Part A3.9 Calculation of equity net positions—Equity position risk

Rule A3.9.1 Equity net positions

Subrule A3.9.1(1) provides that the equity net positions are either the long or short positions resulting from offsetting equity positions and Equity Equivalents.

A Market Participant may net a long position against a short position only where the positions are in the same actual instrument. This includes Equity Equivalent positions calculated in accordance with Part A3.8. A position in a depository receipt may be treated as if it were the same position in the corresponding instrument and at the same value if the conditions set out in the Rule are met (otherwise it must be valued at the current exchange rate). Instalment receipts may be treated as if they are positions in the corresponding instrument.

A Market Participant that does not use the contingent loss matrix method for Options may only offset an Option position if it is In the Money by at least the standard method Position Risk Factor specified in Table A5.1.1 in Annexure 5 applicable to the underlying position.

Securities Lending and Borrowing, Dual/multiple listed stocks and Stocks Subject to Merger

Subrule A3.9.1(2) provides that a Market Participant must not offset Securities Lending and Borrowing transactions against underlying long and short Equity net positions. The Market Participant must treat any securities that have been lent out under a Securities Lending and Borrowing arrangement or that have been sold under a repurchase agreement as a principal position. Subrule A3.9.1(2) also provides that a Market Participant may only offset positions in dual/multiple listed stocks and stocks subject to a merger in certain circumstances.

Part A3.10 Debt position risk amount

Annexure 3 sets out various methods that Market Participants may use in calculating position risk amounts with respect to principal positions in Debt Instruments and Debt Derivatives. The absolute sum of the position risk amounts calculated for Debt-based principal positions is a component of the overall Position Risk Requirement calculation.

Rule A3.10.1 Nature of debt position risk amount

Rule A3.10.1 provides that the debt position risk amount in relation to a Market Participant's debt positions is the absolute sum of the individual position risk amounts calculated for debt positions for each currency using the methods of calculation set out in Annexure 3.

Rule A3.10.2 Overview of methods

Subrule A3.10.2(1) provides that the standard method and building block method are the two main methods for measuring the debt position risk amount. They are supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

Subrule A3.10.2(2) provides that, in calculating the debt position risk amount, the methods set out in Table A3.2 must be used. Table A3.2 sets out that method that must be used depending on the Financial Instruments in which principal positions are taken.

Rule A3.10.2A Treatment—Hybrid ETFs

Rule A3.10.2A provides that a Market Participant must take the following into account when calculating a position risk amount for a principal position in units in Hybrid ETFs classified as Debt Instruments:

- (a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;
- (b) principal positions in Hybrid ETFs commence at T_0 and the underlying risk variable is the market price of the Hybrid ETF unit;
- (c) a Hybrid ETF cannot be broken down into any notional positions in the underlying; and
- (d) the Position Risk Factors to be applied are set out in Rule A5.1.2A;
- (e) if the Market Participant is unlikely to be able to liquidate its position in a Hybrid ETF within 30 days, taking into account factors including the size of its position and the volume of that Hybrid ETF traded in the market, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital.

Rule A3.10.2B Treatment—Other Managed Funds

Rule A3.10.2B provides that a Market Participant must take the following into account when calculating a position risk amount for a principal position in units in Other Managed Funds classified as Debt Instruments:

- (a) principal positions in Other Managed Funds commence at T_0 and the underlying risk variable is the market price of the Other Managed Fund unit;
- (b) the Other Managed Fund cannot be broken down into any notional positions in the underlying;
- (c) the Position Risk Factors to be applied are set out in Rule A5.1.2B;
- (d) if the Market Participant is unlikely to be able to liquidate its position in an Other Managed Fund within 30 days, taking into account factors including the size of its

- position relative to the size of the fund, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital;
- (e) if a daily price cannot be obtained and/or if the number of units on issue cannot be determined on a daily basis, the position must be treated as an Excluded Asset on the basis that it would not be possible to value the investment in accordance with the requirements of Rule S1A.2.8.

Rule A3.10.2C Treatment—Cash management trusts

Rule A3.10.2C provides that, for the purposes of the calculation of a position risk amount, an investment in a cash management trust, even if offered by an Approved Deposit Taking Institution or its subsidiary:

- (a) is not a deposit with the Approved Deposit Taking Institution where it is not capital guaranteed and is subject to investment risk;
- (b) where the cash management trust meets the definition of a Hybrid ETF or Other Managed Fund, may be treated accordingly; and
- (c) where the cash management trust does not meet the definition of a Hybrid ETF or Other Managed Fund, must be treated as an Excluded Asset.

Rule A3.10.2D Securities Subject to trading halts or suspension

Rule A3.10.2D provides that, if a Participant holds a principal position in a listed debt security that is subject to a trading halt, the position does not have to be treated as an Excluded Asset (where the position otherwise meets the definition of Liquid) and a debt position risk amount must be calculated. If the listed debt security is subject to a suspension, the position must be treated as an Excluded Asset on the basis that the security is not Liquid.

Rule A3.10.2E Treatment—Underwriting

Rule A3.10.2E provides that where a Market Participant Underwrites an issue of debt securities, the Market Participant is not required to calculate a position risk amount on its exposure until the closing date for applications is reached. The Market Participant must treat any shortfall in applications as at the closing date as a principal position and calculate a position risk amount on its exposure will need to be calculated from this time. For the purposes of calculating a position risk amount under paragraph (b), must use the “cost” or “subscription” price as the market value of the securities prior to their issue.

Part A3.11 Standard method—Debt position risk

Rule A3.11.1 Application

Rule A3.11.1 provides that only physical Debt Instrument positions may be included in the standard method.

Rule A3.11.2 Method

Subrule A3.11.2(1) provides that subject to subrule A3.11.2(3), the position risk amount for debt positions to which the standard method is applied is the absolute sum of the product of individual Debt Net Positions at the mark to market value and the applicable Position Risk Factor specified in Table A5.1.2, Annexure 5.

Subrule A3.11.2(2) sets out principles for determining the applicable Position Risk Factor for the purposes of the standard method.

Alternative approach for bank bills

Subrule A3.11.2(3) provides that where a Market Participant holds bank bills as a passive investment (that is, is not an active trader in bank bills), the Market Participant may calculate the position risk amount under the standard method as the face value of the bills multiplied by the applicable Position Risk Factor specified in Table A5.1.2 in Annexure 5.

Part A3.12 Building block method—Debt position risk

Rule A3.12.1 Application

Subrule A3.12.1(1) provides that Physical Debt Instrument positions may be included in the building block method.

Subrule A3.12.1(2) provides that Debt Derivative positions other than Options may be included in the building block method if the positions are converted to Debt Equivalents according to Part A3.16.

Subrule A3.12.1(3) provides that Debt Derivative positions which are Options may be included in the building block method only if they are purchased positions or if they are written positions which are exchange traded and subject to daily margin requirements and the purchased or written positions are:

- (a) In the Money by at least the relevant standard method Position Risk Factor for the underlying position specified in Table A5.1.2, Annexure 5; and
- (b) converted to Debt Equivalents according to Part A3.16,

otherwise, the Options must be treated under one of the option methods referred to in Parts A3.13, A3.14 and A3.15.

Subrule A3.12.1(4) sets out principles for determining the applicable Position Risk Factor for the purposes of this method.

Rule A3.12.2 Method

Position risk amount

Subrule A3.12.2(1) provides that the position risk amount for debt positions to which the building block method is applied is the aggregate of a specific risk and a general risk amount for the Debt Net Position at the mark to market value.

Specific risk measures the market risk on the position associated with factors that are specific to the issuer of the underlying Debt Instrument and that are unlikely to impact the general market. General risk measures the market risk on the position associated with general volatility in interest rates.

Specific risk

Subrule A3.12.2(2) provides that the specific risk amount is calculated as the aggregate of each Debt Net Position, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.3, Annexure 5. The aggregate is calculated by reference to the absolute value of each Debt Net Position.

Generally, all instruments that have a specific underlying issuer are subject to a specific risk amount.

General risk

Subrule A3.12.2(3) provides that the general risk amount is calculated in accordance with:

- (a) the maturity method under Rule A3.12.3; or
- (b) the duration method under Rule A3.12.4.

The absolute value of this aggregate number is the general risk amount.

Subrule A3.12.2(4) provides that for, the purposes of subrule (2), where Futures or forwards comprise a range of deliverable instruments with different issuers, a Market Participant is only required to calculate a specific risk amount under this method on long positions in the Futures or forward contract. However, the Market Participant is not required to calculate a specific risk amount under this method on its long positions in Futures on 90 day bank bills traded on Australian Securities Exchange Limited.

Rule A3.12.3 General risk amount—maturity method

Rule A3.12.3 sets out the maturity method for calculating the general risk amount.

Under the maturity method, Debt Net Positions are allocated to the appropriate time band specified in Table A5.1.2 in Annexure 5 (where fixed rate instruments are allocated according to the residual term to maturity and floating rate instruments according to the residual term to the next repricing date).

The position risk amount is the sum of a series of calculations that measure price risk, basis risk and gap risk on the positions by offsetting between the time bands.

The overall general risk amount under the maturity method is the absolute sum of the individual steps as follows:

- (a) the net position amount (NPA);
- (b) the time band amount (TBA);
- (c) the zone amount (ZA);
- (d) the adjacent zone amount (AZA); and
- (e) the non-adjacent zone amount (NAZA).

Rule A3.12.4 General risk amount—duration method

Rule A3.12.4 provides that the calculation of the general risk amount under the duration method is identical to that for the maturity method, with some limited exceptions. ASIC must first approve a Market Participant's use of the duration method.

Part A3.13 Contingent loss matrix method—Debt position risk

The contingent loss matrix method involves preparing a matrix that shows the gains and losses on an option portfolio (a portfolio that contains Options, other Debt Derivatives or physical positions in a particular underlying Debt Instrument) that would arise if certain adjustments were made to the underlying market prices and volatility.

Rule A3.13.1 Application

Subrule A3.13.1(1) provides that Debt Derivative positions which are Options together with physical Debt Instruments and other Debt Derivatives may be included in the contingent loss matrix method but only if used in conjunction with an option pricing model approved by ASIC and only if the Market Participant is able to mark to market the physical Debt Instruments and Debt Derivative positions.

Subrule A3.13.1(2) provides that a Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with certain information about its proposed pricing model and the Market Participant's ability to automate the calculation of the contingent loss matrix.

Subrule A3.13.1(3) provides that, for the purposes of subrule A3.13.1(1), Physical Debt Instruments and other Debt Derivatives may only be included in the contingent loss matrix method if they are part of a portfolio that contains the Option position and are hedged by, or are hedging the Option position.

Subrule A3.13.1(4) provides, for the purposes of subrule A3.13.3(5), how particular financial products are allocated to the matrix.

Subrule A3.13.1(5) provides, where Futures or forwards comprise a range of deliverable instruments with different issuers, a Market Participant is only required to calculate a specific risk amount under this method on long positions in the Futures or forward contract. However, a Market Participant is not required to calculate a specific risk amount under this method on its long positions in Futures on 90 day bank bills traded on Australian Securities Exchange Limited.

Subrule A3.13.1(6) provides that a Market Participant applying the contingent loss matrix method must use method 2 as set out in Rule A3.13.3.

Rule A3.13.3 Method 2—maturity method

Rule A3.13.3 sets out Method 2. Method 2 calculates the risk amount as the aggregate of a specific risk, a general risk and a volatility risk amount for each underlying in a manner similar to the building block method—maturity method.

The specific risk amount is calculated as the aggregate of each Debt Net Position or the delta weighted value of the underlying instrument calculated by the option pricing model approved by ASIC, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.3 of Annexure 5.

A separate matrix must be constructed for each individual time band as specified in Table A5.1.2, Annexure 5.

Changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market price of the underlying position and implied option volatility.

The Position Risk Factors prescribed for the building block method for Debt as set out in Table A5.1.2 in Annexure 5 are used to adjust the current market price of the underlying debt instrument (or where the underlying has no price, the current interest rate) at 7 equally spaced intervals. The intervals represent no change the current market price/yield, 3 equally spaced cumulative increases to the current market price (or decreases to the current market yield) and 3 equally spaced cumulative decreases to the current market price/increases to the current yield.

The current market option volatility is to be adjusted by the Prescribed Position Risk factor in a similar manner except that the relevant implied volatility Position Risk Factor is to be divided into three equally spaced volatility shift intervals (including the current market implied volatility).

The general risk amount and volatility risk amount are calculated in accordance with subrules A3.13.3(8) and (9).

Part A3.14 Margin method—Debt position risk

Rule A3.14.1 Application

Rule A3.14.1 provides that Debt Derivative positions which are exchange traded and have a positive Primary Margin Requirement must be included in the margin method if the Market Participant:

- (a) has not been approved by ASIC to use the contingent loss matrix method; and
- (b) is not permitted to use any of the other methods referred to in Rule A3.10.2 of this Annexure 3.

Rule A3.14.2 Method

Rule A3.14.2 provides that the position risk amount for Debt Derivative positions under the margin method is 100% of the Primary Margin Requirement for those Debt Derivative positions as determined by the relevant exchange or clearing house in respect of each position multiplied by 4.

Part A3.15 Basic method—Debt position risk

Rule A3.15.1 Application

Rule A3.15.1 provides that Debt Derivative positions which are purchased (long) or written (short) Options may be included in the basic method.

Rule A3.15.2 Method

Purchased Options

Subrule A3.15.2(1) provides that the position risk amount for a purchased Option is the lesser of:

- (a) the mark to market value of the underlying debt position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.2, Annexure 5; and
- (b) the mark to market value of the Option.

Written Options

Subrule A3.15.2(2) provides that the position risk amount for a written Option is the mark to market value of the underlying debt position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.2, Annexure 5 reduced by:

- (a) any excess of the exercise value over the current market value of the underlying position in the case of a call Option, but limited to nil if it would otherwise be negative; or
- (b) any excess of the current market value of the underlying position over the exercise value in the case of a put Option, but limited to nil if it would otherwise be negative.

Part A3.16 Calculation of Debt Equivalent positions—Debt position risk

Rule A3.16.1 Swaps

Rule A3.16.1 provides that the Debt Equivalent for a Swap is two notional positions, one for each leg of the Swap under which:

- (a) there is a notional long position in a Debt Instrument or Debt Derivative on the leg of the Swap on which interest is received with a maturity equal to either the next interest reset date for a floating rate payment or the maturity of the Swap for a fixed rate payment; and

- (b) there is a notional short position in a Debt Instrument or Debt Derivative on the leg of the Swap on which interest is paid with a maturity equal to either the next interest reset date for a floating rate payment or the maturity of the Swap for a fixed rate payment.

If one of the legs of the Swap provides for payment or receipt based on some reference to an Equity or Equity Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Part 1 of Annexure 3.

Rule A3.16.2 Options

Subrule A3.16.2(1) provides for the Debt Equivalent for Options, depending on whether the Option is a purchased call Option or written put Option, a purchased put Option or written Call Option, or a purchased call Option or written put Option in a Future.

Subrule A3.16.2(2) provides, for the purposes of subrule A3.16.2(1), for where the notional debt position in the case of an Option over a Swap is long or short, and also provides for the value of the notional position in a Debt Instrument.

Rule A3.16.3 Futures, forwards and forward rate agreements and options on futures

Rule A3.16.3 provides for the Debt Equivalent for a Future, forward contract or Forward Rate Agreement depending on whether the Future, forward contract or Forward Rate Agreement is purchased or sold, or is over an index or a range of deliverable instruments. “Purchased” means that the holder of the position is an investor and has bought a Futures/forward contract or has sold a Forward Rate Agreement. “Sold” means that the holder of the position is a borrower and has bought a Forward Rate Agreement or sold a Futures or forward contract.

Rule A3.16.4 Convertible Notes

Rule A3.16.4 provides that the Debt Equivalent for a convertible note which is not within paragraphs A3.8.4(a) or (b), is a position in a Debt Instrument.

Rule A3.16.5 Basket or index products

Rule A3.16.5 provides that the Debt Equivalent for a basket or index product, where there is a known weight for each component Debt Instrument, is a position in a portfolio of Debt Instruments with corresponding weights. If the basket or index is based on Government Debt Instruments, then a zero specific risk Position Risk Factor should be used. If the basket or index is based on Qualifying Debt Instruments or other Debt Instruments, then the appropriate specific risk Position Risk Factor should be used.

Rule A3.16.6 Income securities

Rule A3.16.6 provides that income securities should be treated as debt positions, not Equity positions, based on their market value. The Position Risk Factors to be applied under the standard method or the building block method will be based on the time until the next repricing date. The second column of time bands in Table A5.1.2 in Annexure 5 should be used.

Part A3.17 Calculation of debt net positions—Debt position risk

Rule A3.17.1 Debt net position

Subrule A3.17.1(1) provides that the debt net position is either the long or short position resulting from offsetting positions in Debt Instruments and Debt Derivatives in the manner set out in the Rule.

Short Debt Instrument and Debt Equivalent positions may be directly offset against long Debt Instrument and Debt Equivalent positions provided that the issuer, coupon, maturity are identical.

A Market Participant that does not use the contingent loss matrix method for Options may only offset an Option position if it is In the Money by at least the standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 applicable to the underlying position.

The Market Participant may offset the matched position in a Future or forward contract and its underlying may be offset provided that the conditions of the Rule are met.

To qualify for offsets across product groups, the positions must relate to the same underlying instrument type, be of the same nominal value, and:

- (a) in relation to Futures, the offsetting positions and the notional or underlying instruments to which the Futures relate must be identical products and mature within 7 days of each other;
- (b) in relation to Swaps and Forward Rate Agreements the reference rate (for floating rate positions) must be identical and the coupon closely matched (within 15 basis points); and
- (c) in relation to Swaps, Forward Rate Agreements and forward contracts, the next interest fixing date, or, for fixed coupon positions or forward contracts, the residual maturity (or, where there is a call or put option in the relevant instrument, the effective maturity of the instrument) must correspond within the following limits:
 - (A) less than 1 month hence, same day;
 - (B) between one month and one year hence, within 7 days; and
 - (C) over one year hence, within 30 days.

Subrule A3.17.1(2) provides that, for the purposes of subrule A3.17.1(1), a Market Participant must not offset Securities Lending and Borrowing Transactions against underlying long and short Debt net positions. The Market Participant must treat any securities that have been lent out under a Securities Lending and Borrowing arrangement or that have been sold under a repurchase agreement as a principal position of the Market Participant.

Part A3.18 Foreign exchange position risk amount

Annexure 3 sets out various methods that Market Participants may use in calculating position risk amounts with respect to foreign currency assets and liabilities, and principal positions in foreign exchange contracts and other Financial Instruments that derive their value from foreign exchange rates. The absolute sum of the position risk amounts calculated for foreign exchange-based principal positions are a component of the overall position risk requirement calculation.

Rule A3.18.1 Nature of foreign exchange position risk amount

Rule A3.18.1 provides that the foreign exchange position risk amount in relation to a Market Participant's foreign exchange positions is the absolute sum of the individual position risk amounts for foreign exchange positions calculated using the methods of calculation set out in Annexure 3.

Rule A3.18.2 Overview of Methods

Subrule A3.18.2(1) provides that the standard method is the main method for measuring the foreign exchange position risk amount. The method is supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

Subrule A3.18.2(2) provides that, in calculating foreign exchange position risk amounts, the methods set out in Table A3.1 must be used. Table A3.1 sets out the methods for measuring the foreign exchange position risk amount depending on the Financial Instruments in which principal positions are taken.

Part A3.19 Standard method—Foreign exchange position risk

Rule A3.19.1 Application

Subrule A3.19.1(1) provides that foreign currency physical positions may be included in standard method.

Subrule A3.19.1(2) provides that Foreign Exchange Derivative positions other than Options may be included in the standard method if the positions are converted to Foreign Exchange Equivalents according to Part A3.21.

Subrule A3.19.1(3) provides that Foreign Exchange Derivative positions which are Options may be included in the standard method only if they are purchased positions and the purchased positions are converted to a Foreign Exchange Equivalent according to Part A3.21. Under subrule A3.19.1(4), if the criteria in subrules (1), (2) and (3) are not met, the Options must be treated under the contingent loss matrix method set out in Part A3.20.

Rule A3.19.2 Method

Subrule A3.19.2(1) provides that the position risk amount for foreign exchange positions to which the standard method is applied is the greater of the absolute value of the aggregate of the converted:

- (a) net open long position in foreign currencies; and
- (b) net open short position in foreign currencies,

multiplied by the Position Risk Factor specified in Table A5.1.7, Annexure 5.

Subrule A3.19.2(2) provides that Foreign Exchange Derivative positions which are purchased Options and are In the Money by at least the standard method Position Risk Factor specified in Table A5.1.7 in Annexure 5, are to be converted to a Foreign Exchange Equivalent in accordance with Part A3.21 and included in the net open position in accordance with Part A3.22.

Subrule A3.19.2(3) provides that Foreign Exchange Derivative positions which are purchased Options and are not In the Money by at least the standard method Position Risk Factor specified in Table A5.1.7, Annexure 5, are to be converted to a Foreign Exchange Equivalent in accordance with Part A3.21 and:

- (a) where the resulting currency positions from the option increases the net open position in the currency if included, the position must be included in the net open position; and
- (b) where the resulting currency positions from the option decreases the net open position in the currency if included, the position must be excluded in the net open position.

Part A3.20 Contingent loss matrix method—Foreign exchange position risk

The contingent loss matrix method involves preparing a matrix which shows the gains and losses on an option portfolio (all positions in an individual currency pairing) that would arise if certain adjustments were made to the market exchange rate and volatility. The greatest loss is the position risk amount for that currency pair.

Rule A3.20.1 Application

Subrule A3.20.1(1) provides that Foreign Exchange Derivative positions which are Options together with physical foreign exchange and other Foreign Exchange Derivative positions may be included in the contingent loss matrix method but only if used in conjunction with an option pricing model approved by ASIC and only if the Market Participant is able to mark to market the foreign exchange and Foreign Exchange Derivative positions.

Subrule A3.20.1(2) provides that a Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with certain information about its proposed pricing model and the ability of the Market Participant to automate the calculation of the contingent loss matrix.

Subrule A3.20.1(3) provides that Foreign Exchange Derivative positions which are written Options must be included in the contingent loss matrix method.

Subrule A3.20.1(4) provides that physical foreign exchange contracts and other Foreign Exchange Derivatives may be included in the contingent loss matrix method where they are part of the portfolio that contains the Option position (that is, are either a hedge of the Options or where the Options are hedging the underlying physical position).

Rule A3.20.2 Method

Position risk amount-foreign exchange positions

Subrule A3.20.2(1) provides that the position risk amount for foreign exchange positions to which the contingent loss matrix method is applied is the greatest loss arising from simultaneous prescribed movements in the closing market rate of the underlying currency pairing and the option implied volatility.

The contingent loss matrix method applies the Position Risk Factors prescribed for the standard method for foreign exchange positions as set out in Table A5.1.7 in Annexure 5. The Position Risk Factors are used to adjust the current market exchange rates of the underlying currency pairs at 7 equally spaced intervals. The intervals represent no change to the current market exchange rate, 3 equally spaced cumulative increases to the current market exchange rate and 3 equally spaced cumulative decreases to the current market exchange rate.

A separate matrix must be constructed for each option portfolio and associated hedges in an individual currency pairing.

The current market option volatility is to be adjusted by the prescribed Position Risk Factor from Table A5.1.7 in Annexure in a similar manner except that the implied volatility Position Risk Factor is to be divided into three equally spaced volatility shift intervals (including the current market implied volatility).

Part A3.21 Calculation of Foreign Exchange Equivalent positions—Foreign exchange position risk

Rule A3.21.1 Options

Rule A2.21.1 provides that the Foreign Exchange Equivalent for an Option is:

- (a) for purchased call Options and written put Options, a long position at the notional face value of the underlying contract; and
- (b) for purchased put Options and written call Options, a short position at the notional face value of the underlying contract.

Rule A3.21.2 Futures

Rule A3.21.2 provides that the Foreign Exchange Equivalent for a currency Future is the notional face value of the underlying contract.

Rule A3.21.3 Forward contracts

Rule A3.21.3 provides that the Foreign Exchange Equivalent for a forward contract including a future exchange associated with a cross currency Swap is at the discretion of the Market Participant either the:

- (a) face value of the contract; or
- (b) net present value of the contract.

Rule A3.21.4 Other positions—Exchange traded CFDs

Rule A3.21.4 provides that the Foreign Exchange Equivalent for an exchange traded CFD over an exchange rate or foreign currency is the notional face value of the underlying contract.

Part A3.22 Calculation of a converted net open position—Foreign exchange position risk

Rule A3.22.1 Calculation of a converted net open position

Subrule A3.22.1(1) provides that to calculate a net open position in a foreign currency, a Market Participant must aggregate in each currency all:

- (a) Financial Instruments; and
- (b) other assets and liabilities,

other than Excluded Assets and foreign exchange contracts hedging Excluded Assets.

Subrule A3.22.1(2) provides that, to convert a net open position to an equivalent Australian dollar amount a Market Participant must use:

- (a) the Market Spot Exchange Rate; or
- (b) in the case where a foreign currency asset or liability is specifically matched or hedged by a forward currency contract, the rate of exchange stated in the forward currency contract.

Subrule A3.22.1(2)(b) is intended for those Market Participants that convert assets and liabilities into Australian Dollars on an individual basis *before* calculating the net open position.

Annexure 4 to Schedule 1A: Underwriting Risk Requirement

Underwriting risk is the risk of financial loss arising from having to unexpectedly fund the obligation to take securities under an underwriting commitment out of the financial resources of the organisation.

Annexure 4 provides that the Underwriting Risk Requirement is zero. Annexure 4 reflects an intention of ASX (as reflected in the Market Integrity Rules (ASX), on which these Rules are ultimately modelled) to develop a proposal for an underwriting risk requirement in the Risk Based Capital Requirements. Accordingly, the drafting of the Rules contemplates the introduction of an underwriting risk requirement to simplify the incorporation of the requirement when it is introduced.

While there is currently no underwriting risk requirement, a Market Participant must maintain a register of underwritings under subrule S1.2.10(3) and must report any outstanding underwriting or

sub underwriting commitments it has open at each month end, in the “Monthly” return lodged with ASIC.

Annexure 5 to Schedule 1A: Tables

Part A5.1 Position Risk

Table A5.1.1: Equity Position Risk Factors—Recognised Market Index and Non Recognised Market Index

Table A5.1.1 sets out the Position Risk factors to be applied in determining an equity position risk for amount for the purposes of Annexure 3, depending on whether the underlying is in a Recognised Market Index or not.

Rule A5.1.1A Reduction of specific risk Position Risk Factor

Rule A5.1.1A provides that the specific risk Position Risk Factor for a single Equity in a Recognised Market Index can be reduced from 4% to 2% if:

- (a) all Equity Net Positions in that country are less than or equal to 10% of the aggregate of the absolute values of all Equity Net Positions in that country portfolio, and
- (b) the aggregate of the absolute values of all Equity Net Positions in that that are individually more than 5% and up to and including 10% of the aggregate of the absolute values of all Equity Net Positions in that country portfolio is less than or equal to 50% of that aggregate.

Table A5.1.2: Debt Position Risk Factors

Table A5.1.2 sets out the Position Risk Factors to be applied in determining debt position risk for the purposes of Annexure 3, depending on the method used and the nature of the Debt Instrument.

Rule A5.1.2A Position Risk Factors: Hybrid ETFs that are classified as Debt

Rule A5.1.2A outlines the Position Risk Factors to be applied under the standard method or building block method-maturity method to determine the debt position risk amount for a principal position in units in Hybrid ETFs classified as Debt Instruments, depending on whether the assets underlying the Hybrid ETF can be specifically identified or not.

Rule A5.1.2B Position Risk Factors: Other Managed Funds that are classified as Debt

Rule A5.1.2B outlines the Position Risk Factors to be applied under the standard method or building block method-maturity method to determine the debt position risk amount for a principal position in units in Other Managed Funds classified as Debt Instruments, depending on whether the assets underlying the Other Managed Fund can be specifically identified or not.

Table A5.1.3: Debt Building Block Method—Specific Risk Position Risk Factors

Table A5.1.3 sets out the specific risk position risk factors for the purposes of the Debt building block method.

Table A5.1.4: Debt Building Block Method—General Risk Time Band Matching Factors (TBMF)

Table A5.1.4 sets out the general risk time bank matching factors for the purposes of the Debt building block method.

Table A5.1.5: Rated Investment Grades

Table A5.1.5 sets out the Rated Investment Grades for the purposes of the definition of “Qualifying Debt Instrument”.

Table A5.1.6: Recognised Market Indexes

Table A5.1.6 sets out the Recognised Market Indexes in Australia, Austria, Belgium, Canada, France, Germany, Hong Kong, Italy and Japan.

Table A5.1.7: Foreign Exchange Position Risk Factors

Table A5.1.7 sets out the Position Risk Factors for foreign exchange risk.

Part A5.2 Counterparty Risk

Table A5.2.1: Risk Weightings

Table A5.2.1 sets out the risk weightings that may be applied to different Counterparties such as Banks, Central Banks, Central, State and Local Governments, Approved Institutions, Approved Deposit Taking Institutions (other than Banks), ASX Market Participants and ASX Clear Participants, for the purposes of Part A1.8 of Annexure 1.

Table A5.2.2: Potential Credit Exposure Factors

Table A5.2.2 sets out potential credit exposure position risk factors for Equity, Debt and Foreign Exchange, based on the remaining time to maturity.

Part A5.3 Other

Table A5.3.1: Recognised Non European Regulator

Table A5.3.1 sets out a list of “Recognised non-European Union Regulators” in Australia, Canada, Hong Kong, Japan, Singapore, South Africa and the United States, for the purposes of subparagraph (b)(i) of the definition of “Approved Institution” in Rule S1A.1.1.

Table A5.3.2: Recognised European Regulator

Table A5.3.2 set out “Recognised European Union Regulators” in Austria, Belgium, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain and the United Kingdom, for the purposes of subparagraph (b)(ii) of the definition of “Approved Institution” in Rule S1A.1.1.

Schedule 1C: Forms

Schedule 1C includes returns and forms that Market Participants must complete for the purposes of complying with Part 9.2 of these Rules.

Risk Based Capital Requirements Returns

Form 1, Part 1: Risk Based Capital Requirements - Ad Hoc Return

Form 1, Part 1 sets out the form of the return, known as the “Ad Hoc Return”, that a Market Participant may be required to provide to ASIC on an ad hoc, daily or weekly basis, for the purposes of:

- (a) Rule 9.2.1 (Ad Hoc or Summary Return on request by ASIC); or
- (b) Rule 9.2.2 (Core Capital or Liquid Capital below minimum).

Form 2, Parts 1 and 2: Risk Based Capital Requirements - Summary Return and Directors' Declaration to the Summary Return

Form 2, Parts 1 and 2 set out the form of a return, known as the “Summary Return”, that a Market Participant may be required to provide to ASIC on an ad hoc, daily or weekly basis, for the purposes of:

- (a) Rule 9.2.1 (Ad Hoc or Summary Return on request by ASIC);
- (b) Rule 9.2.2 (Core Capital or Liquid Capital below minimum).

Form 3A, Parts 1 and 2: Risk Based Capital Requirements - Monthly Return and Directors' Declaration to the Monthly Return

Form 3A, Parts 1 and 2 set out the form of a return, known as the “Monthly Return”, that a Market Participant that is a corporation will be required to provide to ASIC within 10 Business Days of the end of each calendar month, for the purposes of Rule 9.2.3 (Monthly Return).

The Monthly Return includes the same sections as the Summary Return plus a number of detailed pages that support the figures that appear in the Liquid Capital and Total Risk Requirement calculations. The number of sections in the Monthly Return that one Market Participant is required to lodge will vary to that of another Market Participant, depending on the business activities undertaken by the Market Participant and the methods used for calculating the Market Participant’s capital requirements.

It should be noted that for the months ended March, June, September and December Market Participants must complete a number of additional sections, irrespective of the business activities undertaken. These sections include matters such as contingent liabilities, credit facilities and other statistical information.

Form 3B, Parts 1 and 2: Risk Based Capital Requirements – Partnership Monthly Return and Directors' Declaration to the Partnership Monthly Return

Form 3B, Parts 1 and 2 set out the form of a return, known as the “Monthly Return”, that a Market Participant that is a partnership will be required to provide to ASIC within 10 Business Days of the end of each calendar month, for the purposes of Rule 9.2.3 (Partnership Monthly Return).

The Partnership Monthly Return is a reduced form of the Monthly Return in Form 3A.

Form 4A, Parts 1 and 2: Risk Based Capital Requirements - Annual Audited Return and Directors' Declaration to the Annual Audited Return

Form 4A, Parts 1 and 2 set out a form of return, known as the “Annual Audited Return”, that a Market Participant that is a corporation will be required to provide to ASIC within 3 months following the end of the Market Participant’s financial year, for the purposes of Rule 9.2.4 (Audited Annual Return).

Form 4B, Parts 1 and 2: Risk Based Capital Requirements – Partnership Annual Audited Return and Partnership Declaration to the Annual Audited Return

Form 4B, Parts 1 and 2 set out a form of return, known as the “Annual Audited Return”, that a Market Participant that is a partnership will be required to provide to ASIC within 2 months following the end of the Market Participant’s financial year, for the purposes of Rule 9.2.4 (Partnership Audited Annual Return).

Form 5: Risk Based Capital Requirements - Auditor's Report

Form 5 sets out the form of the statement by the Market Participant’s auditors on the accounts of the Participant for the purposes of Rule 9.2.4 (Annual Audited Return).

Form 6: Risk Based Capital Requirements - Key Risks and Internal Systems Statement

Form 6 sets out a form of declaration, known as the “Key Risks and Internal Systems Statement”, that each Market Participant will be required to provide to ASIC within 2 months (in the case of a partnership) or 3 months (in the case of a corporation) following the end of the Market Participant’s financial year, for the purposes of Rule 9.2.4 (Audited Annual Return).

Form 7: Risk Based Capital Requirements - Partnership Statutory Declaration

Form 7 sets out a form of declaration, known as the “Partnership Statutory Declaration”, that each partner in a Market Participant that is a partnership will be required to provide to ASIC within 10 Business Days after the end of June and December each year, for the purposes of Rule 9.2.5 (Partnership Statutory Declaration).

The Partners Statutory Declaration must be signed by the partner to whom it relates and witnessed in accordance with the instructions included on the declaration.

ATTACHMENT B

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011.

ASIC Market Integrity Rules (APX Market) 2013

This legislative instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

A. Overview of the legislative instrument

1. The legislative instrument sets out the market integrity rules (*new APX MIRs*) that apply to:
 - (a) the activities and conduct of the financial market (the *APX market*) operated by Asia Pacific Exchange Limited (*APX*);
 - (b) the activities or conduct of persons in relation to the APX Market;
 - (c) the activities or conduct of persons in relation to financial products traded on the APX Market.
2. The new APX MIRs also revoke the *ASIC Market Integrity Rules (APX Market) 2010* (the *2010 APX MIRs*) that set out the market integrity rules that have applied to the APX market since 1 August 2010.
3. APX is the holder of *Australian Market Licence (Asia Pacific Exchange Limited) 2004* authorising it to operate a financial market in securities and managed investment products. APX commenced operation of its market on 20 January 2005. The market ceased operation on 30 June 2008.
4. On 1 August 2010, as part of the transfer of responsibility for market supervision from Australian market licence holders to ASIC, ASIC made the 2010 APX MIRs. The 2010 APX MIRs were based on a subset of the APX Business Rules that were in existence prior to 1 August 2010. However, at the time the 2010 APX MIRs were made, and to date, the APX market has not been operating. APX now proposes to recommence operating.
5. When APX recommences operating ASIC must be able to appropriately supervise the activities and conduct of APX, its market participants and the activities or conduct of persons in relation to financial products traded on the APX market (see s798G of the *Corporations Act 2001 (Corporations Act)*). One of ASIC's primary means of supervising this conduct is through market integrity rules that apply to the APX market.
6. APX will recommence operating with a new trading system (with the capacity for automated order processing being available in the short term), new APX Business Rules and new APX Listing Rules. APX intends to provide trading services similar to those of ASX Limited (*ASX*) and Chi-X Australia Pty Ltd (*Chi-X*).
7. The 2010 APX MIRs were drafted based on the APX market's previous business model, trading system and Business Rules and are not suitable for a market that provides trading services similar to those provided on the ASX and Chi-X markets. Accordingly, ASIC proposes to modernise the 2010 APX MIRs to ensure that when the APX market recommences operations, it does so with a set of market integrity rules (among other things) that reflect the nature of its intended trading services. The 2010 APX MIRs will be revoked, and the new APX MIRs will be made under

s798G of the *Corporations Act*.

8. The new APX MIRs are modelled on the *ASIC Market Integrity Rules (Chi-X Australia Market) 2011 (Chi-X MIRs)*, which in turn were modelled on the *ASIC Market Integrity Rules (ASX Market) 2010 (ASX MIRs)*. The new APX MIRs differ from the Chi-X MIRs only as far as is necessary to reflect the operational differences between Chi-X and APX. That is, unlike Chi-X, APX is a listing market and offers trading services in products listed on its market, and trades executed on the APX market are not subject to central clearing.
9. The new APX MIRs impose obligations on participants of the APX Market (**APX participants**) that are also imposed by the Chi-X and ASX MIRs on participants of those markets, in relation to trading in equities, including requirements in relation to:
 - (a) management structure;
 - (b) insurance;
 - (c) responsible executives;
 - (d) designated trading representatives (**DTRs**);
 - (e) client relationships;
 - (f) trading and general record keeping;
 - (g) business connections;
 - (h) automated order processing (**AOP**); and
 - (i) minimum capital.
10. The new APX MIRs also impose obligations on the APX market operator, similar to those imposed on Chi-X and ASX market operators under the Chi-X MIRs and ASX MIRs including:
 - (a) providing a data feed from the APX trading platform to ASIC or its nominated surveillance system provider (to become a live data feed after an appropriate transitional period which is expected to be approximately 12 months); and
 - (b) providing details of the identity of APX participants to ASIC.
11. The Office of Best Practice Regulation (**OBPR**) has assessed the new APX MIRs as having a minor impact and confirmed that no further analysis, in the form of a Regulatory Impact Statement, is required.

B. Human rights implications

Article 17 of the International Covenant on Civil and Political Rights

12. The legislative instrument engages the right to privacy and reputation in Article 17 of the International Covenant on Civil and Political Rights (“Article 17”). Article 17 prohibits unlawful or arbitrary interferences with a person's privacy, family, home (which the UN Human Rights Committee has interpreted as including a person's workplace) and correspondence. It also prohibits unlawful attacks on a person's reputation. It provides that persons have the right to the protection of the law against such interference or attacks. The UN Human Rights Committee has not defined ‘privacy’. The Commonwealth Attorney-General's Department has provided guidance that privacy should be understood to comprise freedom from unwarranted and unreasonable intrusion into activities that society recognises as falling into the individual sphere of autonomy. To avoid being considered arbitrary, any interference with privacy must be in accordance with the provisions, aims and objectives of the ICCPR and should be reasonable in

the particular circumstances.²

13. The new APX MIRs impose a range of obligations on APX participants relating to record-keeping and notifications to ASIC that may engage the right to privacy and reputation in Article 17. Specifically the new APX MIRs impose obligations on APX participants to:
 - (a) keep accurate records of its management structure and its allocation of responsibilities among its Responsible Executives (i.e. individuals who have executive responsibility for the supervision and control for all or part of the business of the APX participant) (Rule 2.1.1);
 - (b) give ASIC a document that sets out the APX participant's management structure and its allocation of its responsibilities among its Responsible Executives, and to notify ASIC of significant changes to its management structure or allocation of responsibilities (Rule 2.1.2);
 - (c) ensure employees and other persons involved in the business of the APX participant in connection with the APX Market are of good fame and character and high business integrity having regard to specified criteria (Rule 2.1.4);
 - (d) notify ASIC of any notification to its insurer of any circumstance which is likely to give rise to a claim, any notice received from any person intending to make a claim or potential claim and the details of any claim against it (Rule 2.2.4);
 - (e) notify ASIC and the Market Operator of the particulars of proceedings if it commences, or has legal proceedings commenced against it, by another APX participant, Clearing Participant, Settlement Participant, regulatory authority or client (Rule 2.2.5)
 - (f) notify ASIC of the appointment or cessation of a Responsible Executive (Rule 2.3.1);
 - (g) notify ASIC annually of the names of each person that was a Responsible Executive and information about whether the person was a member of a professional body and whether during the year the person met the requirements of subrule 2.1.4(1) (good fame and character), paragraphs 2.3.1(2)(a) and (b) or (c) (skills, knowledge, experience and qualifications), subrule 2.1.5(2) (Unprofessional Conduct), paragraph 2.3.3(1)(d) (annual representation) and Rule 2.3.4 (continuing education) (Rule 2.3.5);
 - (h) allocate a unique identifier to each person who is Designated Trading Representative (**DTR**) of the APX participant, and maintain and keep a record of the person's name, contact details and DTR identifier for a period of 7 years (Rule 2.5.6 and 2.5.7);
 - (i) enter into a written agreement whereby a client entering into a transaction with respect to partly paid securities acknowledges certain obligations and those agreements are to be kept for a period of 7 years (Rule 3.1.9 and 3.1.11);
 - (j) keep a register of persons who are regarded as "Principal" for the purposes Part 3.2 on Trading as Principal, including partners, directors and company secretaries, and their immediate family (Rule 3.2.6);
 - (k) prepare a schedule on a monthly basis showing the amounts held in the APX participant's trust account on behalf of clients together with the names of the particular client in respect of each amount (Rule 3.5.11);
 - (l) make and keep for 7 years, records of its dealings for clients, including the names of the client and the person who gave, received or passed on the instructions to deal, and the name of the DTR who entered a trading message into the trading platform in respect of the instructions (Rule 4.1.1);
 - (m) make and keep for 7 years, records of its dealings on its own account, including the names of generated or passed on the instructions or made the decision deal, and the name of the DTR

² Australian Government Attorney-General's Department : *Privacy and Reputation*
<http://www.ag.gov.au/Humanrightsandantidiscrimination/Humanrightsandthepublicsector/Humanrightsguidancesheets/Pages/Privacyandreputation.aspx>

who entered a trading message into the trading platform in respect of the instructions (Rule 4.1.2);

- (n) make and keep for 7 years, records when it instructs another market participant to execute dealings on behalf of a client, including the name of the person who gave, received and passed on the instructions to deal (Rule 4.1.7);
 - (o) make and keep for 7 years, records when it instructs another market participant to execute dealings on behalf of itself, including the name of the person who received or passed on the instruction on (Rule 4.1.8);
 - (p) maintain records of the name and contact details of each Authorised Person (being a client or representative of the APX participant who is permitted to enter orders into the participant's system) and any person for which the Authorised Person is agent and keep those records for a period of 7 years from the date the person ceases to be an Authorised Person (Rule 4.1.9);
 - (q) maintain records of all complaints received by clients including correspondence between the APX participant and client in connection with the complaint and keep those records for at least 5 years from the date of the last correspondence (Rule 4.2.2);
 - (r) seek the written consent of ASIC to allow an employee to be a Controller of another Market Participant, have an employee who is an employee of another Market Participant or allow an employee of another Market Participant to access its premises (Rule 5.2);
 - (s) maintain and keep for a period of 7 years, records of the identity and capacity if the person placing an order that corresponds to a Trading Message, the DTR with responsibility for the Open Interface Device through which a Trading Message was submitted and whether the Trading message was submitted on a client account (Rules 5.5.3 and 5.5.4);
 - (t) maintain records of each Authorised Person's knowledge of any Automated Client Order Processing system (ACOP) as well as the APX dealing rules, directions, decisions and requirements relevant to the type of order submission facilities given to the Authorised Person by the APX participant (Rule 5.6.2);
 - (u) obtain and submit to ASIC representations that the APX participant's Automated Order Processing system (AOP) meets the requirements of Rule 5.6.3(a), (b) and (c), including the name of the person making the representation and a statement that that person is suitably qualified and experienced (Rule 5.6.6);
 - (v) submit to ASIC the name of the person making any confirmation that a material change has been made to the APX participant's AOP and is compliant with Part 5.6 of the Rules (Rule 5.6.9(2)); and
 - (w) notify ASIC where the APX participant has reasonable grounds to suspect that a matter referred to in paragraph 5.11.1(1)(a) or (b) of the Rules has arisen (referred to as "Suspicious Activity Reporting") (Rule 5.11.1).
14. The new APX MIRs also impose on the market operator obligations in relation to record-keeping and notifications to ASIC that may engage the right to privacy and reputation in Article 17, specifically, to:
- (a) deliver to ASIC the broker number and identifier code in relation to each Order entered on to the APX's Trading Platform (Rule 7.1.1); and
 - (b) maintain and provide to ASIC information about its market participants, being the participant's name, unique trading identifier and participant type (Rule 7.2.1).
15. The records and notifications required by the new APX MIRs may contain 'personal information' as defined in the *Privacy Act 1988*, being information or an opinion (including information or an opinion forming part of a database), whether true or not, and whether recorded in a material form or not, about an individual whose identity is apparent, or can reasonably be

ascertained, from the information or opinion. This may be the case where the person to whom the record relates (e.g. an employee or representative of the market participant or a client) is an individual.

16. The right in Article 17 is engaged by the new APX MIRs by reason that they:
 - (a) involve the collection, storage, security, use or disclosure of personal information;
 - (b) create confidentiality or secrecy provisions relating to personal information; and
 - (c) provide for mandatory disclosure or reporting of information.
17. The new APX MIRs are compatible with the rights recognised in Article 17 of the ICCPR by reason that any interference with a person's privacy or reputation resulting from compliance with the new APX MIRs will be lawful and not arbitrary. In particular:
 - (a) the new APX MIRs are made in accordance with ASIC's power to make market integrity rules dealing with the activities or conduct of persons in relation to licensed markets and in relation to financial products traded on licensed markets (see subsection 798G(1) of the Corporations Act), and with the consent of the Minister for Financial Services and Superannuation;
 - (b) the new APX MIRs will assist ASIC to perform its function of supervising financial markets, the operators of which are licensed under subsection 795B(1) of the Act (see section 798F of the Act);
 - (c) the new APX MIRs will further the objects of Chapter 7 of the Act, including promoting fair, orderly and transparent markets for financial products (see paragraph 760A(c) of the Act);
 - (d) the new APX MIRs will assist ASIC to perform its function of monitoring and promoting market integrity and consumer protection in relation to the Australian financial system (see paragraph 12A(2) of the *Australian Securities and Investments Commission Act 2001 (The ASIC Act)*; and
 - (e) information required to be provided to ASIC under the new APX MIRs will be protected in accordance with ASIC's legislative obligations under s127 of the ASIC Act and, to the extent the information is personal information, under the *Privacy Act 1988*.
18. If the new APX MIRs were considered to limit the right in Article 17 of the ICCPR, ASIC considers that the new APX MIRs are nevertheless compatible with that right. The right in Article 17 is not absolute. As noted, the right has implied limitations ('unlawful' and 'arbitrary') and may be subject to a permissible limitation where that limitation aims to achieve a legitimate objective, there is a rational connection between the limitation and the objective and the limitation is reasonable, necessary and proportionate.
19. Any limitation imposed by the new APX MIRs on the rights in Article 17 has a clear legal basis. Each of the obligations imposed by the new APX MIRs which may be considered to engage the right in Article 17 fall in to one of three broad categories:
 - (I) An APX participant must provide information to ASIC about individuals involved in the business of the APX participant (see the rules summarised at paragraph 13 (a), (b), (f)-(h), (j), (m)-(p), (r)-(v)):

(a) *Aims to achieve a legitimate objective*

The rules requiring management and other staff records to be provided to ASIC along with information regarding certification of certain IT systems will assist ASIC to perform its function of supervising financial markets under Part 7.2A of the Corporations Act and monitoring and promoting market integrity under s12A of the ASIC Act. It will also

further the statutory objects of Chapter 7 of the Corporations Act by promoting fairness honesty and professionalism by those who provide financial services and fair, orderly and transparent markets for all investors and participants (see s760A(b) and (ca) of the Corporations Act).

(b) *Has a rational connection with the objective*

It is necessary that APX participants have appropriate management structures, staff and IT systems in place before engaging in activity on the APX Market. The requirement assists in ensuring the APX market is fair, orderly and transparent, and assists ASIC in ascertaining whether APX participants are equipped to comply with the new APX MIRs and the law. The requirement also and assists ASIC to enforce compliance with the new APX MIRs and the law.

(c) *Is reasonable, necessary and proportionate*

The fair and efficient operation of the APX market will only be maintained if each APX participant is in a position to comply with the new APX MIRs at all times. It is therefore necessary for each APX participant to have in place appropriate management structures and staff to facilitate that compliance. APX participants may also use their systems for automated order processing, which has the potential to cause significant disruption to markets in a short timeframe. Therefore, automated order processing IT systems require appropriate certification by suitably qualified individuals and acknowledgement by ASIC that the certification is compliant, to minimise risks to the integrity of the APX Market. Safeguards in relation to the information provided to ASIC under these rules is provided by ASIC's statutory obligation in section 127 of the *ASIC Act 2001*, which ensures confidential and personal information contained in the notifications to ASIC remains confidential.

(II) An APX participant must report suspicious activity to ASIC (see the rule referred to at paragraph 13(w) above):

(a) *Aims to achieve a legitimate objective*

These rules which require reporting of information of a subjective nature will assist ASIC to perform its function of supervising financial markets under Part 7.2A of the Corporations Act, and to further the statutory objects of Chapter 7 of the Corporations Act by promoting fair, orderly and transparent markets for all investors and participants. Obtaining reports of suspicious activity reporting will ensure ASIC is able to continue to monitor and detect market misconduct, including the identity of those responsible for market misconduct, in light of rapidly developing technology and increasingly complex trading strategies. This will assist ASIC to perform its function of supervising financial markets under Part 7.2A of the Corporations Act and monitoring and promoting market integrity and consumer protection under s12A of the ASIC Act. It will also to further the statutory objects of Chapter 7 of the Corporations Act by promoting fair, orderly and transparent markets for all investors and participants (see s760A(c) of the Corporations Act).

(b) *Has a rational connection with the objective*

By ensuring that suspicious activity is reported to ASIC, this rule will enhance ASIC's ability to detect, pursue and deter misconduct which may have an impact on the fairness, orderliness and transparency of Australia's markets.

(c) *Is reasonable, necessary and proportionate*

The rules are necessary to achieve the legitimate objective described above because they provide ASIC with a significant additional source of market intelligence, recognised in

overseas jurisdictions as imperative to market integrity. The rules contain adequate safeguards by requiring an objective threshold to be met before a suspicious activity notification is made, and by requiring an APX participant to maintain the confidentiality of any such notification. Further safeguards are provided by ASIC's statutory obligations to protect confidential and personal information contained in the notifications.

- (III) An APX participant must provide certain information about its clients, about notifications to its insurer and about proceedings commenced by or against it to ASIC, and the market operator must provide certain information about APX participants to ASIC (see the rules referred to at paragraph 13 (d), (e), (i), (k), (l), (q) above);

(a) *Aims to achieve a legitimate objective*

The rules requiring some information about clients of an APX participant to be provided to ASIC are designed to protect those clients, by allowing ASIC to monitor an APX participant's dealings with those clients to ensure compliance with the new APX MIRs and the law. Other information to be given to ASIC in relation to a participant's business allows ASIC to monitor potential financial and other impacts on the business of the participant that may affect its continued operations. This will assist ASIC to perform its function of supervising financial markets under Part 7.2A of the Corporations Act and monitoring and promoting market integrity under s12A of the ASIC Act. It will also further the statutory objects of Chapter 7 of the Corporations Act by promoting fairness honesty and professionalism by those who provide financial services and fair, orderly and transparent markets for all investors and participants (see s760A(b) and (ca) of the Corporations Act).

(b) *Has a rational connection with the objective*

The rules requiring the provision of information to ASIC allows ASIC to receive early warning of potential misconduct – within the business of an APX participant, and in relation to that participant's compliance with the rules and the law. This enables ASIC to take early action to avoid or prevent impacts that may affect the business of the participant, or the financial affairs of its clients.

(c) *Is reasonable, necessary and proportionate*

These rules reasonably and necessarily promote the statutory objects of Chapter 7 of the Corporations Act by promoting fairness honesty and professionalism by those who provide financial services and fair, orderly and transparent markets for all investors and participants (see s760A(b) and (ca) of the Corporations Act). Safeguards in relation to the information provided to ASIC under these rules is provided by ASIC's statutory obligation in section 127 of the *ASIC Act 2001*, which ensures personal information contained in the notifications to ASIC remains confidential.

Article 6 of the International Covenant on Economic, Social and Cultural Rights

20. The new APX MIRs impose an obligation on APX participants to ensure employees and other persons involved in the business of the participant in connection with the APX market are of good fame and character and high business integrity, having regard to specified criteria (Rule 2.1.4, described at paragraph 13(c) above). The criteria specified in Rule 2.1.4 are:

- a. a person will not be of good fame and character if he or she is disqualified from managing a corporation under the Corporations Act or under the law of another country, or is an insolvent under administration or its equivalent in another country; and
- b. a person may not be of good fame and character or high business integrity if the person has been:
 - i. convicted of any offence;

- ii. disciplined or adversely mentioned in a report made by, or at the request of, any government or governmental authority or agency;
 - iii. adversely mentioned in a report made by, or at the request of, the Market Operator, a Clearing Facility, a Settlement Facility or any other exchange, market operator or clearing and settlement facility; or
 - iv. disciplined by the Market Operator, a Clearing Facility, a Settlement Facility or any other exchange, market operator or clearing and settlement facility.
21. Rule 2.1.4 of new APX MIRs may engage Article 6 of the International Covenant on Economic, Social and Cultural Rights (ICESCR). Article 6 of the ICESCR provides for the right to work which includes the right of everyone to the opportunity to gain his or her living by work he or she freely chooses or accepts.
22. Australia's ratification of the ICESCR together with the Discrimination (Employment and Occupation) Convention of the International Labour Organisation (*ILO 111*) requires all countries who are parties to declare and pursue a national policy designed to promote, by methods appropriate to national conditions and practice, equality of opportunity and treatment in respect of employment and occupation, with a view to eliminating any discrimination in respect thereof.
23. ILO 111 specifies certain grounds of non-discrimination, including race, colour, sex, religion, political opinion, nationality and social origin, it also leaves room for parties to add further grounds of non-discrimination. Australia has added further grounds of non-discrimination, including criminal record.
24. Clause 1 of Article 1 of ILO 111 defines discrimination as any 'distinction, exclusion or preference' that 'has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation...'. Clause 2 of Article 1 of provides that "Any distinction, exclusion or preference in respect of a particular job based on the inherent requirements thereof shall not be deemed to be discrimination'. ILO 111 does not define what is meant by 'inherent requirements', however the Australian Human Rights Commission's guidelines (*AHRC Guidelines*) set out key principles for assessing inherent requirements of a job, and those principles include the principle that "An inherent requirement is something that is 'essential' to the position rather than incidental, peripheral or accidental". The AHRC Guidelines also provide that "It can be an inherent requirement of a job that an employee be of 'good character' and 'trustworthy'. These requirements are common in public sector employment, industries with specific regulation such as racing or gaming, and in the licensing and registration of specific occupations such as nursing."³
25. APX Market Integrity Rule 2.1.4(1) may engage the right in Article 6 of the ICESCR by requiring that an APX participant must ensure that any employee or person who is involved in its business in connection with the APX market is of good fame and character and high business integrity having regard to guidance in Rule 2.1.4(2). Specifically the Rule provides that a person will not be of good fame and character if he or she is disqualified from managing a corporation under the Corporations Act or under the law of another country, or is an insolvent under administration or its equivalent in another country (Rule 2.1.4(2)(a)). Other criteria appear in the Rule, which may indicate to a participant that a person is not of good fame and character (Rule 2.1.4(2)(b)). These other criteria do not require an automatic, non-discretionary assessment that a person is not of good fame or character, and include criteria relating to whether a person has been convicted of a criminal offence, being disciplined or adversely mentioned in a report made by or at the request of the government, market operator, clearing facility or settlement facility (Rule 2.1.4(2)(b)). If Rule 2.1.4 of the new APX MIRs was considered to limit the rights in Article 6 of the ICESCR, ASIC considers that Rule nevertheless compatible with those rights. The rights may be subject to a

³ "On the Record" – Guidelines for the Prevention of Discrimination in Employment on the Basis of Criminal Record, 2012; paragraphs 4.3, 4.5

permissible limitation where that limitation aims to achieve a legitimate objective, there is a rational connection between the limitation and the objective and the limitation is reasonable, necessary and proportionate.

(a) *Aims to achieve a legitimate objective*

The objective of a rule that requires persons involved in the business of an APX participant to be of good fame and character serves a protective function for clients of the APX participant whose financial affairs may be affected by actions of the market participant in dealing in APX securities on the APX market on their behalf. The Rule also assists to ensure that the operations of an APX participant do not interfere with the integrity of the APX market. These aspects of the Rule further the statutory objects of Chapter 7 of the Corporations Act by promoting fair, orderly and transparent markets for all investors and participants (see s760A(c) of the Corporations Act).

(b) *Has a rational connection with the objective*

The premise of Rule 2.1.4 is that insolvents, or those banned from managing corporations have made questionable financial and, or, business decisions leading to those outcomes. That is relevant in the context of the operation of an APX participant, where employees and others engaged in the business may have responsibility for making financial and business decisions that could impact on the APX market, and clients of APX participants. The Australian Human Rights Commission has accepted, in appropriate cases, that it can be an inherent requirement of a job that an employee be of good character and trustworthy in industries with specific regulation (see paragraph 24 above). Market participants are subject to specific regulation in the Corporations Act, and ASIC market integrity rules, which reflects the particular risks associated with dealing in financial products for clients, and financial market stability generally.

(c) *Is reasonable, necessary and proportionate*

As noted Rule 2.1.4 provides for an automatic assessment that a person is not of good fame and character if he or she is disqualified from managing a corporation under the Corporations Act or under the law of another country, or is an insolvent under administration or its equivalent in another country (Rule 2.1.4(2)(a)). Compliance with this aspect of the rule may be waived by ASIC on application by a participant in the particular circumstances applicable to a participant and prospective employee (Rule 1.2.1 of the new APX MIRs sets out a general waiver power for all the new APX MIRs). Other criteria specified in Rule 2.1.4(2) are applied at the discretion of an APX participant - none of those criteria require an assessment that a prospective employee is not of good fame and character. ASIC's general waiver power is also applicable to these criteria, to the extent it could be necessary to waive criteria that are discretionary in their application to a prospective employee by an APX participant.

C. Consultation

26. In February 2013, ASIC undertook a targeted consultation on its proposal to revoke the 2010 APX MIRs and replace them with the new APX MIRs. Feedback was sought from relevant stakeholders being APX, ASX, Chi-X, Australian Financial Markets Association (*AFMA*), Stockbrokers Association of Australia (*SAA*), National Stock Exchange of Australia Limited (*NSX*) and SIM Venture Securities Exchange Ltd (*SIMVSE*).
27. ASIC received written submissions from APX, SAA, and Chi-X, and a combined response from NSX and SIMVSE. In that feedback, stakeholders were supportive of the proposed new APX MIRs being modelled on the Chi-X market MIRs, primarily because this approach minimises duplication of obligations for participants of multiple Australian markets. No human rights issues were raised.

28. ASIC has also consulted at length on the Chi-X and ASX MIRs on which the new APX MIRs in modelled, through:
- (a) CP 131 *Proposed ASIC Market Integrity Rules–ASX and SFE Markets*, released 26 February 2010.
 - (b) CP 145 *Australian equity market structure: Proposals*, released 4 November 2010;
 - (c) CP 148 *Proposed market integrity rules: Chi-X market*, released 4 March 2011;
 - (d) CP 161 *Proposed ASIC market integrity rules for capital and related requirements: ASX, ASX 24 and Chi-X markets*, released 3 June 2011.
 - (e) CP 166 *Market integrity rules: non-AFS licensee foreign participants and consequential amendments*, Released 17 August 2011;
 - (f) CP 168 *Australian equity market structure: Further proposals*, released 20 October 2011;
 - (g) CP 179 *Australian market structure: Draft market integrity rules and guidance*, released 28 June 2012.
 - (h) CP 184 *Australian market structure: Draft market integrity rules and guidance on automated trading*, released 13 August 2012.