

Attachment 1 to CP 195



ASIC

Australian Securities & Investments Commission

Proposed amendments to ASIC Market Integrity Rules (ASX 24)

November 2012

These draft market integrity rules reflect the proposals in Consultation Paper 195 *Proposed amendments to ASIC Market Integrity Rules (ASX 24)* (CP 195).

This attachment presents ASIC's proposed amendments to the ASIC Market Integrity Rules (ASX 24). These amendments are presented as a marked-up version of the relevant sections of the existing ASIC Market Integrity Rules (ASX 24).

For a copy of CP 195, see www.asic.gov.au/cp.

For more information, including the related ASIC advisory, go to www.asic.gov.au/markets.

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Chapter 1: Introduction

Part 1.4 Interpretation

1.4.3 Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**Employee**” in relation to a Market Participant includes a Director, ~~E~~mployee, officer, agent, Representative, consultant or adviser of that Market Participant, or an independent contractor who acts for or by arrangement with a Market Participant.

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

“**Exchange For Physical**” means a transaction where:

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

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

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

but is not a firm Order to buy or sell.

[“Financial Products” has the meaning given by Division 3 of Part 7.1 of the Corporations Act.](#)

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

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

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

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

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

“**Margin**” means [Initial Margin and](#) Variation Margin.

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

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

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

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

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

“**Month**” means calendar month.

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

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

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

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

as listed by the Market Operator.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**Trading Platform**” means a facility made available by the Market Operator to Market Participants for the entry of [T](#)trading [M](#)essages, the matching of Orders, the advertisement of invitations to Trade and the reporting of transactions.

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

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

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Chapter 2: The Market Participants

Part 2.2 Supervision and Risk management

2.2.1 Client Limits and Client connections

(1) Client Limits

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

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

(2) Client eConnections

- (a) Any Market Participant who has permitted its Client to connect to a Terminal will be responsible under these Rules for any Orders entered through the Terminal by the Client.
- (ab) Any Market Participant who has connected to a Terminal for the purposes of Trading for a House Account will be responsible under these Rules for any Orders entered through the Terminal.
- (b) ASIC may at any time by notice to a Market Participant, require a Market Participant to terminate ~~such a~~ connection referred to in paragraph (a) or (ab) either generally or in relation to a particular individual, Client, system or device or class of system or device.

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- (c) As soon as a Market Participant receives notification under Rule 2.2.1(2)(b), it must promptly take all steps necessary to terminate such connection.

(3) Obligations prior to Client connection

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

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

(4) Obligations prior to proprietary connection

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

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

Maximum penalty: \$1,000,000

2.2.3 Prohibited employment

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

- (a) these Rules or the ASIC Market Integrity Rules (FEX Market) 2012, which failure has been found to have occurred by ASIC;
- (b) the Market Operating Rules, which failure has been found to have occurred by the Market Operator; or

- (c) the operating rules in force prior to the commencement of these Rules, which failure has been found to have occurred by the Market Operator prior to commencement of these Rules.

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

Maximum penalty: \$1,000,000

2.2.7 Mandatory recording of information by Market Participants

(1) Recording by Market Participant

- (a) Each Market Participant dealing with Clients must record, via telephone lines and/or other electronic device, at its own expense, all conversations with Clients and other parties relating to Client instructions.
- (b) Each Market Participant must ensure that internal desks transmit all Orders to the futures desks in such a way that instructions are recorded via a telephone line or other electronic device.
- (c) Should circumstances arise where a Client has placed instructions in a manner where there is no electronic or other record, the Market Participant must ensure that the Client’s instructions are recorded in some manner.
- (d) Recordings and records maintained under Rule 2.2.7 must be retained for a minimum three (3) Month period.
- (e) Where the Representative of the Market Participant having the relevant conversation is doing so from outside Australia, under an arrangement whereby the Market Participant arranges for other Representatives of the global group to take Orders on behalf of the Market Participant during certain hours each Trading Day (“rolling the book”), the Market Participant must maintain recordings and records for the period which is customary for regulated intermediaries conducting similar Trades in that jurisdiction to retain such records.
- (f) Market Participants must ensure that all equipment used to record, including electronic devices, is functional at all times.
- (g) For the purposes of this Rule 2.2.7 in respect of a Market Participant which is a Corporation, a “Client” includes a Related Body Corporate or a division of the Market Participant—which is separate from the Market Participant’s futures division.

Maximum penalty: \$100,000

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2.2.8 Supervisory procedures

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

Maximum penalty: \$1,000,000

Part 2.3 Account reconciliation obligations

2.3.5 Annual declarations for clients' funds

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

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

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

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

Maximum penalty: \$1,000,000

Part 2.4 Foreign Participants

2.4.1 Minimum presence requirements

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

- (a) is a foreign entity; and
- (b) does not hold an Australian Financial Services Licence.

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

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

- (b) the Foreign Market Participant submits to the non-exclusive jurisdiction of the Australian courts in legal proceedings conducted by ASIC (including under section 50 of the ASIC Act) and, in relation to proceedings relating to a financial services law, by any person referred to in subsection 659B(1) of the Corporations Act and whether brought in the name of ASIC or the Crown or otherwise;
- (c) the Foreign Market Participant covenants to comply with any order of an Australian court in respect of any matter relating to the activities or conduct of the Foreign Market Participant in relation to the Market or in relation to Financial Products traded on the Market, including but not limited to any matter relating to the Foreign Market Participant's obligations under:
 - (ii) the ASIC Act;
 - (iii) the Corporations Act; and
 - (iv) 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:
 - (ii) the Foreign Market Participant must have at all times an agent who is:
 - (A) a natural person or a company;
 - (A) resident in this jurisdiction; and
 - (B) authorised to accept, on behalf of the Foreign Market Participant, service of process and notices; and
 - (iii) the Foreign Market Participant must notify ASIC of any change to:
 - (A) the agent; or
 - (C) 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
 - (iv) service of process on the Foreign Market Participant in relation to legal proceedings conducted by ASIC (including under section 50 of the ASIC Act), and in relation to proceedings relating to a financial services law, by any person referred to in subsection 659B(1) of the Corporations Act and whether brought in the name of ASIC or the Crown or otherwise, can be effected by service on the agent;
- (e) the deed applies notwithstanding that the Foreign Market Participant may have ceased to be a Market Participant; and
- (f) such additional terms notified by ASIC to the Foreign Market Participant.

Maximum penalty: \$1,000,000

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Chapter 3: Trading principles

Part 3.1 Trading principles for Orders entered on the Trading Platform

3.1.6 Aggregation of Orders

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

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

- (a) all futures or options Orders received when the Market is neither open, nor in the Pre-Opening Phase;
- (b) spread or custom market Orders received during the Pre-Opening Phase of the Market;
- (c) all futures or options Orders received and recorded at exactly the same time;
- (d) Orders that, by definition, cannot be entered upon receipt, for example “market on open” or “market on close”; and
- (e) Orders negotiated under Part 3.3 of these Rules (pre-negotiated business).

Maximum penalty: \$1,000,000

3.1.7 Disclosure

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

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

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

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

Maximum penalty: \$1,000,000

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3.1.8 Withholding Orders

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

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

Maximum penalty: \$1,000,000

3.1.9 Withdrawing Orders

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

Maximum penalty: \$100,000

3.1.10 Pre-arrangement

~~(1)~~ Subject to Rules ~~3.1.10(2)~~, 3.3.1(1)(b) and 3.4.1(a), a Market Participant must not arrange the details of a potential Trade between two or more parties unless Market Participants have been made generally aware of all relevant details of the potential Trade, or unless specifically permitted otherwise under these Rules.

~~(2) A Market Participant is not prevented from arranging the details of a potential Trade under Rule 3.1.10(1) where Orders may be aggregated under Rule 3.1.6.~~

Maximum penalty: \$100,000

3.1.11 Trading to the exclusion of others

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

Maximum penalty: \$100,000

3.1.12 Wash Trades

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

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

- (a) a transaction where both sides are taken by the same Market Participant where the ultimate Clients are different;
- (b) a transaction where both sides are by the same entity but acting in different capacities; and

- (c) a transaction where each side is for a different division of the same Market Participant entity which is Trading separately and for different purposes.

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

- (a) Where a wash Trade:
 - (i) is of 50 lots or more in volume;
 - (ii) is not or does not appear to be inadvertent; and
 - (iii) where a wash Trade does not relate to the following Market Contracts:
 - (A) 30 Day Interbank Cash Rate futures
 - (A) 90 Day Bank Accepted Bills futures
 - (B) 3 Year Commonwealth Treasury Bond futures
 - (C) 10 Year Commonwealth Treasury Bond futures
 - (D) SPI 200 Index futures; or
 - (iv) where a Market Participant's Client with direct market access has executed a wash Trade and the Client intended to cross the Trade.
- (b) Where a Market Participant breaches Rule 3.1.12(1):
 - (ii) A Market Participant must maintain a register in respect of any wash Trade executed under their mnemonic, recording details of breaches of Rule 3.1.12(1) that were not reported to ASIC under Rule 3.1.12(3) (a "wash Trade register").
 - (iii) Information to be maintained in the wash Trade register includes:
 - (A) time and date of Trade execution;
 - (E) deal number and full Order details;
 - (F) an explanation as to why/how the Trade occurred; and
 - (G) details of any subsequent action taken by the Market Participant.

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

(5) Where an error results in a Market Participant allocating both sides of a Trade to its error account, the Market Participant is not required to report this as a wash Trade to ASIC but must record the Trade on its wash Trade register. Maximum penalty: \$100,000

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

- (1) A Market Participant must:

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

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

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

Maximum penalty: \$100,000

Part 3.3 Pre-negotiated business orders

3.3.1 Pre-negotiated business

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

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

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

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

Note: There is no penalty for this Rule.

3.3.1A Entry of orders

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

- (a) make an enquiry through the message facility of the Trading Platform for a market in that contract month or strategy;
- (b) wait until the period of time prescribed by the Market Operator in the Market Operating Rules, or in the procedures to the Market Operating Rules, have elapsed since the entry of the enquiry or, if no such time is prescribed, 60 seconds; and

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(c) then immediately enter the Order on the Trading Platform for execution.

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

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

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

Maximum penalty: \$100,000

3.3.2 Client authorisation

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

Maximum penalty: \$100,000

3.3.3 Definition of Client

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

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

Note: There is no penalty for this Rule.

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Part 3.4 Trading principles for Block Trades

3.4.2 Prohibitions

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

(2) Market Participants cannot use the Block Trade Facility to execute “Roll Business”.

Maximum penalty: \$100,000.

Note: There is no penalty for this Rule.

Part 3.5 Trading principles for Exchange For Physical transactions

3.5.1 Prohibitions

No Exchange For Physical transaction may be effected:

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

Maximum penalty: \$100,000

3.5.2 Evidence of physical transaction

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

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

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

Maximum penalty: \$100,000

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3.5.3 Client authorisation

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

Maximum penalty: \$100,000

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Chapter 7: Margins and right of Close Out

Part 7.1 Interpretation

7.1.1 Definitions

In this Chapter:

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

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

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

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

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

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

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

Part 7.2 Obligations for Trading Participants

7.2.9 Margin Requirements ~~for~~ Trading on Financial Markets other than Markets operated by the Market Operator, [Margin Action Book](#) and [Margin Default Register](#)

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

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

(3) A Trading Participant must ensure that it has procedures in place to determine the Initial Margin and Variation Margin Calls are being made as soon as possible after the execution of the Client's instructions, including, but not limited to, the maintenance of a Margin Action Book and a Margin Default Register.

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

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

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

- (a) Client name;
- (b) amount of the Call;
- (c) time and date of the initial Call and any subsequent Calls;

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

7.2.10 Credit lines

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

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