



ASIC

Australian Securities & Investments Commission

CONSULTATION PAPER 27

Singapore Exchange Limited and ASX alliance agreement

October 2001

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1. Introduction

In June 2000 Singapore Exchange Limited (SGX) and Australian Stock Exchange Limited (ASX) entered into an alliance agreement to undertake the design of a reciprocal market linkage portal service to support cross border trading between the two Exchanges. The two Exchanges have subsequently proceeded with development of the technical linkage facilities, trading and settlement processes, and, in consultation with the Australian Securities & Investments Commission (ASIC) and the Monetary Authority of Singapore (MAS), development of an appropriate legal and regulatory framework for the linkage. This development work is now in its final stages.

Reciprocal market linkages are judged by ASX as an important strategic initiative which will help ASX maintain the relevance of its market in the face of globalisation. In ASX's view, small national securities markets run the risk of losing market share to global or regional exchanges. If major Australian companies see benefits in migrating to other markets that are more attractive to international investors, this will be to the detriment of ASX. Market linkages are seen by ASX as a vehicle to help retain ASX as the natural home market for the securities of Australian issuers.

This paper has been prepared by ASX, in consultation with ASIC. The main objectives of this paper are:

- (a) to describe the business model for the linkage at a high level, and highlight the major legal and regulatory principles supporting the linkage arrangements;
- (b) to seek comments in relation to particular aspects of the proposed linkage arrangements, (which are noted in *italics* throughout the paper); and
- (c) to invite comments on the proposed linkage arrangements generally.

Submissions are requested by the close of business on 26 October 2001. They may be sent by email to tracey.lyons@asic.gov.au

or sent to:

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All submissions will be treated by ASIC as public and will be provided to ASX unless otherwise marked.

This paper specifically refers to the ASX linkage with SGX, but the principles should be interpreted as generic for other markets, although some adaptation may be required depending on the foreign market.

2. Summary of the Exchange Linkage

ASX and SGX have formed an alliance for cross border trading of Australian and Singapore securities by establishing an electronic co-trading and clearing arrangement to provide brokers with a method to trade selected securities listed on the other Exchange. Use of the linkage service is optional for ASX POs. For transactions in SGX securities investors may continue using any existing broking arrangements they have, or they may instead choose to use the services of a PO which has adopted the portal linkage services of ASXPD.

In ASX's view, the benefits for an Australian investor arising from the proposed linkage are that they will have minimal settlement risk on the overseas part of a transaction through the link. An Australian investor will receive CHESS statements for its overseas shareholdings. Such reporting of holdings should, in ASX's view, be more convenient and familiar than that available using some other approaches to foreign custody services.

The service will be available to all SGX Trading Member Companies and ASX POs who meet the conditions of the service.

The linkage has been designed as a generic business model that can be applied generally to linkages between Stock Exchanges.

For the Singapore linkage, ASX and SGX will each use a wholly owned subsidiary entity, in this paper referred to as a “portal dealer” (PD), to facilitate cross border order execution, clearing, and settlement of transactions. The ASX Portal Dealer (ASXPD) will act as executing broker on ASX, and clearer, in relation to orders placed by the portal dealer subsidiary of SGX (SGXPD) on behalf of its Member firms through the portal linkage service. For this purpose ASXPD will become a limited purpose PO of ASX.

While ASXPD will comply with a large portion of the ASX business rules, leaving aside for present purposes those rules which regulate trading on ASX's options market, it will not be subject to all of the rules which currently apply to ASX POs. Further details in this regard are set out in Appendix A. ASXPD will, however, be subject to a new section of ASX's business rules, a draft of which is set out in appendix B.

The Exchanges will take on the counterparty risk through their “portal dealer” subsidiaries. Each parent Exchange entity will guarantee the settlement obligations of its PD subsidiary to the other Exchange's PD; that is, ASX will give a guarantee to SGXPD, and SGX will give a guarantee to ASXPD. If ASXPD places an order for an ASX PO on the Singapore market, and a default affecting settlement of a transaction arising from that order occurs on the Singapore market, ASXPD, not the ASX PO or its client, will bear the risk associated with settlement default.

ASX Operations Pty Limited (ASX Operations), a wholly owned subsidiary of ASX, already holds a dealers licence for the first phase of ASX's foreign market linkage service, which provides POs with access to a one-way link to some US markets. ASX Operation's activities in this regard will ultimately be conducted by ASXPD, which has applied for a dealers licence. If the licence is granted, ASX Operations will surrender its dealers licence.

ASXPD will only receive orders for ASX traded securities from SGXPD. The relationship between ASXPD and SGXPD for orders inbound to Australia is in essence a broker-client relationship. SGXPD will act as an order collector on behalf of its Members, and will not engage in proprietary trading except to correct an error or for risk management purposes, such as to sell out securities which have not been paid for by a defaulting SGX Member, where SGXPD has paid the amount to ASXPD. SGXPD will be responsible for all orders that are channelled through it from SGX Members. ASXPD will have no contractual relationship with SGX Members.

The Exchange-to-Exchange link is one of a number of ways in which securities quoted on an Exchange in one country can be accessed by investors in another country. It is an optional service which will be available to the POs/Members of the relevant Exchanges.

The two Exchanges have agreed to approve securities to be traded over the link which meet various criteria, including high liquidity. Thus it is envisaged that initially around 50 ASX securities and 50 SGX securities will be made linkage-approved.

ASX's preferred model for market linkages is a reciprocal arrangement between Exchanges to facilitate trading in each other's markets. Hence, for the alliance with SGX, SGX will route orders from its brokers for selected ASX listed securities to ASXPD, and ASXPD will act as the executing agent for SGXPD (which acts for the SGX brokers). Similarly, ASX will route orders from ASX POs for SGX listed securities to SGXPD, and SGXPD will act as the executing agent in Singapore for ASXPD (which acts for the ASX brokers).

An additional Memorandum of Understanding between ASX and SGX will be signed. It will facilitate the exchange of information by the Exchanges in relation to suspect trades. It will also allow the Exchange where an investor is located to take disciplinary action if an Exchange's Participating Organisation (PO) or Member has breached a rule in the other's market. These arrangements are additional to any powers currently held by the regulator or the Exchange in the country of the affected market.

Admission of ASXPD as a limited purpose PO of ASX, and its role in routing orders from overseas counterparties raises three key issues. These are summarised below, and are addressed in detail within this paper:

Compliance with ASX Business Rules

ASXPD will comply with specified parts of ASX's existing Business Rules, as well as a new special section. Otherwise, reliance will be placed on compliance by SGX Member Companies and Trading Representatives with current or new special rules of SGX when placing orders over the link to deal in ASX traded securities. Current SGX Rules which will apply to SGX Members trading in ASX securities are Rule 3.5 (supervisory rules), Rule 5 (capital and financial requirements), Rule 8 (disciplinary rules), Rule 8.1(11) (about unbecoming conduct), Bye-Law 4 on conduct of business requirements and Bye-Law 12 (Code of Conduct for Dealing in Securities).

Conflict of interest

ASX, in consultation with ASIC, will develop formal measures to ensure that the administration of the rules in relation to ASXPD is consistent with the administration of the Rules for all other POs and that conflict or the appearance of conflict is addressed.

Market integrity

Both ASX and SGX recognise that the home Exchange regulator will be the competent authority to regulate its POs or Members, and to prosecute rule breaches. This does not in any way hinder, however, the ability of ASIC or MAS to take action to enforce the respective securities laws of Australian and Singapore.

3. Service Description

Trading and Settlement of ASX Securities

Singapore investors will be able to buy and sell linkage-approved ASX securities denominated in Australian dollars (\$A), and hold those securities in the Central Depository (Pte) Limited (CDP) in Singapore. The holdings of ASX securities by Singapore investors in CDP will be reflected in the same securities accounts as their holdings of SGX securities. Settlement of these ASX securities between SGXPD and SGX Member Companies will be in \$A.

ASX will provide SGX with real time market information in relation to linkage approved ASX securities and that information will be made available by SGX to its Members. That information will be limited in depth and SGX Members will therefore not receive the same depth of information through the link in respect of approved ASX securities as do ASX POs. SGX Member Companies will access the ASX market via SGX's trading network. Orders from Singapore Members to buy or sell ASX securities will then be communicated through an inter-Exchange communications link to ASX, where the orders will be submitted to SEATS on behalf of ASXPD through an open interface device.

SGX will be able to access the ASX market on all ASX trading days, and will open its linkage service for ASX securities before the normal trading hours of SGX securities, to enable trading during normal ASX trading hours.

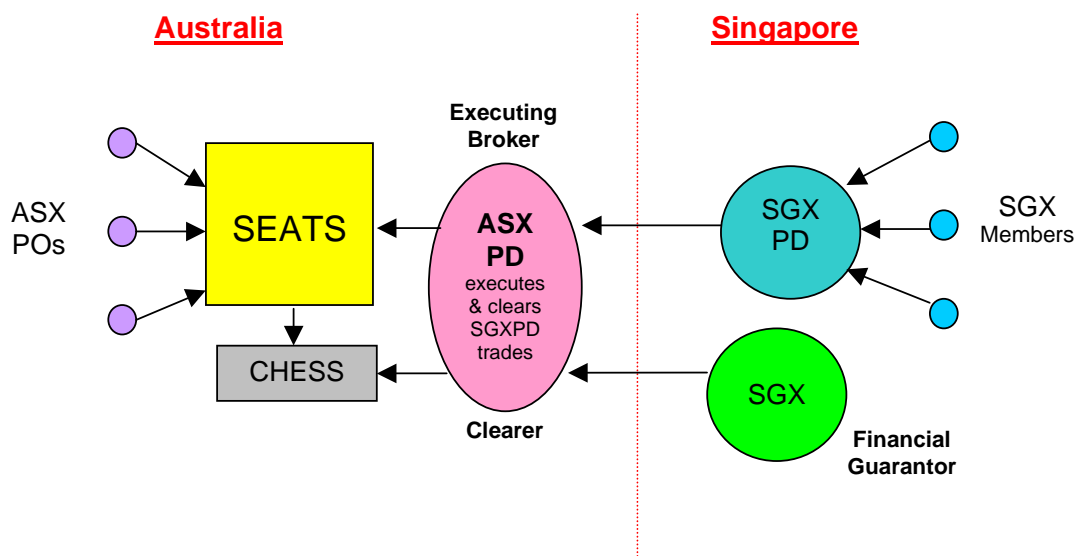
From ASX's perspective, orders for ASX securities, routed from Singapore will be entered in SEATS by ASXPD. ASXPD is responsible for filtering orders to accept orders for linkage-approved ASX securities only. Trades on SEATS between ASX POs and ASXPD will be settled in CHESS in the same manner as other SEATS trades.

As SGX Members are trading in ASX securities, they will be required to understand key areas of the ASX Business Rules pertaining to trading regulations, and any relevant differences between the ASX Rules and the Rules and Bye-laws of SGX-ST (Singapore Exchange Securities Trading Ltd – the equities market subsidiary of SGX). SGX will educate its Members on the appropriate rules. This will involve distributing information about the link and about the ASX market to SGX Members and discussions with representatives of SGX Members to explain how the link will function and the additional rules that will apply to them when trading on the ASX market through the link.

SGX Members may be disciplined by SGX if they are found to breach SGX Business Rules associated with trading misconduct on ASX. The relevant Business Rules are discussed later within this paper.

The following diagram illustrates the process for trading in ASX securities over the link:

Diagram 1 - SGX Members trading in ASX Securities



Trading and Settlement of SGX Securities

Australian investors will be able to buy and sell linkage-approved SGX securities denominated in Singapore dollars (\$S) with settlement in Australian dollars. ASXPD will arrange foreign currency conversions to cover the necessary sale or purchase of Singapore dollars in batches, before pricing a transaction in SGX securities for settlement in \$A.

As Australian investors who acquire SGX securities are not able to hold legal title to those securities, they will receive Foreign Depository Interests (FDIs) registered in CHESS, similar to the FDIs issued for US securities traded through ASX's existing foreign market service, to evidence their interest in these securities. Australian investors can choose to convert their holdings from the beneficial interest reflected by FDIs to a beneficial interest held by another custodian in Central Depository Private Limited (CDP). Such a holding would not be registered in CHESS. This conversion process is available under the SCH rules.

Australian investors will be able to keep track of their investment with CHESS Holding Statements. CHESS Depository Nominees (CDN) will act as custodian of the underlying SGX securities held in the Singapore depository by a custodian acting for CDN in Singapore.

SGX will provide ASX with real time market information (which is limited in the way set out below) in relation to linkage approved SGX securities and ASX will display that information to its POs. SGX will provide ASX with similar market information in relation to linkage approved SGX securities as it provides to information vendors, and ASX will display that information to its POs. That information reveals only the top price at which SGX securities are being traded, while SGX brokers receive depth of market but not the detailed orders. For information about company announcements SGX Members and ASX POs will receive the same level of information. Summary notices or announcement headers are sent over the linkage, and detailed information can then be retrieved from the SGX website. For information about corporate actions SGX Members and ASX POs will receive the same level of information. This information is available on both the ASX website and the SGX website.

ASX POs may access securities on the SGX market via a new ASX software application running on a PC connected via their SEATS Gateway to the ASX trading network. ASX will route orders for SGX securities from all participating ASX POs via the Exchange link into SGXPD for subsequent execution on the SGX CLOB (Central Limit Order Book) electronic trading system.

ASX will support trading of SGX securities until the end of the SGX trading day; ie beyond the end of regular ASX trading hours.

SGXPD will be the entity responsible in Singapore for entering SGX securities orders from ASXPD into the SGX market and meeting clearing and settlement obligations for resultant trades on behalf of ASXPD.

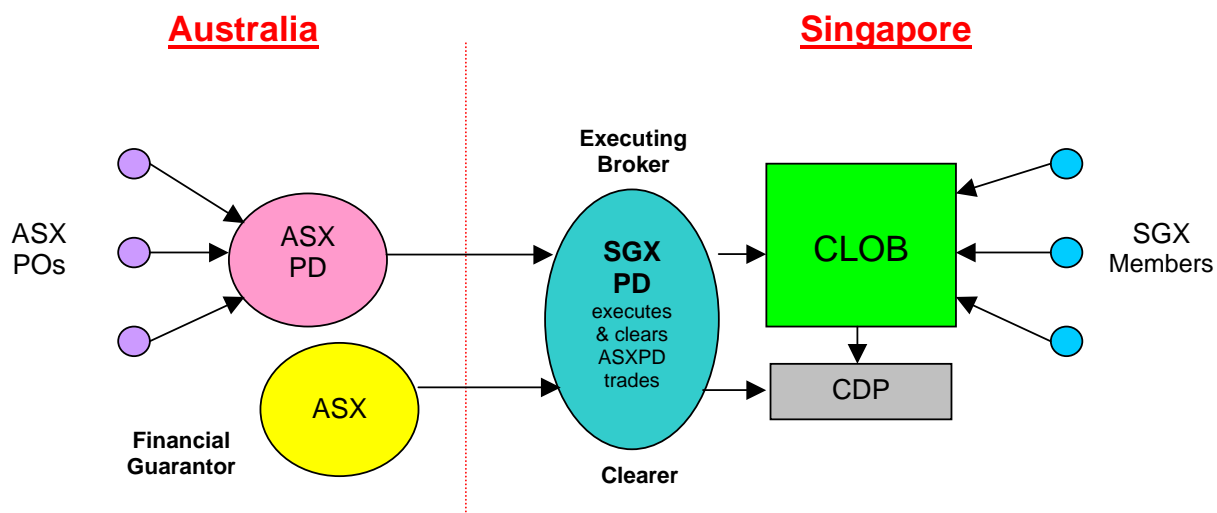
ASX will educate its POs on the appropriate rules for the SGX market. This will involve broker packages being distributed to all ASX POs which trade through the link. Those packages will include information about the SGX market, the linkage service and the ASX rules which will apply to ASX POs placing orders on the SGX market through the link. ASX POs may be disciplined by ASX if they are found to breach the ASX Business Rules associated with trading misconduct on the SGX market. These rules are discussed in later sections of this paper.

Holdings of SGX securities acquired over the linkage service by ASX investors will be held in CDP via an omnibus account held in the name of CDN (CHESS Depository Nominees), within the overall holding of a global custodian appointed by CDN. Based on the holdings in CDP, the holdings of ASX investors will be reflected in CHESS sponsored holdings. When CDN receives SGX securities, it will arrange for FDIs to be issued and registered in the name of the Australian investor entitled to those securities. This will occur via the CHESS settlement process. It should be noted that Australian investors will not be able to exercise any voting rights in SGX traded securities acquired via the foreign market link.

CHESS will manage the open obligations in the same way that outstanding obligations for ASX market transactions are managed. All settlement obligations for SGX securities traded over the link will settle in \$A through the CHESS batch settlement cycle. ASXPD will function as a broker participant in CHESS.

The following diagram illustrates the process for trading in SGX securities over the link:

Diagram 2 - ASX POs trading in SGX Securities



Issue: As noted above, each Exchange will provide the other with limited real time information in relation to linkage approved securities. This raises an issue as to whether investors in Australia will be trading on as informed a basis as their Singaporean counterparts and vice versa. Comments are sought as to whether it is appropriate for there to be a limitation on the information supplied by the Exchanges.

4. ASXPD as a Limited Purpose Participating Organisation

ASXPD will undertake two primary roles:

- acting as agent for ASX POs for orders in SGX securities routed to the Singapore market;
- placing orders in ASX securities received from SGXPD into the ASX market.

In addition it may undertake limited principal trading (see below).

ASXPD will be responsible for transactions effected on SEATS on behalf of its client, SGXPD. It will participate in CHESS to settle those transactions on behalf of SGXPD. It will also participate in CHESS to settle with other Australian POs (its clients) for transactions on SGX.

Although ASXPD will only receive orders from POs, or SGXPD under a highly automated linkage system (and from other Exchange PDs if the business model is replicated to other linkages), these functions fall within the definition of "dealing" in the Corporations Act, and hence ASXPD is required to be licensed as a dealer. It has applied for such a licence.

In order to stand in the ASX market for the orders of SGXPD, ASXPD will also become a limited purpose PO of ASX.

Trading as Principal

When dealing in the SGX securities, ASXPD will generally only transact business for ASX POs. In its licence application ASXPD has sought approval to trade as principal or for the ASX World Link custodian, CDN, in limited circumstances.

Apart from trading for testing purposes, ASXPD has sought to trade as principal in the circumstances set out below:

- if an ASX PO places a sell order for approved SGX securities but does not deliver the SGX securities in time for settlement, SGX automatically buys in SGX securities in the same company to ensure that settlement does take place. ASXPD will have to meet SGX's costs of doing so. If the ASX PO subsequently delivers the SGX securities that were meant to have been made available, ASXPD will want to divest itself of those "excess" shares. In doing so ASXPD will technically be acting as principal,
- in an extreme case, such as where there is high market volatility and a particular ASX PO has become a credit risk, ASXPD may need to manage its risk by dealing in SGX securities for example by withdrawing or cancelling orders, and
- if an ASX PO fails to pay for a purchase of securities and ASXPD has met that obligation, ASX PD has the right, under its agreement with the PO, to sell the securities and apply the proceeds to mitigate its loss.

As noted above, ASXPD has also sought approval to trade on behalf of CDN. Such circumstances might include:

- if CDN discovers through its reconciliation that it holds less of a particular SGX security than there are interests recorded as FDIs in CHESS (perhaps due to a miscalculation of a corporate action, but in any event due to an error of some kind), to ensure it is not in breach of its obligations as custodian it may have to instruct ASXPD to purchase securities;
- under the custody terms, if there is a corporate action that results in fractional entitlements which cannot be distributed to FDI holders, CDN may aggregate those entitlements and instruct ASXPD to sell the securities; and
- under the custody terms, if there is a corporate action which results in distributions to FDI holders so that their holdings no longer constitute a marketable parcel or parcels, CDN may aggregate 'odd lot' entitlements and instruct ASXPD to sell the securities.

Issue: Whether the proposed rule framework is adequate to regulate the circumstances in which ASXPD may seek to trade as principal or on behalf of CDN.

Compliance

ASXPD will outsource its day-to-day activities in connection with the linkage arrangements to ASX Operations. It will not, for example, have Designated Trading Representatives. ASXPD will, however, be the legal entity responsible under the ASX Business Rules and under the Corporations Act as a dealer and a clearing participant. It will comply with its obligations as a PO as follows:

- it will have the regulatory capital necessary to meet both its trading and regulatory responsibilities;
- its board will be comprised of expert directors;
- a compliance officer will be appointed;
- a compliance manual identifying all obligations as dealer and clearing participant will be maintained and the compliance officer will be responsible to the ASXPD Board for ensuring that those obligations are met;
- ASXPD's compliance officer will report to the ASXPD Board on a monthly basis;
- ASXPD will comply with all Rules relevant to the business of ASXPD and consistent with the limitations on that business under its licence;

As noted above, to the extent that ASXPD cannot comply with an ASX Rule because it does not have the relevant client information to do so, SGX Members placing orders with ASXPD will comply with similar provisions either in the existing SGX-ST Rules and Bye-laws or in a special section to be incorporated into those Rules and Bye-laws.

Risk Management and Capital Requirements

The principal financial exposure of an Exchange PD is to counterparty risk. The nature of the risk changes depending on whether the transaction is inbound (where the PD is the executing broker in its local market on behalf of the Foreign Exchange PD) or outbound (where the PD acts on behalf of local POs/Members for transactions in the foreign market).

ASX and SGX acknowledge that undertaking obligations as principal to POs/Members and between the PDs requires that there be sufficient capital to support the obligations. As such ASXPD will satisfy the capital requirements of the ASX Business Rules and SGXPD will be required to hold minimum capital in shareholder funds as determined by MAS.

ASXPD will comply with the capital liquidity requirements of Rule 1A of the ASX Business Rules. Compliance with the minimum capital requirement will be an ongoing obligation under the ASX Business Rules.

The risk that ASXPD defaults in the settlement of transactions in SGX securities is covered by a guarantee from ASX in favour of SGXPD for the settlement obligations of ASXPD. Similarly SGX provides a guarantee in favour of ASXPD for the settlement obligations of SGXPD for ASX securities.

Inspections of POs

It is ASX's current intention that ASXPD will be subject to a self-assessment and inspection process, which is consistent with the obligations imposed on all other POs. ASXPD will report annually on specific risk areas.

Application of Business Rules to ASXPD

Standards of conduct and obligations to comply with ASX rules, procedures and practices are imposed on ASXPD through the following two limbed regulatory framework:

- requirements to comply directly with specified ASX Business Rules; and
- a new special section of the ASX Business Rules which governs the role and responsibilities of a PD.

In addition, obligations will be imposed on SGX Member Companies and Trading Representatives through current or new linkage-specific SGX Rules and Bye-laws applicable to the Exchange link.

The role of a PD is facilitation only and hence can be distinguished from the usual role of POs/Members. A PD will act only on behalf of other POs/Members, for the Foreign Exchange partners or the Foreign Exchange PD and, in the case of ASXPD, for CDN. ASXPD will have no relationship with retail clients nor give securities advice. Thus many of the existing ASX Business Rules are not applicable.

Being a PD is limited to the Exchange or an Exchange subsidiary. ASX's view is that this is appropriate because only Exchanges have the regulatory means available to impose business rules, to agree to impose mutually consistent rules and disciplinary processes across markets and to enter into information sharing and investigation agreements.

In ASX's view, a link such as the one proposed requires sophisticated Exchange to Exchange technology links. These exist at several levels – the provision of relevant market data for display on each other's market data screens, the links between trade confirmation and settlement systems and the order routing technology.

As noted above, details of the application of the ASX Business Rules to ASXPD are given in Appendix A.

5. New Section of the ASX Business Rules

A separate section of the ASX Business Rules will be introduced to address Exchange linkages. Similarly, SGX-ST will introduce new Rules or Bye-laws.

The new section will cover rules which apply to the Exchange, or PD, when facilitating trading in foreign securities, and also additional rules or Core Trading Principles which apply to POs trading in foreign securities over an Exchange linkage.

New Rules for Portal (Exchange) Dealer

These rules will apply to entities with the following criteria:

- the PD is the Exchange or a related entity of the Exchange;
- the linkage partner Exchange is an acceptably regulated entity in its home jurisdiction;
- its clients are POs, the custodian for FDIIs, and/or linkage partner(s) (the foreign exchange or its related entity PD).

The new rules specify initial and ongoing requirements, including:

- capital to reflect the counterparty risk that the PD takes on
- a requirement to keep records of all orders and linkage transactions
- a requirement that the PD comply with the specified trading rules relating to SEATS transactions for all incoming trades;
- that the PD is subject to the investigation and information provision measures in the rules; and
- an express requirement that ASX act without bias in relation to ASXPD compliance.

Core Trading Principles for Trading in Foreign Market

The Exchanges will establish provisions in their respective rules which reflect the important principles of the foreign market's trading rules – referred to as Core Trading Rules or Core Trading Principles. These Core Trading Principles and Core Trading Rules will only apply to dealing through a foreign market link.

ASX Business Rules will have Core Trading Rules which are intended to apply to POs dealing through the linkage into SGX or to ASXPD when it trades in SGX securities as principal or for CDN.

Similarly, SGX-ST Rules will have Core Trading Principles which are intended to apply to its Members dealing through the linkage into ASX. In the limited circumstances where SGX trades as principal for risk management, or to correct an error, it is envisaged that the Core Trading Principles will apply. A draft of the proposed SGX rule amendments is attached as Appendix C.

It should be noted that the versions of the proposed ASX and SGX rules which are attached to this paper do not currently provide for their application to trading as principal through the foreign market link by their respective PDs. The proposed rules will be further amended in this regard.

The Core Trading Rules will essentially give regulatory leverage to the Exchange on which a trade occurs in the jurisdiction of the linked Exchange whence an order originated. They are designed to impose standards of conduct on brokers submitting orders over the link with respect to actions taken by the PD of the foreign Exchange, for example, to prohibit conduct by an ASX

PO which would lead to a breach of SGX market conduct rules by the SGXPD, and vice versa with respect to conduct of SGX Members.

Each market will investigate breaches of its own rules and enforce its investigative and disciplinary powers over its own brokers. As noted above, arrangements between ASX and SGX will have no impact on the respective powers and functions of ASIC and MAS.

Existing rules of business governance will continue to apply to POs/Members using the PD to complete linkage transactions as they currently apply to POs/Members' activities in dealing in foreign securities. To the extent that the Core Trading Rules regulate conduct on a market other than that of a PO's/Member's home Exchange, this concept extends the reach of market manipulation rules.

Existing ASX and SGX Rules which address competence, solvency, fiduciary obligations to clients and the protection of client assets will continue to contribute to the regulatory framework for trading in foreign securities under the Exchange link.

The key concepts are that the trading rules which should apply are those of the market on which the trade is effected, and the principle that the home Exchange should be the exchange responsible for disciplining its POs and Members.

Currently, when SGX brokers trade on the ASX market, it is through ASX POs which are subject to all relevant ASX Business Rules. SGX brokers using the link will use ASXPD for order execution, and as noted above, only specified parts of the Business Rules apply to ASXPD. ASX Rules will not bind SGX Members and SGXPD when they trade on the ASX market using the foreign market link, although, as noted above, SGX's Core Trading Principles will apply. The same approach applies for SGX Rules in relation to ASX POs. The Core Trading Rules will apply where the orders originate, so they will apply to POs/Members dealing through the linkage into a foreign market. This enables the regulatory reach of an Exchange to extend to brokers affiliated with a linked foreign Exchange. Clearly, however, the effectiveness of this mechanism depends on the willingness of the linked foreign exchange to enforce the Core Trading Rules.

The Core Trading Rules and Core Trading Principles will be included in the new section dealing with Exchange links and will address the following key trading and conduct rules:

RULES ON TRADING CONDUCT	ASX Business Rule	SGX Bye-law
Market manipulation prohibitions/ False market	2.2.4	BL12.8
Orderly market rules	2.2.3	R3.5 (General Membership Obligations)
TRADING RULES	ASX Business Rule	SGX Rule
Dealing in suspended securities	2.4.3	BL 12.7
Cancellation of contracts	2.17.1	6.5
Designated securities		6.7
Corner	3.9	6.8
Short Selling	2.11	-

As noted above, details of a new "Foreign Market Linkages" section of the ASX Business Rules are provided in Appendix B.

The Core Trading Rules of ASX and SGX are intended to reflect the important principles underlying each other's trading conduct rules. It should be noted that the Core Trading Principles are stated in general terms to allow for inclusion of other foreign markets in the future and there are therefore differences between the respective principles, as well as the corresponding trading rules which they are intended to reflect. These differences may prove significant in practice.

In addition, there are circumstances where the proposed rule framework may have the effect that SGX Member Companies are at an advantage to POs when trading on ASX, for example, in connection with crossings and the procedures to be carried out in relation to errors and cancellations.

Finally, it should be noted that, although the SGX Core Trading Principles refer to short selling, ASX has advised that it currently intends SGX Member Companies and SGXPD will not be permitted to short sell securities traded via the ASX-SGX foreign market link.

Issues:

- 1. Is the proposed rule framework considered adequate for the regulation of the foreign market link? In particular, is the concept of Core Trading Rules/Principles which will be enforced by the home Exchange regulator rather than the Exchange on which the trading takes place appropriate?***
- 2. Do ASX's Core Trading Rules and SGX's Core Trading Principles cover all of the matters which ought to be addressed on a reciprocal basis?***
- 3. Should ASXPD be required to comply with more of the ASX business rules than is currently envisaged?***
- 4. Is it appropriate for ASX to limit the class of potential PDs to Exchanges or exchange subsidiaries?***
- 5. Is it appropriate that ASX business rules will not apply to SGX Member Companies trading on ASX via the foreign market link?***
- 6. Does the proposed framework appear to be sufficiently generic to have a more general application to links with other exchanges?***

6. Investigation of Cross Border Trading

Each Exchange in a linkage alliance will continue to investigate breaches of its own rules and the Core Trading Principles described in the previous section. Each Exchange will enforce its investigative and disciplinary powers over its own POs/Members.

An Exchange may seek assistance of the alliance Exchange to carry out further investigation (eg. conducting interviews) if a preliminary review shows that there is a reasonable basis to suspect improper trading activities across the link by the POs/Members of the linked Exchange. This will be agreed in a Reciprocal Arrangement or MOU, and supported by the home Exchange's rules.

If ASX receives a referral from SGX concerning suspected misconduct on SGX's market through the SGX-ASX link ASX will investigate the trading of relevant POs. The investigation will be to ascertain whether:

- there has been a contravention of the Core Trading Principles; and
- disciplinary action should be taken.

ASX will be solely responsible for deciding whether there has been a breach of its rules and what (if any) is the appropriate course of action to take.

Similarly SGX will investigate relevant Members if it receives a referral from ASX concerning suspected misconduct on ASX's market arising from transactions over the link.

The affiliation Exchange of a broker will have the final say in determining whether there has been a breach of its rules. If an Exchange determines that a breach has occurred, it would also be the party that determines the appropriate course of action (ie, whether to charge the broker). The usual disciplinary procedures will apply (such as reference to the Disciplinary Committee). The penalty imposed on the broker associated with the breach would be as decided in accordance with those usual procedures.

In addition, the ASX and SGX surveillance teams will liaise on individual matters, and will discuss common interpretations of Core Trading Principles and operational issues.

Notwithstanding arrangements as between ASX and SGX, it is recognised that ASIC and MAS respectively will be the competent authority to regulate, and prosecute where necessary, brokers in their jurisdiction for any breach of securities law.

7. Conflict of Interests

ASX and SCH have obligations to monitor and enforce compliance with their business rules. ASXPD as a limited purpose PO will be bound to comply with relevant business rules. It is important that ASX and SCH are and are seen to be acting impartially in their oversight of ASXPD, and that no favourable treatment is given to ASXPD by virtue of its position as part of the ASX group.

It may be argued that the ASXPD is competing with some Participating Organisations for foreign sourced order flow. It is therefore also important to ensure that in administering the rules in connection with other Participating Organisations that ASX does not and does not seem to be favouring the commercial interests of ASXPD.

Key Areas of Potential Conflict

ASX considers that the areas of significant potential for conflict and perception of conflict are:

- Monitoring compliance with rules (in particular, in monitoring financial compliance and in the administration of waivers and discretions under the rules)
- Investigating suspected breaches of rules
- Prosecuting suspected breaches of rules

Key features to manage potential conflict and perception of conflict

ASX and ASIC are currently considering the most appropriate method for addressing the conflict of interests issues which arise in relation to Exchange linkages. Any arrangements between ASIC and ASX in this regard will be supplemented by the overall framework of market regulation discussed below.

Statutory obligations and powers of the Minister and ASIC under the Corporations Act.

Statutory obligations relevant to the conflict issues include:

- ASX must operate a fair, orderly and transparent market
- ASTC must operate a fair and efficient clearing and settlement facility
- ASX and ASTC must have adequate arrangements to handle conflicts between commercial interests and supervisory obligations
- ASX and ASTC must report on compliance with their statutory obligations.

The Minister and ASIC have broad powers in relation to ASX and ASTC, including powers to audit, investigate and obtain information and to give directions. These powers are contained in the Corporations Act 2001 (C.A.) and the Australian Securities and Investment Commission Act 2001 (ASIC Act).

For example:

- | | |
|--------------|--|
| (C.A.) s769B | - Minister can give directions to ASX |
| s769C | - ASX requirement to provide annual report |
| s769D | - Minister can require ASX to give an additional report or audit |
| s776 & | |
| s779D | - ASX and ASTC must provide assistance to ASIC |
| s777 & | |
| s779C | - ASIC may seek court enforcement of ASX & SCH Business Rules |

ASIC Act - ASIC powers to require production of records and investigate matters
Part 3 relating to breaches of the Corporations Act (including in relation to securities contracts).

The powers will continue to exist (and will be supplemented by an ASIC power to audit ASX and ASTC) when the Financial Services Reform regime comes into effect.

Constitution of ASX and Business Rules

- Amendments to the ASX Constitution, which are proposed in light of the provisions of the Financial Services Reform Bill 2001, will expressly oblige ASX to satisfy its statutory obligations and will continue to oblige ASX to exercise its powers under the rules “fairly and impartially, in the interests of the public and with due regard for principles of natural justice”.
- The new section of ASX Business Rules dealing with international linkages will require ASX to act without bias in relation to the ASXPD.
- SCH Rule 1.4A (originally introduced to address potential ASTC conflict when dealing with ASX as an issuer within the CHES system) gives ASIC the power to direct SCH to do specified things in order for SCH itself to comply with the SCH Rules.

Dealers Licence

- Licence conditions may limit the activities of ASXPD, to minimise areas of potential conflict. As is currently the case for the dealers licence held by ASXO for the US part of the link, this could include restrictions on acting on its own account, requirements that it only act for POs or foreign Exchange PDs, requirements to only act in relation to participating foreign securities, and a prohibition on giving advice.

ASIC will have direct oversight of compliance by ASXPD with its licence obligations.

Internal Policies and Procedures of the ASX Group

There are already a number of general policies and procedures in place to handle the potential conflict between ASX’s commercial objectives and its supervisory responsibilities relevant to ASXPD. These include:

- Structural independence of the surveillance and investigation and enforcement units.
- Codes of conduct for those units to entrench the use of powers for proper purposes only, and never to gain a competitive advantage for ASX. Information obtained in the course of an investigation must be quarantined from the commercial areas of ASX.
- Independence of the National Adjudicatory Tribunal and Appeal Tribunal from ASX.

It is also intended to extend the codes of conduct to other areas of ASX which are involved in monitoring compliance with rules, for example, the Compliance/Information, and Risk Management areas.

This will be supplemented with duty descriptions for individuals which make express their obligations not to treat ASXPD differently to other Participating Organisations.

The arrangements within ASXPD will be directed to ensuring full compliance with its licence and rules obligations. A compliance officer will report directly to the Board of the portal dealer, and a comprehensive compliance manual is being developed.

The activities of ASXPD will also be subject to internal and external audit. Currently ASX’s internal audit function is outsourced to a major accounting firm, which does not externally audit ASX.

Role of ASX Supervisory Review (ASXSR)

ASXSR does not currently have a role in relation to the potential PD conflicts.

Issues

- 1. What measures should be taken to address potential conflict of interest issues?***
- 2. What should ASIC's role be in addressing potential conflict of interest issues?***

Appendix A – ASXPD Compliance with ASX Business Rules

Outbound Trades

ASXPD will comply with those Rules that apply to all other POs when placing orders in overseas or other non-ASX quoted securities except for those parts of Rule 3 which will not apply to ASXPD as the broker client relationship between POs as clients and ASXPD as broker will be governed primarily by the terms of their broker client agreement called the “ASX World Link Agreement”. Rules 3.12 – 3.17 will apply.

Inbound Trades

SECTION 1	ASXPD will comply.
SECTION 1A	ASXPD will comply.
SECTION 2	ASXPD will comply with Rules 2.2.1(1)-(5), (7)-(9), 2.2.3(1) (a) (b) and (d), 2.2.5 (except (1)(b)), 2.2.6, 2.2.7(1)(b) and (2), 2.2.8, 2.3 (except 2.3.4(2)(b)), 2.4, 2.5, 2.6.1-5A, , 2.9, 2.10, 2.12, 2.15, 2.16, 2.18, 2.19 and 2.19A.
SECTION 2D	This Section relates to wholesale loan securities and therefore does not apply to the foreign market link.
SECTION 3	ASXPD will comply with Rules 3.12-3.17. The broker client relationship between ASXPD and the foreign market PD will be primarily governed by the client agreement between them.
SECTION 4	Most of this section does not apply to the foreign market link service because it relates principally to non-CHESS securities. To the extent that provisions in Section 4 apply, S will comply with them.
SECTION 5	Much of Section 5 will not apply because it relates to recognition on the basis that a PO has Affiliates or Responsible Executives. The basis for recognition of ASXPD is to be set out in the special section of the Rules on Exchange-to-Exchange links. ASXPD will comply with Rules 5.2, 5.4, 5.5, 5.6(1) and (2), 5.8, 5.9, , 5.11, 5.11A(1), 5.12 – 5.17.
SECTION 5A	Will not apply because the criteria for recognition of ASXPD will be set out in the Special Section instead.
SPECIAL SECTION	ASXPD will comply with its obligations.
SECTIONS 6 – 12	Not relevant to the foreign market link.
SECTION 13	ASXPD will comply.
SECTION 14	ASXPD will comply.

Those Rules in Section 3 that are proposed not to apply, either are irrelevant (eg 3.4 (there will be no discretionary accounts or managed funds), 3.5 (ASXPD will not be giving advice to clients), 3.7 (death of a client – all ASXPD’s clients will be entities not people)) or are superseded by more specific provisions in the Agreement between ASXPD and SGX’s PD dealing with their reciprocal broker client relationships.

The Rules in Section 2 that are proposed not to apply either:

- (a) relate to recognition (eg 2.1A.1-5) which is dealt with in the Special Section;
- (b) provide conditions of suspension and cancellation of recognition (2.1A.6 and 7) which will largely be reproduced in the Special Section;
- (c) fall outside the scope of the foreign market service (2.6.6 – 2.6.8, 2.7.2 – 2.7.5 will not apply because the service will not be available for trades during the Closing Phase. 2.2.2 won't apply because ASXPD will comply with the other Rules which do not apply to Automated Order Processing. 2.7.4A, 2.13 and 2.14 will not apply as off market transactions are not available on the link. Rule 2.8 is out because special crossings are not available on the service and 2.20 does not apply because takeover bids are not approved as an order type on FML; or
- (d) are mirrored in the existing Rules and Bye-Laws of SGX-ST or will be the subject of new Core Trading Principles in the SGX Rules (eg although ASXPD will not be able to comply with Rule 2.11 on short selling for inbound trades because it will not be in a position to know whether an order placed through it is a short sale or not, the problem will be addressed closer to the beginning of the order chain because SGX's Special Section prohibits short selling).

APPENDIX B

Amendments to ASX Business Rules (Draft Version)

SECTION 15 - FOREIGN MARKET LINKAGES

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15 FOREIGN MARKET LINKAGES

15.1 INTERPRETATION

DEFINITIONS

In Section 15 of the Rules, the following terms have the following meanings, unless the context requires otherwise.

“ASX World Link service” means the access and services developed to facilitate Australian investors’ participation in approved securities markets outside Australia and international investors’ participation in approved securities on ASX markets.

“ASX World Link Agreement” means an agreement so termed between a Portal Dealer and a Participating Organisation in connection with the ASX World Link™ service.

“ASXO” means ASX Operations Pty Limited ABN 42 004 523 782.

“Authorised User” means an employee of a Participating Organisation who is authorised under the terms of the applicable ASX World Link Agreement to place Orders for that Participating Organisation through the ASX World Link service.

“Core Trading Rules” means collectively, the Rules that a Participating Organisation must observe in connection with its dealings in Participating Foreign Securities through the ASX World Link service, as set out in Rules 15.5.4 to 15.5.10 inclusive.

“Exchange” means Australian Stock Exchange Limited ABN 98 008 624 691.

“FDI” has the meaning given in the SCH Business Rules.

“FML Workstation” means a personal computer on which is installed a software product provided by ASXO for use by any Participating Organisation permitted to access the ASX World Link service for the time being.

“Foreign Portal Dealer” means a Participating Foreign Exchange or an entity affiliated with a Participating Foreign Exchange that acts as an intermediary:

- (a) on behalf of trading participants in a Participating Foreign Market in order to facilitate placing orders, order execution, clearing and settlement of Participating ASX Securities through the ASX World Link service; or
- (b) on behalf of the Portal Dealer to facilitate placing orders, order execution, clearing and settlement of Participating Foreign Securities through the ASX World Link Service.

“Order” means an order placed by a Participating Organisation to buy or to sell any Participating Foreign Securities using the ASX World Link service.

“Participating Foreign Exchange” means a Recognised Stock Exchange located outside Australia that has agreed co-operative arrangements with the Exchange to enable Australian investors to transact on that Participating Exchange in Participating Foreign Securities and investors from that Participating Foreign Exchange’s home jurisdiction to transact on the Exchange in Participating ASX Securities.

"Participating ASX Security" means a Security that is quoted on a market of the Exchange and has been approved for trading by members of a Participating Foreign Exchange through the ASX World Link service, by agreement between the Exchange and the Participating Foreign Exchange.

"Participating Foreign Market" means a stock market administered by a Participating Foreign Exchange to which access is for the time being available through the ASX World Link service.

"Participating Foreign Security" means a security that is quoted on a market of a Participating Foreign Exchange and is eligible to be traded for the time being through the ASX World Link service, as notified to Participating Organisations by the Exchange from time to time.

"Portal Dealer" means the Exchange or a related body corporate of the Exchange that the Exchange determines is to act as an intermediary:

- (a) for Participating Organisations in order to facilitate placing Orders, Order execution, clearing and settlement of Participating Foreign Securities through the ASX World Link service; or
- (b) for a Foreign Portal Dealer to facilitate placing orders, order execution, clearing and settlement of Participating ASX Securities through the ASX World Link service.

15.2 SCOPE OF SECTION 15

15.2.1 Application of Section: limited to World Link Participating Organisations and Portal Dealers

This Section applies only to Portal Dealers and to Participating Organisations that are for the time being permitted, in accordance with the provisions of an ASX World Link Agreement, to access the ASX World Link service to place orders and to execute transactions in Participating Foreign Securities on Participating Foreign Exchanges, to the extent provided.

15.2.2 Portal Dealer References

References in this Section to a Participating Organisation do not include a Portal Dealer, but references to Participating Organisations in other Sections of the Rules do apply to each Portal Dealer except to the extent specifically excluded by this Section.

15.2.3 ASX World Link Agreement – Section 15 prevails

If the Rules in this Section which are applicable to Participating Organisations, are inconsistent with the provisions of an ASX World Link Agreement, the Rules in this Section take precedence.

15.2.4 Other ASX Business Rules apply too

A Participating Organisation to which this Section applies and a Portal Dealer, when dealing in Participating Foreign Securities, must comply not only with this Section but also with those Rules which apply to all Participating Organisations trading in non-ASX listed securities.

15.3 PORTAL DEALER - ROLE AND RESPONSIBILITIES

15.3.1 PORTAL DEALER MUST BE A PARTICIPATING ORGANISATION

(1) A Portal Dealer is a Participating Organisation that has been recognised as a Trading Participant and a Clearing Participant under Rule 15.4.1.

(2) A Portal Dealer acts in that capacity only in relation to such Participating Foreign Markets as the Exchange may from time to time prescribe.

- (3) The Exchange may prescribe more than one Portal Dealer at any time for the ASX World Link service.

15.3.2 FUNCTIONS OF PORTAL DEALER - OUTGOING TRADES

A Portal Dealer provides support for the trading and clearing of Participating Foreign Securities by:

- (a) acting as agent for buy or sell Orders (or instructions to cancel or adjust previous Orders) that it receives from another Participating Organisation for submission by a Foreign Portal Dealer into the trading system of the applicable Participating Foreign Market;*
- (b) providing trade confirmation to that Participating Organisation of any Order executed in that Participating Foreign Market;*
- (c) discharging any resulting Participating Foreign Market foreign currency payment obligation or securities delivery obligation, as applicable, owed by it (in its capacity as a client of the Foreign Portal Dealer) to that Foreign Portal Dealer;*
- (d) discharging through CHES any equivalent payment obligation or securities delivery obligation, as applicable, owed by it to the Participating Organisation referred to in paragraph (a) in accordance with the SCH Business Rules; and*
- (e) making custody arrangements for Participating Foreign Securities acquired through the ASX World Link service.*

15.3.3 FUNCTIONS OF PORTAL DEALER - INCOMING TRADES

A Portal Dealer provides support for the trading and clearing of Participating ASX Securities by:

- (a) acting as agent for buy or sell orders (or instructions to cancel or adjust previous buy or sell instructions) from a Foreign Portal Dealer, as client, into and executing a transaction in SEATS;*
- (b) providing confirmation to the Foreign Portal Dealer of transactions so executed;*
- (c) clearing or arranging for the clearing of all trades resulting from the execution of the transactions in CHES; and*
- (d) effecting settlement on a basis agreed with its client Foreign Portal Dealer and discharging the related settlement obligation in CHES.*

15.3.4 RESTRICTIONS ON PORTAL DEALER'S ACTIVITIES

A Portal Dealer must not, in that capacity:

- (a) transact business other than as contemplated by Rules 15.3.1, 15.3.2 or 15.3.3;*
- (b) subject to paragraph (d) immediately below, transact business for persons other than:*
 - (i) a Participating Organisation; or*
 - (ii) a Foreign Portal Dealer;*
- (c) deal in a market otherwise than in relation to Participating Foreign Securities and Participating ASX Securities; or*
- (d) deal in a market for its own account as beneficiary, or allow a Prescribed Person within the meaning of Rule 5.8 to do so, except where:*
 - (i) in the reasonable opinion of the Portal Dealer; and*
 - (ii) having due regard to its responsibilities as contemplated in these Rules,*
it is necessary or desirable to do so in order to manage risk prudently (for example to close out a position in excess of any permitted position limit) or to correct any error on its part.

15.4 APPLICATION OF BUSINESS RULES TO PORTAL DEALER

15.4.1 RECOGNITION AS PARTICIPATING ORGANISATION

(1) Notwithstanding any other provision of these Rules, where the Exchange satisfies itself that a prospective Portal Dealer has or has access to facilities, procedures, personnel and financial resources which are adequate:

(a) to facilitate the expeditious and orderly transaction of business through the ASX World Link service in connection with any Participating Foreign Market for which it is proposed to act as Portal Dealer; and

(b) to manage risk likely to arise in the course of its activities in that capacity,

the Exchange may, without more, recognise that entity as a Participating Organisation.

(2) Notwithstanding Rule 2.1A, a prospective Portal Dealer that has been recognised as a Participating Organisation:

(a) becomes a Trading Participant on the grant to it of a dealer's licence under the Corporations Law; and

(b) becomes a Clearing Participant on its admission to participation in CHES under SCH Rule 2.1.1.

15.4.2 SUSPENSION OF TRADING PERMISSION

If:

(a) a Portal Dealer ceases to comply with the requirements in Rule 15.4.1;

(b) a Portal Dealer, whether in its capacity as a Trading Participant or a Clearing Participant:

(i) is suspended from any or all of the rights or privileges of recognition as a Participating Organisation of the Exchange; or

(ii) has its participation in CHES suspended or restricted by SCH or ceases to be admitted as a Participant under SCH Rule 2.1.1;

(c) the Clearing Participant with which a Portal Dealer, as Trading Participant, has a Clearing Agreement (if applicable) ceases to be recognised as a Participating Organisation of the Exchange or is declared to be a defaulter and thereupon ceases to be entitled to carry on business as a Participating Organisation,

the Exchange may suspend the Trading Permission and the entitlement of the Portal Dealer to enter into ASX Transactions and remove all Bids and Offers of the Portal Dealer from SEATS until such time as:

(d) (if the suspension occurred under Rule 15.4.2(1)(a)), the Portal Dealer complies with the requirements of Rule 15.4.1; or

(e) (if the suspension occurred under Rule 15.4.2(1)(b)):

(i) the suspension of the Portal Dealer in its capacity as a Trading Participant or Clearing Participant (as applicable) from any of the rights or privileges of recognition as a Participating Organisation is lifted by the Exchange; or

(ii) the suspension or restriction of the participation in CHES of the Portal Dealer as a Trading Participant or a Clearing Participant (as applicable) is lifted by SCH; or

- (f) *(if the suspension of the Portal Dealer as a Trading Participant arose under Rule 15.4.2(1)(b) in relation to the activities of the Portal Dealer's Clearing Participant or under Rule 15.4.2(1)(c)), the Portal Dealer has made other settlement arrangements satisfactory to the Exchange.*

15.4.3 CHANGE OF STATUS

- (1) *If a Portal Dealer which is a Trading Participant and a Clearing Participant, no longer wishes to be a Clearing Participant, the Portal Dealer must advise the Exchange and SCH in writing of its proposed change of status and of the name of the Clearing Participant which will settle all ASX Transactions of the Portal Dealer. The Portal Dealer must also provide the Exchange with a copy of a Clearing Agreement which complies with Rule 21A.4.*
- (2) *If a Portal Dealer which is not a Clearing Participant, wishes to be a Clearing Participant, the Portal Dealer must advise the Exchange and SCH in writing by completing a change of status form and must comply with the requirements of Rule 15.4.1(2)(b).*
- (3) *If a Portal Dealer which is a Clearing Participant and a Trading Participant, no longer wishes to be a Trading Participant, the Portal Dealer must advise the Exchange in writing of its proposed change of status.*

15.4.4 INCOMING TRADES

- (1) *Section 3 of these Rules will not apply to a Portal Dealer when it is providing services to a Foreign Portal Dealer, except for Rules 3.12 – 3.17 inclusive.*

Note: A Portal Dealer will have contractual obligations to a Foreign Portal Dealer.

- (2) *Except as otherwise specified in Rule 15.4.4(1) and 15.4.4(3), a Portal Dealer must, when executing a transaction in Participating ASX Securities through the ASX World Link service, at all times act in accordance with all applicable requirements imposed by these Rules and the SCH Rules on Trading Participants and Clearing Participants respectively, including without limitation the capital liquidity requirements set out in Rule 1A and the Dealing Rules set out in Section 2.*
- (3) *Rules 2.1A.(1-7), 2.2.1(6), 2.2.2, 2.2.3(1)(c), 2.2.4, 2.2.5.(1)(b), 2.2.7(1)(a), 2.2.9, 2.2.9A, 2.3.4(2)(b), 2.7, 2.8, 2.11, 2.15.7, 2.17.1, 5.1, 5.3, 5.6(3-5), 5.7, 5.10, 5.11A(2) and 5A do not apply to a Portal Dealer for incoming trades.*

15.4.5 OUTGOING TRADES

A Portal Dealer, in providing services to Participating Organisations dealing in Participating Foreign Securities:

- (a) *must ensure that it has the facility to receive communications from other Trading Participants or the Exchange during Normal Trading and the Closing Phase (in each case, as defined in Section 2);*
- (b) *must maintain records for not less than a period of 7 years in relation to the orders referred to in Rules 15.3.2(a) and 15.3.3(a) and the trades resulting from those orders;*
- (c) *has no discretion to act on instructions from Participating Organisations other than in the sequence in which it receives them (subject to rejection of any Order in accordance with the terms of ASX World Link Agreement);*
- (d) *must do all things necessary to ensure it is able to, allocate sales and purchases of Participating Foreign Securities fairly; and*
- (e) *is not subject to the provisions of Section 3 or Rule 5.10.*

Note: A Portal Dealer will have contractual obligations under the ASX World Link Agreement with Participating Organisations

15.4.6 SECURITY

A Portal Dealer must establish, maintain and enforce at all times security arrangements designed to prevent unauthorised persons from accessing the Portal Dealer's systems and facilities relating to the ASX World Link service (including any device used to place Orders) which are reasonably adequate for that purpose.

15.5 CORE TRADING RULES

15.5.1 PURPOSE

(1) The Core Trading Rules set out in this Rule 15.5 describe dealers' responsibilities that are widely recognised as fundamental to the efficient and proper functioning, and integrity, of securities markets.

(2) It is intended that the Core Trading Rules will form part of the Exchange's reciprocal arrangements with other Participating Foreign Exchanges in connection with the ASX World Link service, with a view to promoting consistency of securities dealing standards across the relevant markets.

Note: This Rule is not to be taken to imply that the Exchange will exercise regulatory authority over participants in Participating Foreign Markets.

(3) The Core Trading Rules apply only to Participating Organisations dealing in Participating Foreign Securities through the ASX World Link service. They do not apply to other Participating Organisations nor to a Portal Dealer.

15.5.2 APPLICATION OF CORE TRADING RULES

(1) Subject to this Rule 15.5, the Core Trading Rules apply to the dealing activities of a Participating Organisation for the time being authorised to use the ASX World Link service, in connection with Orders effected on its behalf in any Participating Foreign Market.

(2) The provisions of any ASX World Link Agreement are to be construed so as not to derogate from the Core Trading Rules, and having regard to Rule 15.5.3.

15.5.3 INTERPRETATION

The Core Trading Rules must be interpreted and applied:

- (a) in accordance with their spirit, intention and purpose;*
- (b) by looking beyond form to substance; and*
- (c) without in any way limiting or derogating from any other provision of this Section.*

15.5.4 PREVENTION OF MANIPULATIVE TRADING

A Participating Organisation must not place or execute an Order for Participating Foreign Securities with the intention of creating a false or misleading appearance of active trading in, or in any way so as to manipulate the market for, or the price of, those Participating Foreign Securities.

15.5.5 PREVENTION OF DISORDERLY MARKETS

A Participating Organisation must, to the extent applicable:

- (a) comply, and ensure each of its Authorised Users complies, with instructions and directions issued from time to time by the Exchange;*
- (b) ensure that an Authorised User is available to receive communications from the applicable Portal Dealer at all times reasonably required by the Portal Dealer;*
- (c) not intentionally take advantage, and ensure none of its Authorised Users takes advantage, of any situation arising as a result of a breakdown, malfunction or error*

relation to a Participating Foreign Exchange's systems, procedures or trading entries; and

(d) [not otherwise engage, and ensure none of its Authorised Users engages, in any other Prohibited Conduct that might adversely affect the conduct of an orderly market in Participating Foreign Securities.]

15.5.6 CANCELLATION

If a Participating Organisation becomes aware of a transaction effected on its behalf in a Participating Foreign Market as a result of:

- (a) any of the matters set out in Rule 15.5.5; or*
- (b) an error in the entry of a bid or offer submitted into a Participating Foreign Market on its behalf,*

it must immediately:

- (c) through the ASX World Link service and the relevant Portal Dealer, seek cancellation of the transaction; and*
- (d) if cancellation can be and is effected, reimburse the Portal Dealer on demand for the costs (if any) incurred by it in effecting cancellation.*

15.5.7 PREVENTION OF DEALINGS IN SUSPENDED PRODUCTS

A Participating Organisation must not deal, or give instructions to deal, in Participating Foreign Securities during any period in which those Participating Foreign Securities are suspended from official quotation, except with the prior approval of the applicable Participating Foreign Exchange.

15.5.8 SHORT SELLING

A Participating Organisation must not place an Order to sell a number of Participating Foreign Securities, whether on its own account or for a client if:

- (a) in respect of principal trading, the aggregate effect of all buy and sell Orders; or*
- (b) in respect of trading on behalf of a client, the aggregate effect of all buy and sell Orders,*

to be settled on any particular day after taking into account any existing or reasonably proposed holding of FDIs by the Participating Organisation as principal, or that client, would be likely to result in a holding deficiency of FDIs available for the purpose of settling such Orders in the Participating Foreign Market on that day.

15.5.9 CORNERS

A Participating Organisation must not act, or act in concert with one or more persons, to acquire control of any Participating Foreign Security with a view to precluding its delivery on existing contracts except at prices or on terms dictated by the Participating Organisation, or by the Participating Organisation acting in concert with those persons, which terms are unfair, harsh or unconscionable.

15.5.10 COMPLIANCE WITH CONDITIONS DESIGNATED BY PARTICIPATING FOREIGN EXCHANGES

- (1) Each Participating Organisation acknowledges that a Participating Foreign Exchange may be empowered, where it has a concern that trading in any Participating Foreign Security may be subject to manipulation or excessive speculation, to declare conditions that will apply to all dealings in that Participating Foreign Security, for the period of the declaration.*
- (2) A Participating Organisation must comply with any such condition that has been declared by a Participating Foreign Exchange from time to time, for as long as that condition remains in force.*

15.6 PARTICIPATING ORGANISATIONS' OTHER RESPONSIBILITIES

15.6.1 BUSINESS GOVERNANCE RULES APPLY

No Participating Organisation that effects transactions through the ASX World Link service using a Portal Dealer is, by virtue of such agency arrangements, relieved of any obligation or liability otherwise applicable to it under the Rules as a Participating Organisation in connection with those transactions.

15.6.2 RESPONSIBILITY FOR TRADING MESSAGES

(1) A Participating Organisation must ensure the accuracy of details, the integrity and the bona fides of all Orders or other trading messages that it enters into the ASX World Link service network, whether or not an Authorised User of that Participating Organisation is involved in their submission.

(2) For the purposes of this Rule 15.6.2, a Participating Organisation is taken to have authorised any message delivered to the Portal Dealer that originates from the Participating Organisation's FML Workstation.

15.6.3 SETTLEMENT OBLIGATIONS

Where a Portal Dealer, as principal, has the settlement obligation in respect of an Order executed in a Participating Foreign Market on behalf of a Participating Organisation (whether the Participating Organisation is acting on its own behalf or on behalf of a client), the Participating Organisation owes its settlement obligation to the Portal Dealer.

15.7 RESPONSIBILITIES OF THE EXCHANGE

15.7.1 NO BIAS

In relation to any Participating Organisation that is a Portal Dealer, the Exchange must carry out its functions on an arms' length basis and without bias.

15.7.2 NO OBLIGATION TO PROVIDE MARKET INFORMATION

The Exchange, through the ASX World Link service, offers to Participating Organisations the functionality to receive data originating from a Participating Foreign Market in relation to Participating Foreign Securities, but the Exchange does not accept any liability for the accuracy of the information or when transmitting or attempting to transmit such information for omissions or malfunctions.

15.8 NON-COMPLIANCE WITH CORE TRADING RULES

Where the Exchange becomes aware of an apparent or an alleged event of non-compliance with a Core Trading Rule by a Participating Organisation, the Exchange may:

- (a) initiate an inspection of that Participating Organisation, pursuant to Rule 13.1;*
- (b) direct an investigation of that Participating Organisation, pursuant to Rule 13.2; or*
- (c) without in any way otherwise limiting the powers, rights and remedies of the Exchange to take action against a Participating Organisation under Section 13, withdraw that Participating Organisation's permission to access the ASX World Link service (that is, a privilege of its status as a Participating Organisation),*

as applicable, and the provisions of Rule 13 will in each case apply.

15.9 DISCLOSURE OF INFORMATION

For the avoidance of doubt, Rule 3.15 applies to the Portal Dealer and Participating Organisations in relation to clients of any Participating Organisation or Portal Dealer that accesses the ASX World Link service.

15.10 LIABILITY

A Portal Dealer which is a subsidiary of the Exchange may not take the benefit of a right conferred on ASX subsidiaries under Rule 2.3.3, when acting in its capacity as Portal Dealer.

1.1.1.1 APPENDIX C

1.1.1.2

1.1.1.3 DRAFT

PROPOSED RULE 14**1.1.2 FOREIGN MARKET LINKAGES****1. DEFINITIONS**

1.1 For the purpose of this Rule, except to the extent that the context requires otherwise:-

“Core Trading Principles” means rules set out in this Rule that a Member Company and a Trading Representative must comply with when trading in a Selected Foreign Security on a Foreign Market via the Exchange Link;

“Exchange Link” means the electronic means by which:-

- (a) SGX-SPV routes orders for Selected Foreign Securities to the Foreign Portal Dealer and receives orders for Selected SGX Securities from the Foreign Portal Dealer; and
- (b) a Foreign Portal Dealer routes orders for Selected SGX Securities to SGX-SPV and receives orders for Selected Foreign Securities from SGX-SPV;

“Foreign Exchange” means a securities exchange outside Singapore that has agreed to an electronic co-trading, clearing and settlement link of Selected Securities with SGX-ST;

“Foreign Market” means a market administered by the Foreign Exchange to which access to the market is via the Exchange Link;

“Foreign Portal Dealer” means a Foreign Exchange or a related body corporate of a Foreign Exchange that acts as an intermediary to allow:

- (a) *Singapore investors to trade, clear and settle Selected Foreign Securities on a Foreign Market; and*
- (b) *foreign investors to trade, clear and settle Selected SGX Securities via a Foreign Market ;*

“Inbound Orders” means orders pertaining to a Selected SGX Security for execution in SGX-ST;

“Order” means:-

- (a) *in respect of a Selected Foreign Security, an order placed via the Exchange Link by SGX-SPV with a Foreign Portal Dealer to buy or sell that Selected Foreign Security; and*

- (b) *in respect of a Selected SGX Security, an order placed via the Exchange Link by a Foreign Portal Dealer with SGX-SPV to buy or sell that Selected SGX Security;*

“Outbound Orders” means orders pertaining to a Selected Foreign Security for execution in a Foreign Exchange;

“Selected Foreign Security” means a security traded on a Foreign Market that is eligible to be traded via the Service, as determined by agreement between SGX-ST and the Foreign Exchange from time to time;

“Selected SGX Security” means a security traded in SGX-ST that is eligible to be traded via the Service, as determined by agreement between SGX-ST and the Foreign Exchange from time to time;

“Service” means the service offered to Member Companies of SGX-ST or trading participants of a Foreign Exchange (as the case may be) for co-trading, clearing and settlement of Selected Securities;

“SGX-SPV” means a subsidiary of SGX that operates the Service;

2. APPLICATION OF RULE

- 2.1 A Member Company (except SGX-SPV) and a Trading Representative is bound by this Rule when accessing a Foreign Market via the Exchange Link to execute Orders and clear and settle trades in Selected Foreign Securities.
- 2.2.1 A Member Company and a Trading Representative to which this Rule applies must comply also with guidelines and directives that SGX-ST from time to time prescribes.
- 2.3 SGX-SPV is bound by this Rule to the extent that it is expressly referred to.

3. ACCESS TO FOREIGN MARKETS

- 3.1 Subject to Rule 3.2, a Member Company shall have access to a Foreign Market via the Exchange Link to execute Orders and clear and settle trades in Selected Foreign Securities.
- 3.2 SGX-ST may at any time, if it thinks it appropriate:
- (a) direct SGX-SPV to suspend or end a Member Company’s or a Trading Representative’s access to a Foreign Market via the Exchange Link.
 - (b) direct a Member Company or Trading Representative to access the Foreign Market via the Exchange Link only on conditions as specified by SGX-ST.
 - (c) reinstate or re-establish a Member Company’s or a Trading Representative’s access to a Foreign Market via the Exchange Link.
- 3.3 The Member Company, Trading Representative and SGX-SPV must act on a direction of SGX-ST.

4. ROLE AND RESPONSIBILITIES OF SGX-SPV

4.1 SGX-SPV shall be a Clearing Member Company of SGX-ST for the purpose of facilitating Inbound Orders and Outbound Orders.

4.2.1 SGX-SPV shall be admitted as a Clearing Member Company of SGX-ST if SGX-ST is satisfied that the following conditions have been, or will be, met:

- (1) SGX-SPV has, or has access to, adequate facilities or staff for:
 - (a) the expeditious and orderly transaction of business when trading in Selected Foreign Securities on a Foreign Market,
 - (b) management of the risks;
- (2) security arrangements are adequate to prevent unauthorised persons from accessing the systems and facilities relating to the Service,
- (3) the Authority has been notified of the intention to admit SGX-SPV and has not raised any objection, and
- (4) SGX-SPV holds any licence required by the Authority.

4.3 In relation to SGX-SPV as a Clearing Member Company, SGX-ST shall carry out its functions and exercise its powers in a like way to the way it would carry out its functions in respect of other Member Companies, recognizing the limited functions that SGX-SPV is intended to perform. SGX-SPV will not apply for an exemption, waiver or other exercise of discretion under the SGX-ST Rules unless it has first notified the Authority.

4.4 For Outbound Orders, SGX-SPV shall:-

- (1) receive and route Orders from a Member Company via the Exchange Link to the Foreign Portal Dealer for entry into the trading system of the Foreign Market;
- (2) provide electronic trade confirmation to the Member Company in respect of such Order executed in the Foreign Market;
- (3) without affecting Bye-Law 2.6.1, make payment denominated in the Foreign Market currency or deliver securities in accordance with the home exchange rules (as a client of the Foreign Portal Dealer), as may be owed by it to the Foreign Portal Dealer;
- (4) effect delivery in accordance with the rules or, if for any reason its obligations to deliver are delayed owing to a breakdown, error or malfunction of the systems, procedures, or otherwise of or in connection with the Exchange Link, to effect delivery as soon as practicable after rectification of the breakdown error or malfunction; and
- (5) not be required to comply with Bye-Law 2.5.

4.5 For Inbound Orders, SGX-SPV in its capacity as agent for the Foreign Portal Dealer, shall:-

- (1) receive and route an Order from the Foreign Portal Dealer via the Exchange Link and enter such Order into CLOB;*

(2) provide electronic trade confirmation to the Foreign Portal Dealer in respect of such Order as soon as practicable after such Order is matched on CLOB;

(3) clear all trades resulting from the execution of the transactions as a Clearing Member Company; and

(4) comply with Bye-Law 2.6.1.

4.6 *SGX-SPV may close out a position or correct an error if, in its opinion, it is necessary or desirable to do so to manage risks prudently or meet requirements for the operation of the Service.*

5. OBLIGATIONS OF A MEMBER COMPANY

5.1 When accessing a Foreign Market via the Exchange Link to trade in Selected Foreign Securities, a Member Company shall transact with SGX-SPV as principal.

5.2 In respect of an order executed on a Foreign Market via the Exchange Link by SGX-SPV on behalf of a Member Company, the Member Company's settlement obligations are owed to CDP instead of SGX-SPV, and SGX-SPV's settlement obligations are owed to CDP instead of the Member Company.

5.3 A Member Company is responsible for each order sent via the Exchange Link. This applies if the records of SGX-SPV show that the order was sent by means of access to the Exchange Link used by the Member Company, irrespective of whether the Member Company sent or authorised the sending of the order.

6. CORE TRADING PRINCIPLES

6.1 Object

6.1.1 *The primary object of the Core Trading Principles is to promote proper and orderly trading of Selected Foreign Securities via the Exchange Link.*

6.1.2 *This Section 6 applies in relation to orders placed via the Exchange Link.*

6.1.3 *This Section 6 applies to SGX-SPV in relation to orders placed by it as principal via the Exchange Link.*

6.2 Prevention of Disorderly Markets

6.2.1 *A Member Company or a Trading Representative must not enter bids or offers in Selected Foreign Securities on a Foreign Market via the Exchange Link that may result in, or have the effect of, creating a disorderly market in those securities.*

6.2.2 When accessing a Foreign Market via the Exchange Link to trade in Selected Foreign Securities, a Member Company or a Trading Representative must:-

(1) ensure that an authorized person is available at all relevant times for the purpose of communicating with SGX-SPV; and

- (2) not intentionally or deliberately take advantage of any situation resulting from a breakdown, error or malfunction of the systems, procedures or otherwise of or in connection with the Exchange Link.

- (2) comply with any instructions or directions issued by SGX-ST.

6.3 Market Manipulation and False Trading

- 6.3.1 A Member Company or a Trading Representative must avoid any act or practice which might:

- (a) lead to, or create, a false market on a Foreign Market; or

manipulate the market for, or price of, Selected Foreign Securities.

- 6.3.2 A Member Company shall immediately report to SGX-ST any suspicious operation or attempted operation concerning trading in a Selected Foreign Security via the Exchange Link that comes to its notice. A Member Company must not participate in any operation by others which might have the same result.

6.4 Dealings in Suspended Securities

- 6.4.1 *Unless agreed by the Foreign Exchange concerned, a Member Company and a Trading Representative must not trade, or make a market in, any Selected Foreign Security on the Foreign Market via the Exchange Link if that security is suspended.*

6.5 Cancellation of Contracts

- 6.5.1 A Member Company may instruct SGX-SPV to request the Foreign Portal Dealer to cancel a contract made on a Foreign Market via the Exchange Link only in the circumstances allowable under the rules, customs or usages of the Foreign Market.

- 6.5.2 The Member Company shall meet any costs incurred in connection with the cancellation.

6.6 Corner

- 6.6.1 A Member Company must not act itself or with one or more persons in concert with the object of securing or acquiring control of any security on a Foreign Market that the same cannot be obtained for delivery on existing contracts except at prices and on terms dictated by such person or persons.

6.7 Short Selling

- 6.7.1 *A Member Company must not short sell any Selected Foreign Security on a Foreign Market except to an extent permitted by the Foreign Market concerned.*

6.8 Designated Securities

- 6.8.1 A Member Company must comply with any conditions on dealing imposed in a Foreign Market in relation to Securities that may have been subject to manipulation or excessive speculation.

7. **NON COMPLIANCE WITH THE CORE TRADING PRINCIPLES**

- 7.1 SGX-ST may undertake any investigation or inspection or take any other action under its rules if it becomes aware of possible or alleged non-compliance with the Core Trading Principles.

8. DISCLOSURE OF INFORMATION

- 8.1 For the avoidance of doubt, SGX-ST Rule 6.10 (Supply of Information) applies to information in relation to trading in a Foreign Market via the Exchange Link.

9. LIABILITY OF THE EXCHANGE

- 9.1 SGX-ST, SGX-SPV and their employees and agents shall have no liability of any kind to a Member Company or other person in respect of any loss or damage (including consequential loss or damage) which may be incurred, or arise directly or indirectly, in connection with:-

- (1) the Service,
- (2) inability to use the Service, or
- (3) any failure, error or omission on the part of SGX-SPV.

- 9.2 The limitation of liability under rule 9 includes any loss or damage arising in connection with:-

- (1) trading on the Foreign Market;
- (2) suspension, interruption, cancellation or closure of trading on the Foreign Market,
- (3) inoperability or malfunction of equipment, software or other product supplied to a Member Company,
- (4) the installation, maintenance or removal of equipment, software or other product supplied to a Member Company; and
- (5) the accuracy of information transmitted via the Exchange Link.

End of Section