



ASIC

Australian Securities & Investments Commission

CONSULTATION PAPER 157

Proposed ASIC market integrity rules: FEX market

May 2011

About this paper

This consultation paper sets out ASIC's proposals for new market integrity rules for the Financial and Energy Exchange Limited (FEX) market, subject to approval of FEX's Australian market licence application.

It explains our approach in developing these proposed rules and how we propose they will apply to market participants.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 12 May 2011 and is based on the Corporations Act as at 12 May 2011.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

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The consultation process

You are invited to comment on the proposals in this paper, which are only an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information.

We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on market integrity rules for the FEX market. In particular, any information about compliance costs, impacts on competition and other impacts, costs and benefits will be taken into account if we prepare a Regulation Impact Statement: see Section C, Regulatory and financial impact.

Making a submission

We will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any financial information) as confidential.

Comments should be sent by 9 June 2011 to:

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Senior Manager
Exchange Market Operators
Australian Securities and Investments Commission
GPO Box 9827
Sydney NSW 2001
facsimile: (02) 9911 2414
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What will happen next?

Stage 1	12 May 2011	ASIC consultation paper released
Stage 2	9 June 2011	Comments due on the consultation paper
	mid-June	Finalisation of market integrity rules
Stage 3	On commencement of trading on the FEX market	Market integrity rules take effect

A Background to the proposals

Key points

ASIC is responsible for supervising domestic licensed financial markets in Australia. As part of our supervisory responsibilities, we make market integrity rules and monitor compliance with those rules by market participants.

In this paper, we propose market integrity rules that will apply specifically to the Financial and Energy Exchange Limited (FEX) market, if the Minister grants FEX an Australian market licence.

This paper should be read together with Regulatory Guide 214 *Guidance on ASIC market integrity rules for ASX and ASX 24 markets* (RG 214), which covers broader topics such as:

- background information on the supervision of domestic licensed financial markets;
- our approach in making market integrity rules; and
- our approach in supervising compliance with those rules.

ASIC's market supervisory function

- 1 On 24 August 2009, the Australian Government announced its decision to transfer the responsibility for supervising Australia's domestic licensed financial markets from market operators to the Australian Securities and Investments Commission (ASIC). Subsequently, the *Corporations Amendment (Financial Market Supervision) Act 2010* (Financial Market Supervision Act) was enacted in March 2010 to provide that responsibility for supervising trading on Australian domestic licensed financial markets be transferred from the operators of those markets to ASIC.
- 2 The Financial Market Supervision Act, which commenced on 1 August 2010, inserts a new Pt 7.2A into the *Corporations Act 2001* (Corporations Act). From this date, ASIC assumed responsibility for supervising the trading activities and conduct of business by market participants in relation to domestic licensed markets (i.e. those operated by persons licensed under s795B(1) of the Corporations Act).
- 3 Australian domestic market licensees continue to be responsible for the operation of their markets, for monitoring and enforcing compliance with their market's operating rules and for providing guidance as appropriate. Regulation 7.2.07 of the Corporations Regulations 2001 sets out the content requirements for operating rules of licensed markets.

- 4 ASIC is authorised to make market integrity rules that deal with activities and conduct in relation to Australian domestic licensed financial markets, including participants of the relevant market, and we are responsible for supervising compliance with these rules.

Note: On 1 August 2010, ASIC made separate market integrity rules for the following markets: ASX, ASX 24, Asia Pacific Exchange (APX), IMB, National Stock Exchange of Australia (NSXA) and SIM Venture Securities Exchange (SIM VSE).

- 5 We may not make a market integrity rule unless we have the written consent of the Minister. An exception applies for the making of emergency rules that are necessary, or are in the public interest, to protect people dealing in a financial product. The market integrity rules are legislative instruments and, as such, will be subject to parliamentary scrutiny and possible disallowance by Parliament.

Scope of this consultation

- 6 In March 2011, we consulted on FEX's application for an Australian market licence and its proposal to operate an exchange market for energy, commodity and environmental derivatives: see Consultation Paper 149 *Application for an Australian market licence: Financial and Energy Exchange Limited* (CP 149).
- 7 In CP 149, we summarised details of FEX's application and sought comments from interested parties. We did not receive any substantive comments on the proposals.
- 8 The release for comment of the proposed market integrity rules is a further necessary step in the processing of FEX's application. This consultation paper covers the market integrity rules that we propose will apply to the FEX market if the Minister decides to grant FEX an Australian market licence.
- 9 The proposed market integrity rules—the ASIC Market Integrity Rules (FEX Market) 2011—are modelled, as far as possible, on the market integrity rules that apply to ASX 24—the ASIC Market Integrity Rules (ASX 24 Market) 2010.

Note: In this paper 'ASIC Market Integrity Rules (FEX)' will refer to the proposed ASIC Market Integrity Rules (FEX Market) 2011 and 'ASIC Market Integrity Rules (ASX 24)' will refer to the ASIC Market Integrity Rules (ASX 24 Market) 2010.

- 10 Consistent with statements made in Consultation Paper 131 *Proposed ASIC market integrity rules: ASX and SFE markets* (CP 131), we intend to review at a later time the market integrity rules of all licensed domestic markets supervised by us so that only one set of ASIC market integrity rules applies to all like markets.

B Market integrity rules for the FEX market

Key points

We propose to make market integrity rules for the FEX market that will be closely modelled on the ASIC Market Integrity Rules (ASX 24).

We propose to recommend that the Minister consent to these market integrity rules if the Minister grants FEX an Australian market licence.

Our overall approach in making the market integrity rules

- 11 Our approach in making the ASIC Market Integrity Rules (FEX) has been to model the rules, as far as possible, on the ASIC Market Integrity Rules (ASX 24).
- 12 This approach aims to ensure that both the ASX 24 and FEX markets, and their participants, are subject to the same market integrity rules. We believe this will:
- (a) contribute to a level playing field between ASX 24 and FEX in respect of requirements placed on participants of both markets;
 - (b) minimise the opportunity for regulatory arbitrage by participants;
 - (c) assist participants of both the ASX 24 and FEX markets to comply with obligations; and
 - (d) contribute to efficiency in our supervision and enforcement of the market integrity rules because the same standards of conduct will be applied.

Proposal

- B1** We propose to make market integrity rules for the FEX market that are closely modelled on the ASIC Market Integrity Rules (ASX 24).

Your feedback

- B1Q1 Do you agree with our approach in making market integrity rules for the FEX market?
- B1Q2 Are there any current ASIC Market Integrity Rules (ASX 24) that you consider should not be adopted as market integrity rules for the FEX market?
- B1Q3 Do you have any comments of a technical nature on the proposed ASIC Market Integrity Rules (FEX)?

Differences between the proposed ASIC Market Integrity Rules (FEX) and the ASIC Market Integrity Rules (ASX 24)

- 13 The market integrity rules proposed for the FEX market contain minor differences from ASIC's current market integrity rules for the ASX 24 market. The appendix sets out the proposed ASIC Market Integrity Rules (FEX), which are presented as a marked-up version of the current ASIC Market Integrity Rules (ASX 24) for convenience of review.
- 14 A small number of these changes reflect the differences between the products traded on, or the market mechanics of, the FEX market in relation to the ASX 24 market: Rule 3.1.12 (FEX) and Rule 3.1.15 (FEX). Other changes correct drafting anomalies in the following rules:
- (a) Rule 3.1.10 (FEX)—an incorrect reference is removed;
 - (b) Rule 3.4.2 (FEX)—a penalty is inserted; and
 - (c) Rule 3.5.3 (FEX)—a client authorisation requirement is added.
- Note: In this paper 'Rule 3.1.12 (FEX)' (for example) refers to a particular rule of the proposed ASIC Market Integrity Rules (FEX).
- 15 The ASIC Market Integrity Rules (FEX) also include certain obligations that were located in the SFE procedures, determinations and practice notes that applied to the ASX 24 (former SFE) market and market participants prior to the transfer of supervision. These relate to rules dealing with:
- (a) disclosure—Rule 3.1.7 (FEX);
 - (b) withholding orders—Rule 3.1.8 (FEX);
 - (c) pre-negotiated business orders—Rule 3.3.1A (FEX); and
 - (d) block trades—Rule 3.4.2 (FEX).
- 16 In addition, the ASIC Market Integrity Rules (FEX) explicitly remind participants that, where there is a conflict of interest between a client's interests and a market participant's interests, the market participant must give priority to the client's interests: see Rule 3.1.13(2) (FEX).
- 17 Other than the changes that arise because of differences between the products traded on the FEX and ASX 24 markets (Rule 3.1.12 (FEX) and Rule 3.1.15 (FEX)), we propose to make the same amendments to the ASIC Market Integrity Rules (ASX 24) at the same time that we make the market integrity rules for FEX.

Proposal

- B2** We propose to introduce a number of minor changes to the market integrity rules for the FEX market, as described in paragraphs 14–16 (and set out in the marked-up version of the ASIC Market Integrity Rules (ASX 24) in the appendix).

Your feedback

- B2Q1 Do you agree that we should make the changes as set out? If not, please specify your reasons.
- B2Q2 Do you agree that these changes should also apply to the ASIC Market Integrity Rules (ASX 24) (except where the changes arise because of differences in products traded)?
- B2Q3 Are there any other changes that should be made?

Guidance on market integrity rules for the FEX market

- 18 RG 214 provides guidance on a range of topics covered by the ASIC Market Integrity Rules (ASX 24). In RG 214 we also say that, in assessing a participant's compliance with the market integrity rules, we will seek to follow existing relevant published interpretation in pre-existing procedures, determinations and practice notes for the ASX 24 (former SFE) market.
- 19 To the extent that the market integrity rules for the ASX 24 market have been reflected in an equivalent market integrity rule for the FEX market, RG 214 and the SFE procedures, determinations and practice notes will also serve as guidance on how to comply with the ASIC Market Integrity Rules (FEX). As set out in RG 214, we are currently reviewing pre-existing SFE procedures, determinations and practice notes and will publish regulatory guides in their place after public consultation.

Guidance for participants of both the FEX and ASX 24 markets

- 20 For a market participant that will be a member of both the FEX and ASX 24 markets, the question arises as to whether the participant must comply separately with duplicated obligations in the market integrity rules for the FEX and ASX 24 markets. Table 1 provides the principles for how we propose to address this issue, as well as examples of where each principle might apply within the market integrity rules.

Table 1: Principles for market participants of both the FEX and ASX 24 markets

Guiding principle	Applicable rules in both the ASIC Market Integrity Rules (FEX) and the ASIC Market Integrity Rules (ASX 24)	Additional information
Market participants to comply once	<p>Notifications (Rule 2.1)</p> <p>Records (Rule 2.2.4)</p> <p>Client agreement (Rule 2.2.5)</p> <p>Segregated accounts (Rule 2.2.6)</p> <p>Recording of information (Rule 2.2.7)</p> <p>Wash trade reports (Rule 3.1.12)</p>	<p>Client agreement—market participants to ensure there is an addendum to the client agreement specific to each market.</p> <p>Records—where the document is to be maintained applies across both the FEX and ASX 24 markets and the information is the same, only one version of the document needs to be kept.</p> <p>Segregated accounts—a market participant may maintain one account that covers money it receives for trading on both the FEX and ASX 24 markets.</p>
Market participants to comply separately for each market	<p>Allocation policy (Rule 3.1.16)</p> <p>Client authorisations (Rules 3.3.2, 3.4.4 and 3.5.3)</p>	<p>Allocation policy—a separate policy to be provided to ASIC for each market.</p> <p>Client authorisations—separate authorisations to be held by market participants for each market.</p>

Proposal

- B3** We propose to provide market participants who trade on both the ASX 24 and FEX markets with general guiding principles (see Table 1) where there are duplicate obligations for participants of both markets.

Your feedback

- B3Q1 Do you agree with the guiding principles we have identified in Table 1?
- B3Q2 Are there any other duplicated obligations in the market integrity rules we should consider giving guidance on?

Breaches of the market integrity rules

- 21 Regulatory Guide 216 *Markets Disciplinary Panel* (RG 216) provides an overview of the disciplinary framework for the market integrity rules. We propose that the same disciplinary framework will apply to breaches of the ASIC Market Integrity Rules (FEX). We propose to make the penalty amounts for breaches of the ASIC Market Integrity Rules (FEX) the same as those for breaches of the ASIC Market Integrity Rules (ASX 24).
- 22 Where breaches of the market integrity rules for both the ASX 24 and FEX markets occur as the result of a single course of conduct by the market participant, the Markets Disciplinary Panel (MDP) will have the ability to

take into account the totality of the conduct and determine a penalty amount that would correspond to a single breach.

- 23 If the MDP finds that there have been two breaches, it may either apply separate penalties for each breach or an overall penalty for both breaches. In either case, the MDP will seek to ensure that the final penalty (whether it is an aggregate of separate amounts or an overall amount) is just and appropriate, and not excessive, taking into account the totality of the conduct. This is consistent with the approach set out in RG 216.125.

Proposal

- B4** We propose to apply the same disciplinary framework to breaches of the ASIC Market Integrity Rules (FEX) as the MDP does to breaches of the ASIC Market Integrity Rules (ASX 24). Where breaches of both sets of rules occur as the result of a single course of conduct by the market participant, the MDP will have the ability to take into account the totality of the conduct and determine a penalty amount that would correspond to a single breach. If the MDP finds that there have been two breaches, it may either apply separate penalties for each breach or an overall penalty for both breaches.

Your feedback

- B4Q1 Do you agree with our approach to penalties where breaches of two equivalent market integrity rules for the ASX 24 and FEX markets occur as the result of a single course of conduct by the market participant?

C Regulatory and financial impact

- 24 In developing the proposals in this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us we think they will strike an appropriate balance between:
- (a) protecting the integrity of the Australian financial markets; and
 - (b) avoiding duplication of regulatory obligations.
- 25 Before settling on a final policy, we will comply with the Australian Government's regulatory impact analysis (RIA) requirements by:
- (a) considering all feasible options, including examining the likely impacts of the range of alternative options which could meet our policy objectives;
 - (b) if regulatory options are under consideration, notifying the Office of Best Practice Regulation (OBPR);
 - (c) if our proposed option has more than minor or machinery impact on business or the not-for-profit sector, preparing a Regulation Impact Statement (RIS).
- 26 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.
- 27 To ensure that we are in a position to properly complete any required RIS, we ask you to provide us with as much information as you can about:
- (a) the likely compliance costs;
 - (b) the likely effect on competition; and
 - (c) other impacts, costs and benefits,
- of our proposals or any alternative approaches: see 'The consultation process' p. 4.

Key terms

Term	Meaning in this document
ASIC	Australian Securities and Investments Commission
ASIC Market Integrity Rules (ASX 24)	ASIC Market Integrity Rules (ASX 24 Market) 2010—rules made by ASIC under s798G of the Corporations Act for trading on ASX 24
ASIC Market Integrity Rules (FEX)	ASIC Market Integrity Rules (FEX Market) 2011—rules proposed to be made by ASIC under s798G of the Corporations Act for trading on FEX
ASX 24	The exchange market formerly known as the Sydney Futures Exchange (SFE), operated by Australian Securities Exchange Limited
Australian domestic licensed financial market	A financial market licensed under s795B(1) of the Corporations Act
Australian market licence	Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
FEX market	The market operated by Financial and Energy Exchange Limited if the Minister grants FEX an Australian market licence
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed financial markets
market participant	As defined in s761A of the Corporations Act
MDP (Markets Disciplinary Panel)	ASIC's Markets Disciplinary Panel, through which ASIC exercises its power to issue infringement notices and to accept enforceable undertakings in relation to breaches of the market integrity rules
RG 214	An ASIC regulatory guide (in this example, numbered 214)
Rule 3.1.12 (FEX) (for example)	A rule of the proposed ASIC Market Integrity Rules (FEX) (in this example, numbered 3.1.12)
s912D (for example)	A section of the Corporations Act (in this example, numbered 912D)

List of proposals and questions

Proposal	Your feedback
<p>B1 We propose to make market integrity rules for the FEX market that are closely modelled on the ASIC Market Integrity Rules (ASX 24).</p>	<p>B1Q1 Do you agree with our approach in making market integrity rules for the FEX market?</p> <p>B1Q2 Are there are current ASIC Market Integrity Rules (ASX 24) that you consider should not be adopted as market integrity rules for the FEX market?</p> <p>B1Q3 Do you have any comments of a technical nature on the proposed ASIC Market Integrity Rules (FEX)?</p>
<p>B2 We propose to introduce a number of minor changes to the market integrity rules for the FEX market, as described in paragraphs 14–16 (and set out in the marked-up version of the ASIC Market Integrity Rules (ASX 24) in the appendix).</p>	<p>B2Q1 Do you agree that we should make the changes as set out? If not, please specify your reasons.</p> <p>B2Q2 Do you agree that these changes should also apply to the ASIC Market Integrity Rules (ASX 24) (except where the changes arise because of differences in products traded)?</p> <p>B2Q3 Are there any other changes that should be made?</p>
<p>B3 We propose to provide market participants who trade on both the ASX 24 and FEX markets with general guiding principles (see Table 1) where there are duplicate obligations for participants of both markets.</p>	<p>B3Q1 Do you agree with the guiding principles we have identified in Table 1?</p> <p>B3Q2 Are there any other duplicated obligations in the market integrity rules we should consider giving guidance on?</p>
<p>B4 We propose to apply the same disciplinary framework to breaches of the ASIC Market Integrity Rules (FEX) as the MDP does to breaches of the ASIC Market Integrity Rules (ASX 24). Where breaches of both sets of rules occur as the result of a single course of conduct by the market participant, the MDP will have the ability to take into account the totality of the conduct and determine a penalty amount that would correspond to a single breach. If the MDP finds that there have been two breaches, it may either apply separate penalties for each breach or an overall penalty for both breaches.</p>	<p>B4Q1 Do you agree with our approach to penalties where breaches of two equivalent market integrity rules for the ASX 24 and FEX markets occur as the result of a single course of conduct by the market participant?</p>

Appendix to CP 157: Proposed ASIC market integrity rules: FEX market

This appendix presents the proposed market integrity rules for the FEX market as a marked-up version of the current ASIC Market Integrity Rules (ASX 24 Market) 2010. For more information, including the related ASIC advisory, go to www.asic.gov.au/markets.

ASIC Market Integrity Rules (FEX Market) 2011

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Chapter 1: Introduction

Part 1.1 Preliminary

1.1.1 Enabling legislation

ASIC makes this instrument under subsection 798G(1) of the Corporations Act.

1.1.2 Title

This instrument is *ASIC Market Integrity Rules (FEX ASX-24 Market) 2011*.

1.1.3 Commencement

This instrument commences on the day the instrument is registered under the *Legislative Instruments Act 2003*, ~~the later of:~~

- ~~(a) the day the instrument is registered under the *Legislative Instruments Act 2003*; and~~
- ~~(b) the commencement of Schedule 1 to the *Corporations Amendment (Financial Market Supervision) Act 2010*.~~

Note: An instrument is registered when it is recorded on the Federal Register of Legislative Instruments (FRLI) in electronic form: see *Legislative Instruments Act 2003*, [section 4](#) (definition of register). The FRLI may be accessed at <http://www.frli.gov.au/>.

1.1.4 Scope of these Rules

These Rules apply to:

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

Note: There is no penalty for this Rule.

1.1.5 Entities that must comply with these Rules

The following entities must comply with these Rules:

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

as specified in each Rule.

Note: There is no penalty for this Rule.

1.1.6 Conduct by officers, employees or agents

In these Rules, conduct engaged in on behalf of a person:

- (a) by an officer, Employee, or other agent of the person, and whether or not within the scope of the actual or apparent authority of the officer, Employee, or other agent; or
- (b) by any other person at the direction or with the consent or agreement (whether express or implied) of an officer, Employee, or other agent of the person, and whether or not the giving of the direction, consent or agreement is within the scope of the actual or apparent authority of the officer, Employee, or other agent,

is deemed to have been engaged in by the person.

Note: There is no penalty for this Rule.

1.1.7 State of mind of a person

(1) If for the purposes of these Rules in respect of conduct engaged in by a person, it is necessary to establish the state of mind of the person, it is sufficient to show that an officer, Employee, or other agent of the person, being an officer, Employee, or other agent by whom the conduct was engaged in and whether or not the conduct was within the scope of the actual or apparent authority of that officer, Employee, or other agent, had that state of mind.

(2) In subrule (1), a reference to the state of mind of a person includes a reference to the knowledge, intention, opinion, belief or purpose of the person and the person's reasons for the person's intention, opinion, belief or purpose.

Note: There is no penalty for this Rule.

Part 1.2 Waiver

1.2.1 Waiver of Rules and procedures

(1) Subject to Rule 1.2.3, ASIC may relieve any person or class of persons from the obligation to comply with a provision of these Rules, either generally or in a particular case or category, and either unconditionally or subject to such conditions as ASIC thinks fit.

(2) If any conditions on a waiver given under subrule (1) are imposed, all of the conditions must be complied with for the waiver to be effective.

(3) ASIC may withdraw, in writing, a waiver given under subrule (1) at any time.

(4) Any request by a person for a waiver under subrule (1) must be in writing.

(5) Any waiver given under subrule (1), and any conditions imposed on that waiver, must be in writing.

(6) ASIC may publish notice of a waiver given under subrule (1).

Note: There is no penalty for this Rule.

1.2.2 Compliance with conditions

Failure to comply with a condition imposed under Rule 1.2.1 is a contravention of this Rule.

Maximum penalty: \$1,000,000

1.2.3 Period during which relief applies

ASIC may specify the period or specific event during which any relief from an obligation to comply with a provision of these Rules may apply.

Note: There is no penalty for this Rule.

1.2.4 Register

(1) ASIC may establish and maintain a register for recording details of relief granted under Rule 1.2.1 and may enter the following details in the register:

- (a) the date that the relief takes effect;
- (b) the person or class of person relieved from the obligation;
- (c) the provision to which the relief applies;
- (d) brief reasons for the relief; and
- (e) any conditions that apply to the relief.

(2) ASIC may publish the register referred to in subrule (1).

Note: There is no penalty for this Rule.

Part 1.3 Notice, notification and service of documents

1.3.1 Market Participant to have email system

A Market Participant must acquire and maintain an operating email system for the purposes of receiving notices under these Rules.

Note: There is no penalty for this Rule.

1.3.2 Methods of giving notice in writing

Unless otherwise specified in a Rule, ASIC may give notice under these Rules by any of the following methods:

- (a) delivering it to the recipient personally;
- (b) leaving it at or by sending it by courier or post to the address of the recipient last notified to ASIC;
- (c) sending it by facsimile to the recipient's facsimile number last notified to ASIC;

- (d) a circular or bulletin addressed to a class of persons and delivered or communicated by any means permitted under this Rule;
- (e) specific email by any method which identifies a person or person's title as addressee and no notice of non-delivery has been received;
- (f) broadcast email by any method which identifies the addressee and which, having regard to all the relevant circumstances at the time, was as reliable as appropriate for the purposes for which the information was communicated.

Note: There is no penalty for this Rule.

Part 1.4 Interpretation

1.4.1 References to time

In these Rules a reference to time is to the time in Sydney, Australia.

Note: There is no penalty for this Rule.

1.4.2 Words and expressions defined in the Corporations Act

Words and expressions defined in the Corporations Act will unless otherwise defined or specified in these Rules or the contrary intention appears, have the same meaning in these Rules.

Note: There is no penalty for this Rule.

1.4.3 Definitions

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

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

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

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

~~“**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 Entity 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~~ LCH.Clearnet.

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

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

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

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

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

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

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

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

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

“**Clearing and Settlement Facility**” has the meaning given by Division 6 of Part 7.1 of the Corporations Act.

“**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~~Employee, officer, agent, Representative, consultant or adviser of that Market Participant, or an independent contractor who acts for or by arrangement with a Market Participant.

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

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

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

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

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

but is not a firm Order to buy or sell.

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

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

“**Financial Services**” has the meaning given by Division 4 of Part 7.1 of the Corporations Act.

“**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.

“**LCH.Clearnet**” means LCH.Clearnet Limited (ARBN 142 251 045).

“**Margin**” means Initial Margin and Variation Margin.

“**Market**” means the markets operated by the Market Operator under the Australian Market Licence (~~FEX Australian Securities Exchange Limited~~) 201102.

“**Market Operator**” means ~~Financial and Energy Exchange~~ [Australian Securities Exchange Limited](#) (ACN [122 086 284 000 943 377](#)).

“**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 ~~Entity Participant~~ or to such an open position which is held by a Market Participant on the instructions of a client, including open positions held, where applicable on markets other than the Market.

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

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

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

as listed by the Market Operator.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chapter 2: The Market Participants

Part 2.1 Notification

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

Maximum penalty: \$100,000

Part 2.2 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;
- (b) set and document maximum price change limits;
- (c) the limits determined in Rules 2.2.1(1)(a) 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;
- (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 connections

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

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

(3) Obligations prior to client connection

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

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

Maximum penalty: \$1,000,000

2.2.2 Concentration of risk

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

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

Maximum penalty: \$100,000

2.2.3 Prohibited employment

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

- (a) the [ASIC Market Integrity Rules \(ASX 24 Market\) 2010](#) or the [ASIC Market Integrity Rules \(ASX Market\) 2010](#), 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~~ of the market operated by Sydney Futures Exchange Limited in force prior to the commencement of these ~~ASIC Market Integrity Rules (ASX 24 Market) 2010 Rules~~, which failure has been found to have occurred by the ~~Sydney Futures Exchange Limited Market Operator~~ prior to commencement of these ~~Rules ASIC Market Integrity Rules (ASX 24 Market) 2010~~.

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

Maximum penalty: \$1,000,000

2.2.4 Order records and accounting records

(1) Client Orders

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

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

(2) Proprietary Orders

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

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

(3) Error Trades

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

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

(4) Accounting records

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

Maximum penalty: \$100,000

2.2.5 Client documentation

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

(a) Client to provide information

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

(b) Margins

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

- (i) the Market Participant may Call for payment of Margin such money or property (or Call for the lodgement of Approved Securities in lieu thereof) as the Market Participant, in its absolute discretion, feels is necessary to protect itself from the personal obligation incurred by Dealing in Contracts on behalf of the Client;
- (ii) should the Client fail to meet the Call (or lodge Approved Securities) then the Market Participant may (without prejudice to any other rights or powers under the agreement) and without creating an obligation to do so, Close Out, without notice, all or some of the Client's Contracts;
- (iii) the time for payment of Margins is of the essence and if no other time is stipulated by the Market Participant prior to Calling a Margin then the Client is required to comply within twenty-four (24) hours;
- (iv) liability to pay the Initial Margin accrues at the time the Trade is executed regardless of when a Call is made;
- (v) liability to pay Margin accrues at the time the Margin comes into existence regardless of when a Call is made; and
- (vi) the Client is responsible to pay in cash any deficit owing to the Market Participant after closure and that if the Client defaults in payment of such deficit, the Market Participant may realise any securities held by the Market Participant and apply the proceeds against that deficiency.

(c) Tape recordings

An acknowledgment by the Client that the Client's telephone conversations with the Market Participant can be recorded by the Market Participant. The Client is to be given the right to listen to any recording in the event of a dispute or anticipated dispute.

(d) Right to refuse to Deal

An acknowledgment by the Client that the Market Participant reserves the right to refuse to Deal on behalf of the Client in relation to any Dealings in Contracts (other than Closing Out existing Open Positions held in the Market Participant's account on behalf of the Client) or limit the number of Open Positions held on behalf of the Client

or both. The Market Participant will inform the Client of any refusal at or before the time of the Client placing the Order or as soon as possible thereafter.

(e) Termination and Closing Out

An acknowledgment that:

- (i) without affecting any existing obligations or liabilities, either the Client or the Market Participant may terminate the agreement at any time by giving the other notice In Writing to that effect; and
- (ii) upon termination of the Client agreement that unless otherwise agreed In Writing the Market Participant will Close Out all the Client's Futures Contracts and Close Out, abandon or exercise any Options not yet exercised.

(2) Exception

Rule 2.2.5(1) does not apply:

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

Maximum penalty: \$100,000

2.2.6 Clients' segregated account obligations

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

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

(b) Type of money to be paid into an account

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

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

(c) When money must be paid into an account

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

(d) Permitted withdrawal

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

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

(e) Payment to another Australian Financial Services licensee

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

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

- (i) Where five (5) clear Business Days (inclusive of the day of the Call) after a Call has been made on a Client for Initial [Margin](#) or Variation Margin in accordance

with the Market Operating Rules, or such Call should have been made in accordance with the Market Operating Rules, the Call which was or should have been made has not been satisfied by payment of monies into a Clients' segregated account or lodgement of Cover, then the Market Participant must pay into the Clients' segregated account an amount of money not less than either:

- (A) the liability of the Client under such a Call; or
 - (B) the amount which the Market Participant would be obliged to Call the Client on the day after five (5) clear Business Days (inclusive of the day of the Call) has elapsed, whichever is the lesser.
- (ii) Subject to Rule 2.2.6(f) such monies may only be withdrawn in accordance with Rule 2.2.6(d) and only after such monies have been received by the Market Participant.
 - (iii) The Market Participant must pay into the Clients' segregated account after five (5) clear Business Days, any amount (which has not been met by the Client), which arises as a result of debit balances of a Client resulting from realised losses or otherwise.

(g) Prohibited agreements

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

(h) Permissible investments

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

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

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

- (i) the Market Participant must, prior to investing any amount, obtain the Client's written agreement to the following matters:

- (A) the making of the investment;
 - (B) how earnings on the investment are to be dealt with;
 - (C) how the realisation of the investment is to be dealt with;
 - (D) how any losses made on the investment are to be dealt with; and
 - (E) the fee (if any) that the Market Participant proposes to charge for the investment; and
- (ii) such investment must be readily realisable and no less than fifty per cent (50%) of monies invested must be on twenty-four (24) hour call.
- (j) Separation of Market Participants' Trading liabilities from Clients' Trading liabilities
A Market Participant must not use a Clients' segregated account to meet any Initial [Margin](#) or Variation Margin liabilities which relate to Trading by that Market Participant on its own behalf or on behalf of a related corporation.
- (k) Accounting records for withdrawals
A Market Participant must at all times maintain such accounting records as accurately indicate each withdrawal from a Clients' segregated account.
- (l) Definition of Client
For the purposes of Rule 2.2.6, "Client" excludes a Related Body Corporate or a division of the Market Participant.
- (m) Property
- (i) For the purposes of Rule 2.2.6(m), "property" includes credit facilities and securities.
 - (ii) On the receipt of property, a Market Participant must:
 - (A) deposit the property in safe custody on or before the next Business Day after the property is received or deposited;
 - (B) create and maintain the following records:
 - (I) date property received/deposited in safe custody; and
 - (II) particulars of the property so deposited.
 - (iii) A Market Participant must keep Client property segregated from the Market Participant's own property and Market Participants must be able to liquidate Client property as soon as practicable when required.
 - (iv) A Market Participant must not use property held in safe custody to satisfy a Market Participant's debt.

Maximum penalty: \$1,000,000

2.2.7 Mandatory recording of information by Market Participants

(1) Recording by Market Participant

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

Maximum penalty: \$100,000

Chapter 3: Trading principles

Part 3.1 Trading principles for Orders entered on the Trading Platform

3.1.1 Expressions of Interest

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

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

Maximum penalty: \$100,000

3.1.2 Market manipulation and misleading acts or practices regarding price

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

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

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

Maximum penalty: \$1,000,000

3.1.3 Entering Orders without an intent to Trade

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

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

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

Maximum penalty: \$1,000,000

3.1.4 Orders to be transmitted as soon as received

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

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

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

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

Maximum penalty: \$100,000

3.1.5 Orders to be transmitted and executed in the sequence received

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

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

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

Maximum penalty: \$1,000,000

3.1.6 Aggregation of Orders

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

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

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

Maximum penalty: \$1,000,000

3.1.7 Disclosure

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

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

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

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

Maximum penalty: \$1,000,000

3.1.8 Withholding Orders

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

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

Maximum penalty: \$1,000,000

3.1.9 Withdrawing Orders

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

Maximum penalty: \$100,000

3.1.10 Pre-arrangement

~~(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~~
- ~~(B) 90 Day Bank Accepted Bills futures~~
- ~~(C) 3 Year Commonwealth Treasury Bond futures~~
- ~~(D) 10 Year Commonwealth Treasury Bond futures~~
- ~~(E) SPI 200 Index futures; or~~

~~(iv) where a Market Participant's Client with direct market access has executed a wash Trade and the Client intended to cross the Trade.~~

~~(b) Where a Market Participant breaches Rule 3.1.12(1):~~

~~(i) A Market Participant must maintain a register in respect of any wash Trade executed under their mnemonic, recording details of breaches of Rule 3.1.12(1) that were not reported to ASIC under Rule 3.1.12(3) (a "wash Trade register").~~

~~(ii) Information to be maintained in the wash Trade register includes:~~

- ~~(A) time and date of Trade execution;~~
- ~~(B) deal number and full Order details;~~
- ~~(C) an explanation as to why/how the Trade occurred; and~~
- ~~(D) details of any subsequent action taken by the Market Participant.~~

(4) A Market Participant is not required to report a wash Trade to ASIC where a Client with direct market access has inadvertently executed a wash Trade and the Market Participant has processes in place to review, and reviews in accordance with those processes, the actions of the Client to ensure the Trade was inadvertent and subsequently records the details required by Rule 3.1.12(~~63~~)(b) on its wash ~~T~~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 ~~t~~Trade register.

(6) For the purposes of subrules (4) and (5) a "wash trade register" is a register of the following information in relation to the wash trades referred to in subrules (4) and (5):

- (a) time and date of Trade execution;
- (b) deal number and full Order details;
- (c) an explanation as to why/how the Trade occurred;
- (d) details of any subsequent action taken by the Market Participant; and
- (e) details on whether the wash Trade was inadvertent or deliberate.

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.

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

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

Maximum penalty: \$100,000

3.1.14 Personal account Trading

(1) A person must not initiate a Trade on any Market in any Contract for that person's account where that person has or is likely to have knowledge or information about any Client Orders of any Market Participant to Trade, or instructions to Trade, in the same or similar commodity.

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

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

(3) For the purposes of this Rule 3.1.14:

- (a) a "Client" of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from the Market Participant's futures division;

- (b) “a person having a financial interest in an account” includes any benefit which that person may enjoy as the result of the operation of that account, or Trading under that account; and
- (c) a “relative” of a person refers to spouse, parents, son, daughter, brother, sister, grandparents, grandchildren, aunts and uncles.

Maximum penalty: \$100,000

3.1.15 Dual Trading prohibition

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

(2) Conflict management

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

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

(4) In Rule 3.1.15:

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

Maximum penalty: \$1,000,000

3.1.16 Trades to be allocated in sequence of Order receipt

- (1) Subject to Rule 3.1.16(3) a Market Participant and its Representative must allocate Trades to Clients in the sequence in which the Orders are received.
- (2) For the purposes of this Rule 3.1.16 “a “Client” of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from that Market Participant’s futures division.
- (3) A Market Participant may allocate out of sequence where:
- (a) Orders are aggregated under Rule 3.1.6;
 - (b) the Market Participant uses either of the following pro-rata methods:
 - (i) volume weighted average method; or
 - (ii) percentage basis;
 - (a) the Market Participant has advised, In Writing, each Client whose Orders may be allocated out of sequence under this Rule, nominating the pro-rata method selected under Rule 3.1.16(3)(b); and
 - (b) the Market Participant has retained a record of the advice sent to the Client under Rule 3.1.16(3)(c) while the Client remains a Client of the Market Participant and for a period of five (5) years after that Client ceases to be a Client of the Market Participant.
- (4) A Market Participant must notify ASIC In Writing prior to adopting or changing its policy of allocating Orders on one of the pro-rata methods set out in Rule 3.1.16(3)(b).

Maximum penalty: \$100,000

3.1.17 Post-allocation prohibition

- (1) A Market Participant must not offer and/or allocate Trades to a Client unless those Trades have been obtained under instructions previously obtained from that Client.
- (2) For the purposes of this Rule 3.1.17 a “Client” of a Market Participant which is a Corporation includes a Related Body Corporate or a division of the Market Participant which is separate from that Market Participant’s futures division.

Maximum penalty: \$1,000,000

Part 3.2 Strategy Trading

- (1) A Market Participant must maintain a record of all Strategy Trades, for a period of five (5) years.
- (2) Market Participants must allocate each leg of a Strategy Trade to the same account.

Maximum penalty: \$100,000

Part 3.3 Pre-negotiated business orders

3.3.1 Pre-negotiated business

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

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

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

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

Note: There is no penalty for this Rule.

3.3.1A Entry of orders

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

- (a) make an enquiry through the message facility of the Trading Platform for a market in that contract month or strategy;
- (b) wait until 60 seconds of time have elapsed since the entry of the enquiry; and
- (c) then immediately enter the Order on the Trading Platform for execution.

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

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

(3) Where a Market Participant ("first Market Participant") holds opposing Orders at a specific price, and a bid or offer is entered in the Market by another Market Participant ("other Market Participant") following the message sent under Rule 3.3.2(1)(a) that is at

the same or better price than the opposing Orders held by the first Market Participant, the first Market Participant must give priority to trading against the bid or offer entered by the other Market Participant.

Maximum penalty: \$100,000

3.3.2 Client authorisation

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

Maximum penalty: \$100,000

3.3.3 Definition of Client

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

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

Note: There is no penalty for this Rule.

Part 3.4 Trading principles for Block Trades

3.4.1 Participant entitlements

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

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

Note: There is no penalty for this Rule.

3.4.2 Prohibitions

(1) Market Participants 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: \$100,000Note: There is no penalty for this Rule.**3.4.3 Unfilled Block Trade Orders**

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

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

Note: There is no penalty for this Rule.

3.4.4 Client authorisation

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

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

Maximum penalty: \$100,000

Part 3.5 Trading principles for Exchange For Physical transactions**3.5.1 Prohibitions**

No Exchange For Physical transaction may be effected:

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

Maximum penalty: \$100,000

3.5.2 Evidence of physical transaction

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

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

- (a) retaining and maintaining an updated [list of Representatives](#) authorised [to register Exchange for Physical transactions on behalf of the](#) Market Participant ~~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

3.5.3 Client authorisation

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

Maximum penalty: \$100,000

Chapter 4: The Market Operator

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

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

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

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

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

(2) Format requirements

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

(3) Delivery requirements

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

Maximum penalty: \$1,000,000

4.1.2 Notification

A notification by ASIC to the Market Operator of:

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

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

Note: There is no penalty for this Rule.

Part 4.2 Provision of information about Market Participants

The Market Operator must maintain the information specified below about each Market Participant and advise ASIC in writing of any changes which are made to the information (including any changes resulting from the admission of new Market Participants) within 2 Business Days of the change being made:

- (a) Market Participant name;
- (b) the unique identifier that is used by the Market Operator to identify the trading activities of the Market Participant on the Market Operator's Trading Platform; and
- (a) Market Participant type, being:
 - (i) Trading Participant; or
 - (ii) Principal Trader.

Maximum penalty: \$100,000