

ASIC MARKET INTEGRITY RULES (SECURITIES MARKETS – CAPITAL) 2017

EXPLANATORY STATEMENT

Prepared by the Australian Securities and Investments Commission

Corporations Act 2001

Enabling Legislation

The Australian Securities and Investments Commission (**ASIC**) makes the *ASIC Market Integrity Rules (Securities Markets – Capital) 2017* (**Market Integrity Rules (Securities Markets – Capital)** or **Rules**) under subsection 798G(1) of the *Corporations Act 2001* (the **Act**).

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

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

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

Details of the Market Integrity Rules (Securities Markets – Capital) are contained in Attachment A. Capitalised terms in this Explanatory Statement refer to defined terms in the Market Integrity Rules (Securities Markets – Capital).

Background and Rationale

On 24 August 2009, the Australian Government announced the transfer of the supervisory function for Australia's domestic licensed financial markets from market operators to ASIC. The Amending Act gave effect to this decision and received Royal Assent on 25 March 2010. Consequently the Amending Act provided ASIC with:

- (a) the function of supervising domestic Australian market licensees; and
- (b) the power to make and enforce market integrity rules.

For expedience and to minimise the immediate impact of the transfer of supervision to ASIC, the market integrity rules that were initially made, set out obligations applying to activities and conduct for each licensed domestic market. Those rules generally reflected a subset of the content of the markets' operating rules in effect prior to the transfer of supervision. In 2011 ASIC made the *ASIC Market Integrity Rules (Chi-X Australia Market) 2011* to apply to the (then) new licenced market operated by Chi-X Australia Pty Ltd and *ASIC Market Integrity Rules (Competition in Exchange Markets) 2011*, to address regulatory issues resulting from the introduction of competition between exchange markets for securities, and to provide for some market integrity rules applicable across licenced markets. In 2013 ASIC made the *ASIC Market Integrity Rules (FEX Market) 2013* to apply to the futures market operated by FEX Global Pty Ltd. In 2014 ASIC moved the market integrity rules specifying capital requirements for participants of some markets from their existing rulebooks, into separate capital market integrity rules for those markets, including, by making:

- (a) the *ASIC Market Integrity Rules (ASX Market-Capital) 2014* to apply to licensed market (the ASX Market) operated by ASX Limited (ACN 008 624 691) (ASX Market);
- (b) the *ASIC Market Integrity Rules (APX Market-Capital) 2014* to apply to the licensed market operated by Asia Pacific Exchange Limited (ACN 080 399 220) (APX Market); and
- (c) the *ASIC Market Integrity Rules (Chi-X Australia Market-Capital) 2014* to apply to the licensed market operated by Chi-X Australia Pty Limited (the Chi-X Market).

As part of its supervisory responsibilities, ASIC has reviewed the 14 market integrity rule books in force in late 2016 and identified the need to consolidate certain market integrity rule books which covered substantively similar existing obligations across like domestic licensed markets in order to:

- (a) minimise the opportunity for regulatory arbitrage by participants;
- (b) assist participants of the similar domestic licenced markets to comply with their regulatory obligations;
- (c) contribute to efficiency in supervision and enforcement of the market integrity rules by ASIC;
- (d) avoid additional regulatory burden and cost for industry participants;
- (e) ensure consistent regulatory settings and a level regulatory playing field between market operators and between market participants which trade in similar products;

- (f) help promote retail investor trust and confidence and market transparency by ensuring investor protection measures are consistent;
- (g) facilitate market development and competition; and
- (h) reduce ASIC's administrative burden when amending market integrity rules in future.

The policy objective for creating a single point of reference for market integrity rules that are common between markets aligns with ASIC's regulatory responsibilities under the *Australian Securities and Investments Commission Act 2001* (the ASIC Act) to:

- (a) maintain, facilitate and improve the performance of the financial system and the entities within that system in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy; and
- (b) promote the confident and informed participation of investors and consumers in the financial system.

Accordingly, the rationale for developing the Market Integrity Rules (Securities Markets – Capital) was to provide a single capital rule book for market participants across all domestic licensed markets for securities.

The consolidation of market integrity rules setting out capital requirements for securities market participants in these Rules is part of a wider project, which also involves consolidation of the market integrity rules applicable to market operators and participants across all licensed domestic markets for securities (see the *ASIC Market Integrity Rules (Securities Markets) 2017*) and for futures (see the *ASIC Market Integrity Rules (Futures Markets) 2017*), as well as the consolidation of the market integrity rules setting out the capital requirements for futures market participants (see the *ASIC Market Integrity Rules (Futures Markets – Capital) 2017*).

Scope of Rules

The Market Integrity Rules (Securities Markets – Capital) set out the market integrity rules that apply to:

- (a) the activities and conduct of the domestic licensed financial markets in Australia (the *Markets*) operated by:

- (i) ASX Limited (the **ASX Market**) under *Australian Market Licence (Australian Stock Exchange Limited) 2002*;
 - (ii) Chi-X Australia Pty Limited (the **Chi-X Market**) under Australian Market Licence (*Chi-X Australia Pty Ltd*) 2011;
 - (iii) IR Plus Securities Exchange Limited (the **IR Plus Market**) (formerly SIM Venture Securities Exchange Limited under *Australian Market Licence (SIM Venture Securities Exchange Ltd (SIM VSW)) 2002*;
 - (iv) National Stock Exchange of Australia Limited (the **NSXA Market**) under *Australian Market Licence (National Stock Exchange of Australia Limited) 2002*;
 - (v) Sydney Stock Exchange Limited (the **SSX Market**) (formerly Asia Pacific Stock Exchange Limited) (the **APX Market**) under *Australian Market Licence (Sydney Stock Exchange Limited) 2004*;
- (b) the activities or conduct in relation to the Markets; and
- (c) the activities or conduct of persons in relation to financial products traded on the Markets.

Generally, the Rules maintain the substance of the regulatory regime embodied in following market integrity rules applicable prior to the commencement of the Rules (the **Pre-Commencement Market Integrity Rules**), with the exception noted immediately below:

- (a) *ASIC Market Integrity Rules (APX Market-Capital) 2014*;
- (b) *ASIC Market Integrity Rules (ASX Market-Capital) 2014*; and
- (c) *ASIC Market Integrity Rules (Chi-X Australia Market-Capital) 2014*.

The Rules omit Pre-Commencement Market Integrity Rules applicable to Participants with Trading Permission for futures only. Market integrity rules applicable to trading in futures will be subject solely to the *ASIC Market Integrity Rules (Futures Markets) 2017*, and the *ASIC Market Integrity Rules (Futures Markets – Capital) 2017* when those rules commence

The main guiding principle for adopting the Pre-Commencement Market Integrity Rules as the basis for the Market Integrity Rules (Securities Markets – Capital) was to ensure existing common capital requirements relating to the Markets remained unchanged. The Rules omit Pre-Commencement Market Integrity Rules

Consultation

ASIC consulted publically on the Market Integrity Rules (Securities Markets – Capital). On 24 January 2017, ASIC released Consultation Paper 227: *Proposals to consolidate ASIC market integrity rules (CP 277)*, including the draft Market Integrity Rules (Securities Markets – Capital).

In CP 277, and as relevant to the Rules, we also consulted publically on:

1. the appropriate period to waive the requirement for participants of NSXA who do not offer AOP services to comply with the Market Integrity Rules (Securities Markets – Capital); and
2. whether a waiver of six months following commencement or to 31 December 2017 would be sufficient.

The consultation period for CP 277 occurred between 24 January 2017 and 7 March 2017. We held over 25 meetings with stakeholders during and following that period. In addition, we consulted ASIC’s Market Advisory Panel on the proposals. ASIC received five non-confidential submissions and six confidential submissions to CP 277 from a broad range of stakeholders including from market participants, market operators and industry associations.

Response to Consultation

The submissions ASIC received supported consolidation of the market integrity rules for capital requirements into a single rule capital rule book that applies to participants of ASX, Chi-X, IR Plus, NSXA (for NSXA’s AOP participants only) and SSX. Respondents also generally agreed that the Market Integrity Rules (Securities Markets – Capital) should apply the Rules as proposed in CP 277. We received specific comments about the timing of the application of the Rules to NSXA Participants. As a result of that feedback the Rules will apply from commencement only to NSXA Participants who use automated order processing on the NSXA Market. Commencement of the Rules for other NSXA Participants will be 7 May 2018. Attachment A explains the operation of the commencement provisions in more detail.

Our responses to the other areas of specific consultation as they impact on the Rules are set out in more detail in *Report 547: Response to submissions on CP 277 Proposals to consolidate the ASIC market integrity rules*:

Penalties

Subsection 798G(2) of the Act provides that market integrity rules may include a penalty amount for

a rule. A penalty amount must not exceed \$1,000,000. The penalty amount set out below a Rule is the penalty amount for that Rule.

Commencement of Rules

Each provision of the Rules other than Rule 1.1.3A commences on the later of:

- (a) 4 December 2017; and
- (b) the day after it is registered on the Federal Register of Legislation.

Rule 1.1.3A commences on the later of:

- (a) 7 May 2018; and
- (b) the day after it is registered on the Federal Register of Legislation.

Statement of Compatibility with Human Rights

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

Regulation impact statement

The Office of Best Practice Regulation (OBPR) has assessed the Rules as having a minor impact on business, community organisations or individuals and confirmed that no further analysis, in the form of a Regulatory Impact Statement is required.

ATTACHMENT A

Chapter 1 Introduction

Part 1.1 Preliminary

Rule 1.1.1 – Enabling legislation

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

Rule 1.1.2 Title

Rule 1.1.2 provides that the title for the Rules is *ASIC Market Integrity Rules (Securities Markets – Capital) 2017*.

Rule 1.1.3 Commencement

Rule 1.1.3 provides that each provision of the Rules other than Rule 1.1.3A commences on the later of:

- (c) 4 December 2017; and
- (d) the day after it is registered on the Federal Register of Legislation.

Rule 1.1.3A commences on the later of:

- (c) 7 May 2018; and
- (d) the day after it is registered on the Federal Register of Legislation.

Rule 1.1.3A Revocation

Rule 1.1.3A provides that the following instruments are repealed:

- (a) *ASIC Market Integrity Rules (APX Market-Capital) 2014*;
- (b) *ASIC Market Integrity Rules (ASX Market-Capital) 2014*; and
- (c) *ASIC Market Integrity Rules (Chi-X Australia Market-Capital) 2014*.

Rule 1.1.4 Scope of these Rules

Rule 1.1.4 provides that the Rules apply to:

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

Rule 1.1.4A Transitional

Rule 1.1.4A provides a person other than an NSXA AOP Participant does not have to comply with

any provision of the Rules until 7 May 2018.

Rule 1.1.5 Entities that must comply with these Rules

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

- (a) Market operators;
- (b) Market Participants; and
- (c) Other Regulated Entities.

The compound term 'Market Participant' has the same meaning as 'Participant of a Market'.

Rule 1.1.6 Conduct by officers, Employees or agents

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

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

Rule 1.1.7 State of mind of a person

Subrule 1.1.7(1) provides that, if for the purposes of the Rules in respect of conduct engaged in by a person, it is necessary to establish the state of mind of the person, it is sufficient to show that an officer, Employee or other agent of the person by whom the conduct was engaged in had that state of mind.

Subrule 1.1.7(2) provides that, in subrule (1), a reference to the state of mind of a person includes a reference to the knowledge, intention, opinion, belief or purpose of the person and the person's reasons for the person's intention, opinion, belief or purpose.

Part 1.2 Waiver

Rule 1.2.1 – Waiver of Rules

Subrule 1.2.1(1) provides that subject to Rule 1.2.3, ASIC may relieve any person or class of persons from the obligation to comply with a provision of the Rules, either generally or in a particular case or category, and either unconditionally or subject to such conditions as ASIC thinks fit.

Subrule 1.2.1(2) provides that if any conditions on a waiver are imposed, all of the conditions must be complied with for the waiver to be effective.

Subrule 1.2.1(3) provides that ASIC may withdraw a waiver in writing at any time.

Subrules 1.2.1(4) to (5) provide that a waiver, conditions on a waiver and a request by a person for a waiver must be in writing.

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

Rule 1.2.2 – Compliance with conditions

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

Rule 1.2.3 – Period during which relief applies

Rule 1.2.3 provides that ASIC may specify the period or specific event during which any relief from an obligation to comply with a provision of the Rules may apply.

Rule 1.2.4 – Register

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

Subrule 1.2.4(2) provides that ASIC may publish the register.

Part 1.3 Notice, notification and service of documents

Rule 1.3.1 – Market Participant to have email system

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

Rule 1.3.2 Methods of giving notice in writing

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

Part 1.4 Interpretation

Rule 1.4.1 – References to time

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

Rule 1.4.2 – Words and expressions defined in the Corporations Act

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

Rule 1.4.3 – Definitions

Rule 1.4.3 provides definitions for the following terms used in the Rules:

- “AQUA Product”;
- “AQUA Product Issuer”;

- “AQUA Quote Display Board”;
- “ASIC”;
- “ASX”;
- “ASX Market”;
- “Automated Order Processing
- “Business Day”;
- “Cash Market Product”;
- “CGS Market”;
- “CHESS Depository Interest”;
- “Chi-X Australia”;
- “Chi-X Market”;
- “Clearing Facility”;
- “Clearing Participant”;
- “Clearing Rules”;
- “Corporations Act”;
- “Derivatives Market Contract”;
- “Derivatives Market Transaction”;
- “DTR”;
- “Employee”;
- “Equity Market Product”;
- “Equity Securities”;
- “ETF”;
- “ETF Security”;
- “Family Trust”;
- “Futures Market Contract”;
- “Futures Series”;
- “Immediate Family”;
- “IR Plus Market”;
- “Issuer”;
- “Loan Securities”;
- “Managed Fund”;
- “Market”;
- “NSXA”;
- “NSXA AOP Participant”;
- “NSXA Market”;
- “Official Quotation”;
- “Option Series”;
- “Options Market Contract”;
- “Order”;
- “Other Regulated Entities”;
- “Participant”;
- “Pre-Commencement Market Integrity Rules”;
- “Principal Trader”;
- “Product”;
- “Quoted Product”;

- “Rules”;
- “Security or security”;
- “SSX”;
- “SSX Market”;
- “Structured Product”;
- “Terms of Issue”;
- “Trading Messages”;
- “Trading Participant”;
- “Trading Permission”;
- “Trading Platform”;
- “Trading Status”;
- “Underlying Instrument”;
- “Warrant”; and
- “Warrant-Issuer”.

The compound term ‘Market Participant’ has the same meaning as ‘Participant of a Market’.

Part 1.5 Participants of multiple markets

Rule 1.5.1 – Participants may rely on notifications

Rule 1.5.1 provides that a Market Participant may give ASIC the same document in relation to more than one Market in satisfaction of an obligation under the Rules to give that document to ASIC, if it has notified ASIC in writing that it intends to comply with these rules and the document contains all required information that would be required to be in the document if it were given separately in relation to each Market.

Part 1.6 Transitional

Rule 1.6.1 – Status of notifications and certifications given by a Market Participant under the Pre-Commencement Market Integrity Rules

Subrules 1.6.1(1) and (2) provide that a written notification or certification given by a Market Participant to ASIC under the Pre-Commencement Market Integrity Rules is taken to have been given under the corresponding provision in the Rules, and unless the notification or certification has been withdrawn or otherwise ceased to have effect, it will continue in its existing form and continue to have the same legal effect as when given under the corresponding provisions in these Rules.

Subrule 1.6.1(1A) provides that for the purposes of this Rule an old provision of the Pre-Commencement Market Integrity Rules will correspond to a new provision of the Rules if the old provision and new provisions are substantially the same.

Subrule 1.6.1(1B) provides that for the purposes of subrule 1.6.1(1A), differences of a certain kind will not mean 2 provisions are not substantially the same.

The next provision of the Rules is Chapter 8. This maintains the Pre-Commencement Market integrity rule numbering for the convenience of Participants of the Markets.

Chapter 8 Capital Requirements

Part 8.1 Preliminary

Rule 8.1.1 – Definitions

Rule 8.1.1 provides definitions for terms used in Chapter 8. Rule 8.1.1 provides definitions for:

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

Part 8.2 Application

Rule 8.2.1 Market Participant to comply with Risk Based Capital Requirements

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

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

Chapter 9: Accounts and audit

Part 9.1AA Preliminary

Rule 9.1AA.1 – Definitions

Rule 9.1AA.1 provides definitions for terms used in Chapter 9.1AA. Rule 9.1AA.1 includes definitions for:

- “Approved Clearing Facility”;
- “Approved Deposit Taking Institution”;
- “Approved Subordinated Debt”;
- “Approved Subordinated Loan Deed”;
- “Bankruptcy”;
- “CFD”;
- “Classical ETF”;
- “Client Balance”;
- “Core Capital”;
- “Counterparty”;
- “Counterparty Risk Requirement”;
- “Debt Derivative”;
- “Debt Instrument”;
- “Derivative”;
- “Equity”;

- “Equity Derivative”;
- “Excluded Asset”;
- “Excluded Liability”;
- “Family Trust”;
- “Financial Asset Revaluation Reserves”;
- “Financial Instrument”;
- “Foreign Exchange Derivative”;
- “Forward Rate Agreement”;
- “Future”;
- “Hybrid ETF”;
- “Immediate Family”;
- “Large Exposure Risk Requirement”;
- “Liquid”;
- “Liquid Capital”;
- “Liquid Margin”;
- “Non-Standard Risk Requirement”;
- “NTA Requirements”;
- “Operational Risk Requirement”;
- “Option”;
- “Other Managed Fund”;
- “Position Risk Requirement”;
- “Preference Share”;
- “Primary Margin Requirement”;
- “Related/Associated Person”;
- “Related/Associated Person Balance”;
- “Risk Based Capital Requirements”;
- “Substantial holder”;
- “Swap”;
- “Total Risk Requirement”; and
- “Underwriting Risk Requirement”.

Part 9.1 Application of Rules

Rule 9.1.1 – Principal Traders and Clearing Participants

Rule 9.1.1 provides that Chapter 9 does not apply to:

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

Part 9.2 Risk Based Capital Requirements—Reporting

Rule 9.2.1A Risk Based Capital Requirements: Forms

Rule 9.2.1(A) provides definitions for terms that are used in Part 9.2. Rule 9.2.1(A) includes definitions for:

- “Ad Hoc Risk-Based Return”;
- “Annual Audited Risk-Based Return”;
- “Monthly Risk-Based Return”;
- “Risk-Based Return Declaration”; and
- “Summary Risk-Based Return”.

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

Rule 9.2.1 provides that a Market Participant must, if requested to do so by ASIC, provide ASIC with an Ad Hoc Risk-Based Return or Summary Risk-Based Return and Summary Risk-Based Return Declaration, authorised by one director or partner of the Market Participant, within the time specified by ASIC in the request.

Rule 9.2.2 Core Capital or Liquid Capital below minimum

Subrule 9.2.2(1) provides that a Market Participant must notify ASIC immediately if its:

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

Subrule 9.2.2(2) provides that a Market Participant must provide ASIC with, at the option of ASIC, an Ad Hoc Risk-Based Return or Summary Risk-Based Return and Risk-Based Return Declaration, disclosing the amount of its Liquid Margin:

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

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

Rule 9.2.3 Monthly Risk-Based Return

Rule 9.2.3 provides that a Market Participant must prepare and deliver to ASIC within 10 Business Days of the end of each calendar month, the documents and information specified in the Rule.

9.2.4 Audited Annual Return

Subrule 9.2.4(1) provides that a Market Participant must prepare and deliver to ASIC within 3 months (for a corporation) or 2 months (for a partnership) following the end of the Market Participant's financial year the documents and information specified in the Rule including:

- (a) the Market Participant's statutory accounts and group structure chart;
- (b) an Annual Audited Risk-Based Return;
- (c) a Risk-Based Return Declaration relating to the Annual Audited Risk-Based Return;
- (d) an auditor's report on the Annual Audited Risk-Based Return; and
- (e) the Key Risks and Internal Systems Statement.

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

9.2.5 Partnership Statutory Declaration

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

Part 9.4 General

Rule 9.4.1 Alternate Director

Rule 9.4.1 provides that where a Market Participant has appointed an alternate director in accordance with section 201K of the Corporations Act and the constitution of the Market Participant, the alternate director may authorise or sign the Forms referred to in Parts 9.2 and 9.3 of the Rules only if the Market Participant has provided ASIC with:

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

Rule 9.4.2 Use of Return Lodgement and Monitoring System

Subrule 9.4.2(1) provides that unless otherwise directed by ASIC, a Market Participant may comply with the following provisions:

- (a) Rule 9.2.1 (Ad Hoc Risk-Based Return or Summary Risk-Based Return on Request);

- (b) subrule 9.2.2(2) (Ad Hoc Risk-Based Return or Summary Risk-Based Return where Core Capital or Liquid Capital below minimum);
- (c) Rule 9.2.3 (Monthly Return);
- (d) paragraphs 9.2.4(1)(d) to (g) (Annual Audited Risk-Based Return);

by submitting the information required to be delivered to ASIC under those provisions to the electronic Return Lodgement and Monitoring system maintained by the Market operator.

Subrule 9.4.2(2) provides that where a Risk-Based Return Declaration is submitted to the electronic return lodgement and monitoring system maintained by a Market operator, each reference in that Risk-Based Return Declaration or NTA Return Declaration to the *ASIC Market Integrity Rules (ASX Market) 2010* is taken to be a reference to these Rules.

Part 9.5 Scope of audits

Rule 9.5.1 Market Participant to assist auditor

Rule 9.5.1 provides that a Market Participant must give its auditor access to its premises and Employees and all records, documents, explanations and other information required by the auditor in respect of any audit conducted under Part 9.2 or 9.3 of the Rules. A Market Participant must:

- (a) not impose any limitation on the extent of any audit required under Part 9.2 or 9.3; and
- (b) permit and direct the auditor to notify ASIC immediately if any limitation is imposed on the auditor, or if the auditor is hindered or delayed in the performance of the auditor's duties.

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

Schedule 1A: Capital liquidity requirements

Part S1A.1 Definitions and Interpretation

Rule S1A.1.1 Definitions

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

- "Approved Deposit Taking Institution";
- "Approved Institution";
- "Approved Subordinated Debt";
- "Approved Subordinated Loan Deed";
- "ASX 24 Market";
- "ASX Clear Operating Rules";
- "ASX Settlement";
- "ASX Settlement Operating Rules";
- "Bankruptcy";
- "CFD";
- "Classical ETF";
- "Client Balance";

- “Core Capital”;
- “Counterparty”;
- “Counterparty Risk Requirement”;
- “Debt Derivative”;
- “Debt Equivalent”;
- “Debt Instrument”;
- “Debt Net Position”
- “Derivative”;
- “Equity”;
- “Equity Derivative”;
- “Equity Equivalent”
- “Equity Net Position”
- “Excluded Asset”;
- “Excluded Liability”;
- “Family Trust”;
- “Financial Asset Revaluation Reserves”;
- “Financial Instrument”;
- “Foreign Exchange Derivative”;
- “Foreign Exchange Equivalent”;
- “Forward Rate Agreement”;
- “Free Delivery”;
- “Fund Manager”;
- “Future”;
- “Government Debt Instrument”;
- “Group of Connected Persons”;
- “Hybrid ETF”;
- “Immediate Family”;
- “In the Money”;
- “Large Exposure Risk Requirement”;
- “Liquid”;
- “Liquid Capital”;
- “Liquid Margin”;
- “Market Spot Exchange Rate”;
- “Non-Standard Risk Requirement”;
- “OECD”;
- “Operational Risk Requirement”;
- “Option”;
- “OTC Derivative”;
- “Other Managed Fund”;
- “Position Risk Factors”;
- “Position Risk Requirement”;
- “Positive Credit Exposure”;
- “Preference Share”;
- “Primary Margin Requirement”;
- “Qualifying Debt Instruments”;
- “Recognised Market Index”;

- “Related/Associated Person”;
- “Related/Associated Person Balance”;
- “Securities Lending and Borrowing”;
- “Substantial holder”;
- “Swap”;
- “Total Risk Requirement”;
- “Trading Day”;
- “Underwriting”;
- “Underwriting Risk Requirement”.

Rule S1A.1.2 Interpretation

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

Part S1A.2 Obligations of Market Participants

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

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

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

A Market Participant may satisfy the minimum Core Capital requirement in paragraph S1A.2.1(b) in accordance with, and subject to, subrule S1A.2.4(8), which provides for a Market Participant to include certain amounts owing under an approved subordination arrangement in its Core Capital with ASIC’s approval.

Rule S1A.2.3 Risk requirements and risk Amounts

Obligation to calculate an Operational Risk Requirement and operational risk amount

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

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

Obligation to calculate a Counterparty Risk Requirement and counterparty risk amount

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

- (a) its Counterparty Risk Requirement; and
- (b) a counterparty risk amount for each of its Positive Credit Exposures to a Counterparty for

transactions in Financial Instruments referred in Annexure 1, except those transactions which relate to Excluded Assets.

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

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

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

Obligation to calculate Position Risk Requirement and position risk amounts

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

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

Obligation to calculate Underwriting Risk Requirement and underwriting risk amounts

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

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

Obligation to calculate Non-Standard Risk Requirement

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

Rule S1A.2.3A Authorisation

Subrule S1A.2.3A(1) provides that a Market Participant must be authorised by ASIC for each of the risk calculation methods it uses for the purposes of Rule S1A.2.3.

Subrule S1A.2.3A(2) provides that an authorisation given by ASIC under subrule S1A.2.3A(1) will specify which risk calculation methods the Market Participant is authorised to use.

Subrule S1A.2.3A(3) provides that the authorisation from ASIC under subrule S1A.2.3A(1) must be obtained prior to the use of a particular risk calculation method.

Subrule S1A.2.3A(4) provides that a Market Participant will only be authorised to use a risk calculation method under subrule S1A.2.3A(1) after having satisfactorily demonstrated its ability to calculate risk amounts under that method.

Rule S1A.2.4 Approved Subordinated Debt

Inclusion of amounts owing under a subordination arrangement in Liquid Capital

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

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

Approval of subordination arrangements by ASIC

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

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

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

Approved subordination arrangement where change in composition of partnership

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

Market Participant must comply with terms of Approved Subordinated Loan Deed

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

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

Subrule S1A.2.4(6) provides that Prior to its Bankruptcy, a Market Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASIC.

Subrule S1A.2.4(7) provides that ASIC will not withhold its approval under subrule S1A.2.4(6) if in the opinion of ASIC:

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

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

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

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

Rule S1A.2.4A Excluded Assets

Netting of offsetting asset and liability

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

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

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

Excluded Assets

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

Rule S1A.2.5 Redeemable Preference Shares

Rule S1A.2.5 provides that a Market Participant must not redeem any redeemable Preference Shares issued by it in whole or in part without the prior written approval of ASIC. ASIC will not withhold its approval if in the opinion of ASIC the Market Participant's Liquid Capital divided by its Total

Risk Requirement is capable of continuing to be greater than 1.2 on redemption. ASIC may take certain matters into consideration in forming an opinion as to whether a Market Participant is capable of continuing to meet the requirement in S1A.2.5(2).

Rule S1A.2.6 Guarantees and indemnities

Market Participant may only give guarantee or indemnity in certain circumstances

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

- (a) for the purposes of these Rules, *ASIC Market Integrity Rules (Securities Markets) 2017*, the operating rules of a Market, the ASX Clear Operating Rules or the ASX Settlement Operating Rules;
- (b) in the ordinary course of the conduct of its securities or derivatives business;
- (c) outside the ordinary course of its securities or derivatives business if a maximum liability is specified in the guarantee or indemnity at the time it is entered into; or
- (d) to settle legal proceedings that have been threatened or issued against it,

and must not give a cross-guarantee.

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

Market Participant that is a member of a consolidated tax group

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

Rule S1A.2.7 Records and accounts

Requirement to maintain records and working papers

Subrule S1A.2.7(1) provides that a Market Participant must maintain records and working papers in sufficient detail to show continuous compliance with Rule S1A.2.1 for 7 years.

Subrule S1A.2.7(2) provides that these records and working papers must, at a minimum:

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

Accounts

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

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

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

Rule S1A.2.8 Valuations and foreign currencies

Valuation

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

Paragraph S1A.2.8(1)(b) provides for the manner in which the Market Participant must mark to market each of its principal positions in Financial Instruments. Under subparagraph S1A.2.8(1)(b)(i), a position must be valued at its closing market price (for a long position, the current bid price and for a short position, the current offer price) or at the last price, closing price or mid price.

Subparagraphs S1A.2.8(1)(b)(ii) to (v) provide for alternative approaches to valuing Options or rights positions, exchange traded Option positions and Swaps or Forward Rate Agreements.

Subrule S1A.2.8(2) provides that the purposes of sub-subparagraph (1)(b)(iv)(B), if a written Option was In the Money at the time the contract was written, the In the Money amount for the purposes of this Rule may be taken to be the current In the Money amount less the In the Money amount at the time the contract was written.

Foreign currencies

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

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

Rule S1A.2.9 Unusual or non-standard exposures

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

Rule S1A.2.9A Margin lending facilities

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

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

Rule S1A.2.9B Hybrid ETFs

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

Rule S1A.2.9C Other Managed Funds

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

Rule S1A.2.10 Underwriting register

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

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

- (ii) received under a client placement, and the date that this reduction occurs.

Annexure 1 to Schedule 1A: Counterparty Risk Requirement

Part A1.1 Counterparty Risk Requirement

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

Rule A1.1.1 Nature of counterparty risk amount

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

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

Subrule A1.1.1(2) provides that, for the purposes of subrule A1.2.2(1), a Positive Credit Exposure arises from the obligation of a client or Counterparty to deliver securities that have been sold.

Rule A1.1.1A Treatment: Classical ETFs

Primary Market Subscription for/Redemption of Units

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

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

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

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

Secondary market

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

Rule A1.1.1B Treatment: Hybrid ETFs

Primary Market Subscription for/Redemption of Units

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

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

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

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

Secondary Market

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

Rule A1.1.1C Treatment: Other Managed Funds

Rule A1.1.1C provides that a Market Participant is not required to calculate a counterparty risk amount under Annexure 1 in relation to a subscription for or redemption of a unit in an Other Managed Fund.

Part A1.2 Methods

Rule A1.2.1 Overview

Rule A1.2.1 provides that there are separate methods for measuring counterparty risk amounts for each of the transaction types set out in Table A1.1

Rule A1.2.2 Non-margined Financial Instruments method

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

Trades remaining unsettled for \leq 10 Business Days

Counterparty risk amount

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

Market Participant may reduce Client Balance

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

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

Trades remaining unsettled for > 10 Business Days

Counterparty risk amount

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

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

Market Participant may reduce the contract values and excesses

Subrule A1.2.2(4) provides that a Market Participant may reduce the contract values and the excesses by the amount of collateral held by the Market Participant on behalf of the Counterparty. The collateral must be Liquid; unrelated to a particular or specific transaction and not the securities

underlying the Counterparty's purchase; under the control of the Market Participant; and valued at the mark to market value. The collateral arrangement must be evidenced in writing by a legally binding agreement in accordance with the circumstances set out in paragraph A1.2.2(4)(e) and the Market Participant may only apply such collateral in accordance with the collateral agreement.

Securities subject to trading halt

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

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

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

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

Subrule A1.2.2(8) provides that a Market Participant that has calculated a counterparty risk amount for an unsettled trade under the Non-Margined Financial Instruments method is not required to treat or disclose any amounts calculated as Excluded Assets.

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

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

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

Subrule A1.2.2(10) provides, without limitation, for circumstances in which a Market Participant must calculate a counterparty risk amount under the Non-Margined Financial Instruments method. The transactions set out in subrule A1.2.2(10) are transactions that are normally associated with client business.

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

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

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

Rule A1.2.3 Free Delivery method

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

A Free Delivery occurs where:

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

Counterparty risk amount

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

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

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

Market participant may reduce the contact value

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

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

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

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

Partial Free Delivery

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

Rule A1.2.4 Securities Lending and Borrowing method

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

Meaning of counterparty exposure

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

Netting of Counterparty exposures

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

Counterparty risk amount

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

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

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

Securities subject to a trading halt or suspension

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

Rule A1.2.5 Margined Financial Instruments method

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

Counterparty risk amount

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

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

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

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

Timing of calculation of risk amount

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

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

Market Participant trading as principal

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

Securities subject to a trading halt or suspension

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

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

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

Counterparty risk amount

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

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

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

Collateral arrangements

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

Subrule A1.2.6(3) provides that, in determining the market value of securities lodged as collateral by the Market Participant, if the securities are subject to a trading halt, the last market value may be used. If the securities are subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

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

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

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

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

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

Transactions to which this method applies

Subrule A1.2.6(7) provides for specific OTC Derivatives and warrants transactions for which a Market Participant must calculate a counterparty risk amount under the OTC Derivatives and warrants executed as principal method.

Rule A1.2.7 Sub Underwritten Positions method

Rule A1.2.7 provides that there is no Sub Underwritten Positions method.

Rule A1.2.8 Counterparty risk weighting

Market Participant may choose to apply counterparty risk weighting

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

Market Participant must apply counterparty risk weighting consistently

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

Counterparty risk amount for Approved Institutions

Subrule A1.2.8(3) provides that, for the purposes of calculating the counterparty risk amount in relation to a Counterparty that the Market Participant has classified as an Approved Institution under paragraph (a) of the definition of Approved Institution and that is a subsidiary or member of a group of companies or funds, the Market Participant may only apply the counterparty risk weighting for Approved Institutions specified in Table A5.2.1 in Annexure 5 to that counterparty risk amount where the requirements of paragraph (a) of the definition are met in relation to the individual subsidiary or member of the group (that is, the individual subsidiary or member must have net assets greater than \$30 million) and the Market Participant has a copy of the individual subsidiary or members' balance sheet that demonstrates that the individual subsidiary or member meets the requirements of paragraph (a). The Market Participant must reconfirm the classification of the Counterparty as an Approved Institution on an annual basis.

Subrule A1.2.8(4) provides that, for the purposes of calculating the counterparty risk amount in relation to a Counterparty that the Market Participant has classified as an Approved Institution under paragraph (b) of the definition of Approved Institution, the Market Participant may only apply the counterparty risk weighting for Approved Institutions specified in Table A5.2.1 in Annexure 5 to that

counterparty risk amount where the Market Participant has records demonstrating that the Counterparty is in fact regulated by a Recognised non-European Union Regulator or a Recognised European Union Regulator as specified in Tables A5.3.1 and A5.3.2 in Annexure 5 and that the Counterparty's ordinary business is the purchase and sale of Financial Instruments. The Market Participant must reconfirm the classification of the Counterparty as an Approved Institution on an annual basis.

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

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

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

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

Annexure 2 to Schedule 1A: Large Exposure Risk Requirement

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

Part A2.1 Counterparty large exposure risk requirement

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

Rule A2.1.1 Nature of counterparty large exposure risk amount

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

Rule A2.1.2 Method

Counterparty large exposure risk amount

Subrule A2.1.2(1) provides that the counterparty large exposure amount is zero, if there are no exposures to a Counterparty in respect of transactions at the times specified in Table A2.1 or if the

aggregate exposures to a Counterparty in respect of transactions at the times specified in Table A2.1 are less than or equal to 10% of the Market Participant's Liquid Capital.

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

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

Maximum loss

Subrule A2.1.2(2) provides that the counterparty large exposure risk amount calculated in respect of a transaction cannot exceed the maximum loss for that transaction.

Subrule A2.1.2(3) sets out, for the purposes of subrule A2.1.2(2), the maximum loss for certain kinds of transactions.

Aggregate exposures

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

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

Part A2.2 Issuer large exposure risk requirement

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

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

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

Rule A2.2.2 Overview

Issuer large exposure risk amount

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

Method for calculating issuer large exposure amounts for exposures

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

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

Tables summarising methods for calculating issuer large exposure amounts

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

Table A2.2 summarises the method in Rule A2.3.1 for calculating issuer large exposure risk amounts for exposures to equity positions.

Table A2.3 summarises the method in Rule A2.3.2 for calculating issuer large exposure risk amounts for exposures to debt positions.

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

Rule A2.2.3 Application

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

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

Calculation of issuer large exposure risk amount

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

Application to positions in Hybrid ETFs or Other Managed Funds

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

Application to positions in bank bills

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

Offset of delta weighted value

Subrule A2.2.3(5) provides that a delta weighted value under paragraph (2)(d) may be offset against

the corresponding underlying instrument in calculating an Equity Net Position or Debt Net Position under Rules A2.3.1, A2.3.2 and A2.3.3.

Part A2.3 Methods

Rule A2.3.1 Equity method

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

Equity method - Issuer large exposure risk amount

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

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

Equity method – Exposure to issuer relative to Liquid Capital

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

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

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

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

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

Meaning of “Individual Issue”

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

referred to in column 2 of Table A2.5.

Rule A2.3.2 Debt method

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

Debt method – Issuer large exposure risk amount

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

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

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

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

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

Debt method-Exposure to Issuer Relative to Liquid Capital

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

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

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

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

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

Rule A2.3.3 Equity and Debt method

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

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

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

Equity and debt method-Position Risk Factors

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

Annexure 3 to Schedule 1A: Position Risk Requirement

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

Part A3.1 Equity position risk amount

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

Rule A3.1.1 Nature of equity position risk amount

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

Rule A3.1.2 Overview of methods

Standard method and building block method are the two main methods

Subrule A3.1.2(1) provides that the standard method and building block method are the two main methods for measuring the equity position risk amount. They are supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

Methods to be used based on nature of positions

Subrule A3.1.2(2) provides that in calculating the equity position risk amount, the methods set out in Table A3.1 must be used.

Table A3.1 sets out the methods that should be used depending on the Financial Instruments in which principal positions are taken.

Right over an equity must be treated as an Option position

Subrule A3.1.2(3) provides that, for the purposes of Parts A3.1 to A3.9 of Annexure 3, a right over an equity must be treated as an Option position.

Rule A3.1.2A Equity position risk amount

Market Participant must calculate position risk amount in certain circumstances

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

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

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

Rule A3.1.2C Treatment—Classical ETFs

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

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

Rule A3.1.2D Treatment—Hybrid ETFs

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

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

Rule A3.1.2E Treatment—Other Managed Funds

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

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

Rule A3.1.2F Exchange traded CFDs

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

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

Part A3.2 Standard method—Equity position risk

Rule A3.2.1 Application

Positions that may be included in the standard method

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

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

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

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

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

Rule A3.2.2 Method

Position risk amount: Equity position risk standard method

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

Part A3.3 Building block method—Equity position risk

Rule A3.3.1 Application

Positions that may be included in the building block method

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

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

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

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

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

Rule A3.3.2 Method

Position risk amount: Equity position risk building block method

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

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

Specific risk amount

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

General risk amount

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

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

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

Rule A3.4.1 Application

Positions that may be included in the contingent loss matrix method

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

Market Participant must provide ASIC with details of option pricing model

Subrule A3.4.1(2) provides that a Market Participant that applies to ASIC to be authorised to use the contingent loss matrix method must provide ASIC with certain information about its proposed

pricing model and the Market Participant's ability to automate the calculation of the contingent loss matrix.

Use of method 1 or method 2

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

Rule A3.4.2 Method 1

Position risk amount calculated in one step for each underlying

Rule A3.4.2 sets out Method 1.

Subrule A3.4.2(1) provides that Method 1 calculates the risk amount in one step for each underlying in a manner similar to the standard method.

Subrule A3.4.2(2) provides that the position risk amount for equity positions to which Method 1 is applied is the greatest loss arising from simultaneous prescribed movements in the closing market price of the underlying position and the option implied volatility.

Subrule A3.4.2(3) provides that the prescribed movements are the Position Risk Factors for the standard method specified in Table A5.1.1 in Annexure 5 to Schedule 1A.

Subrule A3.4.2(4) provides that a separate matrix must be constructed for each option portfolio and associated hedges in each country.

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

Subrule A3.4.2(5) provides that changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market price of the underlying position and implied option volatility. The Position Risk Factors prescribed for the standard method for Equities as set out in Table A5.1.1 in Annexure 5 and are used to adjust the current market price of the underlying equity security at 7 equally spaced intervals. Further the relevant implied volatility Position Risk Factor is also used and is to be divided into 3 equally spaced volatility shift intervals (including the current market implied volatility).

Subrule A3.4.2(6) provides that each option portfolio is to be re-priced using the adjusted underlying position and volatility price as described in subrule A3.4.2(5). The value in each element of the contingent loss matrix will be the difference between the revalued option portfolio and the option portfolio calculated using the closing market price

Subrule A3.4.2(7) provides that the absolute value of the aggregate of the greatest loss for each matrix is the position risk amount.

Rule A3.4.3 Method 2

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

Rule A3.4.3 sets out Method 2.

Subrule A3.4.3(1) provides that Method 2 calculates the risk amount as the aggregate of a specific risk and a general risk amount for each underlying in a manner similar to the building block method.

Subrule A3.4.3(2) provides the specific risk amount is calculated as the aggregate of the delta weighted value of the underlying instrument calculated by the option pricing model approved by ASIC, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.1 of Annexure 5 to Schedule 1A.

Subrules A3.4.3(3) to (5) provide that the general risk amount is calculated in the manner described Rule A3.4.2, replacing the prescribed movements in subrule A3.4.2(3) with Position Risk Factors for the building block method, and the position risk amount with the general risk amount which is the absolute value of the greatest loss in a single country matrix.

Subrule A3.4.3(6) provides that a single country matrix is constructed by superimposing each separate matrix (for each option portfolio and associated hedges in each country) so that the values in the corresponding matrix elements are netted to form a single value for each element.

Part A3.5 Margin method—Equity position risk

Rule A3.5.1 Application

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

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

Rule A3.5.2 Method

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

Part A3.6 Basic method—Equity position risk

Rule A3.6.1 Application

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

Rule A3.6.2 Method

Purchased Option

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

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

Written Option

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

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

Part A3.7 Arbitrage method—Equity position risk

A3.7.1 Application

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

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

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

Rule A3.7.2 Method—similar indexes

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

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

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

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

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

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

The first method, in paragraph A3.7.3(1)(a), involves disaggregating the position in the Future over an index into the notional physical positions and then calculating the position risk amount for these notional positions and the physical basket in accordance with the standard method or building block method for equity positions.

The second method in paragraph 3.7.3(1)(b), involves calculating the position risk amount on the position in the Future over an index. The second method can only be used if the arbitrage trades have been specifically entered into to profit from pricing anomalies between the Futures and the physical markets. The arbitrage position must be separately monitored over the life of the arbitrage. The mark to market value of the physical basket must be greater than 80% and less than 120% of the mark to market value of the notional position in the Future over the index and the sum of the index weights of the individual positions in the required physical basket is greater than 70% of the Future over the index, where the required physical basket is calculated in accordance with the Rule.

Subrule 3.7.3(2) provides for the calculation of notional positions, the sum of all notional stock positions and for the circumstances in which each stock in the physical basket can be offset against the corresponding notional position in the corresponding stock for the purposes of paragraph (1)(a).

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

Rule A3.8.1 Swaps

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

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

If one of the legs of the Swap provides for payment or receipt based on some reference to a Debt Instrument or Debt Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Part A3.2 of Annexure 3.

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

Rule A3.8.2 Options

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

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

Rule A3.8.3 Futures and forward contracts

Rule A3.8.3 provides that the Equity Equivalent:

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

Rule A3.8.4 Convertible notes

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

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

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

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

Rule A3.8.5 Other positions—Classical ETFs

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

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

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

Rule A3.8.5A Other positions—Exchange traded CFDs

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

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

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

Rule A3.9.1 Equity net positions

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

Subrule A3.9.1 provides a Market Participant may net a long position against a short position only where the positions are in the same actual instrument. This includes Equity Equivalent positions calculated in accordance with Part A3.8. A position in a depository receipt may be treated as if it were the same position in the corresponding instrument and at the same value if the conditions set out in the Rule are met (otherwise it must be valued at the current exchange rate). Instalment receipts may be treated as if they are positions in the corresponding instrument.

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

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

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

Part A3.10 Debt position risk amount

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

Rule A3.10.1 Nature of debt position risk amount

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

Rule A3.10.2 Overview of methods

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

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

Rule A3.10.2A Treatment—Hybrid ETFs

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

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

Rule A3.10.2B Treatment—Other Managed Funds

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

- (a) principal positions in Other Managed Funds commence at T_0 and the underlying risk variable is the market price of the Other Managed Fund unit;
- (b) the Other Managed Fund cannot be broken down into any notional positions in the underlying;
- (c) the Position Risk Factors to be applied are set out in Rule A5.1.2B;
- (d) if the Market Participant is unlikely to be able to liquidate its position in an Other Managed Fund within 30 days, taking into account factors including the size of its position relative to the size of the fund, it must treat the position as an Excluded Asset and exclude the market value of that position from Liquid Capital;
- (e) if a daily price cannot be obtained and/or if the number of units on issue cannot be

determined on a daily basis, the position must be treated as an Excluded Asset on the basis that it would not be possible to value the investment in accordance with the requirements of Rule S1A.2.8.

Rule A3.10.2C Treatment—Cash management trusts

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

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

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

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

Rule A3.10.2E Treatment—Underwriting

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

Part A3.11 Standard method—Debt position risk

Rule A3.11.1 Application

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

Rule A3.11.2 Method

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

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

Alternative approach for bank bills

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

Part A3.12 Building block method—Debt position risk

Rule A3.12.1 Application

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

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

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

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

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

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

Rule A3.12.2 Method

Position risk amount

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

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

Specific risk

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

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

General risk

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

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

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

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

Rule A3.12.3 General risk amount—maturity method

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

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

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

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

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

Rule A3.12.4 General risk amount—duration method

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

Market Participant's use of the duration method.

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

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

Rule A3.13.1 Application

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

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

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

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

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

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

The next Rule is A3.13.3.

Rule A3.13.3 Method 2—maturity method

Rule A3.13.3 sets out Method 2.

Subrule A3.13.3(1) provides Method 2 calculates the risk amount as the aggregate of a specific risk, a general risk and a volatility risk amount for each underlying in a manner similar to the building block method—maturity method.

Subrule A3.13.3(2) provides the specific risk amount is calculated as the aggregate of each Debt Net

Position or the delta weighted value of the underlying instrument calculated by the option pricing model approved by ASIC, multiplied by the relevant specific risk Position Risk Factor specified in Table A5.1.3 of Annexure 5.

Subrule A3.13.3(3) provides the general risk and volatility risk amounts are calculated as set out in subrules (4) – (9)

Subrule A3.13.3(4) provides the prescribed movements are the Position Risk Factors for the maturity building block method specified in Table A5.1.2 in Annexure 5.

Subrule A3.13.3(5) A separate matrix must be constructed for each individual time band as specified in Table A5.1.2, Annexure 5.

Subrule A3.13.3(6) provides changes in the value of the option portfolio must be analysed over a fixed range of changes above and below the current market price of the underlying position and implied option volatility as set out in the Rule.

Subrule A3.13.3(7) provides each option portfolio is to be repriced using the adjusted underlying price and volatility as described in subrule (6).

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

Part A3.14 Margin method—Debt position risk

Rule A3.14.1 Application

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

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

Rule A3.14.2 Method

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

Part A3.15 Basic method—Debt position risk

Rule A3.15.1 Application

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

Rule A3.15.2 Method

Purchased Options

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

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

Written Options

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

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

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

Rule A3.16.1 Swaps

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

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

If one of the legs of the Swap provides for payment or receipt based on some reference to an Equity or Equity Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Parts A3.1 to A3.9.

Rule A3.16.2 Options

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

Subrule A3.16.2(2) provides for where the notional debt position in the case of an Option over a

Swap is long or short, and also provides for the value of the notional position in a Debt Instrument.

Rule A3.16.3 Futures, forwards and Forward Rate Agreements and options on Futures

Subrule A3.16.3(1) provides that the Debt Equivalent for a Future, forward contract or Forward Rate Agreement is depending on whether the Future, forward contract or Forward Rate Agreement is purchased or sold, or is over an index or a range of deliverable instruments.

Subrule A3.16.3(2) provides “Purchased” means that the holder of the position is an investor and has bought a Futures/forward contract or has sold a Forward Rate Agreement. “Sold” means that the holder of the position is a borrower and has bought a Forward Rate Agreement or sold a Futures or forward contract.

Rule A3.16.4 Convertible Notes

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

Rule A3.16.5 Basket or index products

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

Rule A3.16.6 Income securities

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

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

Rule A3.17.1 Debt net position

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

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

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

The Market Participant may offset the matched position in a Future or forward contract and its

underlying may be offset provided that the conditions of the Rule are met.

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

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

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

Part A3.18 Foreign exchange position risk amount

Part A3.18 of Annexure 3 sets out various methods that Market Participants may use in calculating position risk amounts with respect to foreign currency assets and liabilities, and principal positions in foreign exchange contracts and other Financial Instruments that derive their value from foreign exchange rates. The absolute sum of the position risk amounts calculated for foreign exchange-based principal positions are a component of the overall position risk requirement calculation.

Rule A3.18.1 Nature of foreign exchange position risk amount

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

Rule A3.18.2 Overview of Methods

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

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

Part A3.19 Standard method—Foreign exchange position risk

Rule A3.19.1 Application

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

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

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

Rule A3.19.2 Method

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

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

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

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

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

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

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

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

Rule A3.20.1 Application

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

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

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

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

Rule A3.20.2 Method

Position risk amount-foreign exchange positions

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

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

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

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

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

Rule A3.21.1 Options

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

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

Rule A3.21.2 Futures

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

Rule A3.21.3 Forward contracts

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

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

Rule A3.21.4 Other positions—Exchange traded CFDs

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

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

Rule A3.22.1 Calculation of a converted net open position

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

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

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

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

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

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

Annexure 4 to Schedule 1A: Underwriting Risk Requirement

Annexure 4 provides that the Underwriting Risk Requirement is zero.

While there is currently no underwriting risk requirement, a Market Participant must maintain a register of underwritings under subrule S1.2.10(3) and must report any outstanding underwriting or sub underwriting commitments it has open at each month end, in the “Monthly” return lodged with ASIC.

Annexure 5 to Schedule 1A: Tables

Part A5.1 Position Risk

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

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

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

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

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

Table A5.1.2: Debt Position Risk Factors

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

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

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

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

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

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

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

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

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

Table A5.1.5: Rated Investment Grades

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

Table A5.1.6: Recognised Market Indexes

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

Table A5.1.7: Foreign Exchange Position Risk Factors

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

Part A5.2 Counterparty Risk

Table A5.2.1: Risk Weightings

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

Table A5.2.2: Potential Credit Exposure Factors

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

Part A5.3 Other

Table A5.3.1: Recognised Non European Regulator

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

Table A5.3.2: Recognised European Regulator

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

Schedule 1C: Forms

Schedule 1C includes returns and forms that Market Participants must complete for the purposes of complying with Parts 9.2 and 9.3 of these Rules.

Risk Based Capital Requirements Returns

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

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

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

Form 2, Part 2: Risk Based Capital Requirements – Risk-Based Return Declaration

Form 2, Part 2 set out the form of a Directors statement relating to the accounts of a Participant.

Form 3A, Part1: Risk Based Capital Return (Summary, Monthly and Annual)

Form 3A, Part 1 specifies the content of a Risk-based Return, for the summary, monthly and annual returns required by the Rules.

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

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

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

Form 6 sets out a form of declaration, known as the “Key Risks and Internal Systems Statement”, that each Market Participant will be required to provide to ASIC within 2 months (in the case of a partnership) or 3 months (in the case of a corporation) following the end of the Market Participant’s financial year, for the purposes of Rule 9.2.4 (Audited Annual Return) and Rule 9.3.6 (Audited Annual NTA Return).

Form 7: Risk Based Capital Requirements - Partnership Statutory Declaration

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

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

ATTACHMENT B

Statement of Compatibility with Human Rights

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

ASIC Market Integrity Rules (Securities Markets – Capital) 2017

This legislative instrument (the Rules) is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*, as it does not engage any of the applicable rights or freedoms.

Overview of the legislative instrument

As part of its market supervisory responsibilities, ASIC reviewed the 14 market integrity rule books in force in late 2016 and identified the need to consolidate certain market integrity rule books which covered substantively similar existing obligations across like domestic licensed markets in order to:

- (a) minimise the opportunity for regulatory arbitrage by participants;
- (b) assist participants of the similar domestic licenced markets to comply with their regulatory obligations;
- (c) contribute to efficiency in supervision and enforcement of the market integrity rules by ASIC;
- (d) avoid additional regulatory burden and cost for industry participants;
- (e) ensure consistent regulatory settings and a level regulatory playing field between market operators and between market participants which trade in similar products;
- (f) help promote retail investor trust and confidence and market transparency by ensuring investor protection measures are consistent;
- (g) facilitate market development and competition; and
- (h) reduce ASIC's administrative burden when amending market integrity rules in future.

The policy objective for creating a single point of reference for market integrity rules that are common between markets aligns with ASIC's regulatory responsibilities under the *Australian Securities and Investments Commission Act 2001* (the ASIC Act) to:

- (a) maintain, facilitate and improve the performance of the financial system and the entities within

that system in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy; and

- (b) promote the confident and informed participation of investors and consumers in the financial system.

Accordingly, the rationale for developing the Rules was to provide a single capital rule book for market participants across all domestic licensed markets for securities.

The consolidation of market integrity rules setting out capital requirements for securities market participants in the Rules is part of a wider project, which also involves consolidation of the market integrity rules applicable to market operators and participants across all licensed domestic markets for securities (see the *ASIC Market Integrity Rules (Securities Markets) 2017*) and for futures (see the *ASIC Market Integrity Rules (Futures Markets) 2017*), as well as the consolidation of the market integrity rules setting out the capital requirements for futures market participants (see the *ASIC Market Integrity Rules (Futures Markets - Capital) 2017*).

Scope of Rules

The legislative instrument sets out the ASIC market integrity rules that apply to:

- (a) the activities and conduct of the domestic licensed financial markets in Australia (the **Markets**) operated by:
 - (i) ASX Limited (the **ASX Market**) under *Australian Market Licence (Australian Stock Exchange Limited) 2002*;
 - (ii) Chi-X Australia Pty Limited (the **Chi-X Market**) under *Australian Market Licence (Chi-X Australia Pty Ltd) 2011*;
 - (iii) IR Plus Securities Exchange Limited (the **IR Plus Market**)(formerly SIM Venture Securities Exchange Limited under *Australian Market Licence (SIM Venture Securities Exchange Ltd (SIM VSW)) 2002*;
 - (iv) National Stock Exchange of Australia Limited (the **NSXA Market**) under *Australian Market Licence (National Stock Exchange of Australia Limited) 2002*;
 - (v) Sydney Stock Exchange Limited (the **SSX Market**)(formerly Asia Pacific Stock Exchange Limited)(the **APX Market**) under *Australian Market Licence (Sydney Stock Exchange Limited) 2004*;
- (b) the activities or conduct in relation to the Markets; and
- (c) the activities or conduct of persons in relation to financial products traded on the Markets.

Generally, the Rules maintain the substance of the regulatory regime embodied in following market integrity rules applicable prior to the commencement of the Rules (the *Pre-Commencement Market Integrity Rules*):

- (a) *ASIC Market Integrity Rules (APX Market-Capital) 2014*;
- (b) *ASIC Market Integrity Rules (ASX Market-Capital) 2014*; and
- (c) *ASIC Market Integrity Rules (Chi-X Australia Market-Capital) 2014*.

Human rights implications

The legislative instrument does not engage any of the applicable rights or freedoms.

Conclusion

The legislative instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*, as it does not engage any of the applicable rights or freedoms.