

ASIC MARKET INTEGRITY RULES (CAPITAL) 2021

REPLACEMENT EXPLANATORY STATEMENT

Approved 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 (Capital) 2021* (**Market Integrity Rules (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 (Capital) are contained in Attachment A. Capitalised terms in this Explanatory Statement refer to defined terms in the Market Integrity Rules (Capital).

Purpose of the Replacement Explanatory Statement

This Replacement Explanatory Statement amends and supplements the Initial Explanatory Statement for the *ASIC Market Integrity Rules (Capital) 2021*, in accordance with paragraph 15J(1)(b) of the Legislation Act 2003 (Cth).

The purpose of this Replacement Explanatory Statement is to set out further details of factors that ASIC considers in exercising its discretion and safeguards or limitations that apply to the

exercise of its powers or functions under Subrules 1.2.1(1), 1.2.1(3) and Rule 1.2.3 (collectively the **Waiver Provisions**).

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. In 2010 those rules generally reflected a subset of the content of the markets' operating rules in effect prior to the transfer of supervision, but did not include capital requirements which, by agreement with ASIC, remained the responsibility of the market operator until 1 August 2011. In 2011 ASIC made market integrity rules for capital, by incorporating them into then existing rulebooks.

In 2011 ASIC also 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);

- (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);
- (d) ASIC Market Integrity Rules (ASX 24 Market-Capital) 2014 to apply to the licensed market operated by the Australian Securities Exchange Limited (the ASX 24 Market) (formerly Sydney Futures Exchange Limited (SFE)); and
- (e) ASIC Market Integrity Rules (FEX Market-Capital) 2014 to apply to apply to the licenced market operated by FEX Global Pty Ltd (the FEX Market).

As part of its 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. As part of this consolidation exercise, in 2017 the five separate capital market integrity rules were consolidated into the following rulebooks:

- (a) *ASIC Market Integrity Rules (Securities Markets - Capital) 2017*; and
- (b) *ASIC Market Integrity Rules (Futures Markets - Capital) 2017*
(the 2017 Capital Rules).

A further review of the capital requirements of market participants was undertaken in 2017-18 as part of ASIC's supervisory responsibilities. ASIC undertook the review because:

- (a) ASIC had not reviewed the substance (as opposed to the form) of those requirements since ASIC assumed responsibility for supervision of capital and associated reporting requirements from ASX in 2011;
- (b) elements of the 2017 Capital Rules capital requirements appeared outdated and not able to adequately address the risks of operating a market participant business, and ASX had not made any substantive changes to the capital requirements for non-clearing market participants since at least 2000; and
- (c) the 2017 Capital Rules had fallen out of step with the financial requirements of the Australian financial services (AFS) licensing regime.

The Market Integrity Rules (Capital) are the result of ASIC's review of the substance of the 2017 Capital Rules. The Rules better align the capital requirements for market participants with those in the AFS licensing regime. They also apply a more consistent capital framework for market participants of futures and securities markets by requiring futures market participants to use a risk-based capital regime rather than a net tangible asset (NTA) regime, and enable the capital rules for both securities market participants and futures market participants to be incorporated in one instrument.

The Market Integrity Rules (Capital) include changes to the capital requirements of market participants to take into account the risks associated with operating a market participant business. These changes include increasing the core capital requirement for securities market participants; introducing an underwriting and sub-underwriting risk requirement; and introducing liquidity requirements. These changes help to better protect investors and counterparties from the risk of losses arising from the disorderly failure of a market participant's business.

The Market Integrity Rules (Capital) also:

- (a) remove a number of discrepancies between the two instruments that constitute the 2017 Capital Rules; and
 - i. the financial requirements of the AFS licensing regime, and
 - ii. the market operators' capital requirements;
- (b) aligns Australia's capital regime for market participants more closely with international capital frameworks; and
- (c) simplifies the capital requirements by removing redundant rules and forms.

The policy objective for making the Market Integrity Rules (Capital) 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.

Scope of Rules

The Market Integrity Rules (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) National Stock Exchange of Australia Limited (the **NSXA Market**) under *Australian Market Licence (National Stock Exchange of Australia Limited) 2002*;
 - (iv) 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*;
 - (v) Australian Securities Exchange Limited (the **ASX 24 Market**) (formerly Sydney Futures Exchange Limited (SFE)) under *Australian Market Licence (Sydney Futures Exchange Limited) 2002*; and
 - (vi) FEX Global Pty Limited (the **FEX Market**) under *Australian Market Licence (FEX Global Pty Ltd) 2013*;
- (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.

Generally, the Rules maintain the substance of the regulatory regime embodied in the *ASIC Market Integrity Rules (Securities Markets-Capital) 2017* (the **Pre-Commencement Market Integrity Rules**).

Consultation

ASIC consulted publicly on the Market Integrity Rules (Capital). In July 2018, ASIC released Consultation Paper 302: *Proposed changes to ASIC's capital requirements for market participants (CP 302)*, including draft Market Integrity Rules (Capital).

ASIC received 11 written submissions to CP 302 from stakeholders including market participants, market operators and industry bodies. ASIC also held meetings with many of these respondents as part of the consultation process. ASIC also separately consulted with ASX, the Australian Prudential Regulation Authority (APRA), the Australian Financial Markets Association, the Stockbrokers and Financial Advisers Association Ltd and ASIC's Markets Advisory Panel.

Response to Consultation

The submissions received were relatively evenly split between opposing any changes to the capital requirements and supporting changes to the capital requirements.

As a result of feedback, the following changes were made to the proposals in CP 302:

- (a) the proposed six-month transition period was extended to a 12-month transition period from the time the Market Integrity Rules (Capital) Rules commence. This transition period applies to all of the Market Integrity Rules (Capital);
- (b) the definitions of 'commodity' and 'commodity derivative' were broadened and netting of commodity derivatives and positions is permitted in calculations. Additional methods are also made available for calculating commodity risk requirement;
- (c) the proposed 12-month cash flow requirement was replaced with a three month cash flow requirement, combined with a requirement to maintain a 12 month liquidity plan and document a contingency funding plan; and
- (d) Right-of-Use asset may be offset against a corresponding lease liability, with the net amount to be treated as an excluded asset for the purposes of calculating liquid capital.

Commencement of Rules

This instrument commences on the day after this instrument 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 (Capital) 2021*.

Rule 1.1.3 Commencement

Rule 1.1.3 provides that the Rules commence on the day after the Rules are registered on the Federal Register of Legislation.

Rule 1.1.3A Revocation

Rule 1.1.3A provides that on the day that is 12 months after the day on which the provisions of the instrument commence in accordance with Rule 1.1.3, the following instruments are repealed:

- (a) *ASIC Market Integrity Rules (Securities Markets – Capital) 2017*; and
- (b) *ASIC Market Integrity Rules (Futures Markets – Capital) 2017*.

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 1.1.5 Entities that must comply with these Rules

Rule 1.1.5 provides that subject to Rule 1.1.5A, the following persons 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 1.1.5A Entities that must comply with these Rules—Transitional

Subrule 1.1.5A(1) provides that a person is not required to comply with the Rules before the earlier of the following days:

- (a) the day that is 12 months after the day on which the provisions of this instrument commence in accordance with Rule 1.1.3; and
- (b) the day (Opt-In Day) specified in a written notice (Opt-In Notice) given to ASIC by the person that states that the person wants these Rules to apply to the person from that day, provided the Opt-In Day occurs after the day the Opt-in Notice is given to ASIC.

Subrule 1.1.5A(2) provides that a person that gives an Opt-In Notice to ASIC in accordance with paragraph (1)(b) is not required to comply with the *ASIC Market Integrity Rules (Securities Markets – Capital) 2017* or the *ASIC Market Integrity Rules (Futures Markets – Capital) 2017* from the Opt-In Day.

Subrule 1.1.5A(3) provides that Subrule (2) has effect as a waiver from the *ASIC Market Integrity Rules (Securities Markets – Capital) 2017* or the *ASIC Market Integrity Rules (Futures Markets – Capital) 2017* under Rule 1.2.1 of the applicable Rules.

Rule 1.1.5B Penalties for a contravention of these Rules

Rule 1.1.5B provides that the maximum pecuniary penalty payable for a contravention of a provision of these Rules is an amount determined by the Court under section 1317G of the Corporations Act.

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

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

In using its discretion to exercise its powers under the Waiver Provisions, ASIC's policy is to "[take] into account commercial considerations against the need to maintain the integrity of the market". This policy position is published in Regulatory Guide 265 *Guidance on ASIC Market Integrity Rules for participants of securities markets (RG 265)* and mirrored in Regulatory Guide 266 *ASIC Market Integrity Rules for participants of futures markets (RG 266)*.

Note: a copy of RG265 and RG266 may be accessed at www.asic.gov.au

Under subsection 1(2A) of the *Australian Securities and Investments Commission Act 2001 (ASIC Act)*, ASIC must consider the effect that exercising its discretion will have on competition in the financial system.

In withdrawing a waiver under subrule 1.2.1(3), below, ASIC's approach is to consider these same factors.

The grant of a waiver to a person, or class of people, relieves the obligation for the person or class of people to comply with existing obligations under the Capital Rules. A fundamental safeguard or limitation applying to the exercise of ASIC's discretion is that a person is not obliged to avail itself of a waiver, in which case the existing obligations under the Capital Rules apply. Only when the person relies on a waiver are they obliged to comply with any conditions attached to 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:

- “Ad Hoc Risk-Based Return”;
- “Annual Audited Risk-Based Return”;
- “Application Monies”;
- “Approved Clearing Facility”;
- “Approved Deposit Taking Institution”;
- “Approved Institution”;
- “Approved Subordinated Debt”;
- “Approved Subordinated Loan Deed”;
- “AQUA Product”;

- “AQUA Product Issuer”;
- “AQUA Quote Display Board”;
- “ASIC”;
- “ASX”;
- “ASX Clear”;
- “ASX Market”;
- “ASX Settlement”;
- “ASX Settlement Operating Rules”;
- “ASX 24”;
- “ASX 24 Market”;
- “Authorised Deposit Taking Institution”;
- “Bankruptcy”;
- “Business Day”;
- “Cash Market Product”;
- “CFD”;
- “CGS Market”;
- “CHESS Depository Interest”;
- “Chi-X Australia”;
- “Chi-X Market”;
- “Classical ETF”;
- “Clearing Facility”;
- “Clearing Participant”;
- “Clearing Rules”;
- “Client Balance”;
- “CME”
- “Commodity”;
- “Commodity Derivative”;
- “Commodity Equivalent”;
- “Core Capital”;
- “Corporations Act”;
- “Counterparty”;
- “Counterparty Risk Requirement”;
- “Credit Rating Agency”;
- “Debt Derivative”;
- “Debt Equivalent”;
- “Debt Instrument”;

- “Debt Net Position”;
- “Derivative”;
- “Derivatives Market Contract”;
- “Derivatives Market Transaction”;
- “Employee”;
- “Equity”;
- “Equity Derivative”;
- “Equity Equivalent”;
- “Equity Market Product”;
- “Equity Net Position”;
- “Equity Securities”;
- “ETF”;
- “ETF Security”;
- “Excluded Asset”;
- “Excluded Liability”;
- “Family Trust”;
- “FEX”;
- “FEX Market”;
- “Financial Asset and Liability Revaluation Reserves”;
- “Financial Instrument”;
- “Foreign Exchange”;
- “Foreign Exchange Derivative”;
- “Foreign Exchange Equivalent”;
- “Forward Rate Agreement”;
- “Free Delivery”;
- “Fund Manager”;
- “Future”;
- “Futures Market”;
- “Futures Market Contract”;
- “Futures Series”;
- “Government Debt Instrument”;
- “Group of Connected Persons”;
- “Hybrid ETF”;
- “Immediate Family”;
- “In the Money”;
- “Issuer”;

- “Large Exposure Risk Requirement”;
- “Liquid”;
- “Liquid Capital”;
- “Liquid Margin”;
- “Loan Securities”;
- “Managed Fund”;
- “Market”;
- “Market Spot Exchange Rate”;
- “Monthly Risk-Based Return”;
- “Non-Standard Risk Requirement”;
- “NSXA”;
- “NSXA Market”;
- “OECD”;
- “Official Quotation”;
- “Operational Risk Requirement”;
- “Option”;
- “Option Series”;
- “Options Market Contract”;
- “Order”;
- “OTC Derivative”;
- “Other Managed Fund”;
- “Other Regulated Entities”;
- “Participant”;
- “Position Risk Factors”;
- “Position Risk Requirement”;
- “Positive Credit Exposure”;
- “Preference Share”;
- “Pre-Commencement Market Integrity Rules”;
- “Primary Margin Requirement”;
- “Principal Trader”;
- “Product”;
- “Qualifying Debt Instruments”;
- “Quoted Product”;
- “Recognised Market Index”;
- “Related/Associated Person”;
- “Related/Associated Person Balance”;

- “Risk-Based Capital Requirements”;
- “Risk-Based Return Declaration”;
- “Rules”;
- “Security or security”;
- “Securities Lending and Borrowing”;
- “Securities Market”;
- “SSX”;
- “SSX Market”;
- “Structured Product”;
- “Substantial holder”;
- “Sub Underwriting Commitment”;
- “Sub Underwriter”;
- “Summary Risk-Based Return”;
- “Swap”;
- “Terms of Issue”;
- “Total Risk Requirement”;
- “Trading Day”;
- “Trading Messages”;
- “Trading Participant”;
- “Trading Permission”;
- “Trading Platform”;
- “Trading Status”;
- “Underlying Instrument”;
- “Underwriting Commitment”;
- “Underwriting and Sub Underwriting Risk Requirement”;
- “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 other than by reason of the repeal of the Pre-Commencement Market Integrity Rules, 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.

Rule 1.6.1A Status of approvals, authorisations, determinations and directions

Subrules 1.6.1A(1) and (2) provide that a written approval, authorisation, determination or direction given by ASIC to a Market Participant under the Pre-Commencement Market Integrity Rules or is taken to have been given under the corresponding provision in the Rules, and unless the written approval, authorisation, determination or direction has been revoked or otherwise ceased to have effect other than by reason of the repeal of the Pre-Commencement Market Integrity Rules, 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 1.6.1A(3) provides, for the avoidance of doubt, ASIC is not prevented from amending or revoking the approval, authorisation, determination or direction under these Rules or any other law.

Rule 1.6.1B Interpretation for transitional rules

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

Subrule 1.6.1B(2) provides that for the purposes of subrule 1.6.1B(1), the differences of the kind

specified in subrule 1.6.1B(2) do not mean two provisions are not substantially the same.

The next provision of the Rules is Chapter 8, Part 8.2. This maintains Pre-Commencement Market Integrity Rules numbering for the convenience of Participants of the Markets.

Chapter 8: Capital requirements

The note under this Chapter heading explains there is no Part 8.1 in Chapter 8.

Part 8.2 Application

Rule 8.2.1 Market Participant to comply with Risk-Based Capital Requirements

Subrules 8.2.1(1) and (2) provide that a Market Participant must at all times comply with the Risk Based Capital Requirements, unless the Market Participant is:

- (a) only a Principal Trader or a Clearing Participant of an Approved Clearing Facility and subject to the capital requirements under the Clearing Rules or an Authorised Deposit Taking Institution; and
- (b) not excluded under subrule (3) from relying on the applicable exception in paragraph (a) above.

Subrule 8.2.1(3) provides that a Market Participant is excluded from relying on an applicable exception in paragraph (2)(a) if at a particular time ASIC:

- (a) has given the Market Participant written notice (Exclusion Notice) that the Market Participant is excluded from relying on that exception; and
- (b) has not given the Market Participant a written notice withdrawing the Exclusion Notice.

Rule 8.2.2 Obligation to notify ASIC in relation to other capital requirements

Subrule 8.2.2(1) provides that a Market Participant that does not comply with the Risk-Based Capital Requirements in reliance on Rule 8.2.1 must give written notice to ASIC, as soon as practicable and in any event no later than one Business Day after it becomes aware of any of the following matters:

- (a) that the Market Participant will cease to be, or has ceased to be, as applicable:

- (i) only a Principal Trader;
- (ii) subject to the capital requirements of the Approved Clearing Facility; or
- (iii) an Authorised Deposit Taking Institution;

(b) in the case of a Market Participant that relies on an exception in subparagraph 8.2.1(2)(a)(ii) or (iii), that the Market Participant has materially breached, or is no longer about to comply with, as applicable:

- (i) the capital requirements of the Approved Clearing Facility; or
- (ii) the capital requirements of the Australian Prudential Regulation Authority.

Subrule 8.2.2(2) provides that a written notice under paragraph (1)(b) must include details of the actions (if any) that the Market Participant has taken, or will take, to deal with the matter referred to in that paragraph.

Chapter 9: Accounts and audit

Part 9.1 Application of Rules

Rule 9.1.1 Principal Traders, Clearing Participants of Approved Clearing Facilities, and Authorised Deposit Taking Institutions

Rule 9.1.1 provides that Chapter 9 does not apply to a Market Participant that is not required to comply with the Risk-Based Capital Requirements because of Rule 8.2.1.

Part 9.2 Risk-Based Capital Requirements—Reporting

Rule 9.2.1 Risk-Based Capital Requirements—Ad hoc or summary 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, Liquid Capital or net assets 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);
or
- (b) Liquid Capital divided by its Total Risk Requirement is equal to or falls below 1.2; or
- (c) net assets are at any time equal to or fall below zero.

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; and
 - (iii) by 10 am 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 (1)(c) is zero or less.

Subrule 9.2.2(3) provides that the returns in subrule 9.2.2(2) 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:

- (a) a Monthly Risk-Based Return, which accurately reflects the Market Participant's accounts and financial position on the last Business Day of the previous calendar month; and

- (b) a Risk-Based Return Declaration relating to the Monthly Risk-Based Return, authorised by one director or partner of the Market Participant.

9.2.4 Annual Audited Risk-Based Return

Subrule 9.2.4(1) provides that a Market Participant must prepare and deliver to ASIC within three months 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 including directors'/partners' declaration and audit report;
- (b) an Annual Audited Risk-Based Return;
- (c) a Risk-Based Return Declaration relating to the Annual Audited Risk-Based Return, authorised by one director or partner of the Market Participant;
- (d) an auditor's report on the Annual Audited Risk-Based Return;
- (e) the Key Risks and Internal Systems Statement; and
- (f) the Market Participant's group structure chart.

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

A note at the end of subrule 9.2.4(2) explains there is no Part 9.3 in Chapter 9 of the Rules.

Part 9.4 General

Rule 9.4.1 Alternate Director

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

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

Rule 9.4.2 Delivering a return or declaration to ASIC

Subrule 9.4.2 provides that unless otherwise directed by ASIC, a Market Participant must 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 or net assets is below minimum);
- (c) Rule 9.2.3 (Monthly Risk-Based Return);
- (d) Rule 9.2.4 (Annual Audited Risk-Based Return);

by submitting the information required to be delivered to ASIC under those provisions to the electronic lodgement system maintained by or on behalf of ASIC for this purpose.

Part 9.5 Scope of audits

Rule 9.5.1 Market Participant to assist auditor

Subrules 9.5.1(1) and (2) provide that a Market Participant must give its auditor access to its premises and Employees and all records, documents, explanations and other information required by the auditor in respect of any audit conducted under Part 9.2 of the Rules. A Market Participant must:

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

Subrule 9.5.1(3) provides that 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 Interpretation

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:
 - (i) \$500,000 if it is a Participant of a Securities Market; or
 - (ii) \$1,000,000 if it is a Participant of a Futures Market (regardless of whether it is also a Participant of a Securities Market).

Rule S1A.2.3 Risk requirements and risk amounts

Obligation to calculate Operational Risk Requirement

Subrule S1A.2.3(1) provides that a Market Participant must calculate its Operational Risk Requirement:

- (a) as the sum of:
 - (i) the amount of \$100,000; and
 - (ii) 8% of the sum of the Market Participant's:
 - A. Counterparty Risk Requirement;
 - B. Position Risk Requirement; and
 - C. Underwriting and Sub Underwriting Risk Requirement.

Obligation to calculate Counterparty Risk Requirement and counterparty risk amounts

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

- (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 Large Exposure Risk Requirement and large exposure risk amounts

Subrule S1A.2.3(3) provides that Market Participant must calculate in accordance with Annexure 2 to Schedule 1A:

- (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 to Schedule 1A:

- (a) its Position Risk Requirement;
- (b) a position risk amount for all positions in Financial Instruments, Foreign Exchange and Commodities 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 and Sub Underwriting Risk Requirement and underwriting risk amounts

Subrule S1A.2.3(5) provides that Market Participant must calculate in accordance with Annexure 4 to Schedule 1A:

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

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 in writing 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 Rule S1A.2.1 (minimum Core Capital and Liquid Capital requirement) 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.

Approved subordination arrangement where change in composition of partnership

Subrule S1A.2.4(4) provides that if a Market Participant is a partnership which 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(b).

Subrule S1A.2.4(8) 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 asset that is linked to an offsetting liability

Subrule S1A.2.4A(1) provides, subject to subrule S1A.2.4(2), for the netting of an asset due from one entity (ordinarily treated as an Excluded Asset) that is linked to 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 either subrule (2A) or (2B) applies.

Subrule S1A.2.4A(2A) provides that a right-of-use asset may be netted with a corresponding lease liability and the net amount (if positive) is reported as an Excluded Asset, where

- (a) that liability is a lease liability that corresponds with the right-of-use asset for the same lease;
- (b) the right-of-use asset is netted only with the corresponding lease liability; and
- (c) the Market Participant reports the right-of-use asset and lease liability in accordance with the requirements in paragraphs (c) to (f) of subrule S1A.2.4A(2A).

A Note after paragraph (b) explains that the effect of paragraph (b) is that the right-of-use assets of multiple leases cannot be aggregated and then offset with the aggregate of lease liabilities. The netting must be done on individual leases basis.

Subrule S1A.2.4A(2B) provides that a Market Participant may net an asset with a liability and report

the net amount (if positive) as an Excluded Asset where 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; and
- (c) reports the asset and liability in accordance with the requirements in paragraphs (c) to (e) of subrule S1A.2.4A.

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 31 calendar days.

Rule S1A.2.5 Redeemable Preference Shares

Rule S1A.2.5(1) 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.

Rule S1A.2.5(2) provides 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.

Rule S1A.2.3 provides 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 *ASIC Market Integrity Rules (Futures 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* (Cth) must, when it first becomes a member of that group, report certain information in its next Monthly Risk-Based return and any changes to these details must be reported in subsequent Monthly Risk-Based returns.

Rule S1A.2.7 Records and accounts

Requirement to maintain records and working papers

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

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

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

Accounts

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

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

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

Rule S1A.2.8 Valuations and foreign currencies

Valuation

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

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

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

Subrule S1A.2.8(2) provides that the purposes of sub-subparagraph (1)(b)(iii)(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 the Non-Standard Risk Requirement in relation to each exposure arising from a transaction each exposure arising from a transaction referred to in Rule S1A.2.9A, S1A.2.9B, S1A.2.9C or S1A.2.9D, is the amount calculated in accordance with the relevant Rule, and for each 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, 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
 - (iii) ceases from the earlier of:
 - A. the time the margin call has been paid in full; or
 - B. the time sufficient of the underlying securities have been sold by the Market Participant to cover the margin call; or
 - C. the time the debt in respect of the margin payment has been written off; 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.2.9D Credit Derivatives

Subrule S1A.2.9D(1) provides that where a Market Participant purchases a credit derivative (including but not limited to credit default swaps and first to default baskets), the Market Participant must treat the position as a non-standard exposure and the risk requirement must be equal to 8% of the product of the notional amount and the counterparty risk weighting applicable for that Counterparty specified in Table A5.2.1 in Annexure 5 to Schedule 1A.

Subrule S1A.2.9D(2) provides that where a Market Participant issues a credit derivative (including but not limited to credit default swaps and first to default baskets), the Market Participant must treat the position as a non-standard exposure and the risk requirement must be equal to 8% of the product of the maximum payout under the credit derivative and the counterparty risk weighting applicable for that Counterparty specified in Table A5.2.1 in Annexure 5 to Schedule 1A.

Rule S1A.2.10 Underwriting register

Rule S1A.2.10 provides that a Market Participant must maintain a register of its Underwriting Commitments and Sub Underwriting Commitments (each, a ***Relevant Commitment***) which records:

- (a) the date of commencement, crystallisation and termination of each Relevant Commitment and the parties to each Relevant Commitment;
- (b) the identity, number and price of the Financial Instruments the subject of each Relevant Commitment;
- (c) the amount underwritten by the Market Participant under each Relevant Commitment; and
- (d) any reduction in the amount underwritten under each Relevant Commitment due to an amount being:
 - (i) sub-underwritten under a Sub Underwriting Commitment; or
 - (ii) received under a client placement in relation to the Financial Instruments the subject of the Relevant Commitment; or
 - (iii) received as Application Monies for the Financial Instruments where the amount reduces the liability of the Market Participant under the Relevant Commitment,and the date that this reduction occurs.

Rule S1A.2.11 Liquidity requirements

Rule S1A.2.11 provides that a Market Participant must:

- (a) maintain a liquidity plan that covers at least the next 12 months under both normal and stressed scenarios, taking into account expected changes to the Market Participant's strategy, business plans or financial circumstances;
- (b) at least annually, have the liquidity plan approved by the board of directors of the Market Participant or by two partners if the Market Participant is a partnership;
- (c) prepare a projection of cash flows over at least the next three months based on the Market Participant's reasonable estimate of what is likely to happen over this term;
- (d) document the calculations and assumptions on which the liquidity plan and projection of cash flows are based, and describe in writing why they are appropriate assumptions;
- (e) update the liquidity plan when there is a material change to its strategy, business plans or financial circumstances;

- (f) update the projection of cash flows when:
 - (i) those cash flows cease to cover the next three months;
 - (ii) there is a material change to its strategy, business plans or financial circumstances; or
 - (iii) there is reason to suspect that an updated projection would differ materially from the current projection; and

- (g) document a contingency funding plan, procedures for managing liquidity risks, and procedures for the escalation of liquidity issues.

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 Rule A1.2.8 of Annexure 1.

Subrule A1.1.1(2) provides that, for the purposes of subrule A1.2.2(1), a Positive Credit Exposure exists on a Client Balance regardless of whether the Client Balance is positive or negative. This is because the Market Participant can incur a financial loss on a client or counterparty default regardless of whether the client is buying or selling.

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 These methods are explained in Rules A1.2.2 to A1.2.7.

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 unsettled trades which are not margined, and for unsettled trades in margined Equities, Debt Instruments and Warrants, 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, and for unsettled trades in margined Equities, Debt Instruments and Warrants, 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 if the collateral meets all the criteria specified in paragraphs A1.2.2(2)(a) to (e).

The criteria specified in A1.2.2(2)(a) to (e) are: 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 not otherwise encumbered; is valued at the mark-to-market value and offset on a transaction by transaction basis; 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 conditions specified in the collateral agreement.

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 , and for unsettled trades in margined Equities, Debt Instruments and Warrants, 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 by collateral held

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 not otherwise encumbered; and valued at the mark-to-market value and offset on a transaction by transaction basis. 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 conditions specified in the collateral agreement.

Subrule A1.2.2(5) provides that, for the purpose of subrule A1.2.2(2), the 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.

Securities subject to trading halt or suspension

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 underlying the trade 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 or other transactions specified in the subrule.

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 two 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 two Business Days following the settlement date,

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

Market participant may reduce the contract value

Subrule A1.2.3(2) provides that a Market Participant may reduce the contract value by the amount of

collateral held by the Market Participant on behalf of the Counterparty. The collateral must be Liquid, unrelated to a particular or specific transaction and not the securities underlying the Counterparty's purchase, under the control of the Market Participant and not otherwise encumbered, valued at the mark-to-market value and offset on a transaction by transaction basis. 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 under subrule A1.2.3(2), if the security lodged as collateral is subject to a trading halt, the last market value may be used. If the security lodged as collateral is subject to a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

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

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

Partial Free Delivery

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

Rule A1.2.4 Securities Lending and Borrowing method

The principle of this method is that where Securities Lending and Borrowing arrangements require

the Market Participant to give the Counterparty securities with a market value, or cash, in excess of the market value of securities, or cash, received by the Market Participant from the Counterparty, this method requires the Market Participant to hold capital against that excess.

Meaning of counterparty exposure

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

Netting of Counterparty exposures

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

Counterparty risk amount

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

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

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

Securities subject to a trading halt or suspension

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

Rule A1.2.5 Margined Financial Instruments method

The principle of the Margined Financial Instruments method is the requirement to hold capital equal to the outstanding amounts owed by the Counterparty to the Market Participant in respect of transactions in margined Financial Instruments. However, unsettled trades in margined Equities, Debt Instruments and Warrants are not subject to the Margined Financial Instruments method.

Counterparty risk amount

Subrule A1.2.5(1) provides that, for trades in Financial Instruments which are margined, other than unsettled trades in margined Equities, Debt Instruments and Warrants, 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; and
- (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 not otherwise encumbered 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 conditions specified in 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 exposure to 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 lodged as collateral is 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.

Initial margin not charged or charge is lower than specified

Subrule A1.2.5(6) provides that for the purposes of subrule A1.2.5(1), if a Market Participant does not charge an initial margin or charges an amount that is lower than the applicable percentage in

Table A5.2.2, its counterparty risk amount for a Counterparty is the applicable potential credit exposure factor specified in Table A5.2.2 in Annexure 5 to Schedule 1A.

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 not otherwise encumbered, and valued at the mark-to-market value and where

paragraph A1.2.6(1)(c) applies is deducted from the credit equivalent amount before multiplying the amount by 8%. The collateral arrangement must be evidenced in writing by a legally binding agreement, allow the Market participant to deal with the collateral in the event of Counterparty default, and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

Subrule A1.2.6(3) provides that for the purposes of subrule A1.2.6(2), 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

The principle of the Sub Underwritten Positions method requires Market Participants to calculate a counterparty risk amount for sub underwriting commitments made by counterparties. The counterparty risk amount for sub underwriting positions requires additional capital be held to mitigate the risk of losses resulting from a sub underwriter counterparty that fails to meet its sub underwriting commitments.

Rule A1.2.7 provides that for a Market Participant that has received a Sub Underwriting Commitment, the counterparty risk amount in respect of the Sub Underwriter:

- (a) from the time the Sub Underwriting Commitment is entered into until the time the Sub Underwriting Commitment becomes unconditional, is the product of:
 - (i) the amount sub underwritten by the Sub Underwriter under the Sub Underwriting Commitment, less any part of that amount that has been:
 - A. secured by collateral which is Liquid, evidenced in writing and valued at the mark-to-market value; or
 - B. received from the Sub Underwriter; and
 - (ii) the sub underwriting risk factor specified in Table A5.2.3, Annexure 5;
- (b) from the time the Sub Underwriting Commitment becomes unconditional until 31 days after the Sub Underwriting Commitment becomes unconditional, is 100% of the amount sub underwritten by the Sub Underwriter under the Sub Underwriting Commitment that remains due from the Sub Underwriter.

Rule A1.2.8 Counterparty risk weighting

Market Participant may choose to apply counterparty risk weighting

Subrule A1.2.8(1) provides that, subject to subrules(2) to (6), 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 Rules A.1.2.2 to A1.2.7 multiplied by the counterparty risk weighting

applicable for that Counterparty specified in Table A5.2.1 in Annexure 5 to Schedule 1A.

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 Regulator as specified in Table A5.3.1 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, where:

- (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 Liquid 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 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 amounts

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 Debt position risk standard method using the face value of the bills multiplied by the appropriate standard method Position Risk Factor

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). In the case of principal positions in physical Equity securities, the Issuer is the entity that has issued those securities.

In the case of Derivative positions, the Issuer is the entity that has issued the securities underlying the

Derivatives position. The Issuer is not the Counterparty to the Derivative transaction.

Subrule A2.3.1(4) also provides that the meaning of ‘Equity Net Position to a particular Issuer’ in Rule A2.3.1 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.

Table A2.5 specifies instruments that comprise the “Individual Issue” for the Equity products specified in the table, and the detail of the Individual Issue” for each Equity product.

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 Individual issue/s 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 paragraph (a) 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 a Market Participant's 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 standard method Position Risk Factors are selected according to whether the Equity Net Positions or Debt Net Positions represent the greatest proportion of the aggregate Net Position; or if Equity Net Position and Debt Net Position are held in equal proportions, the greatest of the standard method Position Risk Factors specified in Table A5.1.1 or Table A5.1.2 in Annexure 5 to Schedule 1A

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 is the main method

Subrule A3.1.2(1) provides that the standard method is the main method for measuring the equity position risk amount. This is 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 must 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 T0 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 to Schedule 1A; and
- (e) if the Market Participant is unlikely to be able to liquidate its position in a Classical ETF within 31 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

Rule 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 T0 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 to Schedule 1A;
- (e) if the Market Participant is unlikely to be able to liquidate its position in a Hybrid ETF within 31 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 in an Other Managed Fund classified as Equities:

- (a) principal positions in Other Managed Funds commence at T0 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 to Schedule 1A;
- (d) if the Market Participant is unlikely to be able to liquidate its position in an Other Managed Fund within 31 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 T0;
- (b) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 to Schedule 1A;
- (c) if the Market Participant is unlikely to be able to liquidate its position in an exchange traded CFD within 31 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 in Annexure 5 to Schedule 1A ; 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 A3.5 and A3.6.

Rule A3.2.2 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 to Schedule 1A.

There is no Part A3.3 or A3.4 in Annexure 3 to Schedule 1A.

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 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 four.

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 in Annexure 5 to Schedule 1A; and
- (b) the mark-to-market value of the Option,

and specifies how to calculate the market value of the Option, and the notional market value of the physical Equities position underlying 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 in Annexure 5 to Schedule 1A 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.

There is no Part A3.7 in Annexure 3 to Schedule 1A.

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 A3.10 to A3.17 of Annexure 3.

If one of the legs of the Swap provides for payment or receipt based on some reference to a Commodity or Commodity Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Parts A3.23 to A3.28.

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 the mark-to-market value of the underlying Equity if:

- (a) 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
- (b) there are less than 31 days to the conversion date,

but otherwise 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 calculated in the following way:

- (a) 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), and Instalment receipts may be treated as if they are positions in the corresponding instrument;
- (b) an Option position can only be offset if it is In the Money by at least the standard method Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A 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 for the purposes of subrule A3.9.1(1) a Market Participant:

- (a) must not offset Securities Lending and Borrowing transactions against underlying long and short Equity net positions;
- (b) 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 must calculate a position risk amount on that position, notwithstanding that a counterparty risk amount must also be calculated under the Securities Lending and Borrowing method in Rule A1.2.4;
- (c) may only offset positions in quoted securities issued by a listed entity and quoted on multiple exchanges where the securities quoted on multiple exchanges are identical;
- (d) may only offset positions in listed stocks that are subject to a merger and which involve the conversion/exchange of scrip once it is legally certain the conversion/exchange will proceed.

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 is the main method for measuring the debt position risk amount. This is 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 the 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 T0 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 31 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 T0 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 31 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 Treatment—Securities subject to trading halt 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.

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 in Annexure 5 to Schedule 1A

Subrule A3.11.2(2) sets out principles for determining the applicable Position Risk Factor for the purposes of the standard method. In determining the applicable Position Risk Factor, the coupon applicable to the Debt Net Position will determine the time band and Position Risk Factor. The Position Risk Factors and time bands for any debt instrument that does not have a coupon (for example, zero coupon bonds and bank bills) will generally be the same as for bonds with a coupon of less than 3%. Fixed rate instruments should be allocated to a time band on the basis of the residual term to maturity. Floating rate instruments should be allocated to a time band on the basis of the residual term to the next repricing date.

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), with the intention that the bank bills to be held to maturity, 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 to Schedule 1A.

There is no Part A3.12 or Part A3.13 in Annexure 3 to Schedule 1A.

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 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 four.

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 Option

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 in Annexure 5 to Schedule 1A; and
- (b) the mark-to-market value of the Option.

and specifies how to calculate the notional market value of the physical position underlying the Option.

Written Option

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 in Annexure 5 to Schedule 1A 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.

If one of the legs of the Swap provides for payment or receipt based on some reference to a Commodity or Commodity Derivative, the position risk amount for that leg of the Swap should be assessed in accordance with Part A3.23 to A3.28.

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 on 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 depends 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 for purpose of subrule A3.16.3(1), a “purchased” position means that the holder of the position is an investor and has bought a Futures or forward contract or has sold a Forward Rate Agreement, and a “Sold” position 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(1)(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 and:

- (a) If the basket or index is based on Government Debt Instruments, then a zero specific risk Position Risk Factor should be used.
- (b) 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 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 to Schedule 1A 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 following way:

- (a) subject to subparagraph A3.17.1(1)(c) and(d), 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;
- (b) an Option position can only be offset if it is In the Money by at least the standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A applicable to the underlying position;

- (c) a matched position in a Future or forward contract and its underlying may be offset provided that specified criteria are met;
- (d) to qualify for offsets across product groups, the positions must relate to the same underlying instrument type, be of the same nominal value; and:
 - (i) 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 seven days of each other;
 - (ii) 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
 - (iii) 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 one month hence, same day;
 - (B) between one month and one year hence, within seven days; and
 - (C) over one year hence, within 30 days.

Must not offset debt net position against Security Lending and Borrowing transaction

Subrule A3.17.1(2) provides that for the purposes of subrule A3.17.1(1) a Market Participant must not offset Securities Lending and Borrowing transactions against underlying long and short debt net positions. The Market Participant must treat any securities that have been lent out under a Securities Lending and Borrowing arrangement or that have been sold under a repurchase agreement as a principal position of the Market Participant 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 Exchange 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. Foreign Exchange is defined in Rule 1.4.3, and includes foreign currency and gold but does not

include an instrument prescribed as an Equity, Debt Instrument or Commodity.

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 method of calculation set out in Annexure 3 to Schedule 1A.

Rule A3.18.2 Overview of method

Subrule A3.18.2(1) provides that the standard method is the main method for measuring Foreign Exchange position risk amount. The standard method is supplemented by other methods, depending on the Financial Instruments in respect of 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 A3.3 must be used. Table A3.3 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 Exchange physical positions must be included in standard method.

Subrule A3.19.1(2) provides that Foreign Exchange Derivative positions other than Options must be included in the standard method, and the positions must be 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 they are not included in the standard method in accordance with paragraph A3.19.1(3)(a), the Options must be treated under the basic 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 sum of:

- (a) the greater of the absolute value of the aggregate of the converted
 - (i) net open long position in foreign currencies; and
 - (ii) net open short position in foreign currencies, and
- (b) the absolute value of the converted net open position in gold;

multiplied by the Position Risk Factor specified in Table A5.1.7 in Annexure 5 to Schedule 1A.

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 to Schedule 1A, 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 in Annexure 5 to Schedule 1A, are to be converted to a Foreign Exchange Equivalent in accordance with Part A3.21 and:

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

Part A3.20 Basic method—Foreign Exchange position risk

Rule A3.20.1 Application

Subrule A3.20.1(1) provides that Foreign Exchange Derivative positions which are purchased (long) or written (short) Options must be included in the basic method if not calculated under the standard

method set out in Part A3.19.

Subrule A3.20.1(2) provides that Foreign Exchange Derivative positions which are written Options must be included in the basic method.

Rule A3.20.2 Method

Purchased Option

Subrule A3.20.2(1) provides that the position risk amount for a purchased Option is the lesser of:

- (a) the mark-to-market value of the underlying Foreign Exchange position multiplied by the standard method Position Risk Factor specified in Table A5.1.7 in Annexure 5 to Schedule 1A; and
- (b) the mark-to-market value of the Option,

and specifies how to calculate the market value of the Option

Written Option

Subrule A3.20.2(2) provides that the position risk amount for a written Option is the mark-to-market value of the underlying Foreign Exchange position multiplied by the standard method Position Risk Factor for the underlying position specified in Table A5.1.7 in Annexure 5 to Schedule 1A, 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 A3.21 Calculation of Foreign Exchange Equivalent positions—Foreign Exchange position risk

Rule A3.21.1 Options

Rule A3.21.1 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 Future over a Foreign Exchange 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 the face value of the contract or the 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 Exchange is the notional face value of the underlying contract.

Part A3.22 Calculation of Foreign Exchange net open positions—Foreign Exchange position risk

Rule A3.22.1 Calculation of foreign currency 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;
- (b) Commodities; and
- (c) 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 in a foreign currency 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.

Part A3.22.2 Calculation of a gold net open position

Subrule A3.22.2(1) provides that to calculate a net open position in gold and gold derivatives, each open position in gold must first be expressed in terms of the standard unit of measurement, and then converted at the current rates into Australian dollars.

Subrule A3.22.2(2) provides that when calculating the gold net open positions, the long and short positions in a gold contract or gold derivative may be offset.

Subrule A3.22.3(3) provides that where the interbank market price for gold is denominated in a foreign currency, a Market Participant with an open position in gold and gold derivative:

- (a) must calculate an Australian dollar equivalent amount of exposure to the gold price and its exposure to a foreign currency; and
- (b) may net the exposure to a foreign currency against exposures to the same foreign currencies arising from the Market Participant's other activities.

Part A3.23 Commodity position risk amount

The principle of the Commodity position risk amount is that a Market Participant must hold additional capital to account for the position risk of holding physical commodity positions and commodity derivative positions.

Rule A3.23.1 Nature of Commodity position risk amount

Rule A3.23.1 provides that the Commodity position risk amount in relation to a Market Participant's Commodity positions is the absolute sum of the individual position risk amounts for Commodity positions calculated using the method of calculation set out in Annexure 3.

Rule A3.23.2 Overview of method

Subrule A3.23.2(1) provides the standard method is the main method for measuring the Commodity position risk amount. This is supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.

Subrule A3.23.2(2) and Table A3.4 provide an overview of the methods that must be used in calculating the Commodity position risk amount.

Subrule A3.23.2(3) provides that the funding of commodity positions may expose a Market Participant to interest rate or Foreign Exchange risk and if so, the positions should be included in the calculation of the debt position risk and Foreign Exchange position risk.

Part A3.24 Standard method—Commodity position risk

Rule A3.24.1 Application

Subrule A3.24.1(1) provides that Physical Commodity positions must be included in the standard method.

Subrule A3.24.1(2) provides that Commodity Derivative positions other than Options may be included in the standard method if the positions are converted to Commodity Equivalents according to Part A3.27.

Subrule A3.24.1(3) provides that Commodity 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 positions are converted to a Commodity Equivalent according to Part A3.27.

Subrule A3.24.1(4) provides that if the criteria in subrules A3.24.1(1), A3.24.1(2) and A3.24.1(3) are

not met, the Option must be treated under one of the option methods referred in Table A3.4 in Rule A3.23.2.

Rule A3.24.2 Method

Subrule A3.24.2(1) provides that the position risk amount for a Commodity is the sum of:

- (a) a net position amount which is calculated by multiplying the absolute value of the net open position in the Commodity by the standard method Commodity Position Risk Factor specified in Table A5.1.8 in Annexure 5 to Schedule 1A; and
- (b) an additional amount which is calculated by multiplying the gross position in Commodity by the standard method Gross Position Risk Factor specified in Table A5.1.8 in Annexure 5 to Schedule 1A.

Subrule A3.24.2(2) provides that Commodity Derivative positions which are Options and are In the Money by at least the standard method Commodity Position Risk Factor for the underlying position specified in Table A5.1.8 in Annexure 5 to Schedule 1A are to be converted to a Commodity Equivalent in accordance with Part A3.27 and included in the net open position.

Subrule A3.24.2(3) provides that Commodity Derivative positions which are Options and are not In the Money by at least the standard method Commodity Position Risk Factor specified in Table A5.1.8 in Annexure 5 to Schedule 1A are to be converted to a Commodity Equivalent in accordance with Part A3.27 and:

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

Part A3.25 Margin method—Commodity position risk

Rule A3.25.1 Application

Rule A3.25.1 provides that where the Market Participant is not permitted to use any of the methods referred to Rule A3.23.2, exchange traded Commodity Derivative positions that have a positive Primary Margin Requirement must be included in the margin method.

Rule A3.25.2 Method

Rule A3.25.2 provides that the position risk amount for Commodity Derivative positions under the margin method is 100% of the Primary Margin Requirement for those Commodity Derivative positions as determined by the relevant exchange or clearing house multiplied by four.

Part A3.26 Basic method—Commodity position risk

Rule A3.26.1 Application

Rule A3.26.1 provides that Commodity Derivative positions which are purchased (long) or written (short) Options may be included in the basic method.

Rule A3.26.2 Method

Purchased Option

Subrule A3.26.2(1) provides that the position risk amount for a purchased Option is the lesser of:

- (a) the mark-to-market value of the underlying Commodity position multiplied by the standard method Commodity Position Risk Factor specified in Table A5.1.8 in Annexure 5 to Schedule 1A; and
- (b) the mark-to-market value of the Option,

where:

- (c) subject to paragraph (d), the notional value of the physical position underlying the Option is the price the Market Participant would have to pay for the Commodity underlying the Option if it were to take a long position in that instrument at current market rates; and
- (d) for an Option over a Futures contract over a physical Commodity, the notional position should be in the physical Commodity.

Written Option

Subrule A3.26.2(2) provides that the position risk amount for a written Option is the mark-to-market value of the underlying Commodity position multiplied by the standard method Commodity Position

Risk Factor specified in Table A5.1.8 in Annexure 5 to Schedule 1A 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 A3.27 Calculation of Commodity Equivalent positions—Commodity position risk

Rule A3.27.1 Options

Rule A3.27.1 provides that the Commodity Equivalent for an Option is:

- (a) for purchased call Options and written put Options, a long position in the notional Commodity positions underlying the contract or option multiplied by the spot price of the underlying commodities position; and
- (b) for purchased put Options and written call Options, a short position in the notional Commodity positions underlying the contract or option multiplied by the spot price of the underlying commodities position.

Rule A3.27.2 Futures

Rule A3.27.2 provides that the Commodity Equivalent for a Commodity Future is the notional amount in terms of the standard unit of measurement underlying the future contract multiplied by the spot price of the Commodity.

Rule A3.27.3 Forward contracts

Rule A3.27.3 provides that the Commodity Equivalent for a Commodity forward contract including a future exchange associated with a Commodity Swap is the notional amount in terms of the standard unit of measurement underlying the forward contract multiplied by the spot price of the Commodity.

Rule A3.27.4 Commodity Swaps

Subrule A3.27.4(1) provides that the Commodity Equivalent for a Swap where one leg is a fixed price and the other leg is the current market price is a series of positions equal to the notional amount

of the contract, with one position corresponding to each payment on the Swap. The positions are long positions if the Market Participant is paying fixed and receiving floating, and short positions if the Market Participant is receiving fixed and paying floating.

Subrule A3.27.4(2) provides that 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 A3.10 of Annexure 3.

Rule A3.27.5 Other positions—CFDs

Rule A3.27.5 provides that the Commodity Equivalent for a CFD is the notional amount in terms of the standard unit of measurement underlying the contract multiplied by the spot price of the Commodity.

Part A3.28 Calculation of Commodity net open positions—Commodity position risk

Subrule A3.28(1) provides that to calculate a net open position in a particular Commodity, each open position in the Commodity or Commodity Derivative must first be expressed in terms of the standard unit of measurement. The net position in each Commodity or Commodity Derivative will then be converted at the current rates into Australian dollars.

Subrule A3.28(2) provides that when calculating the Commodity net open positions for each Commodity, the long and short positions in a Commodity or Commodity Derivative may be offset.

Subrule A3.28(3) provides that positions in different Commodities may not be offset unless the Commodity is fungible for settlement purposes or a highly correlated close substitute.

Subrule A3.28(4) provides that where Commodities are denominated in a foreign currency, the Market Participant must calculate a Commodity exposure and a foreign currency exposure.

Annexure 4 to Schedule 1A: Underwriting and Sub Underwriting Risk Requirement

The principle of the Underwriting and Sub Underwriting Risk Requirement is that a Market Participant should hold additional capital when undertaking underwriting or sub underwriting commitments. The Underwriting and Sub Underwriting risk requirement address the risk of losses resulting from an under-subscribed underwritten activity and from sub underwriting where a Market

Participant's exposure is not fully covered.

Rule A4.1.1 Nature of underwriting risk amount

Rule A4.1.1 provides that the Underwriting and Sub Underwriting Risk Requirement is the absolute sum of the individual underwriting risk amounts calculated using the method of calculation set out in Annexure 4.

Rule A4.1.2 Method

Rule A4.1.2 provides that the underwriting risk amount for each Underwriting Commitment or Sub Underwriting Commitment (*Relevant Commitment*) made by a Market Participant:

- (a) is the product of:
 - (i) the amount underwritten or sub underwritten by the Market Participant under the Relevant Commitment, less any part of that amount that has been:
 - (A) sub underwritten under a Sub Underwriting Commitment; or
 - (B) received under a client placement in relation to the Financial Instruments the subject of the Relevant Commitment; or
 - (C) received as Application Monies for the Financial Instruments where the amount reduces the liability of the Market Participant under the Relevant Commitment; and
 - (ii) the underwriting risk factor specified in Table A5.4.1, Annexure 5; and
 - (iii) the relevant standard method Position Risk Factor specified in Part A5.1; and
- (b) commences on the first date upon which funds can be accepted by the Market Participant for the issue of the Financial Instrument that is the subject of the Relevant Commitment; and
- (c) ceases once the Relevant Commitment becomes unconditional.

Rule A4.1.3 Underwriting—Counterparty risk

The principle of Rule A4.1.3 is that once an underwriting commitment ceases, a Market Participant must calculate a counterparty risk amount on any exposure to clients where a client has made an

application for securities but where payment remains outstanding.

Subrule A4.1.3(1) provides that a Market Participant that makes an Underwriting Commitment must:

- (a) treat as a Positive Credit Exposure any amount outstanding from a client (Buying Client) that has made an application to buy the Financial Instruments the subject of the Underwriting Commitment, as at the closing date for applications;
- (b) calculate in accordance with Annexure 1 to Schedule 1A a counterparty risk amount on that Positive Credit Exposure, from the time that the Market Participant pays the issuer until the time the Buying Client pays the Market Participant; and
- (c) for the purposes of calculating a counterparty risk amount under paragraph A4.1.3(1)(b), use the “cost” or “subscription” price as the market value of the Financial Instruments if the market value is not known.

Subrule A4.1.3(2) provides that a Market Participant may, for the purposes of calculating a counterparty risk amount under paragraph A4.1.3(1)(b), reduce the amount of its Positive Credit Exposure by any part of that amount that has been sub underwritten under a Sub Underwriting Commitment.

Rule A4.1.4 Underwriting—Position risk

The principle of A4.1.4 is that once an underwriting or sub underwriting commitment ceases, a Market Participant must calculate a position risk amount on any principal position acquired from a shortfall in applications.

Subrule A4.1.4(1) provides that a Market Participant that makes an Underwriting Commitment or Sub Underwriting Commitment (each a *Relevant Commitment*) must:

- (a) treat as a principal position any shortfall in applications to buy the Financial Instruments the subject of the Relevant Commitment, as at the closing date for applications; and
- (b) calculate in accordance with Annexure 3 to Schedule 1A a position risk amount in respect of that principal position, from the time of the closing date for applications; and
- (c) for the purposes of calculating a position risk amount under paragraph A4.1.4(1)(b), use the “cost” or “subscription” price as the market value of the Financial Instruments if the market value is not known.

Subrule A4.1.4(2) provides that the Market Participant may, for the purposes of calculating a position

risk amount under paragraph A4.1.4(1)(b), reduce the amount of its principal position by any part of that amount that has been sub underwritten under a Sub Underwriting Commitment.

Annexure 5 to Schedule 1A: Tables

There is no Table A5.1.3, A5.1.4 or A5.1.5 in Annexure 5.

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 standard method Equity Position Risk Factors for a Recognised Market Index and Non Recognised Market Index.

Table A5.1.2: Debt Position Risk Factors

Table A5.1.2 sets out the Debt Position Risk Factors to be applied in determining debt position risk, depending on the coupon, 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 sets out the Position Risk Factors to be applied under the standard 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 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 A5.1.6: Recognised Market Indexes

Table A5.1.6 sets out the Recognised Market Indexes in specified countries.

Table A5.1.7: Foreign Exchange Position Risk Factors

Table A5.1.7 sets out the standard method Foreign Exchange Position Risk Factors for all currencies and gold.

Table A5.1.8: Commodity Position Risk Factors

Table A5.1.8 sets out the standard method Commodity Position Risk Factor for all Commodity spot and derivative positions and Gross Position Risk Factor.

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, for the purposes of Part A1.2.8 of Annexure 1.

Table A5.2.2: Potential Credit Exposure Factors

Table A5.2.2 sets out Potential Credit Exposure Factors for Equity, Debt, Foreign Exchange (including gold) and Commodity based on the remaining time to maturity.

Table A5.2.3: Sub Underwriting Risk Factor

Table A5.2.3 sets out the risk factor for all Sub Underwriting Commitments.

Part A5.3 Other

Table A5.3.1: Recognised Regulator

Table A5.3.1 sets out a list of Recognised Regulators in Australia, Austria, Belgium, Canada, Denmark, Europe, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa,

Spain, Sweden, United Kingdom and United States for the purposes of subparagraph (b) of the definition of “Approved Institution” in Rule 1.4.3.

Part A5.4 Underwriting Risk

Table A5.4.1: Underwriting Risk Factor

Table A5.4.1 sets out the risk factor for all Underwritings.

Schedule 1C: Forms

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

Risk-Based Capital Requirements Returns

Form 1: Ad Hoc Risk-Based Return

Form 1 sets out the form of the return, known as the “Ad Hoc Risk-Based 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 or net assets below minimum).

Form 2: Risk-Based Return Declaration

Form 2 sets out the form of the Risk-Based Return Declaration that relates to the Risk-Based Returns that is required to be authorised by a director or partner of the Market Participant (if it is a partnership) and required by the Rules.

Form 3: Risk-Based Return (Summary, Monthly and Annual)

Form 3 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 Audited Risk-Based 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 is required to provide to ASIC within three months following the end of the Market Participant’s financial year, for the purposes of Rule 9.2.4 (Annual Audited Risk- Based Return).

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 (Capital) 2021

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, in 2017-18, ASIC reviewed the capital requirements imposed on market participants by the existing ASIC market integrity rules. ASIC's review highlighted that the capital requirements were outdated and not able to adequately address the risks of operating a market participant business. The review also found that the capital requirements were out of step with comparable international capital frameworks and the financial requirements of the AFS licensing regime.

ASIC identified the need to update the capital requirements by making the Market Integrity Rules (Capital) in order to:

- (a) contribute to efficiency in supervision and enforcement of the market integrity rules by ASIC;
- (b) avoid additional regulatory burden and cost for industry participants;
- (c) ensure consistent capital requirements between futures market participants and securities market participants;
- (d) help promote retail investor trust and confidence and market transparency by ensuring investor protection measures are consistent;
- (e) 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.

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) National Stock Exchange of Australia Limited (the **NSXA Market**) under *Australian Market Licence (National Stock Exchange of Australia Limited) 2002*;
 - (iv) 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*;
 - (v) Australian Securities Exchange Limited (the **ASX 24 Market**) (formerly Sydney Futures Exchange Limited (SFE)) under *Australian Market Licence (Sydney Futures Exchange Limited) 2002*; and
 - (vi) FEX Global Pty Limited (the **FEX Market**) under *Australian Market Licence (FEX Global Pty Ltd) 2013*;
- (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**).

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.