



**ASIC**  
Australian Securities &  
Investments Commission

# **ASIC Market Integrity Rules (Capital) 2021**

I, Calissa Aldridge, acting with the written consent of the Minister,  
make the following market integrity rules under subsection 798G(1)  
of the *Corporations Act 2001*.

Date 16 June 2021

Signed by Calissa Aldridge  
as delegate of the Australian Securities and Investments Commission

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# Chapter 1: Introduction

## Part 1.1 Preliminary

### 1.1.1 Enabling legislation

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

### 1.1.2 Title

This instrument is *ASIC Market Integrity Rules (Capital) 2021*.

### 1.1.3 Commencement

This instrument commences on the day after this instrument is registered on the Federal Register of Legislation.

Note: The register may be accessed at [www.legislation.gov.au](http://www.legislation.gov.au).

### 1.1.3A Revocation

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day on which the provisions of this instrument commence in accordance with Rule 1.1.3, the following instruments are repealed: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

### 1.1.4 Scope of these Rules

These 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,

as specified in each Chapter, Part or Rule.

### 1.1.5 Entities that must comply with these Rules

Subject to Rule 1.1.5A, the following persons must comply with these Rules:

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

as specified in each Rule.

### 1.1.5A Entities that must comply with these Rules—Transitional

(1) A person is not required to comply with these 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.

(2) 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.

(3) 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.

### 1.1.5B Penalties for a contravention of these Rules

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.

### 1.1.6 Conduct by officers, Employees or agents

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

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

is deemed to have been engaged in by the person.

### 1.1.7 State of mind of a person

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

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

## **Part 1.2 Waiver**

### **1.2.1 Waiver of Rules**

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

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

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

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

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

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

### **1.2.2 Compliance with conditions**

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

### **1.2.3 Period during which relief applies**

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

### **1.2.4 Register**

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

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

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

## Part 1.3 Notice, notification and service of documents

### 1.3.1 Market Participant to have email system

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

### 1.3.2 Methods of giving notice in writing

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

- (a) delivering it to the recipient personally;
- (b) leaving it at or by sending it by courier or post to the address of the recipient last notified to ASIC;
- (c) sending it by facsimile to the recipient's facsimile number last notified to ASIC;
- (d) a circular or bulletin addressed to a class of persons and delivered or communicated by any means permitted under this Rule;
- (e) specific email by any method which identifies a person or person's title as addressee and no notice of non-delivery has been received;
- (f) broadcast email by any method which identifies the addressee and which, having regard to all the relevant circumstances at the time, was as reliable as appropriate for the purposes for which the information was communicated.

## Part 1.4 Interpretation

### 1.4.1 References to time

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

### 1.4.2 Words and expressions defined in the Corporations Act

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

### 1.4.3 Definitions

In these Rules:

***Ad Hoc Risk-Based Return*** means a return containing the information in Form 1 in Schedule 1C to these Rules.

***Annual Audited Risk-Based Return*** means a return containing the information in Form 3 in Schedule 1C to these Rules, except for the section Credit Facilities & Overdraft.

**Application Monies** means, in relation to Financial Instruments, monies that have been received by the person offering the Financial Instruments from a person applying for the Financial Instruments.

**Approved Clearing Facility** means ASX Clear Pty Limited (ACN 001 314 503) and ASX Clear (Futures) Pty Limited (ACN 050 615 864).

**Approved Deposit Taking Institution** means:

- (a) an authorised deposit taking institution under section 5 of the *Banking Act 1959* (Cth);
- (b) a banking institution which has its activities formally regulated in accordance with the standards of the Basel Committee on Banking Supervision; or
- (c) an institution which has been given a risk weighting by the Australian Prudential Regulation Authority equivalent to an authorised deposit taking institution referred to in paragraph (a).

**Approved Institution** means:

- (a) any of the following institutions whose net assets are greater than \$30 million at the date of its last published audited balance sheet:
  - (i) a life insurance company or general insurance company; or
  - (ii) an investment company, trust or other similar institution whose ordinary business is to buy and sell Financial Instruments;
- (b) any body corporate or partnership whose ordinary business is to buy and sell Financial Instruments and which is regulated by a Recognised Regulator specified in Table A5.3.1;
- (c) a Fund Manager and an underlying client that has placed money with, or has securities under the control of, the Fund Manager, where:
  - (i) the Market Participant has a dealing relationship with the Fund Manager but not the underlying client; and
  - (ii) the Fund Manager is placing orders on behalf of the underlying client and not as principal,

provided that the Market Participant maintains adequate documentation in support of paragraphs (a), (b) or (c).

**Approved Subordinated Debt** means an amount owing by a Market Participant under a subordination arrangement which is approved by ASIC under Rule S1A.2.4.

**Approved Subordinated Loan Deed** means, in respect of a subordination arrangement, a deed which:

- (a) is executed:
  - (i) by the lender and ASIC under seal or by such equivalent method expressly recognised under the Corporations Act;
  - (ii) in the case of a Market Participant which is a company, by the Market Participant under seal or by such equivalent method expressly recognised under the Corporations Act; and
  - (iii) in the case of a Market Participant which is a partnership, by each of its partners;



- (b) sets out details of the terms governing any subordinated debt regulated by the subordination arrangement or identifies the document which does so;
- (c) contains those provisions required by ASIC including, without limitation, provisions to the effect that:
  - (i) alterations to the subordinated loan deed or the terms or details of any subordinated debt regulated by the subordination arrangement cannot be made unless the agreement of all parties is obtained and the variation is executed in the manner required under paragraph (a);
  - (ii) ASIC must be satisfied that the Market Participant has made adequate arrangements to ensure that Schedule 1A will be complied with and will continue to be complied with upon the maturity date of any loan for a fixed term;
  - (iii) ASIC must be given full particulars of any debt to be regulated by the subordination arrangement under the subordinated loan deed prior to such debt being created; and
  - (iv) prior to the Bankruptcy of the Market Participant, repayment of any subordinated debt regulated by the subordination arrangement can only occur in accordance with subrules S1A.2.4(6) and (7); and
- (d) contains specific acknowledgment by the lender of the matters set out in paragraphs S1A.2.4(2)(a) and (b).

**AQUA Product** means a financial product which is:

- (a) a financial product issued by or provided pursuant to a Managed Fund;
- (b) an ETF Security; or
- (c) a Structured Product,

which is admitted to Trading Status as an AQUA Product or to the AQUA Quote Display Board.

**AQUA Product Issuer** means an entity which issues, distributes or makes available AQUA Products and which has been admitted as an AQUA Product Issuer.

**AQUA Quote Display Board** means the facility provided by a Market operator for AQUA Product Issuers and Trading Participants to advertise their interest in acquiring or disposing of AQUA Products.

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

**ASX** means ASX Limited (ACN 008 624 691).

**ASX Clear** means ASX Clear Pty Limited (ACN 001 314 503).

**ASX Market** means the financial market operated by ASX under *Australian Market Licence (ASX Limited) 2002*.

**ASX Settlement** means ASX Settlement Pty Limited (ACN 008 504 532).

**ASX Settlement Operating Rules** means the operating rules of ASX Settlement.

**ASX 24** means Australian Securities Exchange Limited (ACN 000 943 377).

**ASX 24 Market** means the financial market operated by ASX 24 under *Australian Market Licence (Australian Securities Exchange Limited) 2002*.

**Authorised Deposit Taking Institution** means an authorised deposit taking institution within the meaning of the *Banking Act 1959* (Cth).

**Bankruptcy** means in respect of an entity:

- (a) the entity becomes an externally administered body corporate within the meaning of the Corporations Act;
- (b) the entity becomes an individual who is an insolvent under administration within the meaning of the Corporations Act;
- (c) if the entity is a partnership, the entity is wound up or dissolved or a liquidator is appointed to it;
- (d) a person takes control of the entity's property for the benefit of the entity's creditors because the entity is, or is likely to become, insolvent;
- (e) the entity enters into an arrangement, composition or compromise with, or assignment for the benefit of, all of its creditors or any class of them; or
- (f) anything analogous to, or having a substantially similar effect to the events specified in paragraphs (a) to (e) happens to the entity under the laws of any applicable jurisdiction.

**Business Day** means a day other than a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day or Boxing Day.

**Cash Market Product** means an Equity Market Product, a Quoted Product, a Warrant admitted to Trading Status, an AQUA Product admitted to Trading Status or to the AQUA Quote Display Board, a CGS Depository Interest admitted to Trading Status and any other product that a Market operator authorises for trading on its Trading Platform as a Cash Market Product.

**CFD** means contract for difference.

**CGS Market** means a financial market:

- (a) on or through which offers to acquire or dispose of CGS Depository Interests are made or accepted;
- (b) the operator of which is licensed under subsection 795B(1) of the Corporations Act; and
- (c) the operator of which has entered into contractual arrangements with the Australian Office of Financial Management to offer trading services in CGS Depository Interests.

**CHESSE Depository Interest** has the meaning given to the term "CDI" by rule 2.13.1 of the operating rules of ASX Settlement Pty Limited (ACN 008 504 532).

**Chi-X Australia** means Chi-X Australia Pty Ltd (ACN 129 584 667).

**Chi-X Market** means the market operated by Chi-X Australia under *Australian Market Licence (Chi-X Australia Pty Ltd) 2011*.

**Classical ETF** means a managed fund that meets all of the following criteria:

- (a) that is listed and quoted on a stock exchange (and in Australia is registered as a managed investment scheme under the Corporations Act);
- (b) where, under an open prospectus, the units in the fund can only be subscribed for and redeemed in kind, on demand and via the exchange of a defined basket of Equity securities;
- (c) that has a “passive” investment strategy designed to replicate a stock index at all times and this is evidenced by the holding of physical securities in weightings that predominantly match the stock index the fund has been issued over, and accordingly, any cash or Derivative components must be immaterial and must not be used to gear the fund;
- (d) where the underlying assets are known on a daily basis; and
- (e) that is subscribed for and redeemed in a “primary” market via either a Market Participant or the fund issuer, and existing units are traded in a “secondary” market provided through a stock exchange.

**Clearing Facility** means, in relation to a transaction, the clearing and settlement facility, if any, within the meaning of section 761A of the Corporations Act, through which the transaction has been or will be cleared.

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

**Clearing Rules** means:

- (a) in relation to a particular Clearing Facility, the operating rules, procedures, practices, directions, decisions and requirements of that Clearing Facility;
- (b) in relation to a particular Clearing Participant, the rules of the Clearing Facility to which that Clearing Participant is subject.

**Client Balance** means an individual Counterparty’s net debit or credit balance with a Market Participant arising from non-margined Financial Instruments.

**CME** means Chicago Mercantile Exchange Inc (ARBN 103 432 391).

**Commodity** means a tradeable physical or energy product, such as agricultural products, minerals (including oil), electricity and precious and base metals (excluding gold).

**Commodity Derivative** includes:

- (a) a Commodity Swap;
- (b) a forward contract over a Commodity;
- (c) a Future over a Commodity or a Future over an index or basket product based on Commodities;
- (d) a basket or index product based on a Commodity;

- (e) a CFD over a Commodity; and
- (f) an Option over a Commodity and an Option over a product referred to in paragraphs (a) to (e),

but does not include an instrument that falls within the definition of Equity Derivative, Debt Derivative or Foreign Exchange Derivative.

**Commodity Equivalent** means the value of a position in a Commodity Derivative that is equivalent to the value had it been a physical position in the underlying Commodity calculated in accordance with Part A3.27 of Annexure 3 to Schedule 1A.

**Core Capital** means:

- (a) in the case of a Market Participant which is a company, the sum of:
  - (i) all ordinary issued shares to the extent that those shares are paid up;
  - (ii) all non cumulative Preference Shares;
  - (iii) all reserves, excluding revaluation reserves other than Financial Asset and Liability Revaluation Reserves; and
  - (iv) opening retained profits/losses adjusted for all current year movements; and
- (b) in the case of a Market Participant which is a partnership, the sum of the partners' current and capital accounts.

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

**Counterparty** means in respect of a transaction to which a Market Participant is a party, another party to that transaction whether that person is a counterparty or a client.

**Counterparty Risk Requirement** means the greater of:

- (a) zero; and
- (b) the absolute sum of the counterparty risk amounts calculated in accordance with Annexure 1 to Schedule 1A less any provision raised for doubtful debts.

Note: The provision for doubtful debts must relate to a specific Counterparty receivable for which a counterparty risk amount has been calculated in accordance with Annexure 1 or to cover the possibility of a Counterparty or Client Balance becoming doubtful. A Market Participant must not deduct a provision amount from an individual counterparty risk amount.

**Credit Rating Agency** means an agency licensed by ASIC to carry on a business of providing credit ratings in Australia.

**Debt Derivative** includes:

- (a) a convertible note (except to the extent that Annexure 3 to Schedule 1A provides for the treatment of a convertible note as an equity position);
- (b) an interest rate Swap;
- (c) a Forward Rate Agreement;
- (d) a forward contract over a Debt Instrument;

- (e) a Future over a Debt Instrument and a Future over an index or basket product based on Debt Instruments;
- (f) an index or basket product based on Debt Instruments;
- (g) a Future over an interest rate or interest rate Swap; and
- (h) an Option over a Debt Instrument, an Option over an interest rate and an Option over any of the products referred to in paragraphs (a) to (g),

but does not include an instrument that falls within the definition of Equity Derivative, Foreign Exchange Derivative or Commodity Derivative.

**Debt Equivalent** means the value of a position in a Debt Derivative that is equivalent to the value had it been a physical position in the underlying Debt Instrument calculated in accordance with Part A3.16 of Annexure 3 to Schedule 1A.

**Debt Instrument** includes:

- (a) a debt security without call or put provisions;
- (b) a discount security without call or put provisions;
- (c) a non-convertible preference share;
- (d) a redeemable preference share with a fixed and certain date for redemption; and
- (e) an interest in a managed investment scheme investing only in Debt Instruments, mortgages or cash, including an interest in a Hybrid ETF or Other Managed Fund that is issued over physical Debt Instruments only (ignoring any immaterial percentage of cash or Derivatives also included in the Hybrid ETF or Other Managed Fund and used only for hedging purposes),

but does not include an instrument that falls within the definition of Equity, Foreign Exchange or Commodity.

**Debt Net Position** means an amount calculated in accordance with Part A3.17 of Annexure 3 to Schedule 1A.

**Derivative** includes:

- (a) an Equity Derivative;
- (b) a Debt Derivative;
- (c) a Foreign Exchange Derivative;
- (d) a Commodity Derivative;
- (e) a Warrant;
- (f) a CFD; and
- (g) a cross-currency Swap,

but does not include an instrument that falls within the definition of Equity, Debt Instrument, Foreign Exchange or Commodity.

**Derivatives Market Contract** means a Futures Market Contract, an Options Market Contract and any other contract that a Market operator authorises for trading on its Trading Platform as a Derivatives Market Contract.

**Derivatives Market Transaction** means a transaction between Trading Participants for one or more Derivatives Market Contracts.

**Employee** in relation to a Market Participant includes a director, employee, officer, agent, representative, consultant or adviser of that Market Participant, or an independent contractor who acts for or by arrangement with a Market Participant.

**Equity** includes:

- (a) a share other than a share referred to in paragraphs (c) and (d) of the definition of Debt Instrument;
- (b) a depository receipt;
- (c) an instalment receipt;
- (d) an interest in a managed investment scheme, including an interest in a Hybrid ETF or an Other Managed Fund that is issued over:
  - (i) physical Equities only;
  - (ii) physical Debt Instruments and property;
  - (iii) physical Equities, physical Debt Instruments and property;
  - (iv) physical Equities and property; or
  - (v) physical property only,(ignoring any immaterial percentage of cash or Derivatives also included in the Hybrid ETF or Other Managed Fund and used only for hedging purposes), other than an interest referred to in paragraph (e) of the definition of Debt Instrument,

but does not include an instrument that falls within the definition of Debt Instrument, Foreign Exchange or Commodity.

**Equity Derivative** includes:

- (a) an equity Swap;
- (b) a forward contract over an Equity;
- (c) a Future over an Equity and a Future over a basket or index product based on Equities;
- (d) an index or basket product based on Equities (including a Classical ETF);
- (e) a renounceable or non-renounceable right to subscribe for an equity;
- (f) an Option over an Equity (whether issued or unissued) and an Option over any of the products referred to in paragraphs (a) to (d); and
- (g) an exchange traded CFD over:
  - (i) an Equity; or
  - (ii) a basket or index product based on Equities,

but does not include an instrument that falls within the definition of Debt Derivative, Foreign Exchange Derivative or Commodity Derivative.

**Equity Equivalent** means the value of a position calculated in accordance with Part A3.8 of Annexure 3 to Schedule 1A.

**Equity Market Product** means:

- (a) a share in a body;
- (b) a financial product referred to in subparagraph 764A(1)(b)(i) or subparagraph 764A(1)(ba)(i) of the Corporations Act; or
- (c) a right (whether existing or future and whether contingent or not) to acquire, by way of issue, the following under a rights issue:
  - (i) a share covered by paragraph (a); or
  - (ii) a financial product covered by paragraph (b); or
- (d) a CHESS Depository Interest,

admitted to quotation under a Market's operating rules, but does not include a CGS Depository Interest.

**Equity Net Position** means an amount calculated in accordance with Part A3.9 of Annexure 3 to Schedule 1A.

**Equity Securities** means:

- (a) shares in a body corporate or an unincorporated body other than redeemable preference shares which are Loan Securities in accordance with paragraph (c) of the definition of Loan Securities; or
- (b) interests in a managed investment scheme, except those referred to in paragraph (d) of the definition of Loan Securities; or
- (c) renounceable and non-renounceable rights to subscribe for Securities other than Loan Securities; or
- (d) options over unissued Securities other than Loan Securities; or
- (e) convertible notes; or
- (f) in relation to a Market, any Securities which are determined to be Equity Securities by the operator of the Market on which those Securities are able to be traded in accordance with the operating rules of the Market,

but does not include Options Market Contracts, or in relation to a Market, Securities determined to be Loan Securities by the operator of the Market where those financial products are able to be traded in accordance with the operating rules of the Market.

**ETF** means a Managed Fund:

- (a) the Equity Securities of which are:
  - (i) listed on a Market;

- (ii) able to be traded on a Market; or
- (iii) admitted to Trading Status as an AQUA Product or to the AQUA Quote Display Board;
- (b) with power and approval to continuously issue and have quoted on the relevant Market, Equity Securities in the Managed Fund;
- (c) which provides for the issue of new Equity Securities in return for the subscriber transferring to the Managed Fund a portfolio of Securities, cash or a combination of Securities and cash; and
- (d) for which the price of the Underlying Instrument is continuously disclosed or can be immediately ascertained.

**ETF Security** means a financial product issued by or provided pursuant to an ETF.

**Excluded Asset** means:

- (a) a fixed asset;
- (b) an intangible asset;
- (c) a deferred tax asset;
- (d) a non current asset;
- (e) a deposit with or loan to a person other than:
  - (i) a deposit or loan with an Approved Deposit Taking Institution;
  - (ii) a deposit or loan to the extent the balance is secured by collateral which is Liquid, evidenced in writing and valued at the mark-to-market value; or
  - (iii) a deposit of funds as a margin or deposit with a person licensed to trade or clear Futures or Options to the extent that those funds relate to an open position;
- (f) a deposit with a third party clearing organisation;
- (g) a Related/Associated Person Balance to the extent the balance is not secured by collateral which is:
  - (i) Liquid;
  - (ii) under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;
  - (iii) evidenced in writing by a legally binding agreement between the Market Participant and the Related/Associated Person in circumstances where the Market Participant has established that the Related/Associated Person and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and
  - (iv) valued at the mark-to-market value;
- (h) a debt which was reported or created more than 31 days previously, other than a debt:
  - (i) from another Market Participant that is not a Related/Associated Person; or



- (ii) which is secured by collateral which is Liquid, evidenced in writing and valued at the mark-to-market value;
- (i) a prepayment (being an expense which has been paid during one accounting period for a term which extends beyond the end of that period) which is not Liquid or which is Liquid but has been made in respect of an item of expenditure that is specifically required to be made by the Market Participant for the Market Participant to comply with the requirements of these Rules or the operating rules of a Market;
- (j) an asset which is not Liquid; or
- (k) an asset which is Liquid but which has a charge against it (in whole or in part) where the purpose of the charge is to raise funds for use outside the ordinary course of the Market Participant's securities or derivatives business.

**Excluded Liability** means the maximum liability specified in a guarantee or indemnity under paragraph S1A.2.6(1)(c).

**Family Trust** means a trust in which:

- (a) the person or the Immediate Family of the person is the sole or majority beneficiary; or
- (b) the person has the ability to remove the trustee of the trust and replace that trustee with his or her own nominee.

**FEX** means FEX Global Pty Ltd (ACN 124 127 224).

**FEX Market** means the financial market operated by FEX under *Australian Market Licence (FEX Global Pty Ltd) 2013*.

**Financial Asset and Liability Revaluation Reserves** means revaluation reserves relating to financial assets and financial liabilities revalued at fair value through other comprehensive income as defined in accordance with accounting standards which are generally accepted in Australia or other accounting standards approved by ASIC under subrule S1A.2.7(3).

**Financial Instrument** means:

- (a) an Equity;
- (b) a Debt Instrument; and
- (c) a Derivative.

**Foreign Exchange** includes foreign currency and gold but does not include an instrument prescribed as an Equity, Debt Instrument or Commodity.

**Foreign Exchange Derivative** includes:

- (a) a forward contract over Foreign Exchange;
- (b) a Future over Foreign Exchange;
- (c) an Option over Foreign Exchange; and
- (d) an exchange traded CFD over Foreign Exchange,

but does not include an instrument that meets the definition of Equity Derivative, Debt Derivative or Commodity Derivative.

**Foreign Exchange Equivalent** means the value of a position calculated in accordance with Part A3.21 of Annexure 3 to Schedule 1A.

**Forward Rate Agreement** means an agreement in which two parties agree that:

- (a) one party will make payments to the other of an amount of interest based on an agreed interest rate for a specified period from a specified date applied to an agreed principal amount;
- (b) no commitment is made by either party to lend or borrow the principal amount; and
- (c) the exposure is limited to the interest difference between the agreed and actual market rates at settlement.

**Free Delivery** means a trade where delivery of the Financial Instrument is made to a client or Counterparty without receiving payment or where a payment is made without receiving a Financial Instrument, regardless of whether the client or Counterparty is issuer sponsored or participant sponsored.

**Fund Manager** means any licensed responsible entity, agent of a responsible entity, trustee or manager whose ordinary business it is to buy or sell Financial Instruments and make investment decisions on behalf of an independent third party.

**Future** means a contract which is traded on an exchange, subject to a Primary Margin Requirement and which is:

- (a) a contract to make an adjustment between the parties on an agreed future date as to the value on that date of an interest rate, a Foreign Exchange, an Equity, basket or index, Commodity, or some other agreed factor; or
- (b) a deliverable bond futures contract, deliverable share futures contract or deliverable Commodity futures contract.

**Futures Market** means any of the following Markets:

- (a) ASX 24 Market; and
- (b) FEX Market.

**Futures Market Contract** means a contract on the terms of a Futures Series.

**Futures Series** means a set of contractual terms on which futures contracts are authorised for trading by a Market operator.

**Government Debt Instrument** means any form of government financial instrument including a bond, treasury note or other short term instrument, and a Debt Derivative of any of those instruments where:

- (a) it is issued by, fully guaranteed by, or fully collateralised by a Debt Instrument issued by:
  - (i) the Australian Commonwealth, State (including Territory) governments; or
  - (ii) a central government or central bank within the OECD;

- (b) it is issued by, or fully guaranteed by, a non-OECD country central government or central bank, has a residual maturity of one year or less and is denominated in local currency and funded by liabilities in the same currency.

**Group of Connected Persons** means two or more persons or entities where:

- (a) each person or entity is a Related/Associated Person of each other person or entity; or
- (b) the persons who have control of the management of each entity or have been appointed as directors of each entity are substantially the same.

**Hybrid ETF** means a managed fund:

- (a) that is listed and quoted on a stock exchange (and in Australia is registered as a managed investment scheme under the Corporations Act); and
- (b) where, under an open prospectus, the units can only be subscribed for and redeemed in cash or in kind; and
- (c) that is subscribed for and redeemed in a “primary” market and existing units are traded in a “secondary” market; or
- (d) that does not satisfy all of the requirements of a Classical ETF but satisfies the three criteria referred to in paragraphs (a), (b) and (c).

**Immediate Family** in relation to a person, means that person’s spouse and any non-adult children.

**In the Money** means:

- (a) in relation to call Options, that the current market price of the underlying instrument is greater than the exercise price; and
- (b) in relation to put Options, that the current market price of the underlying instrument is less than the exercise price.

**Issuer** means, in relation to a Cash Market Product, an Equity Market Product or other financial product able to be traded on a Market, the legal entity which issues the relevant product.

**Large Exposure Risk Requirement** is the absolute sum of a Market Participant’s:

- (a) counterparty large exposure risk amount calculated in accordance with Annexure 2 to Schedule 1A; and
- (b) issuer large exposure risk amount calculated in accordance with Annexure 2 to Schedule 1A.

**Liquid** means realisable or otherwise convertible to cash within 31 days and in the case of a Financial Instrument, means the Financial Instrument meets the following criteria:

- (a) there are genuine independent offers from third parties to the Market Participant;
- (b) prices or rates exist that closely approximate the last sale price or rate in the Financial Instrument (whether exchange traded or over-the-counter);

- (c) payment/settlement can be effected within the settlement conventions applicable to the Financial Instrument; and
- (d) there is sufficient liquidity in the market to ensure a ready sale of the position held.

**Liquid Capital** means the sum of:

- (a) Core Capital;
- (b) cumulative Preference Shares;
- (c) Approved Subordinated Debt; and
- (d) revaluation reserves other than Financial Asset and Liability Revaluation Reserves;

less the sum of:

- (e) Excluded Assets; and
- (f) Excluded Liabilities.

**Liquid Margin** means the amount calculated by deducting the Total Risk Requirement amount from the amount of Liquid Capital.

**Loan Securities** means:

- (a) debentures, stocks or bonds issued or proposed to be issued by a government; or
- (b) debentures of a body corporate or an unincorporated body; or
- (c) redeemable preference shares which have a fixed and certain date for redemption, other than shares having a participating entitlement to rights or options referred to in paragraphs (c) and (d) of the definition of Equity Securities; or
- (d) interests in a managed investment scheme, relating to a financial or business undertaking or scheme, common enterprise or investment contract, the trustee or representative or responsible entity of which only invests in or acquires one or more of Loan Securities, mortgages and cash; or
- (e) in relation to a Market, any Securities which are determined to be Loan Securities by the operator of the Market on which those Securities are able to be traded in accordance with the operating rules of the Market,

but does not include Options Market Contracts or, in relation to a Market, Securities determined to be Equity Securities by the operator of the Market where those financial products are able to be traded in accordance with the operating rules of the Market.

**Managed Fund** means:

- (a) a managed investment scheme which is a registered managed investment scheme pursuant to section 601EB of the Corporations Act or a managed investment scheme which ASIC has exempted from those registration requirements; or
- (b) a foreign company which has the economic features of a managed investment scheme, namely:
  - (i) investors contribute money or money's worth to acquire rights to benefits produced by the collective investment;

- (ii) contributions of investors are to be pooled, or used in a common enterprise, to produce financial benefits, or benefits consisting of rights or interests in property, for investors holding financial products in the collective investment; and
- (iii) investors holding financial products issued in the collective investment do not have day to day control over the operation of the collective investment.

**Market** means any of the following:

- (a) the ASX Market;
- (b) the ASX 24 Market;
- (c) the Chi-X Market;
- (d) the FEX Market;
- (e) the NSXA Market;
- (f) the SSX Market.

**Market Spot Exchange Rate** means the closing rate of exchange for foreign currencies against Australian dollars on each Business Day, having a settlement period of two days.

**Monthly Risk-Based Return** means a return containing the information in Form 3 in Schedule 1C to these Rules.

**Non-Standard Risk Requirement** means the amount calculated in accordance with Rule S1A.2.9 to cover unusual or non-standard exposures.

**NSXA** means National Stock Exchange of Australia Limited (ACN 000 902 063).

**NSXA Market** means the market operated by NSXA under *Australian Market Licence (National Stock Exchange of Australia Limited) 2002*.

**OECD** means the Organisation for Economic Co-operation and Development.

**Official Quotation**, in relation to financial products, means admission to quotation by a Market operator under the listing rules of that Market.

**Operational Risk Requirement** means the amount calculated in accordance with subrule S1A.2.3(1) which is required to cover exposures associated with commencing and remaining in business arising separately from exposures covered by other risk requirements.

**Option** means a contract which gives the holder of the option a right, exercisable at or before a specified time to:

- (a) buy (whether by way of issue or transfer) or sell a quantity of a Financial Instrument or a Foreign Exchange, or Commodity; or
- (b) be paid an amount of money calculated by reference to the value of a Financial Instrument, Foreign Exchange, Commodity, interest rate or index as specified in the contract.

**Option Series** means a set of contractual terms on which options are authorised by a Market operator for trading on its Market.

**Options Market Contract** means a contract on the terms of an Option Series.

**Order** means, unless the contrary intention appears:

- (a) in relation to Cash Market Products, an instruction to purchase or sell Cash Market Products, or an instruction to amend or cancel a prior instruction to purchase or sell Cash Market Products;
- (b) in relation to Derivatives Market Contracts, an instruction to enter into a Derivatives Market Transaction, or an instruction to amend or cancel a prior instruction to enter into a Derivatives Market Transaction; and
- (c) in relation to other financial products, an instruction to purchase or sell financial products, or an instruction to amend or cancel a prior instruction to purchase or sell financial products.

**OTC Derivative** means a Derivative which is not traded on an exchange.

**Other Managed Fund** means a managed fund:

- (a) that is not listed and quoted on a stock exchange (and in Australia is registered as a managed investment scheme under the Corporations Act); or
- (b) that is listed and quoted on a stock exchange but does not satisfy all of the requirements of a Classical ETF or Hybrid ETF.

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

**Participant**, in relation to a Market, means a person who is allowed to directly participate in the Market under the operating rules of the Market other than as a recognised affiliate.

**Position Risk Factors** are the percentages applied to principal positions as specified in Tables A5.1.1, A5.1.2, A5.1.7 and A5.1.8 of Annexure 5 to Schedule 1A.

**Position Risk Requirement** is the absolute sum of the position risk amounts for a Market Participant's:

- (a) Equity and Equity Derivative positions calculated in accordance with Parts A3.1 to A3.9 of Annexure 3 to Schedule 1A;
- (b) Debt Instrument and Debt Derivative positions calculated in accordance with Parts A3.10 to A3.17 of Annexure 3 to Schedule 1A;
- (c) Foreign Exchange and Foreign Exchange Derivative positions calculated in accordance with Parts A3.18 to A3.22 of Annexure 3 to Schedule 1A; and
- (d) Commodity and Commodity Derivative positions calculated in accordance with Parts A3.23 to A3.28 of Annexure 3 to Schedule 1A.

**Positive Credit Exposure** means an exposure to a Counterparty such that if the Counterparty were to default on its obligations under:

- (a) an individual transaction; or
- (b) to the extent allowed by Schedule 1A, a group of transactions, contracts, arrangements or agreements,

the Market Participant may incur a financial loss.

**Preference Share** means a preference share that is redeemable solely at the request of the Market Participant.

**Pre-Commencement Market Integrity Rules** means any of the following:

- (a) the *ASIC Market Integrity Rules (APX Market-Capital) 2014*;
- (b) the *ASIC Market Integrity Rules (ASX Market-Capital) 2014*;
- (c) the *ASIC Market Integrity Rules (Chi-X Australia Market-Capital) 2014*; and
- (d) the *ASIC Market Integrity Rules (Securities Markets-Capital) 2017*.

**Primary Margin Requirement** means the amount which a Market Participant lodges or is notionally required to lodge as a deposit to cover potential daily worse case price movements in the relevant market, lodged in accordance with the rules of an exchange or clearing house against open positions registered in the name of the Market Participant on the exchange or clearing house.

**Principal Trader** means a Market Participant with Trading Permission for one or more Products which limits it to trading on its own behalf.

**Product** means a Cash Market Product, Derivatives Market Contract or an OTC Derivative, as applicable.

**Qualifying Debt Instruments** means Debt Instruments that are:

- (a) rated investment grade by at least two Credit Rating Agencies;
- (b) rated investment grade by one Credit Rating Agency and the issuer has its ordinary shares included in a Recognised Market Index;
- (c) unrated but the issuer of the Debt Instrument has its ordinary shares included in a Recognised Market Index and the Debt Instruments are reasonably deemed by the Market Participant to be of comparable investment quality to one or more of the categories of Qualifying Debt Instrument as described in this definition;
- (d) issued by, or guaranteed by, Australian local governments and Australian public sector entities other than those which have corporate status or operate on a commercial basis;
- (e) issued by, or fully guaranteed by, a non-OECD country's central government and central bank and which have a residual maturity of over one year and are denominated in local currency and funded by liabilities in the same currency;
- (f) issued by, or collateralised by claims on, an international agency or regional development bank including the International Monetary Fund, the International Bank for Reconstruction and Development, the Bank for International Settlements and the Asian Development Bank;
- (g) issued, guaranteed, first endorsed or accepted by an Australian ADI or a bank incorporated within the OECD or a non-OECD bank accorded the same credit risk weight as an OECD bank by the Australian Prudential Regulation Authority provided that such instruments do not qualify as capital of the issuing institution;

- (h) issued, guaranteed, endorsed or accepted by a non-OECD bank and which have a residual maturity of one year or less provided that such instruments do not qualify as capital of the issuing institution; or
- (i) issued by or guaranteed by OECD country, state and regional governments and OECD public sector entities.

**Quoted Product** means a financial product that has been granted Official Quotation.

**Recognised Market Index** means an index specified in Table A5.1.6 in Annexure 5 to Schedule 1A.

**Related/Associated Person** means:

- (a) a partner, director, employee, officer or consultant of a Market Participant or of a company which is a partner of a Market Participant;
- (b) a person who is a member of the Immediate Family of a person referred to in paragraph (a);
- (c) the trustee of a Family Trust of a person referred to in paragraph (a);
- (d) an entity which is:
  - (i) controlled by a person referred to in paragraphs (a), (b) or (c) or any of those persons acting together; or
  - (ii) a corporation in which a person referred to in paragraphs (a) or (b) is beneficially entitled to more than 50% of the issued capital;
- (e) an entity which is the holding company, or which is controlled by the holding company, of a Market Participant or of a company which is a partner of a Market Participant;
- (f) a person who is a Substantial holder of a Market Participant or of a company which is a partner of a Market Participant;
- (g) an associate of a Market Participant (as defined in each section of Part 1.2, Division 2 of the Corporations Act) or of a company which is a partner of a Market Participant; and
- (h) a lender who is a party to an Approved Subordinated Loan Deed or a related entity or associate of that lender.

**Related/Associated Person Balance** is an amount owing to the Market Participant by a person who is a Related/Associated Person of the Market Participant and excludes an amount owing as a result of:

- (a) the deposit with, loans to or other amounts owing from an Approved Deposit Taking Institution;
- (b) the deposit of funds as a margin or deposit with a person licensed to trade or clear Futures or Options to the extent that those funds relate to an open position; or
- (c) a transaction in a Financial Instrument under Annexure 1 to Schedule 1A which is made on terms no more favourable to the Related/Associated Person than those on which it would be reasonable to expect the Market Participant to make if it had entered into the



transaction on an arm's length basis, but not including sundry fees, interest or similar amounts owing on such transactions; or

- (d) brokerage or similar amounts owing that were reported or created less than 30 days previously and which arose as a result of a third party clearing arrangement entered in to with a Clearing Participant that is a Related/Associated Person of the Market Participant.

**Risk-Based Capital Requirements** means the requirements set out in Schedule 1A.

**Risk-Based Return Declaration** means a declaration containing the information in Form 2 in Schedule 1C to these Rules.

**Rules** means these market integrity rules.

**Security** or **security** means:

- (a) a security within the meaning of section 761A of the Corporations Act; or
- (b) a managed investment product.

**Securities Lending and Borrowing** means any transaction undertaken by a Market Participant under an Equity or Debt Instrument lending or borrowing agreement, a repurchase or reverse repurchase agreement or an agreement for the sale and buyback of Equity or Debt Instruments.

**Securities Market** means any of the following Markets:

- (a) ASX Market;
- (b) Chi-X Market;
- (c) NSXA Market; and
- (d) SSX Market.

**SSX** means Sydney Stock Exchange Limited (ACN 080 399 220).

**SSX Market** means the market operated by SSX under *Australian Market Licence (Sydney Stock Exchange Limited) 2004*.

**Structured Product** means a Security or derivative:

- (a) which gives the holder financial exposure to the performance of one or more Underlying Instruments;
- (b) the value of which is linked to the performance of those Underlying Instruments; and
- (c) whereby investors do not have day to day control over the operation of the entity which issues or provides the Security or derivative.

**Substantial holder** means a person who has or would have a substantial holding if Part 6C of the Corporations Act applied to that corporation.

**Sub Underwriting Commitment** means a commitment to take up Financial Instruments where others do not acquire or retain them under a sub underwriting agreement or other similar agreement calculated using:

- (a) the price stated in the sub underwriting or similar agreement; or
- (b) in the case of a new float where the price is not known, the indicative price, until the price is known.

**Sub Underwriter** means a person who has made a Sub Underwriting Commitment.

**Summary Risk-Based Return** means a return containing the information in Form 3 in Schedule 1C to these Rules.

**Swap** means a transaction in which two counterparties agree to exchange streams of payments over time on a predetermined basis.

**Terms of Issue** means, in relation to Warrants, rights, conditions and obligations of the Warrant-Issuer and the holder of the Warrant.

**Total Risk Requirement** means the sum of:

- (a) Operational Risk Requirement;
- (b) Counterparty Risk Requirement;
- (c) Large Exposure Risk Requirement;
- (d) Position Risk Requirement;
- (e) Underwriting and Sub Underwriting Risk Requirement; and
- (f) Non-Standard Risk Requirement,

however where an asset or liability is an Excluded Asset or Excluded Liability a risk requirement otherwise applicable under paragraphs (a) to (e) is not included.

**Trading Day** means a day on which a relevant exchange traded or over-the-counter market has been open for trading.

**Trading Messages** means those messages submitted into a Trading Platform relating to trading functions, such as orders, amendment or cancellation of orders and the reporting or cancellation of Market transactions on the Trading Platform.

**Trading Participant** means a Market Participant which has Trading Permission in respect of one or more financial products.

**Trading Permission** means the right to submit Trading Messages in a Trading Platform.

**Trading Platform** means a facility made available by a Market operator to Market Participants of the relevant Market for the entry of Trading Messages, the matching of Orders, the advertisement of invitations to trade and the reporting of transactions.

**Trading Status** means authorisation by a Market operator or a CGS Market operator for a financial product to be traded on the relevant Market or CGS Market.

**Underlying Instrument** means:

- (a) in relation to Option Series and Futures Series, the instrument which underlies that Option Series or Futures Series;
- (b) in relation to Warrants means the financial product, index, foreign or Australian currency or Commodity which underlies that Warrant; and
- (c) in relation to AQUA Products and other financial products, means the financial product, index, foreign or Australian currency, Commodity or other point of reference for determining the value of the relevant product.

**Underwriting Commitment** means a commitment to take up Financial Instruments where others do not acquire or retain them under an underwriting agreement or other similar agreement calculated using:

- (a) the price stated in the underwriting or similar agreement; or
- (b) in the case of a new float where the price is not known, the indicative price, until the price is known.

**Underwriting and Sub Underwriting Risk Requirement** is the absolute sum of the risk amounts calculated in accordance with Annexure 4 to Schedule 1A.

**Warrant** has the meaning given by regulation 1.0.02 of the *Corporations Regulations 2001*.

**Warrant-Issuer** means an entity approved by a Market operator to issue Warrants.

## Part 1.5 Participants of multiple Markets

### 1.5.1 Participants may rely on notifications

Where these Rules require a Market Participant to give to ASIC any document (however described) in relation to the Market Participant for a Market, the Market Participant may give to ASIC the same document in relation to more than one Market, provided that:

- (a) the Market Participant has notified ASIC in writing that it intends to comply with these Rules by relying on that document, or on documents of that kind, in relation to each Market to which the document applies; and
- (b) the document contains all of the information that would be required to be in the document if it were given separately in relation to each Market.

## Part 1.6 Transitional

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

(1) This Rule applies if:

- (a) a Market Participant gave, or was taken to have given, ASIC a written notification or certification under the Pre-Commencement Market Integrity Rules; and

- (b) the notification or certification has not been withdrawn or otherwise ceased to have effect, other than by reason of the repeal of the Pre-Commencement Market Integrity Rules; and
  - (c) the power or obligation in the Pre-Commencement Market Integrity Rules to give the notification or certification is incorporated under a corresponding provision in these Rules.
- (2) The notification or certification:
- (a) is taken to have been given to ASIC by the Market Participant under the corresponding provision in these Rules; and
  - (b) will continue in its existing form, and continue to have the same effect under these Rules, as when given or taken to have been given under the Pre-Commencement Market Integrity Rules.

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

- (1) This Rule applies if:
- (a) ASIC gave, or was taken to have given, a written approval, authorisation, determination or direction to a Market Participant under the Pre-Commencement Market Integrity Rules; and
  - (b) the approval, authorisation, determination or direction has not been revoked or otherwise ceased to have effect, other than by reason of the repeal of the Pre-Commencement Market Integrity Rules; and
  - (c) the power or obligation in the Pre-Commencement Market Integrity Rules to give the approval, authorisation, determination or direction is incorporated under a corresponding provision of these Rules.
- (2) The approval, authorisation, determination or direction as in effect immediately before the commencement of these Rules:
- (a) is taken to have been given by ASIC to the Market Participant under the corresponding provision in these Rules; and
  - (b) will continue in its existing form, and continue to have the same effect under these Rules, as when given or taken to have been given under the Pre-Commencement Market Integrity Rules.
- (3) For the avoidance of doubt, paragraph (2)(b) does not prevent ASIC amending or revoking the approval, authorisation, determination or direction in accordance with these Rules or any other law.

### 1.6.1B Interpretation for transitional rules

- (1) For the purposes of Rules 1.6.1 and 1.6.1A, a provision (*old provision*) of the Pre-Commencement Market Integrity Rules corresponds to a provision (*new provision*) of these Rules (and vice versa) if the old provision and the new provision are substantially the same.

(2) For the purposes of subrule (1), differences of all or any of the following kinds are not sufficient to mean that two provisions are not substantially the same:

- (a) differences in the numbering or location of the provisions;
- (b) differences of a minor technical nature (for example, differences in punctuation, or differences that are attributable to the correction of incorrect cross-references);
- (c) the fact that one of the provisions refers to a corresponding previous law and the other does not;
- (d) other differences that are attributable to the fact that these Rules apply to different Markets.

## Chapter 8: Capital requirements

Note: There is no Part 8.1 in this Chapter.

### Part 8.2 Application

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

(1) Subject to subrule (2), a Market Participant must at all times comply with the Risk-Based Capital Requirements.

(2) A Market Participant is not required to comply with the Risk-Based Capital Requirements if the Market Participant:

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

(3) 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.

Note: The Risk-Based Capital Requirements are set out in Schedule 1A.

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

(1) 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:
  - (i) only a Principal Trader;
  - (ii) subject to the capital requirements of the Approved Clearing Facility; or
  - (iii) an Authorised Deposit Taking Institution,as applicable;

- (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:
    - (i) the capital requirements of the Approved Clearing Facility; or
    - (ii) the capital requirements of APRA,  
as applicable.
- (2) 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

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

This Chapter 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

#### 9.2.1 Risk-Based Capital Requirements—Ad hoc or summary return on request by ASIC

A Market Participant must, if requested to do so by ASIC, provide ASIC with:

- (a) an Ad Hoc Risk-Based Return; or
- (b) a Summary Risk-Based Return and Risk-Based Return Declaration,

authorised by one director or partner of the Market Participant, within the time specified by ASIC in the request.

#### 9.2.2 Core Capital, Liquid Capital or net assets below minimum

(1) 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.

(2) A Market Participant must provide ASIC with, at the option of ASIC, an Ad Hoc Risk-Based Return, or a 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 (1); and
- (b) from then on, either:
  - (i) by 10 am 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 (1)(b) is equal to or less than 1.2 but greater than 1.1; and
  - (ii) 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)(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.

(3) The return referred to in subrule (2) must be authorised by one director or partner of the Market Participant.

### 9.2.3 Monthly Risk-Based Return

A Market Participant must prepare and deliver to ASIC within 10 Business Days of the end of each calendar month, the following documents and information:

- (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

(1) A Market Participant must prepare and deliver to ASIC within three months following the end of the Market Participant's financial year the following documents and information:

- (a) the Market Participant's statutory accounts, including directors'/partners' declaration and audit report as required under the laws of the Market Participant's home jurisdiction, which give a true and fair view of the financial position and performance of the Market Participant's business as at the end of the financial year and which are prepared in accordance with accounting standards and principles which are generally accepted in Australia, unless ASIC determines otherwise;
- (b) an Annual Audited Risk-Based Return, which accurately reflects the Market Participant's accounts and its financial position as at the end of the Market Participant's financial year;
- (c) a Risk-Based Return Declaration relating to the Annual Audited Risk-Based Return, authorised by one director of the Market Participant, or, if the Market Participant is a partnership, by one partner of the Market Participant;
- (d) an auditor's report on the Annual Audited Risk-Based Return in the form set out in Form 5 in Schedule 1C to these Rules, dated and signed by the audit firm;
- (e) a statement (the **Key Risks and Internal Systems Statement**) in the form set out in Form 6 in Schedule 1C to these Rules, dated and signed by two directors of the Market Participant or by one director in accordance with a resolution of the board of directors of the Market Participant (the date of the resolution must be specified), or, if the Market Participant is a partnership, by two partners of the Market Participant; and
- (f) the Market Participant's group structure chart showing the Market Participant's corporate ownership structure starting at the ultimate parent, dropping down to the immediate parent, the Market Participant, any subsidiaries (including nominee

companies of the Market Participant) and any related/associated companies of the Market Participant.

(2) 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.

Note: There is no Part 9.3 in this Chapter

## Part 9.4 General

### 9.4.1 Alternate director

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 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.

### 9.4.2 Delivering a return or declaration to ASIC

Unless otherwise directed by ASIC, a Market Participant must comply with the following provisions:

- (a) Rule 9.2.1;
- (b) subrule 9.2.2(2);
- (c) Rule 9.2.3;
- (d) Rule 9.2.4,

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

### 9.5.1 Market Participant to assist auditor

(1) 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.

(2) 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.
- (3) 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

### S1A.1.2 Interpretation

- (1) Schedule 1A must be interpreted and applied consistently across positions in the same Financial Instruments throughout a period covered by a return required under Part 9.2.
- (2) References to dollar amounts are references to Australian dollar amounts.
- (3) The Annexures to Schedule 1A form part of Schedule 1A and a reference to Schedule 1A in these Rules includes a reference to those Annexures.

## Part S1A.2 Obligations of Market Participants

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

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).

### S1A.2.3 Risk requirements and risk amounts

- (1) 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.
- (2) A Market Participant must calculate in accordance with Annexure 1 to this 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 to in Annexure 1 to this Schedule 1A, except those transactions which relate to Excluded Assets.

- (3) A Market Participant must calculate in accordance with Annexure 2 to this 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:
      - (A) Liquid Capital; and
      - (B) an issue or issuer.
- (4) A Market Participant must calculate in accordance with Annexure 3 to this 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.
- (5) A Market Participant must calculate in accordance with Annexure 4 to this Schedule 1A:
- (a) its Underwriting and Sub Underwriting Risk Requirement; and
  - (b) an underwriting risk amount for each Underwriting Commitment and Sub Underwriting Commitment.
- (6) A Market Participant must calculate a Non-Standard Risk Requirement in accordance with Rule S1A.2.9.

### **S1A.2.3A Authorisation**

- (1) 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.
- (2) An authorisation given by ASIC under subrule (1) will specify which risk calculation methods the Market Participant is authorised to use.
- (3) A Market Participant must obtain an authorisation from ASIC under subrule (1) prior to the use of a particular risk calculation method.
- (4) A Market Participant will only be authorised to use a particular risk calculation method under subrule (1) after having satisfactorily demonstrated its ability to calculate risk amounts under that method.

### S1A.2.4 Approved Subordinated Debt

- (1) 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 (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 (4) where relevant.
- (2) ASIC will not approve a subordination arrangement unless in the opinion of ASIC:
- (a) subject to subrule (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 is no longer complied with.
- (3) ASIC will not approve a subordination arrangement unless the Market Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement.
- (4) If a Market Participant is a partnership which has entered into an approved subordination arrangement under subrules (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.
- (5) 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.
- (6) Prior to its Bankruptcy, a Market Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASIC.
- (7) ASIC will not withhold its approval under subrule (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).
- (8) In forming an opinion as to whether a Market Participant is capable of continuing to meet the requirements in paragraphs (7)(a) and (b), ASIC may consider matters such as:
- (a) the state of the overall market and the trend of the individual Market Participant's share of that market;
  - (b) the ability of the Market Participant to continue as a going concern for a period that may exceed 31 days;

- (c) any waivers that exist at the time of the request; and
- (d) the existence of any outstanding litigation.

#### **S1A.2.4A Excluded Assets**

(1) Subject to subrule (2), where a Market Participant has an asset due from one entity (which would ordinarily be treated as an Excluded Asset) which is linked to an offsetting liability payable to another entity, the Market Participant may net the asset and liability so that only the net amount (if positive) is reported as an Excluded Asset.

(2) The Market Participant may only net an asset with a liability and report the net amount as an Excluded Asset under subrule (1) if either subrule (2A) or (2B) applies.

(2A) This subrule applies where:

- (a) the asset is a right-of-use asset and the liability is a lease liability that corresponds with the right-of-use asset for the same lease; and
- (b) the right-of use asset is netted only with the corresponding lease liability;

Note: The effect of paragraph (b) is that 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.

- (c) the Market Participant reports the right-of-use asset and lease liability on a gross basis in the balance sheet section of the Monthly Risk-Based Return required by Rule 9.2.3;
- (d) the Market Participant reports each right-of-use asset and the corresponding lease liability in the “Leases” section in the balance sheet details section of the Monthly Risk-Based Return required by Rule 9.2.3;
- (e) the Market Participant reports the sum of the net amounts of each right-of-use asset and the corresponding lease liability as an Excluded Asset “other prescribed asset” in the “Core Capital, Liquid Capital, Liquid Margin and Ratio” section of the Monthly Risk-Based Return required by Rule 9.2.3; and
- (f) the Market Participant includes the following details in the “Additional Comments” section of the Monthly Risk-Based Return required by Rule 9.2.3:

The following assets and liabilities have been netted for the purpose of calculating the amount included in the Excluded Asset “other prescribed asset” line of the “Core Capital, Liquid Capital, Liquid Margin and Ratio” section of the capital liquidity return.

*Asset—describe the nature of the asset/s \$*

*less Liability—describe the nature of the liability/s \$( )*

Excluded Asset—other prescribed asset \$ net amount

(2B) This subrule applies where the Market Participant:

- (a) has obtained written authorisation from ASIC for the purposes of this Rule;

- (b) has a documented, legally binding contract or agreement with the Counterparty to the liability that specifies that the liability cannot be enforced unless the asset is realised;
- (c) continues to report the asset and liability on a gross basis in the balance sheet section of the Monthly Risk-Based Return required by Rule 9.2.3;
- (d) reports the net amount as an Excluded Asset “other prescribed asset” in the “Core Capital, Liquid Capital, Liquid Margin and Ratio” section of the Monthly Risk-Based Return required by Rule 9.2.3; and
- (e) includes the following details in the “Additional Comments” section of the Monthly Risk-Based Return required by Rule 9.2.3:

The following assets and liabilities have been netted for the purpose of calculating the amount included in the Excluded Asset “other prescribed asset” line of the “Core Capital, Liquid Capital, Liquid Margin and Ratio” section of the capital liquidity return.

*Asset—describe the nature of the asset/s \$*

*less Liability—describe the nature of the liability/s \$( )*

Excluded Asset—other prescribed asset \$ net amount

- (3) A Market Participant must treat the following amounts as Excluded Assets if they remain outstanding for greater than 31 calendar days:
- (a) underwriting fees;
  - (b) fees due for managing a client portfolio;
  - (c) corporate advisory fees; and
  - (d) other sundry debtors.

### **S1A.2.5 Redeemable Preference Shares**

- (1) 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.
- (2) ASIC will not withhold its approval under subrule (1) 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.
- (3) In forming an opinion as to whether a Market Participant is capable of continuing to meet the requirement in subrule (2), ASIC may consider matters such as:
- (a) the state of the overall market and the trend of the individual Market Participant’s share of that market;
  - (b) the ability of the Market Participant to continue as a going concern for a period that may exceed 31 days;



- (c) any waivers that exist at the time of the request; and
- (d) the existence of any outstanding litigation.

### S1A.2.6 Guarantees and indemnities

(1) A Market Participant may only give a guarantee or indemnity:

- (a) for the purposes of these Rules, the *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.

(2) For the purposes of paragraphs (1)(b) and (c), the expression “ordinary course of the conduct of its securities or derivatives business” includes, but is not limited to, a guarantee or indemnity given by a Market Participant to:

- (a) a lessor for lease rental commitments on premises, computer equipment and other property, plant and equipment by the service company of the Market Participant where those premises and equipment are for use exclusively or predominantly by the Market Participant;
- (b) financial institutions for withdrawal of funds by the Market Participant against uncleared cheques;
- (c) ASIC to support the issuance of an Australian financial services licence to the Market Participant; and
- (d) a lessor for lease rental payments on a residence for a member of staff, normally based overseas, who is temporarily located in Australia to perform their duties,

but would not normally include:

- (e) charges, guarantees or indemnities given over the financial performance of a subsidiary or Related/Associated Person of the Market Participant; and
- (f) charges, guarantees or indemnities given to support underwriting activities that are not booked in the Market Participant.

(3) 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 in the “Additional Comments” section of the next Monthly Risk-Based Return required by Rule 9.2.3:

- (a) the date its group elected to become a consolidated group;

- (b) the date it entered into a tax sharing agreement (if applicable);
- (c) the date it entered into a tax funding agreement (if applicable); and
- (d) any other information that may be relevant in assessing the Market Participant's financial position as a result of it being part of a consolidated group,

and any changes to these details must be reported in the "Additional Comments" section of subsequent Monthly Risk-Based Returns required by Rule 9.2.3.

### **S1A.2.7 Records and accounts**

- (1) A Market Participant must maintain records and working papers in sufficient detail to show continuous compliance with Rule S1A.2.1 for seven years.
- (2) The records and working papers referred to in subrule (1) 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.
- (3) A Market Participant must prepare its accounts and returns in accordance with accounting standards which are generally accepted in Australia, unless ASIC approves otherwise.
- (4) 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.
- (5) 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.

### **S1A.2.8 Valuations and foreign currencies**

- (1) A Market Participant must mark to market each of its principal positions in Financial Instruments unless Schedule 1A provides otherwise:
  - (a) at least once every Business Day; and

- (b) in the following manner:
  - (i) subject to subparagraphs (ii) to (iv), a position must be valued at its closing market price:
    - (A) which is the current bid price for a long position; and
    - (B) which is the current offer price for a short position;
 or at last price, closing price or mid price;
  - (ii) an exchange traded Option position may be valued using the “fair value” published by a reputable independent information source, where the “fair value” source is used consistently across all exchange traded Option positions of the Market Participant at all times;
  - (iii) an Option or rights position which does not have a published market price under subparagraph (i) or which cannot be valued using the “fair value” under subparagraph (ii) must be valued as follows:
    - (A) for a purchased Option or right, the In the Money amount multiplied by the quantity underlying the Option; and
    - (B) for a written Option, the sum of the In the Money amount multiplied by the quantity underlying the Option and the initial premium received for the Option;
  - (iv) a Swap or a Forward Rate Agreement must be valued:
    - (A) having regard to the net present value of the future cash flows of the contract; and
    - (B) using current interest rates relevant to the periods in which the cash flows will arise.

(2) For 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.

(3) 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 to this Schedule 1A or where this Schedule 1A expressly provides otherwise.

### **S1A.2.9 Unusual or non-standard exposures**

The Non-Standard Risk Requirement:

- (a) in relation to 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;

- (b) in relation to each exposure arising from a transaction which is not:
  - (i) specifically described in this Schedule 1A; or
  - (ii) is not in a form which readily fits within this Schedule 1A,is the full market value of the transaction unless ASIC approves otherwise.

### **S1A.2.9A Margin lending facilities**

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.

### **S1A.2.9B Hybrid ETFs**

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.

### **S1A.2.9C Other Managed Funds**

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.

### S1A.2.9D Credit Derivatives

(1) 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.

(2) 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.

### S1A.2.10 Underwriting register

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 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.

### S1A.2.11 Liquidity requirements

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) have the liquidity plan approved by the board of directors of the Market Participant, or, if the Market Participant is a partnership, by two partners of the Market Participant, at least annually;

- (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

### A1.1.1 Nature of counterparty risk amount

(1) 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 this Annexure 1; and
- (b) may be reduced by a counterparty risk weighting in accordance with Rule A1.2.8.

(2) 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.

#### A1.1.1A Treatment: Classical ETFs

(1) Subject to subrule (2), a Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in a Classical ETF.

(2) 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.

(3) A Market Participant is required to calculate a counterparty risk amount under this Annexure for all secondary market transactions in Classical ETF units.

#### A1.1.1B Treatment: Hybrid ETFs

(1) Subject to subrule (2), a Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in a Hybrid ETF.

(2) 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.

- (3) A Market Participant is required to calculate a counterparty risk amount under this Annexure for all secondary market transactions in Hybrid ETF units.

### A1.1.1C Treatment: Other Managed Funds

A Market Participant is not required to calculate a counterparty risk amount under this Annexure in relation to a subscription for or redemption of a unit in an Other Managed Fund.

## Part A1.2 Methods

### A1.2.1 Overview

There are separate methods for measuring counterparty risk amounts for each of the following transaction types:

**Table A1.1: Method for measuring counterparty risk: Transaction type**

Transaction Type		
Non-margined Financial Instrument – Rule A1.2.2	Free Delivery – Rule A1.2.3	Securities Lending and Borrowing – Rule A1.2.4
Margined Financial Instrument – Rule A1.2.5	OTC Derivative or a Warrant held as principal – Rule A1.2.6	Sub Underwritten Position – Rule A1.2.7

### A1.2.2 Non-margined Financial Instruments method

(1) For unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in this Annexure, 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.

(2) 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 is Liquid and only to the extent that it is Liquid;
- the collateral is unrelated to a particular or specific transaction and is not the securities underlying the Counterparty's purchase;



- (c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;
- (d) the collateral is valued at the mark-to-market value and offset on a transaction by transaction basis; and
- (e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:
  - (i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and
  - (ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in this 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.

(4) 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 if:

- (a) the collateral is Liquid and only to the extent that it is Liquid;
- (b) the collateral is unrelated to a particular or specific transaction and is not the securities underlying the client purchase;
- (c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;
- (d) the collateral is valued at the mark-to-market value and offset on a transaction by transaction basis; and

- (e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:
  - (i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and
  - (ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(5) For the purposes of subrule (2), the Market Participant may:

- (a) adjust the Client Balance with respect to a specific buy transaction, by removing from the Client Balance that portion of the contract value that is covered by client funds held in a cash management account, where the Market Participant has sole and unconditional control over those funds, where a Market Participant that has the ability to sweep a client's account to pay for purchases may only reduce the counterparty risk amount prior to the settlement date if:
  - (i) the ability to sweep the client's account means that the funds are "locked" in favour of the Market Participant; or
  - (ii) the funds are actually removed from the cash management account;
- (b) reduce the Client Balance by an amount held in the Market Participant's trust account if that trust money is held in relation to the unsettled transaction or as otherwise agreed by the client; and
- (c) remove the value of scrip which is the subject of a sale transaction from the Client Balance where the selling client has the scrip in a participant sponsored account and the Market Participant has either "locked" that scrip from the client or has strong internal controls to prevent that client recalling the scrip prior to settlement.

(6) For the purposes of subrule (3), where the security underlying the trade becomes subject to:

- (a) a trading halt, the last market value is acceptable in calculating the counterparty risk amount; or
- (b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(7) 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.

(8) A Market Participant that has calculated a counterparty risk amount for an unsettled trade under this method is not required to treat or disclose any amounts calculated as Excluded Assets.

(9) 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.

(10) Without limitation, a Market Participant must calculate a counterparty risk amount under this method in relation to a non-margined Financial Instrument in the following circumstances:

- (a) where the Market Participant has entered into an on-market purchase or sale transaction as agent for a client (including where the client is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to that client from the time that the trade is executed;
- (b) where the Market Participant has entered into an on-market purchase or sale transaction as agent for a client (including where the client is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is not the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to that client from the time that the clearer seeks recourse from the Market Participant for a client failing to settle its obligations with the Clearing Participant;
- (c) where the Market Participant has entered into an on-market or off-market purchase or sale transaction as agent for two clients (including where either of the clients is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to the two clients from the time that the trade is executed;
- (d) where the Market Participant has entered into an on-market or off-market purchase or sale transaction as agent for a client (including where the client is another Market Participant or a Clearing Participant which is trading as principal) and the Market Participant is acting as principal on one side of the transaction and the Market Participant is not the clearer for that transaction, the Market Participant must calculate:
  - (i) a counterparty risk amount on its exposure to its Clearing Participant from the time that the trade is executed until the clearer has settled; and
  - (ii) a counterparty risk amount on its exposure to the client from the time that the clearer seeks recourse from the Market Participant for a client failing to settle its obligations with the Clearing Participant;
- (e) where the Market Participant has entered into:
  - (i) an on-market purchase or sale transaction as principal;
  - (ii) an off-market client facilitation; or
  - (iii) an off-market underwritten placement of existing shares via a book build,and does not clear its own trades, the Market Participant must calculate a counterparty risk amount on its exposure to its Clearing Participant from the time that the trade is executed until the clearer has settled;

- (f) where the Market Participant executes an agency transaction in unlisted securities or through a foreign broker, the Market Participant must calculate a counterparty risk amount on its exposure to both Counterparties;
- (g) where the Market Participant has trades sitting in a client suspense account, the Market Participant must treat each individual trade as a Client Balance and calculate a counterparty risk amount on each Client Balance, until the trade is actually booked to a client;
- (h) where the Market Participant has amounts owing as a result of day trading losses, failed transaction fees or interest charged on failed trades, the Market Participant must include these amounts in the Client Balance and where the amount remains unsettled after 10 Business Days, the Market Participant must calculate a counterparty risk amount as 100% of the amount owing;
- (i) where the Market Participant executes a transaction on behalf of another Market Participant or Clearing Participant which is trading as principal, then the executing participant must establish the entity that is trading as principal as a client and calculate a Client Balance for that entity;
- (j) where the Market Participant executes a transaction on market with another Market Participant and the trade:
  - (i) is not novated; or
  - (ii) is removed from novation by the Market Participant and its Counterparty so that the Market Participant and its Counterparty can settle the trade directly or in another clearing house, the Market Participant must calculate a counterparty risk amount for its exposure to the Counterparty or the other clearing house;
- (k) where the Market Participant executes a transaction that is reported to, but not registered with, the Approved Clearing Facility (and therefore not novated to the Approved Clearing Facility) and the transaction gives rise to a counterparty exposure for the Market Participant, the Market Participant must calculate a counterparty risk amount on its exposure to the Counterparty or client; and
- (l) where a transaction:
  - (i) is executed in a deferred settlement market (where the normal settlement period is extended by the operator of the market for a particular security and the extension applies to all transactions in that security and all participants in that market); or
  - (ii) is a forward transaction (where the two parties to a transaction have agreed to a time for settlement that is later than the normal settlement period for that type of transaction);and the Market Participant:
  - (iii) clears its own trades, the Market Participant must calculate a counterparty risk amount from the time the transaction is executed until the time the transaction is settled, even if the time until settlement date is greater than 31 days;
  - (iv) is not the clearer for that transaction, the Market Participant must calculate a counterparty risk amount on its exposure to the client from the time that the clearer

seeks recourse from the Market Participant for a client failing to settle its obligations with the Clearing Participant.

Note: Under Rule A4.1.3, a Market Participant that acts as underwriter of an initial public offering or placement of new shares will also be required to calculate a counterparty risk amount in respect of that activity in accordance with this Annexure 1.

(11) 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.

### A1.2.3 Free Delivery method

(1) 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.

For the purposes of this subrule, **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.

(2) A Market Participant may reduce the contract value by the amount of collateral held by the Market Participant on behalf of the Counterparty if:

- (a) the collateral is Liquid and only to the extent that it is Liquid;
- (b) the collateral is unrelated to a particular or specific transaction and is not the securities underlying the client purchase;
- (c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;
- (d) the collateral is valued at the mark-to-market value and offset on a transaction by transaction basis; and
- (e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:

- (i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and
- (ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For the purposes of subrule (2), if the security lodged as collateral is subject to:

- (a) a trading halt, the last market value may be used; and
- (b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(4) Without limitation, the Market Participant must calculate a counterparty risk amount under this 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.

(5) Where a Market Participant makes a partial Free Delivery whereby:

- (a) for a client purchase, the Market Participant delivers Financial Instruments to the client or Counterparty when the client or Counterparty has made a partial payment; or
- (b) for a client sale, the Market Participant makes either full or part payment to the client or Counterparty when the client or Counterparty has not provided any or all of the particular Financial Instruments,

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 Market Participant is included in the calculation under this 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 Rule A1.2.2.

#### **A1.2.4 Securities Lending and Borrowing method**

(1) 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.

(2) 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.

- (3) For a Securities Lending and Borrowing transaction, the counterparty risk amount for a Counterparty, from the transaction date is:
- (a) 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;
  - (b) either:
    - (i) 8% of the counterparty exposure, where:
      - (A) the Securities Lending and Borrowing is subject to a written agreement that supports netting across different transactions; and
      - (B) the value of the counterparty exposure is less than or equal to 15% of the market value of Equity or Debt Instruments or cash received by the Market Participant from the Counterparty; or
    - (ii) the sum of:
      - (A) 8% of the amount equivalent to 15% of the market value of the Equity or Debt Instruments or cash received by the Market Participant from the Counterparty;
      - (B) 100% of the amount of the difference between the counterparty exposure and 15% of the market value of Equity or Debt Instruments or cash received by the Market Participant from the Counterparty, where:
        - (i) the Securities Lending and Borrowing is subject to a written agreement that supports netting across different transactions; and
        - (ii) the value of the counterparty exposure is greater than 15% of the market value of the Equity or Debt Instruments or cash received by the Market Participant from the Counterparty; or
  - (c) 100% of the counterparty exposure, if:
    - (i) paragraph (a) and paragraph (b) do not apply; or
    - (ii) if paragraph (b) does apply but the Market Participant elects to calculate the amount under this paragraph (c).

(4) For the purposes of this Rule, in determining the market value of securities given or received by the Market Participant, if the securities are subject to:

- (a) a trading halt, the last market value may be used; and
- (b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

### **A1.2.5 Margined Financial Instruments method**

(1) 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.

(2) 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 if:

- (a) the collateral is Liquid and only to the extent that it is Liquid;
- (b) the collateral is unrelated to a particular or specific transaction and is different to any cash or collateral paid to the relevant exchange or clearing house in respect to specific transactions;
- (c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;
- (d) the collateral is valued at the mark-to-market value; and
- (e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the client or Counterparty in circumstances where:
  - (i) the Market Participant has established that the client or Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and
  - (ii) the agreement provides for the Market Participant to deal with that collateral in the event that the client or Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For the purposes of paragraph (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.

(4) For the purposes of paragraph (1)(b), where a Market Participant undertakes a trade as principal in exchange traded Derivatives and does not clear its own trades, the Market Participant must calculate a counterparty risk amount on its exposure to its Clearing



Participant 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.

(5) For the purposes of subrule (2), if the security lodged as collateral is subject to:

- (a) a trading halt, the last market value may be used; or
- (b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(6) For the purposes of subrule (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.

### **A1.2.6 OTC Derivatives and Warrants executed as principal method**

(1) 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 to Schedule 1A.

(2) 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 if:

- (a) the collateral is Liquid and only to the extent that it is Liquid;
- (b) the collateral is unrelated to a particular or specific transaction;
- (c) the collateral is under the control of the Market Participant, able to be accessed by the Market Participant without the approval of a third party and not otherwise encumbered;
- (d) the collateral is valued at the mark-to-market value and where paragraph (1)(c) applies is deducted from the credit equivalent amount before multiplying the amount by 8%; and
- (e) the collateral arrangement is evidenced in writing by a legally binding agreement between the Market Participant and the Counterparty in circumstances where:
  - (i) the Market Participant has established that the Counterparty and the persons signing the agreement have the legal capacity to enter into the agreement and provide the nominated collateral; and

- (ii) the agreement provides for the Market Participant to deal with that collateral in the event that the Counterparty defaults on its settlement of the relevant transactions to recover any amounts owed to the Market Participant,

and the Market Participant may only apply such collateral in accordance with the conditions specified in the collateral agreement.

(3) For the purposes of subrule (2), if the security lodged as collateral is subject to:

- (a) a trading halt, the last market value may be used; or
- (b) a suspension, the market value should be taken as nil on the basis that the security is not Liquid.

(4) For the purposes of calculating a current credit exposure under subparagraph (1)(c)(i):

- (a) subject to paragraph (b), a calculation of a current credit exposure must be done on a transaction by transaction and Counterparty by Counterparty basis;
- (b) where the Market Participant has more than one transaction of the same type with the same Counterparty, the Market Participant may net the positive and negative current credit exposures on those transactions, provided that:
  - (i) the Market Participant has a legally binding and enforceable netting agreement with the Counterparty that covers the relevant transactions; and
  - (ii) if, after netting, the current credit exposure to the Counterparty is negative, the Market Participant must calculate the current credit exposure as zero for the purpose of calculating the counterparty risk amount;
- (c) the Market Participant may only net the positive and negative current credit exposures arising from transactions denominated in different currencies, where the netting agreement referred to in subparagraph (b)(i) allows for multi-currency netting;
- (d) **mark-to-market valuation** means the market value for OTC Derivatives such as Options and Warrants and the mark-to-market gain/loss for OTC Derivatives where payments to/from the parties are based on changes in the price of the underlying product (for example, Swaps, forward foreign exchange); and
- (e) in the case of a Warrant transaction:
  - (i) if the Warrant is subject to a trading halt (due to the underlying security being subject to a trading halt), the last market value may be used;
  - (ii) if the Warrant is subject to suspension, the Warrant should be treated as an Excluded Asset on the basis that it is not Liquid.

(5) For the purposes of calculating a potential credit exposure under subparagraph (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.

(6) For the purposes of subrule (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.

(7) A Market Participant must calculate a counterparty risk amount under this method for transactions in OTC Derivatives and Warrants including, but not limited to, transactions in:

- (a) interest rate Options;
- (b) foreign currency Options;
- (c) single-currency interest rate Swaps;
- (d) cross-currency interest rate Swaps;
- (e) basis Swaps;
- (f) Forward Rate Agreements; and
- (g) forward foreign exchange contracts,

but is not required to calculate a counterparty risk amount under this method for transactions in foreign exchange contracts with an original maturity of 14 calendar days or less.

### **A1.2.7 Sub Underwritten Positions method**

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.

### **A1.2.8 Counterparty risk weighting**

(1) 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 A1.2.2 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.

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

(3) 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 Schedule 1A to that counterparty risk amount where:

- (a) the requirements of paragraph (a) of the definition of Approved Institution 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);
- (b) 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); and
- (c) after the documentation is first obtained by the Market Participant for the purposes of paragraph (b) the Market Participant reconfirms the classification of the Counterparty as an Approved Institution on an annual basis.

(4) 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 Schedule 1A to that counterparty risk amount where:

- (a) 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 to Schedule 1A and that the Counterparty's ordinary business is the purchase and sale of Financial Instruments; and
- (b) after the documentation is first obtained by the Market Participant for the purposes of paragraph (a) the Market Participant reconfirms the classification of the Counterparty as an Approved Institution on an annual basis.

(5) 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 to the Market Participant performing the counterparty risk calculation in writing 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).

(6) Subrule (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

## Part A2.1 Counterparty large exposure risk requirement

### A2.1.1 Nature of counterparty large exposure risk amount

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 this Annexure 2.

### A2.1.2 Method

- (1) The counterparty large exposure amount is:
- (a) zero, if there are no exposures to a Counterparty in respect of transactions at the times specified in Table A2.1;
  - (b) zero, if there are aggregate exposures to a Counterparty in respect of transactions at the times specified in Table A2.1 and where these aggregate exposures are less than or equal to 10% of the Market Participant's Liquid Capital; or
  - (c) 100% of the counterparty risk amount for the exposure calculated in accordance with Annexure 1 to Schedule 1A, 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 where these aggregate exposures are greater than 10% of the Market Participant's Liquid Capital.

**Table A2.1: Aggregate exposure to Counterparty by transaction type**

Transaction Type	Subject to counterparty large exposure	Time of Exposure	Reference in Annexure 1
Non-margined Financial Instrument	Yes	Greater than 10 Business Days after transaction date	Subrule A1.2.2(3)
Free Delivery	No	N/A	N/A
Securities Lending and Borrowing	Yes	Date the transaction is due to be closed out (that is, the day the Counterparty is scheduled to return the Market Participant's cash and/or securities and has failed to do so)	Rule A1.2.4
Margined Financial Instrument	Yes	24 hours after the time that amounts are normally scheduled for payment to the relevant exchange or clearing house	Rule A1.2.5

Transaction Type	Subject to counterparty large exposure	Time of Exposure	Reference in Annexure 1
OTC Derivative or Warrant held as principal	Yes	Date any payment or delivery is due under the transaction	Rule A1.2.6
Sub Underwritten Positions	No	N/A	N/A

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

(3) For the purposes of subrule (2), the maximum loss for:

- (a) an agency purchase transaction in non-margined Financial Instruments is the contract value;
- (b) an agency sale transaction in non-margined Financial Instruments is deemed to be the market value;
- (c) a Securities Lending and Borrowing transaction is deemed to be the counterparty exposure calculated as the difference between the market value of securities or cash given by the Market Participant to the Counterparty and the market value of securities or cash received by the Market Participant from the Counterparty;
- (d) transactions in margined Financial Instruments is deemed to be the outstanding settlement amount, premium, deposit or margin call that is owed to the Market Participant;
- (e) an OTC Derivative transaction in a written Option position is the full value of the premium owed to the Market Participant;
- (f) a transaction in a purchased Option or other OTC Derivative position is deemed to be the current credit exposure calculated under subparagraph A1.2.6(1)(c)(i), where the current credit exposure is recalculated on a daily basis while the transaction remains outstanding.

(4) 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

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

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

## A2.2.2 Overview

(1) 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.

(2) 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.

(3) The methods referred to in subrule (2) are summarised in Tables A2.2 to A2.4 below:

**Table A2.2: Issuer Large Exposure—Equity Positions**

Equity Method					
	Compared to Liquid Capital		Compared to Issue		Risk amount
<b>Equity Net Position from transaction date</b>	If equity net position is $\leq 25\%$ , is a risk amount required?	If equity net position is $> 25\%$ , is a risk amount required?	If equity net position is $\leq 5\%$ , is a risk amount required?	If equity net position is $> 5\%$ , is a risk amount required?	Take the greater of (a) and (b)
	No	Yes (a)	No	Yes (b)	

**Table A2.3: Issuer Large Exposure—Debt Positions**

Debt Method					
	Compared to Liquid Capital		Compared to Issue		Risk amount
<b>Debt Net Position from transaction date</b>	If debt net position is $\leq 25\%$ , is a risk amount required?	If debt net position is $> 25\%$ , is a risk amount required?	If debt net position is $\leq 10\%$ , is a risk amount required?	If debt net position is $> 10\%$ , is a risk amount required?	Take the greater of (a) and (b)
	No	Yes (a)	No	Yes (b)	

**Table A2.4: Issuer Large Exposure—Equity and Debt Positions**

Equity and Debt Method			
	Compared to Liquid Capital only		Risk amount
<b>Equity Net Position and Debt Net Position from transaction date</b>	If equity net position and debt net position is $\leq 25\%$ , is a risk amount required?		If equity net position and debt net position is $> 25\%$ , is a risk amount required?
	No		Yes (c), but only if a zero amount has been calculated in Table A2.2 or Table A2.3



### A2.2.3 Application

- (1) An issuer large exposure risk amount does not arise in relation to:
- (a) a Financial Instrument whose value is based on a Government Debt Instrument or an interest rate;
  - (b) a Forward Rate Agreement;
  - (c) an interest rate or currency Swap;
  - (d) an interest rate leg of an equity Swap; and
  - (e) a Future on an index, an equity Swap based on an index or any other index-linked Derivative where that Future, equity Swap or index-linked Derivative is not broken down into its constituent positions by a Market Participant for the purposes of calculating a position risk amount.
- (2) An issuer large exposure risk amount must be calculated in the following manner:
- (a) the Equity leg of an equity Swap the value of which is based on the change in value of an individual Equity is treated as an exposure to the issuer of the Equity for the face value of the Equity leg of the equity Swap;
  - (b) a Future or forward contract over:
    - (i) a Debt Instrument other than a Government Debt Instrument; or
    - (ii) an Equity,is treated as an exposure to the underlying issuer for the face value of the Future or forward contract;
  - (c) a Future on an index, an equity Swap based on an index or any other index-linked Derivative (including a Classical ETF) where that Future, equity Swap or index-linked Derivative is broken down into its constituent positions by a Market Participant for the purposes of calculating a position risk amount, is treated as an exposure to each underlying constituent position; and
  - (d) an Option or right over a Financial Instrument (other than a Financial Instrument referred to in subrule (1)) is treated as an exposure at:
    - (i) the full value of the underlying position; or
    - (ii) the delta weighted value of the underlying instrument where a delta is published by a relevant exchange, clearing house or an independent market information source.
- (3) Where a Market Participant has positions in Hybrid ETFs or Other Managed Funds:
- (a) 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; and
  - (b) the test against Liquid Capital must be applied separately for each different Hybrid ETF or Other Managed Fund issued by the same issuer.
- (4) Where a Market Participant:
- (a) is not an active trader in bank bills;

- (b) holds bank bills as a passive investment, with the intention that the bank bills be held to maturity; and
- (c) calculates the position risk amount under subrule A3.11.2(3) as the face value of the bills multiplied by the appropriate standard method Position Risk Factor,

the Market Participant may also calculate its issuer large exposure risk amount for its position in bank bills using the face value of the bills.

(5) 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

### A2.3.1 Equity method

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

(2) 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:

- (a) 12% for each single Equity in a Recognised Market Index; and
- (b) 16% for any other single Equity, of the amount in excess of 25% of Liquid Capital.

(3) 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:

- (a) 12% for each single Equity in a Recognised Market Index; and
- (b) 16% for any other single Equity, of the amount in excess of 5% of the issue/s.

(4) For the purposes of subrule (2):

- (a) **Issuer** means:
  - (i) in the case of principal positions in physical Equity securities, the entity that has issued those securities; and
  - (ii) in the case of Derivative positions, means the entity that has issued the securities underlying the Derivatives position and does not mean the Counterparty to the Derivative transaction; and
- (b) the Equity Net Position to a particular Issuer is the aggregate of all Equity Net Positions for different issues of securities issued by that Issuer where:

- (i) the Equity Net Positions relate to particular underlying instruments issued by a single Issuer (for example, ordinary shares, Preference Shares); and
- (ii) 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.

(5) For the purposes of subrule (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:

**Table A2.5: Individual Issues**

“Individual Issue”	Equity Product	“Individual Issue” Detail
<b>Ordinary shares</b>	Ordinary shares	Ordinary shares on issue, as published by an information source.
	Exchange traded Options (ETOs)	The ordinary shares underlying the ETO, as published by an information source.
	Exchange traded Warrants	The ordinary shares underlying the exchange traded Warrant, as published by an information source.
	Exchange traded convertible notes that are treated as an Equity position for the purposes of the position risk calculation	Ordinary shares on issue, as published by an information source.
	Classical ETF (which is broken down into its constituent positions)	Ordinary shares on issue for each company in the stock index on which the Classical ETF is based, as published by an information source.
	Futures or forward contracts over ordinary shares	The ordinary shares underlying the Futures or forward contracts, as published by an information source.
<b>Ordinary shares or Preference shares (depends on underlying)</b>	Over the counter (OTC) Options over physical shares	The ordinary shares or Preference Shares (as applicable) underlying the OTC Option, as published by an information source.
	Equity Swap	The ordinary shares or Preference Shares (as applicable) underlying the Equity Swap, as published by an information source.
<b>Preference shares</b>	Preference Shares	Preference Shares on issue, as published by an information source.
		Where a company has issued more than one series of Preference Shares, each series should be considered to be a separate “individual issue” (for example, ABC 7% Preference Shares and ABC 7.1% Preference Shares need to be considered separately).

"Individual Issue"	Equity Product	"Individual Issue" Detail
<b>Company issued option series</b>	Company issued Options	<p>Company issued Option "series", as published by an information source.</p> <p>Each company Option "series" will have different terms and conditions (for example, if ABC has issued company Options expiring on 31/1/05 with a strike of \$1 as well as company Options expiring on 31/3/05 with a strike of \$1, these are two different "series" and need to be considered separately).</p>

### A2.3.2 Debt method

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

(2) In calculating the issuer large exposure risk amount under this 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.

(3) 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 to Schedule 1A 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%.

(4) 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 to Schedule 1A 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.

### A2.3.3 Equity and Debt method

- (1) 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.
- (2) 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 to Schedule 1A multiplied by the excess over 25% according to the following:
- (a) if the Equity Net Positions represent the greatest proportion of the aggregate Net Position, the standard method Position Risk Factor specified in Table A5.1.1 in Annexure 5 to Schedule 1A;
  - (b) if the Debt Net Positions represent the greatest proportion of the aggregate Net Position:
    - (i) the relevant standard method Position Risk Factor specified in Table A5.1.2 in Annexure 5 to Schedule 1A; and
    - (ii) if more than one series is held, the Position Risk Factor for the longest dated instrument; or
  - (c) if the Equity Net Position and Debt Net Positions are held in equal proportions, the greatest of the standard method Position Risk Factors specified in Tables A5.1.1 or A5.1.2 in Annexure 5 to Schedule 1A.

# Annexure 3 to Schedule 1A: Position Risk Requirement

Note: There is no Part A3.3, A3.4, A3.7, A3.12 or A3.13 in this Annexure.

## Part A3.1 Equity position risk amount

### A3.1.1 Nature of equity position risk amount

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 this Annexure 3.

### A3.1.2 Overview of methods

(1) 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.

(2) In calculating the equity position risk amount, the following methods must be used.

**Table A3.1: Methods**

Nature of Positions	Standard Method	Margin Method	Basic Method
Physical (not equity derivative)	Yes	No	No
Non-option equity derivatives	Yes, if converted to equity equivalent positions	Yes, if exchange traded and margined and not calculated under any other method	No
Equity options Debt options	No	Yes, if exchange traded and margined and not calculated under any other method	Yes

(3) For the purposes of Parts A3.1 to A3.9, a right over an equity must be treated as an Option position.

### A3.1.2A Equity position risk amount

Without limitation, a Market Participant must calculate an equity position risk amount under this Annexure 3 in the following circumstances:

- (a) where the Market Participant has entered into an on-market purchase or sale transaction as principal, the Market Participant will be required to calculate an equity position risk

amount unless the trade is done for the purposes of unwinding an existing principal position;

- (b) where the Market Participant has entered into an off-market purchase or sale and acts as principal on one side of the transaction, the Market Participant will be required to calculate an equity position risk amount from the time that the trade is executed until the trade is sold to the client;
- (c) where the Market Participant agrees to buy stock as principal from its client and then seeks to close its principal position by selling the stock to other clients (an off-market client facilitation), the Market Participant will be required to calculate an equity position risk amount on the long Equity position from the time the trade is executed until the position is sold to the other clients (a position risk amount will continue to be required on any part of the position that is not closed out), regardless of whether the client facilitation is fully completed within the day;
- (d) where the Market Participant conducts an off-market underwritten placement of existing shares via a book build, the Market Participant will be required to calculate an equity position risk amount from the time that the deadline for the placement is reached, for any shares that have not been sold to buying clients by that time, where the position risk amount is based on the “final” price for the placement; and
- (e) where the Market Participant has applied for stock, allocation interest units or instalment receipts on behalf of clients and the Market Participant has been given a Firm Allocation and there is a shortfall once the public offer closes, the Market Participant will be required to calculate an equity position risk amount on the shortfall from the date that the Market Participant has outlaid the funds or the date that the public offer closes, whichever is later.

Note: Under Rule A4.1.4, a Market Participant that acts as underwriter of an initial public offering or placement of new shares will also be required to calculate a position risk amount in respect of that activity in accordance with this Annexure 3.

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

Where a Market Participant holds a principal position in a security that is subject to:

- (a) 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; and
- (b) suspension, the position must be treated as an Excluded Asset on the basis that the security is not Liquid.

### **A3.1.2C Treatment—Classical ETFs**

A Market Participant must take the following into account when calculating a position risk amount for a principal position in Classical ETF units:

- (a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;
- (b) principal positions in Classical ETFs commence at  $T_0$  and the underlying risk variable is the market price of the Classical ETF unit;

- (c) the Equity Equivalent of the Classical ETF is set out in Rule A3.8.5;
- (d) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 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.

### **A3.1.2D Treatment—Hybrid ETFs**

A Market Participant must take the following into account when calculating a position risk amount for a principal position in units in a Hybrid ETF classified as Equities:

- (a) there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;
- (b) principal positions in Hybrid ETFs commence at  $T_0$  and the underlying risk variable is the market price of the Hybrid ETF unit;
- (c) a Hybrid ETF cannot be broken down into any notional positions in the underlying;
- (d) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 to Schedule 1A; and
- (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.

### **A3.1.2E Treatment—Other Managed Funds**

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  $T_0$  and the underlying risk variable is the market price of the Other Managed Fund unit;
- (b) the Other Managed Fund cannot be broken down into any notional positions in the underlying;
- (c) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 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; and
- (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.



### **A3.1.2F Exchange traded CFDs**

A Market Participant must take the following into account when calculating a position risk amount for a principal position in an exchange traded CFD classified as an Equity Derivative:

- (a) principal positions in exchange traded CFDs commence at  $T_0$ ;
- (b) the Position Risk Factors to be applied are set out in Table A5.1.1 in Annexure 5 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**

### **A3.2.1 Application**

- (1) Physical Equity positions may be included in the standard method.
- (2) 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.
- (3) 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.

If the above criteria are not met, the Options must be treated under one of the option methods set out in Parts A3.5 and A3.6.

### **A3.2.2 Method**

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.

## Part A3.5 Margin method—Equity position risk

### A3.5.1 Application

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.

### A3.5.2 Method

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

### A3.6.1 Application

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

### A3.6.2 Method

(1) 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,

where:

- (c) the market value of the Option should be calculated as the current price of the Option multiplied by the number of Options/number of shares underlying the Option; and
- (d) the notional market value of the physical Equities position underlying the Option is calculated by taking the number of shares underlying the position multiplied by the current price of that stock.

(2) 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.

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

### A3.8.1 Swaps

(1) 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 Parts A3.10 to A3.17.

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.

(2) For the purposes of subrule (1), the notional position is the mark-to-market value of the Equity positions underlying the Swap (that is, the number of shares underlying the Swap multiplied by the current market price of those shares).

### A3.8.2 Options

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.

### A3.8.3 Futures and forward contracts

The Equity Equivalent:

- (a) for a Future and forward contract over a single Equity, is the mark-to-market value of the underlying; or
- (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.

### A3.8.4 Convertible notes

(1) 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.

(2) For the purposes of subrule (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, the conversion ratio times the number of notes times the current price of the issuer's Equity per share).

### A3.8.5 Other positions—Classical ETFs

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.

### A3.8.5A Other positions—Exchange traded CFDs

(1) The Equity Equivalent for an exchange traded CFD over a single Equity, is the mark-to-market value of the underlying.

(2) 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

### A3.9.1 Equity Net Positions

(1) 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. For the purposes of this paragraph:
  - (i) depository receipts may be treated as if they are the same positions in the corresponding instrument and at the same value if:

- (A) the positions in the depository receipt and underlying have been entered into as a specific arbitrage and have the certainty of a locked-in profit (or loss);
  - (B) the profit (or loss) in sub-subparagraph (A) is Liquid; and
  - (C) all conversion costs and foreign exchange costs are immediately provided and are separately monitored over the life of the arbitrage, but otherwise must be valued at the current exchange rate; and
- (ii) 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.
- (2) For the purposes of subrule (1), a Market Participant:
- (a) must not offset Securities Lending and Borrowing transactions against underlying long and short Equity net positions; and
  - (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

### A3.10.1 Nature of debt position risk amount

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 this Annexure 3.

### A3.10.2 Overview of methods

(1) 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.

(2) In calculating the debt position risk amount, the following methods must be used.

**Table A3.2: Overview of methods**

Nature of Positions	Standard Method	Margin Method	Basic Method
Physical (not debt derivative)	Yes	No	No
Non-option debt derivatives	No	Yes, if exchange traded and margined and not calculated under any other method	No
Debt options	No	Yes, if exchange traded and margined and not calculated under any other method	Yes

### A3.10.2A Treatment—Hybrid ETFs

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:

- there is no difference between the primary market and secondary market for the purposes of calculating position risk amounts;
- principal positions in Hybrid ETFs commence at  $T_0$  and the underlying risk variable is the market price of the Hybrid ETF unit;
- a Hybrid ETF cannot be broken down into any notional positions in the underlying;
- the Position Risk Factors to be applied are set out in Rule A5.1.2A; and
- 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.

### A3.10.2B Treatment—Other Managed Funds

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:

- principal positions in Other Managed Funds commence at  $T_0$  and the underlying risk variable is the market price of the Other Managed Fund unit;
- the Other Managed Fund cannot be broken down into any notional positions in the underlying;
- the Position Risk Factors to be applied are set out in Rule A5.1.2B;
- 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; and

- (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.

### **A3.10.2C Treatment—Cash management trusts**

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.

### **A3.10.2D Treatment—Securities subject to trading halt or suspension**

Where a Market Participant holds a principal position in a listed debt security that is subject to:

- (a) 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;
- (b) 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**

### **A3.11.1 Application**

Only physical Debt Instrument positions may be included in the standard method.

### **A3.11.2 Method**

(1) Subject to subrule (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.

(2) In determining the applicable Position Risk Factor for the purposes of subrule (1):

- (a) the coupon applicable to the Debt Net Position will determine the time band and Position Risk Factor;

- (b) 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%;
  - (c) fixed rate instruments should be allocated to a time band on the basis of the residual term to maturity; and
  - (d) floating rate instruments should be allocated to a time band on the basis of the residual term to the next repricing date.
- (3) Where a Market Participant:
- (a) is not an active trader in bank bills; and
  - (b) holds bank bills as a passive investment, with the intention that the bank bills be held to maturity,

the Market Participant may calculate the position risk amount under this 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.

## **Part A3.14 Margin method—Debt position risk**

### **A3.14.1 Application**

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.

### **A3.14.2 Method**

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**

### **A3.15.1 Application**

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



### **A3.15.2 Method**

- (1) 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,

where:

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

(2) 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**

### **A3.16.1 Swaps**

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.

### **A3.16.2 Options**

- (1) The Debt Equivalent for an Option is:
- (a) for purchased call Options or written put Options, a long notional position:
    - (i) in the underlying Debt Instrument, in the case of an Option over a single Debt Instrument, and at the mark-to-market value of the Debt Instrument and its residual maturity; or
    - (ii) in the Debt Instrument with the longest residual maturity, in the case of an Option over Debt Instruments or interest rate index, and at the mark-to-market value;
  - (b) for purchased put Options or written call Options, a short notional position:
    - (i) in the underlying Debt Instrument, in the case of an Option over a single Debt Instrument, and at the mark-to-market value of the Debt Instrument and its residual maturity; or
    - (ii) in the case of an Option over a debt or interest rate index, in the Debt Instrument with the longest residual maturity in the index, at the mark-to-market value of the index; and
  - (c) for purchased call Options or written put Options on a Future, a long notional position calculated under paragraph A3.16.3(1)(a) and for purchased put Options or written call Options on a Future, a short notional position calculated under paragraph A3.16.3(1)(b).
- (2) For the purposes of subrule (1):
- (a) the notional debt position in the case of an Option over a Swap is:
    - (i) long if exercise of the Option leads to the Market Participant receiving fixed rate payments under the Swap; and
    - (ii) short if exercise of the Option leads to the Market Participant paying fixed rate payments under the Swap; and
  - (b) the value of the notional position in the Debt Instrument will be:
    - (i) for an Option over a Debt Instrument, the current market value of that Debt Instrument and the maturity of the notional position in the Debt Instrument will be the term to maturity of the underlying Debt Instrument (and not the term to expiry of the Option);
    - (ii) for an Option over an interest rate, the current market value of a zero coupon Government Debt Instrument yielding the interest rate underlying the Option and the maturity of the notional position in the Debt Instrument will be the combined period of the term to expiry of the Option plus the term of the interest rate underlying the Option; and

- (iii) for an Option over a Swap, the principal amount of the underlying Swap, the maturity of the notional position in the Debt Instrument will be the term to maturity of the underlying Swap and the notional position will have a coupon rate equal to the fixed rate of the underlying Swap.

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

- (1) The Debt Equivalent for a Future, forward contract or Forward Rate Agreement is:
- (a) if purchased, a combination of a long position in a notional Debt Instrument with a maturity equal to the combined term of the contract plus the term of the underlying Debt Instrument, and a short position in the notional Debt Instrument with a maturity equal to the term of the contract;
  - (b) if sold, a combination of a short position in a notional Debt Instrument with a maturity equal to the combined term of the contract plus the term of the underlying Debt Instrument, and a long position in the notional Debt Instrument with a maturity equal to the term of the contract;
  - (c) if over an index, a combination of a notional position in the instrument with the longest term, with a maturity equal to the combined term of the contract plus the term of that Debt Instrument, and an opposite position in that Debt Instrument with a maturity equal to the term of the contract; and
  - (d) if a range of deliverable instruments can be delivered to fulfil the contract the Market Participant may elect which Debt Instrument goes into the time band in Table A5.1.2 in Annexure 5 to Schedule 1A, but should take account of any conversion factor for the purposes of calculating the position risk.
- (2) For the purposes of subrule (1):
- (a) a “purchased” position should be interpreted as meaning 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
  - (b) a “sold” position should be interpreted as meaning that the holder of the position is a borrower and has bought a Forward Rate Agreement or sold a Futures or forward contract.

### **A3.16.4 Convertible notes**

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.

### **A3.16.5 Basket or index products**

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 if the basket or index is based on:

- (a) Government Debt Instruments, then a zero specific risk Position Risk Factor should be used; and
- (b) Qualifying Debt Instruments or other Debt Instruments, then the appropriate specific risk Position Risk Factor should be used.

### **A3.16.6 Income securities**

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**

### **A3.17.1 Debt Net Position**

- (1) The debt net position is either the long or short position resulting from offsetting positions in Debt Instruments and Debt Derivatives in the following way:
- (a) subject to paragraphs (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:
    - (i) the term to maturity of the Future or forward contract is included in the relevant time band specified in Table A5.1.2 in Annexure 5 to Schedule 1A;
    - (ii) where the Future or the forward contract comprises a range of deliverable instruments, offsetting of positions in the Future or forward contract and the underlying is only permissible when there is a readily identifiable underlying which is profitable for the short position holder to deliver; and
    - (iii) for a Future or forward contract where a Market Participant has a right to substitute cash settlement for physical delivery and the price at settlement is calculated with reference to a general market price indicator then no offset is allowed against the underlying; and
  - (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.
- (2) For the purposes of subrule (1), a Market Participant:
- (a) must not offset Securities Lending and Borrowing transactions against underlying long and short Debt net positions; and
  - (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 calculate a position risk amount on that position, notwithstanding that counterparty risk amount must also be calculated under the Securities Lending and Borrowing method in Rule A1.2.4.

## **Part A3.18 Foreign Exchange position risk amount**

### **A3.18.1 Nature of Foreign Exchange position risk amount**

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 this Annexure 3.

### **A3.18.2 Overview of method**

- (1) The standard method is the main method for measuring the Foreign Exchange position risk amount. This method is supplemented by other methods, the use of which largely depends on the Financial Instruments in which principal positions are taken.
- (2) In calculating the Foreign Exchange position risk amount, the following methods must be used:

**Table A3.3: Overview of method**

Nature of Positions	Standard Method	Basic Method
Physical* (not Foreign Exchange derivatives)	Yes	No
Non-option Foreign Exchange derivatives	Yes, when converted to Foreign Exchange equivalent positions	No
Foreign Exchange Options	Yes, if satisfy relevant criteria.	Yes, must be used for all written options and if not calculated under any other method

\* A Foreign Exchange position in Parts A3.18 to A3.22 includes foreign currency assets and liabilities, gold, Equity and Debt Instruments denominated in a foreign currency, Commodities denominated in a foreign currency not withstanding a position risk amount has been calculated elsewhere in Annexure 3 to Schedule 1A.

## Part A3.19 Standard method—Foreign Exchange position risk

### A3.19.1 Application

- (1) Foreign Exchange physical positions must be included in the standard method.
- (2) 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.
- (3) Foreign Exchange Derivative positions which are Options
  - (a) 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; and
  - (b) if they are not included in the standard method in accordance with paragraph (a), must be treated under the basic method set out in Part A3.20.

### A3.19.2 Method

- (1) 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.

(2) 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.

(3) 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**

### **A3.20.1 Application**

(1) 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.

(2) Foreign Exchange Derivative positions which are written Options must be included in the basic method.

### **A3.20.2 Method**

(1) 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 for the underlying position specified in Table A5.1.7 in Annexure 5 to Schedule 1A; and
- (b) the mark-to-market value of the Option,

where the market value of the Option should be calculated as the current price of the Option multiplied by the underlying Foreign Exchange position.

(2) 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**

### **A3.21.1 Options**

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.

### **A3.21.2 Futures**

The Foreign Exchange Equivalent for a Future over a Foreign Exchange is the notional face value of the underlying contract.

### **A3.21.3 Forward contracts**

The Foreign Exchange Equivalent for a forward contract including a future exchange associated with a cross currency Swap is at the discretion of the Market Participant either the:

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

### **A3.21.4 Other positions—Exchange traded CFDs**

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**

### **A3.22.1 Calculation of foreign currency net open position**

- (1) 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.

(2) 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.

### **A3.22.2 Calculation of gold net open position**

(1) 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 (kilos, ounces etc). The net position in gold and gold derivative must then be converted at the current rates into Australian dollars.

(2) When calculating the gold net open positions, the long and short positions in a gold contract or gold derivative may be offset.

(3) 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:
  - (i) exposure to the gold price; and
  - (ii) 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**

### **A3.23.1 Nature of Commodity position risk amount**

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 this Annexure 3.

### **A3.23.2 Overview of method**

(1) 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.

(2) In calculating the Commodity position risk amount, the following methods must be used.

**Table A3.4: Overview of methods**

Nature of Positions	Standard Method	Margin Method	Basic Method
<b>Physical (not Commodity Derivatives)</b>	Yes	No	No
<b>Non-option Commodity Derivatives</b>	Yes, if converted to Commodity equivalent positions.	Yes, if exchange traded and margined and not calculated under any other method	No
<b>Commodity options</b>	Yes, if satisfy relevant criteria.	Yes, if exchange traded and margined and not calculated under any other method	Yes, if not calculated under any other method

(3) The funding of Commodity positions may expose a Market Participant to interest rate or Foreign Exchange risk and, if so, the relevant 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

### A3.24.1 Application

- (1) Physical Commodity positions must be included in the standard method.
- (2) 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.
- (3) 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.
- (4) If the above criteria are not met, the Option must be treated under one of the option methods referred in Table A3.4 in Rule A3.23.2.

### A3.24.2 Method

- (1) The position risk amount for a particular 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.
- (2) 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.
- (3) Commodity Derivative positions which are Options and are not 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:
- (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 in the net open position.

## **Part A3.25 Margin method—Commodity position risk**

### **A3.25.1 Application**

Commodity 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 A3.23.2.

### **A3.25.2 Method**

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**

### **A3.26.1 Application**

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

### **A3.26.2 Method**

(1) 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.

(2) 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**

### **A3.27.1 Options**

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.

### **A3.27.2 Futures**

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.

### **A3.27.3 Forward contracts**

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.

### **A3.27.4 Commodity Swaps**

(1) 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.

(2) 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 this Annexure 3.

### **A3.27.5 Other positions—CFDs**

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**

(1) 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 (barrels, kilos, grams etc). The net position in each Commodity or Commodity Derivative will then be converted at the current rates into Australian dollars.

(2) When calculating the Commodity net open positions for each Commodity, the long and short positions in a Commodity or Commodity Derivative may be offset.

(3) Positions in different Commodities may not be offset unless the Commodity is fungible for settlement purposes or a highly correlated close substitute.

(4) 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

### A4.1.1 Nature of underwriting risk amount

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 this Annexure 4.

### A4.1.2 Method

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.

### A4.1.3 Underwriting—Counterparty risk

- (1) 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 this Schedule 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 (b), use the “cost” or “subscription” price as the market value of the Financial Instruments if the market value is not known.

(2) The Market Participant may, for the purposes of calculating a counterparty risk amount under paragraph (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.

#### **A4.1.4 Underwriting—Position risk**

(1) 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 (b), use the “cost” or “subscription” price as the market value of the Financial Instruments if the market value is not known.

(2) The Market Participant may, for the purposes of calculating a position risk amount under paragraph (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

Note: There is no Table A5.1.3, 5.1.4 or 5.1.5 in this Annexure

### Part A5.1 Position Risk

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

Position In:	Underlying	
	Recognised Market Index (see Table A5.1.6)	Non Recognised Market Index
	Standard Method	Standard Method
Single Equity	12%	16%
Index	8% <sup>1</sup>	16% <sup>1</sup>

<sup>1</sup> For positions not broken down into constituent Equities, otherwise the single Equity percentages apply.

**Table A5.1.2: Debt Position Risk Factors**

Time Band		Position Risk Factors—%		
Coupons		Standard Method		
≥ 3%	< 3% (or Duration Method)	Gov't	Qualifying	Other
0–1 mth	0–1 mth	0.00	0.25	8.00
1–3 mths	> 1–3 mths	0.20	0.45	8.20
> 3–6 mths	> 3–6 mths	0.40	0.65	8.40
> 6–12 mths	> 6–12 mths	0.70	1.70	8.70
1–2 yrs	> 1–1.9 yrs	1.25	2.25	9.25
> 2–3 yrs	> 1.9–2.8 yrs	1.75	3.35	9.75
> 3–4 yrs	> 2.8–3.6 yrs	2.25	3.85	10.25
> 4–5 yrs	> 3.6–4.3 yrs	2.75	4.35	10.75
> 5–7 yrs	> 4.3–5.7 yrs	3.25	4.85	11.25
> 7–10 yrs	> 5.7–7.3 yrs	3.75	5.35	11.75
> 10–15 yrs	> 7.3–9.3 yrs	4.50	6.10	12.50
> 15–20 yrs	> 9.3–10.6 yrs	5.25	6.85	13.25
20+ yrs	> 10.6–12 yrs	6.00	7.60	14.00
	12–20 yrs	8.00	9.60	16.00
	20+ yrs	12.50	14.10	20.50



## Notes

1 In using Table A5.1.2 for any Debt Derivative, a Market Participant must use the Position Risk Factors specified in the 'government' column unless the value of the Debt Derivative is derived from:

- (a) a Qualifying Debt Instrument, in which case the Market Participant must use the Position Risk Factors specified in the 'qualifying' column; or
- (b) a non-Government Debt Instrument, in which case the Market Participant must use the Position Risk Factors specified in the 'other' column.

2 For calculation purposes, where a time band refers to the period '1.9 years' for example, this may be interpreted as being equal to 1.9 x 365 days.

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

The Position Risk Factors to be applied to a principal position in units in Hybrid ETFs classified as Debt Instruments are:

- (a) as specified in Table A5.1.2 where the assets underlying the Hybrid ETF can be specifically identified, up to a maximum of 16% (standard method). The Position Risk Factor is to be selected from Table A5.1.2 based on the following:
  - (i) the time bands for coupon < 3% must be used;
  - (ii) the time band chosen should be based on the average investment term and if it can be identified that more than 80% of the assets underlying the Hybrid ETF by value fall in a particular time band, the Position Risk Factor for that time band may be applied to the entire position;
  - (iii) subject to subparagraph (iv), the standard method 'other' column should generally be used; and
  - (iv) if the Market Participant can identify that any assets underlying the Hybrid ETF satisfy the definition of Qualifying Debt Instrument, the 'qualifying' column can be used for that portion of the fund on a proportional basis to the individual holding and the 'other' column must be used for the remainder of the position; and
- (b) in all other instances, where the assets underlying the Hybrid ETF cannot be specifically identified, 16% (standard method).

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

The Position Risk Factors to be applied to a principal position in units in Other Managed Funds classified as Debt Instruments are:

- (a) as specified in Table A5.1.2 where the assets underlying the Other Managed Funds can be specifically identified, up to a maximum of 16% (standard method). The Position Risk Factor is to be selected from Table A5.1.2 based on the following:
  - (i) the time bands for coupon < 3% must be used;
  - (ii) the time band chosen should be based on the average investment term. If it can be identified that more than 80% of the assets underlying the Other Managed Fund by value fall in a particular time band, the Position Risk Factor for that time band may be applied to the entire position;

- (iii) subject to subparagraph (iv), the standard method ‘other’ column should generally be used; and
  - (iv) if the Market Participant can identify that any assets underlying the Other Managed Fund satisfy the definition of Qualifying Debt Instrument, the ‘qualifying’ column can be used for that portion of the fund on a proportional basis to the individual holding and the ‘other’ column must be used for the remainder of the position; and
- (b) in all other instances, where the assets underlying the Other Managed Fund cannot be specifically identified, 16% (standard method).

**Table A5.1.6: Recognised Market Indexes**

Country	Index	Country	Index
Australia	S&P/ASX 200	Netherlands	AEX
Austria	ATX	New Zealand	NZX 50
Belgium	BEL 20	Singapore	FTSE STI
Canada	S&P/TSX 60	Spain	IBEX 35
Europe	Euronext 100	South Korea	KOSPI 200
France	CAC 40	Sweden	OMX
Germany	DAX	Switzerland	SMI
Hong Kong	Hang Seng	UK	FTSE 100
Italy	FTSE MIB	UK	FTSE mid-250
Japan	Nikkei 225	USA	S&P 500

**Table A5.1.7: Foreign Exchange Position Risk Factors**

Standard Method	
Foreign Exchange—All currencies and gold	8%

**Table A5.1.8: Commodity Position Risk Factors**

Standard Method	
Commodity Position Risk Factor—All Commodity spot and derivative positions	15%
Gross Position Risk Factor	3%

## Part A5.2 Counterparty Risk

**Table A5.2.1: Risk Weightings**

Counterparty	Counterparty Risk Weighting
Central banks in countries that are members of the OECD	0%
Central and state governments in countries that are members of the OECD where the central or state government Counterparty is guaranteed by the government or receives appropriations from government revenue	10%
Banks Local governments in countries that are members of the OECD Approved Deposit Taking Institutions (other than banks) Market Participants subject to the Risk-Based Capital Requirements ASX Clear Participants that comply with the equivalent requirements under the ASX Clear Operating Rules	20%
Approved Institutions Market Participants subject to the NTA Requirements ASX Clear (Futures) Participants that comply with the capital requirements under the ASX Clear (Futures) Operating Rules  A participant of the clearing and settlement facility operated by CME that complies with capital requirements under the operating rules of CME.	50%
Other, including: <ul style="list-style-type: none"> <li>central banks, central, state and local governments in countries that are not members of the OECD</li> <li>all public trading enterprises in Australia which have corporate status, operate on a commercial basis or operate on a not-for-profit basis</li> </ul>	100%

**Table A5.2.2: Potential Credit Exposure Factors**

Remaining Time to Maturity	Equity	Debt	Foreign Exchange (including gold)	Commodity
One year or less	6.0%	0.0%	1.0%	10%
Over one year to five years	8.0%	0.5%	5.0%	12%
Over five years	10.0%	1.5%	7.5%	15%

Note: For an OTC Derivative with no maturity or expiry stated in the contract, the remaining time to maturity is 'Over five years' unless otherwise agreed by ASIC.

**Table A5.2.3: Sub Underwriting Risk Factor**

Risk Factor	
All Sub Underwriting Commitments	2%

## Part A5.3 Other

**Table A5.3.1: Recognised Regulator**

Country	Regulator
Australia	Australian Securities Exchange Limited
Austria	Bundesministerium für Finanzen (Federal Ministry of Finance, Banking, Stock Exchange and Capital Market Supervision) Finanzmarktaufsicht (Financial Market Authority)
Belgium	Autoriteit voor Financiële Diensten en Markten/L'Autorité des services et marchés financiers (Financial Services and Markets Authority)
Canada	Autorité des marchés financiers (Québec) British Columbia Securities Commission Investment Industry Regulatory Organization of Canada Montreal Exchange Ontario Securities Commission Toronto Stock Exchange
Denmark	Finanstilsynet (Financial Supervisory Authority of Denmark)
Europe	European Central Bank European Securities and Markets Authority
Finland	Finanssivalvonta/Finansinspektionen (Finnish Financial Supervisory Authority)
France	Autorité des marchés financiers (Financial Markets Regulator)
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
Greece	The Bank of Greece The Capital Market Commission
Hong Kong	Hong Kong Monetary Authority Hong Kong Securities and Futures Commission
Iceland	Central Bank of Iceland
Ireland	Central Bank of Ireland
Italy	Banca d'Italia Commissione Nazionale per le Società e la Borsa

Country	Regulator
Japan	Financial Services Agency
Liechtenstein	Finanzmarktaufsicht Liechtenstein (Financial Market Authority of Liechtenstein)
Luxembourg	Commission de Surveillance du Secteur Financier
Netherlands	Autoriteit Financiële Markten (Netherlands Authority for the Financial Markets)
New Zealand	Financial Markets Authority New Zealand Stock Exchange
Norway	Finanstilsynet (Financial Supervisory Authority of Norway)
Portugal	Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission)
Singapore	Monetary Authority of Singapore Stock Exchange of Singapore
South Africa	Johannesburg Stock Exchange South African Futures Exchange
Spain	Banco de Espana (for Banks and Credit Institutions) Comision Nacional del Mercado de Valores
Sweden	Finansinspektionen (Financial Supervisory Authority of Sweden)
United Kingdom	Financial Conduct Authority
United States	Securities and Exchange Commission Commodity and Futures Trading Commission Financial Industry Regulatory Authority

## Part A5.4 Underwriting Risk

**Table A5.4.1: Underwriting Risk Factor**

Risk Factor	
All Underwritings	5%

## Schedule 1C: Forms

### Schedule 1C Form 1 Ad Hoc Risk-Based Return

Return date

Core Capital

Approved Subordinated Debt

Cumulative Preference Shares/revaluation reserve

Less Excluded Assets

Less Excluded Liabilities

**Liquid Capital**

Operational Risk Requirement

Counterparty Risk Requirement

Large Exposure Risk Requirement

Position Risk Requirement

Underwriting and Sub Underwriting Risk Requirement

Non-Standard Risk Requirement

**Total Risk Requirement**

**Liquid Margin**

**Ratio of Liquid Capital to Total Risk Requirement**

Component of the Counterparty Risk Requirement that is the Non-margined Financial Instruments method (NMFIM) amount greater than 10 Business Days



## Schedule 1C Form 2 Risk-Based Return Declaration

(the Market Participant)

I make the following declarations:

- I understand that giving false or misleading information or documents to ASIC is a serious offence.
- I understand that failure to give information, which renders the information or documents given to ASIC false or misleading, is also a serious offence.
- I understand that giving false or misleading information or documents to ASIC is a serious offence and could lead to a criminal prosecution.
- To the best of my knowledge, the information contained in this document, including any attachments, is complete, true and correct, and I have taken reasonable steps and made reasonable enquiries to confirm this.

The assets and liabilities of each company controlled by the Market Participant or any other venture in which the Market Participant has a financial interest:

- are **not** in my opinion such as to affect adversely to a material extent the Market Participant's financial position.
- are in my opinion such as to affect adversely to a material extent the Market Participant's financial position.

In my opinion, the Market Participant's systems, controls and accounting records:

- have been properly and accurately maintained and form an appropriate basis upon which to assess and regularly review the financial stability of the Market Participant.
- have **not** been properly and accurately maintained and **do not** form an appropriate basis upon which to assess and regularly review the financial stability of the Market Participant.

In my opinion:

- No events have occurred or are anticipated up to the date of this statement which may result in a significant deterioration in the financial stability of the Market Participant and there are reasonable grounds to believe the Market Participant will be able to meet its obligations as and when they fall due.
- Events have occurred or are anticipated up to the date of this statement which may result in a significant deterioration in the financial stability of the Market Participant and there are reasonable grounds to believe the Market Participant will **not** be able to meet its obligations as and when they fall due.

To the best of my knowledge and belief the Income Statement and Balance Sheet:

- have been drawn to comply with: the requirements of sections 988A and 988B of the *Corporations Act 2001* or equivalent legislation in the Place of Incorporation (as applicable);

and the accounting standard generally accepted in Australia; and the *ASIC Market Integrity Rules (Capital) 2021*.

have **not** been drawn to comply with: the requirements of sections 988A and 988B of the *Corporations Act 2001* or equivalent legislation in the Place of Incorporation (as applicable); and the accounting standard generally accepted in Australia; and the *ASIC Market Integrity Rules (Capital) 2021*.

To the best of my knowledge and belief the Core Capital, Liquid Capital calculation and the calculation of the Total Risk Requirement:

have been drawn to comply with the requirements of the *ASIC Market Integrity Rules (Capital) 2021*.

have **not** been drawn to comply with the requirements of the *ASIC Market Integrity Rules (Capital) 2021*.

Since the date of the last reporting statement the Market Participant:

has been in compliance with the Risk-Based Capital Requirements

has **not** been in compliance with the Risk-Based Capital Requirements

Authoriser's full name:

Authorisation date:

## Schedule 1C Form 3 Risk-Based Return (Summary, Monthly and Annual\*)

\*For the Annual Audited Risk Based Return, the 'Prior' column represents the values that were set out in the monthly risk-based return submitted by the Market Participant for the end of period to which the Annual return relates.

For the Monthly Risk Based Return, the 'Prior' column represents the values that were set out in the previous month's risk-based return submitted by the market participant.

For the Summary Risk Based Return, the 'Prior' column represents the values that were set out in the last summary risk-based return submitted by the market participant

### Select the calendar month/financial year for which you are reporting

### Return profile

Select all risk calculation methods that you require to enter a risk requirement:

- Counterparty Risk Requirement
  - Non-margined Financial Instruments
  - Free Delivery
  - Securities Lending and Borrowing
  - Margined Financial Instruments
  - Over The Counter (OTC) Derivatives and Warrants executed as principal
  - Sub Underwritten Positions

**Large Exposure Risk Requirement**

- Counterparty large exposure
- Issuer large exposure
  - Equity method
  - Debt method
  - Equity and Debt method

 **Position Risk Requirement**

- Equity position risk
  - Standard method
  - Margin method
  - Basic method
- Debt position risk
  - Standard method
  - Margin method
  - Basic method
- Foreign Exchange position risk
  - Standard method
  - Basic method

Commodity position risk

Standard method

Margin method

Basic method

**Underwriting and Sub Underwriting Risk Requirement**

**Non-Standard Risk Requirement**

#### Footnotes

**Counterparty Risk Requirement** – Select this option for each type of counterparty risk that gives rise to a positive credit exposure

- Non-margined Financial Instruments – Select this option for unsettled trades in Financial Instruments which are not margined and not covered by one of the other counterparty risk calculation methods, and for unsettled trades in margined Equities, Debt Instruments and Warrants
- Free Delivery – Select this option where delivery of a Financial Instrument is made without receiving payment, or where payment is made without receiving a Financial Instrument
- Securities Lending and Borrowing – Select this option where the market value of Equity or Debt Instruments or cash given to a counterparty exceeds the market value of Equity or Debt Instruments or cash received from the counterparty
- Margined Financial Instrument – Select this option for trades in Financial Instruments which are margined (other than unsettled trades in margined equities, Debt Instruments and Warrants)
- OTC Derivatives and Warrants executed as principal – Select this option for OTC Derivatives or Warrants held as principal
- Sub Underwritten Positions – Select this option where the entity has received Sub Underwriting Commitment

**Large Exposure Risk Requirement** – Select this option if aggregate exposures to a counterparty are greater than 10% of Liquid Capital, or if Equity Net Positions or Debt Net Positions are large relative to Liquid Capital and/or the issue

- Counterparty large exposure – Select this option if aggregate exposures to a counterparty are greater than 10% of Liquid Capital
- Issuer large exposure – Select this option if Equity Net Positions or Debt Net Positions are large relative to Liquid Capital and/or the issue
  - Equity method – Select this option if Equity Net Positions are greater than 25% of Liquid Capital and/or greater than 5% relative to the issue
  - Debt method – Select this option if Debt Net Positions are greater than 25% of Liquid Capital and/or greater than 10% relative to the issue

- Equity and Debt method – Select this option if Equity Net Positions or Debt Net Positions are greater than 25% of Liquid Capital, and where the Equity method and Debt method do not apply

**Position Risk Requirement** – Select this option to enter a position risk requirement

- Equity position risk – Select this option to enter a position risk amount for equity positions
  - Standard method – Select this option to enter an equity position risk amount for physical equity positions, non-option equity derivative positions, purchased equity options, and written equity options that meet the criteria set out in Rule A3.2.1(3)
  - Margin method – Select this option to enter an equity position risk amount for equity derivative positions and equity options positions
  - Basic method – Select this option to enter an equity position risk amount for equity options positions
- Debt position risk – Select this option to enter a position risk amount for debt positions
  - Standard method – Select this option to enter a debt position risk amount for physical (not debt derivative) positions
  - Margin method – Select this option to enter a debt position risk amount for non-option debt derivative positions and debt options positions, if exchange traded and margined
  - Basic method – Select this option to enter a debt position risk amount for debt options positions
- Foreign Exchange position risk – Select this option to enter a position risk amount for Foreign Exchange positions
  - Standard method – Select this option to enter a Foreign Exchange position risk amount for all Foreign Exchange positions
  - Basic method – Select this option to enter a Foreign Exchange position risk amount for Foreign Exchange options positions
- Commodity position risk – Select this option to enter a position risk amount for Commodity positions
  - Standard method – Select this option to enter a position risk amount for Commodity positions
  - Margin method – Select this option to enter a Commodity position risk amount for non-option Commodity derivative positions and Commodity options positions, if exchange traded and margined
  - Basic method – Select this option to enter a Commodity position risk amount for Commodity options positions

**Underwriting and Sub Underwriting Risk Requirement** – Select this option if the entity has made an Underwriting Commitment or Sub Underwriting Commitment

**Non-Standard Risk Requirement** – Select this option for unusual or non-standard exposures

## Counterparty Risk Requirement

### Non-margined Financial Instruments method

Risk amounts by counterparty risk weighting (CRW) category	0%	10%	20%	50%	100%	Total
Trades unsettled 10 Business Days or less (3% of Client Balance)						

Trades unsettled 10 Business Days or more (3% of contract value, or excess of contract value over market value or market value over contract value (whichever is greater))						
Trades unsettled 10 Business Days or more (100% of contract value or 100% of market value)						
Subtotal – unweighted amounts						
<b>Total risk amounts – weighted by CRW</b>						
Disclose the amount of collateral used to reduce the above amounts						

- Input calculated counterparty risk amounts pre-risk weighted but reflecting any reduction due to the recognition of collateral or other relevant rule.
- If you do not wish to reduce the counterparty risk amount by counterparty risk weighting, enter all calculated counterparty risk amounts in the 100% column.
- For reporting purposes, disclose the amount of collateral that has been used to reduce the counterparty risk amounts. Use the comment function to confirm that the collateral meets the eligibility criteria outlined in the ASIC Market Integrity Rules.

<b>&gt; 10 Business Days comment</b>
Provide an explanation of the trades unsettled by more than 10 Business Days
<b>Collateral comment</b>

### Free Delivery method

Risk amounts by counterparty risk weighting (CRW) category	0%	10%	20%	50%	100%	Total
Payment or delivery outstanding less than 2 Business Days (8% of contract value)						
Payment or delivery outstanding 2 Business Days or more (100% of contract value)						
Subtotal – unweighted amounts						
<b>Total risk amounts – weighted by CRW</b>						
Disclose the amount of collateral used to reduce the above amounts						

- Input calculated counterparty risk amounts pre-risk weighted but reflecting any reduction of collateral or other relevant rule.
- If you do not wish to reduce the counterparty risk amount by risk weighting, enter all calculated counterparty risk amounts in the 100% column.
- For reporting purposes disclose the amount of collateral used to reduce the counterparty risk amounts. Use the comment function to confirm that the collateral meets the eligibility criteria outlined in the ASIC Market Integrity Rules.
- Provide an explanation of the trades unsettled by more than 2 Business Days

<b>&gt; 2 Business Days comment</b>
<b>Collateral comment</b>

### Securities Lending and Borrowing method



Risk amounts by counterparty risk weighting (CRW) category	0%	10%	20%	50%	100%	Total
Option 1a: Counterparty exposure is greater than \$10,000, and counterparty exposure is 15% (or less) of the market value of Equity/Debt Instruments/cash received: (8% of counterparty exposure)						
Option 1b: Counterparty exposure is greater than \$10,000, and counterparty exposure is greater than 15% of the market value of Equity/Debt Instruments/cash received: (sum of 8% of 15% of value received, plus the difference between counterparty exposure and 15% of value received)						
Option 2: Counterparty exposure is greater than \$10,000, no written agreement for netting across transactions and/or participant elects not to use option 1a and 1b: (100% of counterparty exposure)						
Subtotal – unweighted amounts						
<b>Total risk amounts – weighted by CRW</b>						

- Input calculated counterparty risk amounts pre-risk weighted.
- If you do not wish to reduce the counterparty risk amount by risk weighting, enter all calculated counterparty risk amounts in the 100% column.
- For Option 1b input the sum of: 8% of the counterparty exposure (for the part of the exposure less than or equal to 15% of the market value of the Equity/Debt Instrument or cash received) and 100% of the counterparty exposure (for the part of the exposure greater than 15% of the market value of the Equity/Debt Instrument or cash received).

### Margined Financial Instruments method

Risk amounts by counterparty risk weighting (CRW) category	0%	10%	20%	50%	100%	Total
Trades in Financial Instruments which are margined (100% of outstanding settlement amount, premium, deposit or margin call due or payable by Counterparty)						
Subtotal – unweighted amounts						

<b>Total risk amounts – weighted by CRW</b>						
Disclose the amount of collateral used to reduce the above amounts						

- Input calculated counterparty risk amounts pre-risk weighted but reflecting any reduction due to the recognition of collateral or other relevant rule.
- If you do not wish to reduce the counterparty risk amount by risk weighting, enter all calculated counterparty risk amounts in the 100% column.
- For reporting purposes please disclose the amount of collateral that has been used to reduce the counterparty risk amounts. Use the comment function to confirm that the collateral meets the eligibility criteria outlined in the ASIC Market Integrity Rules. Collateral for the purposes of reducing counterparty risk amounts does not include collateral lodged with a clearing house in respect of specific transactions.
- **Note:** Counterparty exposure commences at the time the amounts are scheduled for payment to the relevant exchange or clearing house.

Collateral comment

### OTC Derivatives and Warrants executed as principal method

Risk amounts by counterparty risk weighting (CRW) category	0%	10%	20%	50%	100%	Total
Written Option where premium due has not been received (100% of premium)						
OTC Derivative or Warrant held as principal (8% of sum of current credit exposure and potential credit exposure)						
Subtotal – unweighted amounts						

<b>Total risk amounts – weighted by CRW</b>						
Disclose the amount of collateral used to reduce the above amounts						

Collateral comment

### Sub Underwritten Positions method

Risk amounts by counterparty risk weighting (CRW) category	0%	10%	20%	50%	100%	Total
Sub Underwriting Commitment (2% of net sub underwriting exposure)						
Sub Underwriting Commitment (100% of net sub underwriting exposure)						
Subtotal – unweighted amounts						
<b>Total risk amounts – weighted by CRW</b>						

- Input calculated counterparty risk amounts pre-risk weighted.

### Disclose currency exposure

Currency	% of total Counterparty Risk Requirement
<b>Total</b>	

- Detail by currency, the percentage that each currency represents of the total Counterparty Risk Requirement.
- Ensure that the total amounts to 100%.

**Counterparty concentration**

Counterparty name	Counterparty type	Gross 'unweighted value'	Counterparty risk weighting %	Counterparty risk amount (risk weighted)

Based on the gross unweighted counterparty risk amounts, detail the 5 counterparties that comprise the greatest percentage of the total gross unweighted Counterparty Risk Requirement. The gross 'unweighted counterparty risk amount' is the calculated counterparty risk amount for that individual counterparty. It is not the Client Balance for that counterparty. Refer to Table A5.2.1 when selecting 'counterparty type'.

**Summary****Reducing the Counterparty Risk Requirement**

You must complete the Currency exposure and Counterparty concentration sections and must have reported the provision for doubtful debts figure if you are using it to reduce the counterparty risk requirement.

Counterparty risk amounts (after Counterparty risk weightings)	Total
Non-margined Financial Instruments method	
Free Delivery method	
Securities Lending and Borrowing method	
Margined Financial Instruments method	
OTC Derivatives and Warrants executed as principal method	
Sub Underwritten Positions method	

Subtotal	
<i>less</i> provision for Doubtful Debts	
<b>Total Counterparty Risk Requirement</b>	

## Large Exposure Risk Requirement

### Counterparty large exposure risk amount

Method	Risk amounts	Total number of counterparties
Non-margined Financial Instrument		
Securities Lending and Borrowing		
Margined Financial Instrument		
OTC Derivative and Warrants executed as principal		
Sub Underwritten Positions		
<b>Total risk amounts</b>		

Counterparty Large Exposure is triggered where the exposure is greater than 10% of the Market Participant's Liquid Capital at the time specified in the ASIC Market Integrity Rules.

### Issuer large exposure – Equity method

#### Determining risk amounts

Before you enter the risk amounts, you will have to determine the greater of the '>25% of Liquid Capital' and '> 5% of issue'

Country	Number of Equity Issuers	Equity Net Position	> 25% of Liquid Capital at 12%	> 25% of Liquid Capital at 16%	> 5% of issue at 12%	> 5% of issue at 16%	Total risk amount

<b>Total</b>							
--------------	--	--	--	--	--	--	--

- Enter amounts for each country for which there are large exposures.
- You should use the columns headed >25% of Liquid Capital and >5% of issue to categorise risk amounts for disclosure to ASIC.
- You can only select each country once so all similar country amounts should be aggregated before being input.

### Issuer large exposure – Debt method

#### Determining risk amounts

Before you enter the risk amounts, you will have to determine the greater of the '>25% of Liquid Capital' and '> 10% of issue'.

Underlying currency	Number of Debt Issuers	Debt Net Position	> 25% of Liquid Capital	> 10% of issue	Total risk amount
<b>Total</b>					

- Enter amounts for each currency in which there are large exposures.
- You should use the columns headed >25% of Liquid Capital and >10% of Issue to categorise risk amounts for disclosure to ASIC.
- You can only select each currency once so all similar country amounts should be aggregated before being input.

### Issuer large exposure – Equity & Debt Method

Underlying currency	Number of Equity/ Debt Issuers	Equity Net Position plus Debt Net Position	> 25% of Liquid Capital at 12%	> 25% of Liquid Capital at 16%	> 25% of Liquid Capital at applicable debt position risk factor	Total risk amount
<b>Total</b>						

- Enter amounts for each currency in which there are large exposures.
- You should use the columns headed >25% of Liquid Capital to categorise risk amounts for disclosure to ASIC.

- You can only select each currency once so all similar country amounts should be aggregated before being input.

### Summary

Large exposure risk amounts	Total
Counterparty large exposure risk amount	
Issuer large exposure - Equity method	
Issuer large exposure - Debt method	
Issuer large exposure - Equity & Debt method	
Total Large Exposure Risk Requirement	

## Position Risk Requirement

### Equity Position Risk – Standard method

Country	Equity Net Positions (8% Position Risk Factor)	Equity Net Positions (12% Position Risk Factor)	Equity Net Positions (16% Position Risk Factor)	Total
<b>Total</b>				

- Risk amounts are required to be input. You should use the percentage columns to categorise risk amounts for disclosure to ASIC.
- You can only select each country once so all similar country amounts should be aggregated before being input.

**Equity Position Risk – Margin method**

Country	Primary Margin Requirement	Position risk amount (4 x Primary Margin Requirement)
<b>Total</b>		

- You can only select each country once so all similar country amounts should be aggregated before being input.

**Equity Position Risk – Basic method**

Country	Purchased Options			Written Options		
	Mark-to-market value of underlying	Mark-to-market value of the Option	Position risk amount	Mark-to-market value of underlying	Amount reduced by	Position risk amount
<b>Total</b>						

- For reporting purposes, you must disclose the amount you have used to reduce the position risk amount for written options.
- You can only select each country once so all similar country amounts should be aggregated before being input.
- Enter the risk amount with the Position Risk Factor applied for mark-to-market value of underlying.
- Where you have multiple purchased options positions, you must determine the lesser of the aggregate 'mark-to-market value of underlying' and the aggregate 'mark-to-market value of the option' prior to entering the risk amount.

**Equity principal concentration**

Security code (or description if code not applicable)	Country	Equity Net Position (Liquid)	Equity Net Position (Illiquid)	Total position
<b>Total</b>				



- Detail the 5 Equity Net Positions that comprise the greatest percentage of the total gross value of the equity portfolio.
- If the position is a listed security then please enter the market code (e.g. TLS for Telstra Corporation Limited). If not, enter the name of the issuer, security code if listed and type of security.
- If you enter an equity net position for a security which is not listed on a Market, use the comment section to provide details of how you have assessed this position as Liquid as per the definition in the ASIC Market Integrity Rules.

Comments
<div style="border: 1px solid #ccc; border-radius: 5px; width: 90%; margin: 10px auto;"></div>

#### Debt Position Risk – Standard method

Currency	Coupon type	Position Risk Factors - %	Position risk amount
<b>Total</b>			

- Enter risk amount with Position Risk Factor applied.
- You can only select each currency once for the same coupon type (i.e.  $\geq 3\%$  or  $< 3\%$ ) so risk amounts must be aggregated for each currency.

#### Debt Position Risk – Margin method

Underlying currency	Primary Margin Requirement	Position risk amount (4 x Primary Margin Requirement)

<b>Total</b>		
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- Enter amounts for each currency in which there are exposures.
- You can only select each currency once so all similar currency amounts should be aggregated before being input.

### Debt Position Risk – Basic method

Underlying currency	Purchased Options			Written Options		
	Mark-to-market value of underlying	Mark-to-market value of the Option	Position risk amount	Mark-to-market value of underlying	Amount reduced by	Position risk amount
<b>Total</b>						

- Where you have multiple purchased options positions, you must determine the lesser of the aggregate 'mark-to-market value of underlying' and the aggregate 'mark-to-market value of the options' prior to entering the risk amount.
- You can only select each currency once so all similar currency amounts should be aggregated before being input.

### Debt principal concentration

Security code (or description if code not applicable)	Underlying currency	Debt Net Position (Liquid)	Debt Net Position (Illiquid)	Total position
<b>Total</b>				

- Detail the 5 debt net positions that comprise the greatest percentage of the total gross value of the debt portfolio.
- If the position is a listed security, then enter the code. If not, enter the type of debt position.

## Foreign Exchange position risk

**Foreign Exchange position risk – Standard method**

Currency	Net open long position	Net open short position	Net open position
<b>Total</b>			
Gold			
<b>Position risk amount</b>			

- Enter the AUD equivalent of the net open long position or net open short position in each currency.
- Enter the AUD equivalent of the net open position in gold.
- For a selected currency you may enter either a Net Open Long Position or a Net Open Short Position.
- You can only select each currency once so all similar currency amounts should be aggregated before being input.
- The position risk amount is 8 per cent of the sum of the absolute values of ‘the higher of aggregate net short/long open positions’ and ‘gold net open positions’.

**Foreign Exchange position risk – Basic method**

Foreign Exchange	Purchased Options			Written Options		
	Mark-to-market value of underlying	Mark-to-market value of the Option	Position risk amount	Mark-to-market value of underlying	Amount reduced by	Position risk amount
<b>Total</b>						

- For reporting purposes, you must disclose the amount you have used to reduce the position risk amount for written options.
- Enter the risk amount with the Position Risk Factor applied for mark-to-market value of underlying.

- Where you have multiple purchased options positions, you must determine the lesser of the aggregate 'mark-to-market value of underlying' and the aggregate 'mark-to-market value of the option' prior to entering the risk amount.

## Commodity position risk

### Commodity position risk – Standard method

Commodity	Total short position	Total long position	Position risk amount
<b>Total</b>			

- Where you have multiple positions for a specific Commodity enter aggregate risk amounts. Enter the AUD equivalent of the absolute value for the total short position and the total long position for each Commodity.
- The position risk amount for each Commodity is the sum of 15 per cent of the net open position (the difference between the total short position and the total long position) and 3 per cent of the gross position (the sum of the absolute values of the total short position and the total long position).

### Commodity position risk – Margin method

Commodity	Primary Margin Requirement	Position risk amount (4 x Primary Margin Requirement)
<b>Total</b>		

### Commodity position risk – Basic method

	Purchased Options	Written Options

Commodity	Mark-to-market value of underlying	Mark-to-market value of the Option	Position risk amount	Mark-to-market value of underlying	Amount reduced by	Position risk amount
<b>Total</b>						

- For reporting purposes, you must disclose the amount you have used to reduce the position risk amount for written options.
- Enter the risk amount with the Position Risk Factor applied for mark-to-market value of underlying.
- Where you have multiple purchased options positions, you must determine the lesser of the aggregate 'mark-to-market value of underlying' and the aggregate 'mark-to-market value of the option' prior to entering the risk amount.

## Summary

Summary	Total
Equity Position Risk	
Debt Position Risk	
Foreign Exchange position risk	
Commodity position risk	
<b>Total Position Risk Requirement</b>	

## Underwriting and Sub Underwriting Risk Requirement

Relevant Commitment	Gross amount underwritten or sub underwritten	Less amount sub underwritten or received under a client placement	Net underwriting exposure	Underwriting risk factor %	Position Risk Factor %	Total risk amount
<b>Total Underwriting and Sub</b>						

<b>Underwriting Risk Requirement</b>						
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## Non-Standard Risk Requirement

Exposure	Risk calculation used	Risk Amount	Additional comments
<b>Total Non-Standard Risk Requirement</b>			

- You must disclose the 'Risk Amount' or exposure in AUD equivalent.
- Use the additional comment box to provide details on the exposure including whether the exposure is in another currency.

## Operational Risk Requirement

<b>Minimum amount</b>		
<b>Add: Variable amount</b>		
<b>Counterparty Risk Requirement (a)</b>		
<b>Position Risk Requirement (b)</b>		
<b>Underwriting and Sub Underwriting Risk Requirement (c)</b>		
<b>Subtotal = [(a) +(b)+(c)] * 8%</b>		
<b>Total Operational Risk Requirement</b>		

## Income Statement

### Revenue

Insert year to date amounts

	Current	Prior*
Profits (Losses) from trading in securities/derivatives: Realised		
Unrealised		
Brokerage: Equities		
Warrants		
Futures/Exchange Traded Options		
Debt		
Other		
Underwriting commission (less sub underwriting commission paid)		
Sub underwriting commission		
Dividends		
Interest		
Bad debts recovered and provision for doubtful debts no longer required		
Directors' fees		
Handling fees		
Corporate Advisory fees		

Financial planning/Portfolio Management fees		
Management fees		
Other fees received from associated entities		
Other revenue		
<b>Total Revenue</b>		

### Expenses

Insert year to date amounts

	Current	Prior
Salaries (excluding partners, directors and research salaries)		
Directors'/Partners' salaries		
Commissions paid to traders/consultants		
Other salary costs		
Occupancy costs		
Interest paid		
Travel, public relations and advertising		
Research (including research salaries)		



Bad and doubtful debts written off/provided for		
Audit fees		
Administration costs (postage, fax, phone etc.)		
Professional indemnity insurance		
Other insurance costs		
All management/service fees paid to associated entities		
Depreciation/amortisation of fixed and intangible assets		
Finance lease payments		
Operating lease payments (other than occupancy)		
Other expenses		
<b>Total expenses</b>		

**Net profit/(loss)**

	Current	Prior
Profit before income tax		
Income tax - expense		
Profit/(loss) after tax before discontinued operations		
Profit/(loss) from discontinued operations (detail below) <sup>1</sup>		

<b>Net profit/(loss) for the period</b>		

1. Input losses from discontinued operations as negative numbers.

**If the entity has made a profit but no tax provision raised, you must enter a reason for not providing for tax below**

### Retained earnings

	Current	Prior
Opening Retained Earnings <sup>1</sup>		
Adjustments to retained earnings (detail) – increases		
<b>Total</b>		
Dividends		
Adjustments from retained earnings (detail) – decreases		

<b>Total</b>		
Other adjustments to/(from) retained earnings (detail) <sup>2</sup>		
<b>Total</b>		
<b>Closing Retained Earnings</b>		

1. Input increases and decreases to retained earnings and dividends as positive numbers.
2. Input 'to' amounts as positive numbers and 'from' amounts as negative numbers.

Additional comments

## Balance sheet

### Current assets held

Current Assets	Current	Prior
Trade receivables <sup>1</sup>		
Less provision for doubtful debts		
Net trade receivables		
Securities borrowings <sup>2</sup>		

Financial assets <sup>3</sup>		
Cash and cash equivalents <sup>4</sup>		
Related/Associated Persons		
Client trust and segregated accounts		
Deposits at clearing houses		
Right-of-use assets		
Other current assets <sup>5</sup>		
<b>Total current assets</b>		

1. Client and trade receivables only. (Note: You should include Trade Related/Associated Person amounts here – refer ‘Related/Associated Person Balance’ definition.)
2. Only include cash paid for securities borrowings.
3. All equity, debt and similar instruments at market value.
4. Cash at bank, cash on hand and other deposits other than client trust and segregated accounts.
5. Other balances not included above.

### Non-current assets held

Non-current assets	Current	Prior
Trade receivables <sup>1</sup>		
Financial assets <sup>2</sup>		
Loans and deposits <sup>3</sup>		

Related/Associated Persons		
Property, plant and equipment <sup>4</sup>		
Right-of-use assets		
Intangible assets		
Deferred tax assets		
Other non-current assets <sup>5</sup>		
<b>Total non-current assets</b>		

1. Client and trade receivables only. (**Note:** You should include Trade Related/Associated Person amounts here – refer 'Related/Associated Person Balance' definition.)
2. All equity, debt and similar instruments at market value.
3. Cash at bank, cash on hand and other deposits other than client trust and segregated accounts.
4. Property, plant and equipment excluding Right-of-use assets.
5. Other balances not included above.

### Total assets

Assets	Current	Prior
Total assets		

### Current liabilities

Current liabilities	Current	Prior
Trade payables <sup>1</sup>		
Securities lending <sup>2</sup>		

Financial liabilities <sup>3</sup>		
Short term borrowings		
Income tax payable		
Approved Subordinated Debt		
Lease liabilities		
Other current liabilities <sup>4</sup>		
<b>Total current liabilities</b>		

1. Client and trade payables only (**Note:** You should include Trade Related/Associated Person amounts here – refer ‘Related/Associated Person Balance’ definition.)
2. Only include cash received from securities lending.
3. All equity, debt and similar instruments at market value.
4. Other balances not included above.

### Non-current liabilities

Non-current liabilities	Current	Prior
Long term borrowings		
Deferred income tax		
Approved Subordinated Debt		
Lease liabilities		
Other non-current liabilities <sup>1</sup>		
<b>Total non-current liabilities</b>		

1. Other balances not included above

**Total liabilities**

Liabilities	Current	Prior
Total liabilities		
<b>Net assets</b>		

**Equity**

Equity	Current	Prior
Ordinary issued and paid up shares		
Non-cumulative Preference Shares		
Cumulative Preference Shares		
Other		
<b>Total equity</b>		

**Current Reserves**

Reserves	Current	Prior
Revaluation reserves		
Other reserves <sup>1</sup>		
<b>Total reserves</b>		

1. Includes those revaluation reserves eligible for inclusion in Core Capital.

**Total equity**

	Current	Prior
Retained earnings / (Accumulated losses)		

<b>Total equity</b>		
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## Balance sheet details

### Cash & Cash Equivalents

	Current		Non Current	
Approved Deposit Taking Institution (ADTI)	Secured	Unsecured	Secured	Unsecured
Total ADTI				
Petty Cash				
Non ADTI and Other				
Total Non ADTI and Other				
Total Secured/Unsecured				
Total Current/Non Current				

If you have entered an amount in the current, secured, 'Non ADTI and Other' area, give a description of the collateral used to secure the amount.

Collateral comment



**Related/Associated Persons**

Approved Deposit Taking Institution (ADTI)	Current		Non Current	
	Secured	Unsecured	Secured	Unsecured
Total ADTI				
Non ADTI and Other				
Total Non ADTI and Other				
Total Secured/Unsecured				
Total Current/Non Current				

- Refer 'Related/Associated Person Balance' definition. You should only include non-trade amounts here unless otherwise advised.
- Although amounts owing from an ADTI do not fall within the definition of 'Related/Associated Person Balance' in the Market Integrity Rules, you should report them in this section.
- You must report Related/Associated Person Balances (refer 'Related/Associated Person Balance' definition) that are not secured by liquid assets in the 'unsecured' column. If the Related/Associated Person is not an ADTI, this 'unsecured' asset must be treated as an 'Excluded Asset' and excluded from the liquid capital calculation.
- If you have entered an amount in the current, secured, 'Non ADTI and Other' area, use the comment function to provide a description of the collateral used to secure the amount.

**Collateral comment**

--

### Contingent Liabilities

Underwriting	
Gross Underwriting Commitments	
Gross Sub Underwriting Commitments	
Total	
Reduce underwriting and sub underwriting commitments by sub underwritten amounts and/or amounts received from client placement	
Net underwriting commitments	

Guarantees	
For the purpose of the Rules	
Ordinary course of business	
To settle legal proceedings	
Subtotal (Sum of all values above)	
Related/Associated persons	
Other	
Other Guarantees total	

Other Contingent Liabilities	
<b>Total Contingent Liabilities</b>	

**Legal/insurance/encumbrances**

Are there any actual/potential/legal proceedings and/or insurance claims?

Yes

No

Date you first became aware of potential circumstance	
Gross contingent liability	
Net contingent liability	
Full name of cover provider	
Date you or another person notified circumstance to cover provider	
Date circumstance notified to the Exchange or Clearing House	
Date circumstance settled/closed	

Details of circumstance	<div style="border: 1px solid #ccc; height: 100px; width: 100%;"></div>
Nature of cover (if any)	<div style="border: 1px solid #ccc; height: 100px; width: 100%;"></div>

Where a legal proceeding and/or an insurance claim has been settled or closed during the month, record the date this occurred in the 'Date circumstance settled/closed' row in the FIRST month this occurs. After you have reported this date, you can delete the item from future returns.

Total legal/insurance	
Gross Contingent Liability	Net Contingent Liability

Is there any charge, pledge, or other encumbrance over any of the assets of the Market Participant?

Yes

No

**Provide details below of any encumbrance (or charge or pledge) over any of the assets of the Market Participant, including the nature of the encumbrance, and the maximum potential exposure**

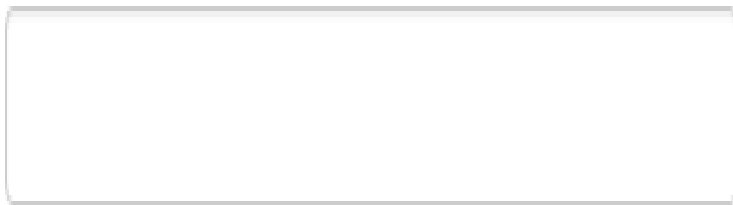


Has the Market Participant granted any Credit Facilities to other persons or entities?

Yes

No

**Please provide details below of the Credit Facilities granted to other persons/entities**



**Leases**

Description of the lease	Right-of-use-asset (ROU asset) (\$)	Lease Liability (LL) (\$)	Net of ROU asset and LL (\$)
Current			
Total current			
Non current			
Total non current			
Total			

**Other assets**

Other current assets	Amount
Other current asset amount total	
Other non-current assets	Amount
Non-current assets amount total	

Other assets total	
--------------------	--

### Receivables report

Amount owed by	0-31	32-60	61-90	90+	Total Due
Less provision for doubtful debts					
Total					
Aging Analysis Percent (%)					

### Core capital, liquid capital, liquid margin and ratio

#### Core Capital

	Current	Prior
Ordinary Issued and Paid-Up Shares		
Non-Cumulative Preference Shares		
All reserves Excluding Revaluation reserves other than Financial Asset and Liability Revaluation Reserves		

Opening Retained Earnings/Accumulated losses Adjusted for all Current Year Movements		
Core Capital		

Core Capital must not be less than the amount specified in the Market Integrity Rules. Should it fall below this level you must notify ASIC immediately.

### Liquid Capital calculation

	Current	Prior
Core Capital		
Cumulative Preference Shares		
Approved Subordinated Debt		
Revaluation reserves other than Financial Asset and Liability Revaluation Reserves		
<i>Less Excluded Assets</i>		
Property, plant and equipment		



Intangible assets		
Deferred tax assets <sup>1</sup>		
Other non-current assets <sup>2</sup>		
Unsecured deposits/loans with non ADTI		
Unsecured non ADTI related/associated person balances <sup>3</sup>		
Other trade receivables realisable after 31 days		
Prepayments realisable after 31 days		
Other illiquid assets <sup>4</sup>		
Other charged assets		
Other prescribed assets <sup>5</sup>		
<i>Less Excluded Liabilities</i>		
Guarantees and Indemnities		
Other prescribed liabilities		
Liquid Capital		

1. Includes future income tax benefits.
2. Includes non-current trade receivables, financial assets, loans and deposits and non-current Related/Associated Person Balances.
3. Non-current Related/Associated Person Balances are included in 'Other Non-current assets'.
4. Use the additional comments function to provide a description of the illiquid assets you have reported.

5. Use the additional comments section to provide details of what these balances relate to.

### Liquid Margin calculation

	Current	Prior
Liquid Capital		
Operational Risk Requirement		
Counterparty Risk Requirement		
Large Exposure Risk Requirement		
Position Risk Requirement		
Underwriting and Sub Underwriting Risk Requirement		
Non-Standard Risk Requirement		
Total Risk Requirement		
Liquid Margin		

Liquid Capital must always be greater than the Total Risk Requirement.

### Capital Ratio

	Current	Prior

Ratio of Liquid Capital to Total Risk Requirement		
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Liquid Capital must always be greater than the Total Risk Requirement. Should the ratio of Liquid Capital to Total Risk Requirement fall to 1.2 or less, you must notify ASIC immediately.

## Credit facilities and overdraft

Standby credit facilities granted in favour of the Market Participant			
Type	Full name of provider	Terms and availability	Amount of limit
<b>Total standby credit facilities</b>			

- You can select more than one type of facility.
- If a Participant has no credit/overdraft, enter 'No Facility' in 'Type', Nil in 'Full name of provider', 'Terms and availability', and \$0 in 'Amount'.

**Describe Security given to Provider(s), together with any other comments considered relevant**

## Additional comments

**Use this comment section to include any additional information you consider relevant for this return**

## Schedule 1C Form 5: Risk-Based Capital Requirements—Auditor’s Report

### PRO FORMA AUDITOR’S REPORT ON FINANCIAL INFORMATION

Pro Forma Auditor’s Report on Financial Information

#### KEY

The following key applies throughout this document.

\* Where the Participant is a body corporate incorporated or resident outside Australia operating a branch in Australia, the following words may be inserted – “Australian branch”.

\*\* Delete as applicable.

### INDEPENDENT AUDITOR’S REPORT TO THE DIRECTORS/PARTNERS\*\* OF [PARTICIPANT\_NAME]

To: The **Directors/Partners\*\***, [Participant\_name]

### AUDITOR’S REPORT ON THE RETURN

We have audited the financial information set out in the attached.

**Annual Risk-Based Audited Return, excluding the Directors’/Partners’ \*\* Statement Relating to Accounts of a Participant and “Prior Period” balances as shown in the Audited Risk-Based Return, (the “Return”) of [Participant\_name]\* (“the Participant”) for the [period] ended [date].**

#### *The Responsibility of the Directors/Partners \*\* for the Return*

The **directors/partners \*\*** of the Participant are responsible for the preparation and fair presentation of the financial information set out in the Return in accordance with the requirements of the *ASIC Market Integrity Rules (Capital) 2021*. This responsibility includes: establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial information set out in the Return to ensure that the Return is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on the financial information set out in the Return based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial information set out in the attached Return is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures of the financial information set out in the Return. The procedures selected depend on the auditor’s

judgement, including the assessment of the risks of material misstatement of the financial information set out in the Return whether due to fraud or error.

In making those risk assessments, the auditor considers internal controls relevant to the Participant's preparation and fair presentation of the financial information set out in the Return in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Participant's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the **directors/partners**\*\* of the Participant, as well as evaluating the overall presentation of the financial information set out in the Return.

**The Return has been prepared in accordance with Rule 9.2.4 of the *ASIC Market Integrity Rules (Capital) 2021* as the Participant is complying with the Risk-Based Capital Requirements.**

The Return may not be suitable for another purpose. Our report is intended solely for the Participant and ASIC and should not be distributed to or used by parties other than the Participant and ASIC.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of APES 110: Code of Ethics for Professional Accountants.

## [QUALIFIED] AUDITOR'S OPINION

In our opinion, [except for the matters referred to in the qualification below], the Return of [Participant\_name] for the [period] ended [date] presents fairly, in all material respects, the financial information of the Participant for the [period] ended [date] as required by ASIC in accordance with the *ASIC Market Integrity Rules (Capital) 2021* that are relevant to the preparation and presentation of the Return.

## QUALIFICATION (IF APPLICABLE)

Dated this ..... day of .....

Audit Firm "Signature" .....

Name of Audit Firm .....

Address of Audit Firm .....

Partner's Signature .....

Name of Partner .....

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**If an auditor is not satisfied as to any matter a qualified audit opinion should be expressed.**

## Schedule 1C Form 6: Risk-Based Capital Requirements—Key Risks and Internal Systems Statement

### ATTESTATION BY DIRECTORS/PARTNERS TO ASIC KEY RISKS AND INTERNAL SYSTEMS

Participant: .....

Year Ended: .....

#### PARTICIPANTS KEY RISKS AND INTERNAL SYSTEMS STATEMENT

We hereby certify and represent that:

The Participant has developed and implemented adequate systems, procedures and controls reasonably designed to achieve compliance, at all times, with the requirements of the *ASIC Market Integrity Rules (Capital) 2021*, and which are appropriate for the nature and extent of the trading activities being conducted.

This includes review of the obligations under the *ASIC Market Integrity Rules (Capital) 2021*, the identification of the key risks facing the Participant and the establishment of systems, procedures and controls to monitor and manage those risks including the establishment of policies and procedures to ensure the accurate calculation of the capital requirements.

The systems, procedures and controls are operating effectively and are adequate having regard to the nature and extent of the Participant's **trading activities** to ensure compliance with *ASIC Market Integrity Rules (Capital) 2021*.

We have retained copies of the relevant documentation on which this representation is based and this is available for inspection by ASIC.

Name ..... Name .....

Director/Partner ..... Director/Partner .....

Dated this ..... day of .....

Date of Board Resolution (if applicable) .....

Note: If a Participant considers it necessary to qualify this standard statement, the reasons should be explained in full in an accompanying statement.