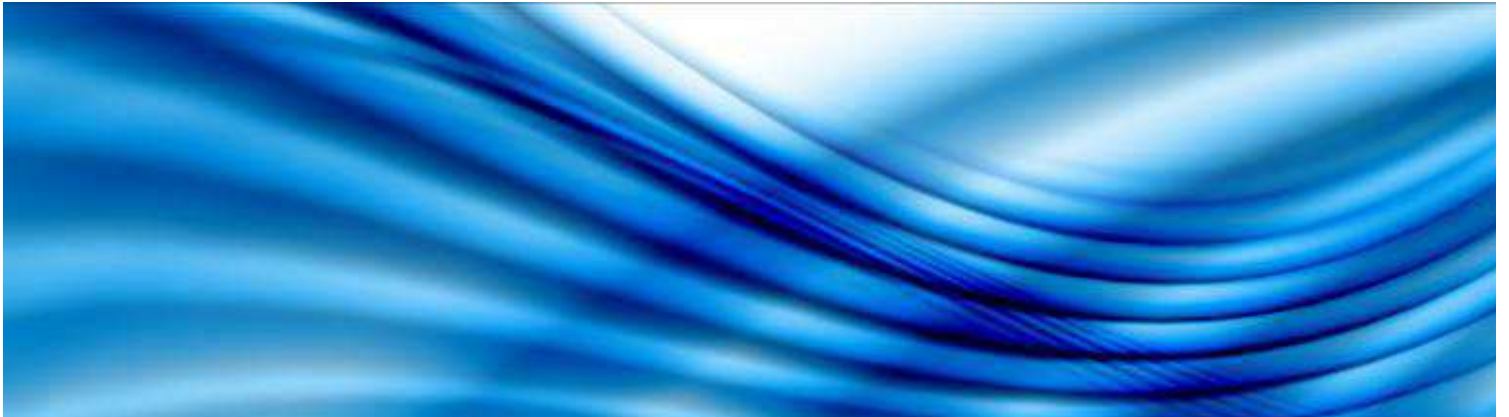




# ASX Operating Rules and ASX Settlement Operating Rules Exposure Draft

Amendments in relation to the ASX Managed Funds Service  
(‘AQUA II’)



12 September 2011

# Invitation to Comment

## Introduction

The ASX Group has prepared this document to provide interested parties in the ASX Managed Funds Service ('AQUA II') the opportunity to review the proposed Rule amendments to support the Service.

## Exposure Draft

The Exposure Draft contains Rule amendments to the ASX Operating Rules and the ASX Settlement Rules. These changes have been summarised below.

	ASX Operating Rules	ASX Settlement Rules
AQUA Product Issuers	*	*
ASX Trading Participants	*	
ASX Settlement Participants		*
ASX Issuer Settlement Participants (Unit Registries)		*

### ASX Operating Rules

Financial products settled using the ASX Managed Funds Service will be quoted on ASX PriceDisplay (previously known as the ASX Quote Display Board). Rules in Schedule 10A which relate to quotation on ASX PriceDisplay will be modified so that certain rules which were intended to apply to the AQUA Trading Market will not apply to ASX PriceDisplay.

Draft Rule amendments are shown in Attachment A. An overview of the proposed amendments is given in Schedule 1.

### ASX Settlement Operating Rules

Financial products quoted on ASX PriceDisplay are settled in a primary market between the Issuer Settlement Participant and an ASX Settlement Participant. These financial products will be settled cash-

only in the CHESSE batch, not DvP. Amendments to the ASX Settlement Operating Rules are required to support this new service. Draft rule amendments are shown in Attachment B. An overview of the proposed amendments is given in Schedule 1.

## Comments Invited

Submissions on this Exposure Draft are invited until 30 September, 2011 and may be directed by email to [regulatory.policy@asx.com.au](mailto:regulatory.policy@asx.com.au).

Respondents are asked to identify the Section and Rule on which they are commenting. If a respondent believes that a proposed Rule change does not meet its intended purpose, it is requested to consider suggesting an alternative approach.

## Rule Amendment Proposals in this Exposure Document

The proposals in this paper for amendments to the ASX Operating Rules and ASX Settlement Operating Rules:

- have been expressed as if implemented for ease of reading but are still only proposals and are subject to regulatory clearance;
- unless otherwise indicated, show additions in underlined text and deletions in strike-through;
- may change, following receipt of submissions or otherwise; and

## Timing

Soon after the closing date for submissions, the draft Rule amendments will be reviewed and finalised having regard to submissions received, following which they will be informally lodged with ASIC.

## Schedule 1

### ASX Operating Rules: overview of proposed amendments

Sections	Subject matter	Overview of amendments
10A.3.3(c) and (d)	Requirements in relation to underlying products for AQUA Products	<p>The Rule setting out requirements in relation to the characteristics of underlying instruments of AQUA financial products will be amended so that it does not apply to ASX PriceDisplay.</p> <p>ASX PriceDisplay is a quote display board for products which may be settled using the ASX Managed Funds Service. Transactions which are settled through this service are primary market transactions rather than transactions which result from secondary trading.</p> <p>The requirements in this Rule were designed for the AQUA Trading Market, which facilitates the secondary trading in AQUA financial products. They support price discovery activities that are relevant in a Trading Market. As ASX PriceDisplay does not provide a price discovery mechanism, these rules are not relevant or required.</p>
10A.4.3	Additional disclosure requirements for actively managed funds	<p>The Rule requiring disclosure where an Issuer's activities cause a managed fund's net asset value ('NAV') to move by more than 10% will be amended so that it does not apply to ASX PriceDisplay. This rule was intended to ensure that the secondary trading of the fund's units on the AQUA Trading Market accurately tracked its NAV. It is not necessary for financial products on ASX PriceDisplay as there is no secondary trading.</p>
	Other Rule and Procedure amendments	<p>It is also proposed that there will be some Procedure amendments including:</p> <ul style="list-style-type: none"> <li>• removing the requirement (in relation to ASX PriceDisplay) that significant changes to the investment mandate be approved by 75% of unit holders (Procedure 10A.4.1); and</li> <li>• modifying Procedure 4605 to provide for reporting of transactions settled through the ASX Managed Funds Service.</li> </ul> <p>If there are other Rules or Procedures (particularly in Schedule 10A) which respondents consider are not relevant to ASX PriceDisplay please provide details in the submission.</p>

## ASX Settlement Operating Rules: overview of proposed amendments

Sections	Subject matter	Overview of amendments
2	Definitions and Interpretation	<p>New defined terms used in connection with operating rules relating to settlement of AQUA Products.</p> <p><b>“AQUA Product”</b> is defined as a financial product within one of three classes (each defined by reference to the ASX Operating Rules) which is quoted on the financial market operated by ASX (reflecting Corporations Regulation 7.11.08). These financial products must be approved by ASX Settlement (as “Approved Financial Products”) in accordance with Rule 8.1.</p> <p><b>“Fund Request Cut-Off”</b> is the time by which an application for issue or redemption of AQUA Products, or an application to Switch between AQUA Products, must be submitted. The proposed cut-off time is 10:15am (Sydney time) on any Business Day.</p>
4	Participation in the Settlement Facility	<p>Establishes a new category of participation in the ASX Settlement Facility specifically for issuers of AQUA Products or fund manager unit registries acting on behalf of such issuers.</p> <p>Issuer Settlement Participants will participate in Batch Settlement to settle transactions relating to applications for issue and redemption of AQUA products in relation to which they are authorised. An Issuer Settlement Participant may not establish or maintain Participant Sponsored Holdings.</p> <p>Issuer Settlement Participants will be subject to existing categories of participation requirements (including technical and performance, payment facility and business integrity requirements).</p>
6	Rights and Obligations of Issuers	<p>Settlement Participants will be required to maintain two separate payment facilities in order to settle transactions relating to AQUA Products: one for making application payments and one for receiving redemption payments. (These payment facilities are in addition to existing payment facilities used by Settlement Participants for participating in Batch Settlement of cash equity market and related transactions.)</p>
7/8	Participant Client Arrangements/ Holding Financial Products in the Settlement Facility	<p>Settlement Participants must obtain technical accreditation in order to establish Holdings of AQUA Products (refer Section 18 – below). Technical accreditation is intended to test and confirm a Participant’s ability to send and receive new CHES messages which ASX has developed for the ASX Managed Funds Service.</p> <p>Accordingly, ASX Settlement will be unable to approve changes of Controlling Participant in relation to Holdings of AQUA</p>

		Products unless the receiving Participant is accredited.
10	Batch Settlement	Includes "AQUA Payment Batch Instructions" as a category of Payment Batch Instruction eligible for settlement in Batch Settlement.
12	Compliance, Enforcement Actions and Appeals	Includes a breach of Section 18 of the Rules as a basis for ASX Settlement to impose restrictions on, suspend or terminate the participation of an Issuer Settlement Participant or other Settlement Participant involved in settling AQUA Products.
18	Settlement of AQUA Products	<p><i>[This is a proposed new Section of the Operating Rules and is not marked up]</i></p> <p>Section 18 addresses matters relating specifically to AQUA Products.</p> <p>Subject to the modifications specified in Rule 18.13, Facility Users must, in respect of AQUA Products, comply with all Rules (other than Section 18) to the extent those Rules apply to AQUA Products.</p> <p>Section 18 deals with:</p> <ul style="list-style-type: none"> <li>• processing of applications for issue and redemption of AQUA Products and applications to Switch between AQUA Products;</li> <li>• cancellation of applications for issue or redemption and applications to Switch;</li> <li>• notification of changes to settlement details for issue or redemption of AQUA Products;</li> <li>• actions that ASX Settlement may take in the event of failure by an Issuer Settlement Participant to settle issues and redemptions of AQUA Products;</li> <li>• the provision of distribution advice to Holders of AQUA Products; and</li> <li>• the requirements for Issuer Settlement Participants and other Settlement Participants involved in settling AQUA Products to gain technical accreditation.</li> </ul>