

## SCHEDULE 1A CAPITAL LIQUIDITY REQUIREMENTS

This schedule sets out the Risk Based Capital Requirements for the purposes of Rule 5.1. A Market Participant subject to the Risk Based Capital Requirements must comply with this schedule.

### S1A.1

#### S1.A.1.1 Definitions and Interpretation

In Rule S1, unless the context otherwise requires:

“**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) above.

Amended 19/08/09

“**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 (or other documentation approved by ASX):
  - (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:
  - (i) Recognised non-European Union Regulator specified in Table 3.1, Annexure 5;
  - (ii) Recognised European Union Regulator specified in Table 3.2, Annexure 5; or
- (c) any other body corporate or partnership approved by ASX,

provided that on request by ASX, the Market Participant makes available documentation in support of paragraphs (a), (b) or (c) and ASX is satisfied that the documentation provided is adequate for this purpose.

**“Approved Subordinated Debt”** means an amount owing by a Market Participant under a subordination arrangement which is approved by ASX 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 ASX under seal or by such equivalent method expressly recognised under the Corporations Act (or in the case of ASX, on behalf of ASX by its attorney, delegate or sub-delegate);
  - (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 ASX 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) ASX must be satisfied that the Market Participant has made adequate arrangements to ensure that Rule S1A will be complied with and will continue to be complied with upon the maturity date of any loan for a fixed term;
  - (iii) ASX 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 Rule S1A.2.4(6) and (7); and
- (d) contains specific acknowledgment by the lender of the matters set out in Rule S1A.2.4(2)(a) and (b).

**“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 under the laws of any applicable jurisdiction.

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

**"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 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.

Amended 01/01/10

**"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 less any provision raised for doubtful debts.

**"Debt Derivative"** includes:

- (a) a convertible note (except to the extent that Annexure 3 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) an Option over a Debt Instrument and an Option over any of the products referred to in paragraphs (a) to (f); and
- (h) an instrument whose value is derived from a Debt Instrument and which is prescribed as such by ASX,

but does not include an instrument prescribed as an Equity Derivative or Foreign Exchange Derivative by ASX.

“**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 clause 16 of Annexure 3.

“**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;
- (e) an interest in a managed investment scheme investing only in Debt Instruments, mortgages or cash; and
- (f) an instrument prescribed as such by ASX,

but does not include an instrument prescribed as an Equity by ASX.

“**Debt Net Position**” means an amount calculated in accordance with Annexure 3 clause 17.

“**Derivative**” includes:

- (a) an Equity Derivative;
- (b) a Debt Derivative;
- (c) a Foreign Exchange Derivative; and
- (d) an instrument prescribed as such by ASX,

but does not include an instrument prescribed as an Equity or Debt Instrument by ASX.

“**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 other than an interest referred to in paragraph (e) of the definition of Debt Instrument;
- (e) an instrument prescribed as such by ASX,

but does not include an instrument prescribed as a Debt Instrument by ASX.

**“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;
- (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 instrument whose value is derived from an Equity and which is prescribed as such by ASX,

but does not include an instrument prescribed as Debt Derivative or a Foreign Exchange Derivative by ASX.

**“Equity Equivalent”** means the value of a position calculated in accordance with clause 8 of Annexure 3.

**“Equity Net Position”** means an amount calculated in accordance with clause 9 of Annexure 3.

**“Excluded Asset”** means:

- (a) a fixed asset;
- (b) an intangible asset;
- (c) a future income tax benefit;
- (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 at another value approved by ASX; or
- (iii) a deposit of funds as a margin or deposit with a person licensed to trade Futures or Options to the extent that those funds relate to an open position;
- (f) a deposit with a third party clearing organisation, unless approved otherwise by ASX;
- (g) a Related/Associated Persons Balance to the extent the balance is not secured by collateral which is Liquid, evidenced in writing and valued at the mark-to-market value or at another value approved by ASX;
- (h) a debt which was reported or created more than 30 days previously, other than a debt:
  - (i) from another Market Participant that is not an Related/Associated Person; or
  - (ii) which is secured by collateral which is Liquid, evidenced in writing and valued at the mark-to-market value or at another value approved by ASX;
- (i) a prepayment which is not Liquid;
- (j) an asset which is not Liquid;
- (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; and
- (l) an asset prescribed as such by ASX.

Amended 19/08/09

**“Excluded Liability”** means:

- (a) the maximum liability specified in a guarantee or indemnity under Rule S1A.2.6(1)(c); and
- (b) any other liability prescribed as such by ASX.

**“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 the trustee with his or her own nominee.

**“Financial Asset Revaluation Reserves”** means revaluation reserves relating to available for sale financial assets as defined in accordance with accounting standards which are generally accepted in Australia or other accounting standards approved or prescribed by ASX under Rule S1A.2.7(2).

Introduced 01/01/10

**“Financial Instrument”** means:

- (a) an Equity;
- (b) a Debt Instrument;
- (c) a Derivative; and
- (d) any other instrument prescribed as such by ASX.

**“Foreign Exchange Derivative”** includes:

- (a) a forward contract over foreign currency;
- (b) a Future over foreign currency;
- (c) an Option over foreign currency; and
- (d) an instrument whose value is derived from a foreign currency and which is prescribed as such by ASX,

but does not include an instrument prescribed as an Equity Derivative or Debt Derivative by ASX.

**“Foreign Exchange Equivalent”** means the value of a position calculated in accordance with clause 21 of Annexure 3.

**“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 Counterparty without receiving payment or where a payment is made without receiving a Financial Instrument.

**“Future”** means a contract which is traded on an exchange, subject to an 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 currency, an Equity, basket or index, or some other agreed factor;
- (b) a deliverable bond futures contract or deliverable share futures contract; or
- (c) an instrument prescribed as such by ASX.

**“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 Territories) 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.

**“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.

**“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; and
- (b) issuer large exposure risk amount calculated in accordance with Annexure 2.

**“Liquid”** means realisable or otherwise convertible to cash within 30 days, or prescribed as liquid by ASX.

**“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 Revaluation Reserves;

less the sum of:

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

Amended 01/01/10

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

**“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 2 days.

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

**“Operational Risk Requirement”** means the amount calculated in accordance with Rule 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 the option or 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 currency; or
- (b) be paid an amount of money calculated by reference to the value of a Financial Instrument, foreign currency or index as specified in the contract.

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

**“Position Risk Factors”** are the percentages applied to principal positions as specified in Tables 1.1, 1.2, 1.3 and 1.7 of Annexure 5.

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

- (a)
  - (i) Equity and Equity Derivative positions calculated in accordance with Part 1 of Annexure 3;
  - (ii) Debt Instrument and Debt Derivative positions calculated in accordance with Part 2 of Annexure 3; and

- (iii) foreign exchange and Foreign Exchange Derivative positions calculated in accordance with Part 3 of Annexure 3; or
- (b) principal positions for all of the above plus commodity positions (if any), calculated in accordance with Part 4 of Annexure 3; or
- (c) principal positions for all of the above plus commodity positions (if any), calculated in accordance with a combination of any of Parts 1, 2, 3 and 4 of Annexure 3.

**“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 Rule S1A, 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.

**“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.

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

- (a) rated investment grade by at least two of the credit rating agencies recognised by the Australian Prudential Regulation Authority and specified in Table 1.5, Annexure 5;
- (b) rated investment grade by one credit rating agency recognised by the Australian Prudential Regulation Authority and specified in Table 1.5, Annexure 5, 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, in accordance with a policy agreed between ASX and the Market Participant, 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.

“**Recognised Market Index**” means an index specified in Table 1.6 of Annexure 5.

“**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;
  - (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 excluding 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 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 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 arms 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 another Market Participant,

unless ASX considers that an amount owing under paragraph (a), (b), (c) or (d) is to be included as a Related/Associated Person Balance.

**“Secondary Requirement”** means a capital amount imposed under Rule S1A.3.3.

**“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 or other similar agreement as prescribed by ASX.

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

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

**“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 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 Book**” means all of a Market Participant’s principal positions for which a position risk amount is calculated under the internal models approach of Part 4 of Annexure 3.

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

“**Underwriting**” means a commitment to take up Equity or Debt Instruments where others do not acquire or retain them under an underwriting agreement, sub underwriting agreement, or other similar agreement calculated using:

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

“**Underwriting Risk Requirement**” is the absolute sum of the risk amounts calculated in accordance with Annexure 4.

*Note: Other terms in this Schedule are defined in Section 2*

Introduced 11/03/04

#### **S1A.1.2 Interpretation**

- (1) Rule S1A must be interpreted and applied:
  - (a) in accordance with its spirit, intention and purpose;
  - (b) by looking beyond form to substance;
  - (c) consistently across positions in the same Financial Instruments throughout a period covered by a return required under Rule S1A;
  - (d) consistently with any guidance notes or other interpretation issued by ASX; and
  - (e) for the purpose of calculating capital liquidity requirements only and so as not to detract from the operation of other Rules.
- (2) A Market Participant’s compliance with Rule S1A.2.1 will be assessed using the methods chosen by it and recognised under Rule S1A.
- (3) The annexures to Rule S1A form part of Rule S1A and:
  - (a) a reference to an annexure is a reference to an annexure of Rule S1A;
  - (b) a reference to a clause is a reference to a clause of an annexure;
  - (c) a clause within an annexure which refers to another clause is taken to refer to a clause within the same annexure unless expressly stated otherwise; and
  - (d) a clause within an annexure which refers to a Table is taken to refer to a Table within the same annexure unless expressly stated otherwise.
- (4) References to dollar amounts are references to Australian dollar amounts.

## **S1A.2 OBLIGATIONS OF MARKET PARTICIPANTS**

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

(1) Unless a Market Participant obtains a prior waiver from ASX under Rule 1.5, it must ensure that its:

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

Provided that in satisfying the requirement in Rule S1A.2.1(1)(b), a Participant may satisfy the requirement in accordance with, and subject to, Rule S1A.2.4(8).

Introduced 11/03/04 Amended 01/01/10

### **S1A.2.2 Notifying ASX**

(1) A Market Participant must notify ASX immediately if its:

- (a) Core Capital is at any time less than the minimum amount required by Rule S1A.2.1(1)(b); or
- (b) Liquid Capital divided by its Total Risk Requirement is equal to or falls below 1.2.

(2) A Market Participant must provide ASX with a return in the form prescribed by ASX disclosing the amount of its Liquid Margin:

- (a) no later than one Business Day after notifying ASX under Rule S1A.2.2(1); and
- (b) from then on, either:
  - (i) weekly, for so long as the amount referred to in Rule S1A.2.2(1)(b) is equal to or less than 1.2 but greater than 1.1; and
  - (ii) daily, for so long as the amount referred to in Rule S1A.2.2(1)(b) is 1.1 or less.

Introduced 11/03/04 Amended 01/01/10

### **S1A.2.3 Risk Requirements and Risk Amounts**

(1) A Market Participant must calculate:

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

- B. Position Risk Requirement; and
    - C. Underwriting Risk Requirement; and
  - (iii) a Secondary Requirement.
- (2) A Market Participant must calculate in accordance with Annexure 1:
- (a) its Counterparty Risk Requirement; and
  - (b) a counterparty risk amount for each of its Positive Credit Exposures to a Counterparty for:
    - (i) transactions in Financial Instruments referred in Annexure 1 except those transactions which relate to Excluded Assets; and
    - (ii) other transactions in Financial Instruments as prescribed by ASX.
- (3) A Market Participant must calculate in accordance with Annexure 2:
- (a) its Large Exposure Risk Requirement; and
  - (b) its large exposure risk amount for each:
    - (i) Counterparty;
    - (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:
- (a) its Position Risk Requirement;
  - (b) a position risk amount for all positions in Financial Instruments, except those positions which are Excluded Assets; and
  - (c) a position risk amount for other assets and liabilities which are denominated in a currency other than Australian dollars except for those assets which are Excluded Assets.
- (5) A Market Participant must calculate in accordance with Annexure 4:
- (a) its Underwriting Risk Requirement; and
  - (b) an underwriting risk amount for each Underwriting.
- (6) A Market Participant must calculate a Non-Standard Risk Requirement in accordance with Rule S1A.2.9.

Introduced 11/03/04

#### **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 ASX under Rules S1A.2.4(2) and (3); and
  - (b) the amount is notified to and approved by ASX prior to being drawn down under the subordination arrangement and complies with Rule S1A.2.4(4) where relevant.
- (2) ASX will not approve a subordination arrangement unless in the opinion of ASX:
  - (a) subject to Rule S1A.2.4(6), the amount owing to the lender under the subordination arrangement will not be repaid until all other debts which the Market Participant owes to any other persons are repaid in full; and
  - (b) the obligation to pay any amount owing under the subordination arrangement is suspended if Rule S1A.2.1(1) is no longer complied with.
- (3) ASX 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 Rule S1A.2.4(2) and (3) and there is a change in the composition of the Market Participant then an amount owing under the previously approved subordination arrangement must not be included in its Liquid Capital unless ASX 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, ASX, 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 ASX.
- (7) ASX will not withhold its approval under Rule S1A.2.4(6) if in the opinion of ASX:
  - (a) the Market Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on repayment; and
  - (b) the Market Participant's Core Capital is capable of continuing to be equal to or greater than the amount required under Rule S1A.2.1 when Approved Subordinated Debt is included under Rule S1A.2.4(8).
- (8) If a Market Participant does not hold sufficient Core Capital under Rule S1A.2.1(1)(b), then it may with the prior approval of ASX include amounts owing under an approved subordination arrangement in calculating Core Capital for a 6 month period commencing on the date that the Market Participant first does not hold sufficient Core Capital.

Introduced 11/03/04 Amended 01/01/10



### **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 approval of ASX.
- (2) ASX will not withhold its approval under Rule S1A.2.5(1) if in the opinion of ASX the Market Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on redemption.

Introduced 11/03/04

### **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 ACH Clearing Rules or the ASTC Settlement 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.

Introduced 11/03/04 Amended 19/08/09

### **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) A Market Participant must prepare its accounts and returns in accordance with accounting standards which are generally accepted in Australia unless ASX approves or prescribes otherwise.
- (3) 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.

Introduced 11/03/04

### **S1A.2.8 Valuations and Foreign Currencies**

- (1) A Market Participant must mark to market each of its principal positions in Financial Instruments unless Rule S1A provides otherwise:
  - (a) at least once every Business Day; and
  - (b) in the following manner:
    - (i) subject to paragraphs (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 in the manner prescribed by ASX;

(ii) an Option or rights position may be valued using a value derived from an option pricing model approved by ASX for use in the contingent loss matrix method;

(iii) an Option or rights position which does not have a published market price under subparagraph (i) of this Rule or which cannot be valued using an options pricing model under subparagraph (ii) of this Rule 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) 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 Part 3 of Annexure 3 or where Rule S1 expressly provides otherwise.

Introduced 11/03/04

### **S1A.2.9 Unusual or Non-Standard Exposures**

(1) If a Market Participant has an exposure arising from a transaction which is not:

(a) specifically described in Rule S1A and interpretation issued by ASX in relation to Rule S1A; or

(b) is not in a form which readily fits within Rule S1A,

then it must contact ASX for guidance.

- (2) The risk requirement of a Market Participant in relation to an exposure under Rule S1A.2.9(1) is the full market value of the transaction unless ASX approves otherwise.

Introduced 11/03/04

#### **S1A.2.10 Returns and Registers**

- (1) A Market Participant must ensure that it prepares returns:
- (a) in accordance with Rule S1A and in the manner and form prescribed by ASX; and
  - (b) which accurately reflect its accounts and its financial position.
- (2) A Market Participant must ensure that it lodges returns prepared under Rule S1A.2.10(1):
- (a) within the times prescribed by ASX;
  - (b) certified by 2 or such other number of directors or partners as prescribed by ASX, as having been prepared in accordance with Rule S1A; and
  - (c) containing any attestations required by ASX relating to its identification of key risks and including the ability of its internal systems to monitor and manage these risks effectively.
- (3) A Market Participant must maintain a register of its Underwritings which records:
- (a) the date of commencement, crystallisation and termination of each Underwriting and the parties to each Underwriting;
  - (b) the identity, number and price of the Equities or Debt Instruments the subject of each Underwriting;
  - (c) the amount underwritten by the Market Participant under each Underwriting; and
  - (d) any reduction in the amount underwritten under each Underwriting due to an amount being:
    - (i) sub-underwritten; or
    - (ii) received under a client placement,and the date that this reduction occurs.

Introduced 11/03/04

### **S1A.3 POWERS OF ASX**

#### **S1A.3.1 Returns, Annexure 5 and Other Matters**

- (1) ASX may prescribe the number and form of returns to be lodged by a Market Participant including, but not limited to, self assessment forms.

- (2) ASX may prescribe the time for lodgement of returns and other documents under Rule S1A.3.1(1) and the manner of their completion.
- (4) ASX may prescribe new or amended details in respect of the Tables in Annexure 5 and a Market Participant must apply these new or amended details when using these Tables.
- (4) ASX may prescribe the various other matters described in Rule S1 provided that it does so in writing, whether by circular to Market Participants or otherwise.

Introduced 11/03/04

### **S1A.3.2 Requests by ASX**

- (1) ASX may request any information, document or explanation from a Market Participant to enable ASX to be satisfied that the Market Participant is, has been and will continue to comply with Rule S1A.
- (2) A Market Participant receiving a request under Rule S1A.3.2(1) must respond by providing the information, document or explanation within the time specified by ASX.

Introduced 11/03/04

### **S1A.3.3 Secondary Requirement**

ASX may impose a Secondary Requirement on a Market Participant to cover unusual levels of operational risk provided that ASX notifies the Market Participant in writing of:

- (a) the additional amount; and
- (b) the time by which the additional amount must be obtained by the Market Participant.

Introduced 11/03/04

## **S1A.4 TRANSITIONAL ARRANGEMENTS**

### **S1A.4.1 General**

- (1) ASX may publish transitional procedures for amendments to Rule S1A that involve systems or operational changes for Market Participants.
- (2) ASX may give Market Participants a transition period, of up to 6 months, to comply with those amendments referred to in Rule S1A.4.1(1) from the date the amended Rule comes into effect.
- (3) During the transition period under Rule S1A.4.1(2) a Market Participant will be deemed to comply with the amended Rule, if it has complied with the transitional procedures published by ASX in relation to the amended Rule.
- (4) If a Market Participant fails to comply with the transitional procedures during the transition period which apply to an amended Rule, it will be in breach of this Rule S1A.4.1 and the amended Rule.

- (5) After the transition period under Rule S1A.4.1(2) expires a Market Participant must comply with the amended Rule.

Introduced 11/03/04 Origin ASX 1A

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