

Restructured ASX Operating Rules and ASX 24 (SFE) Operating Rules

The Government has announced that the transfer of supervision of financial markets to ASIC will occur on 1 August 2010.

As explained previously, as a result of the transfer of supervision new Operating Rules ('Rules') are to be introduced for the ASX and ASX 24 (SFE) markets. Matters currently covered by today's ASX Market Rules and SFE Operating Rules will be split between Market Integrity Rules to be supervised by ASIC and separate Operating Rules to be administered by ASX.

The new ASX and ASX 24 Operating Rules were formally lodged with ASIC on 29 June 2010. They are subject to formal regulatory clearance which is expected to be given by 1 August 2010. ASX is making the Rules available on the [ASX website](#) to enable participants to review the Rules in advance of the effective date. A summary of the structure of the new Rules and the key changes is provided below.

Restructuring of the Rules

To provide a simpler and more concise format the Rules have been consolidated so that they fall under 8 sections. Where useful and possible a consistent approach has been taken in the ASX and ASX 24 Rules.

A summary of areas covered under each new section, and a comparison to the previous rules, is set out in Attachments A (ASX Operating Rules) and B (ASX 24 Operating Rules).

Name Changes

In connection with the restructuring of the Rules, ASX is renaming some of its group licensees.

The names applying to the new Rules are identified in the opening paragraphs above. The new names applying to the licensees are listed in the table below. These names are also referred to in the ASIC Market Integrity Rules. Note that there is no change to the names ASX Limited or Austraclear Limited.

New name	Former name
Australian Securities Exchange Limited	Sydney Futures Exchange Limited
ASX Clear Pty Limited	Australian Clearing House Pty Limited
ASX Clear (Futures) Pty Limited	SFE Clearing Corporation Pty Limited
ASX Settlement Pty Limited	ASX Settlement and Transfer Corporation Pty Limited

The new names take effect from 1 August 2010.

Key changes to the Operating Rules

There are three key areas where substantive changes have been made to the Rules.

Determination of sanctions for breach of Rules

The ASX and ASX 24 Rules have been amended to provide a simpler process for enforcing compliance with the Rules, involving the replacement of the current Disciplinary Tribunal determination process with ASX determined sanctions reflective of the seriousness of the breaches and the ongoing licence obligations of market operators. There will be a subsequent right of appeal to a peer review tribunal from such ASX determined sanctions (or if ASX has determined to suspend or terminate a Market Participant for an event of default).

Consequential changes are also proposed for the Australian Securities Exchange Disciplinary Processes and Appeal Rulebook (to be renamed ASX Enforcement and Appeals Rulebook) to reflect the powers and process for ASX imposing such sanctions (as referred to further below).

The considerations currently relevant in the Disciplinary Tribunal's determination of sanctions for contraventions will similarly provide guidance to ASX in determining appropriate sanctions for contraventions by Participants of obligations retained under the new rules.

Rights to appeal and rights to a hearing

Under the existing ASX Market Rules there are some rules which provide a right of appeal or a right to a hearing (e.g. appeal in relation to the rejection of an application for admission (Rule 3.8) or for a Trading Permission (Rules 12.1.6), appeal in relation to application for Market Making (Rule 23.1.8) and a hearing in relation to inability to communicate with the Trading Platform (Rule 14.3.5)). Further, under existing SFE Operating Rules there is an appeal right in relation to the rejection of an application for admission. These rules are to be removed.

These rules may have been appropriate when ASX and SFE were mutual organisations, but are no longer appropriate in the current environment. The role of a market operator is to operate the market and ensure that participants comply with the Rules, having regard to the licence obligations. In making decisions under the Rules the market operators will have regard to the requirements of the Rules and their licence obligations.

Transitional arrangements in relation to capital requirements and matters relating to futures market transactions

The capital requirements (in Sections 6 and Schedules 1A and 1B of the ASX Rules and Rule 2.2.18 of the ASX 24 Rules) will be retained on a transitional basis for one year after the date of the transfer of supervision. After this date the capital requirements no longer apply to ASX or ASX 24 Participants (which are not also Clearing Participants). Capital requirements will continue to apply to Clearing Participants under the rules of the relevant CS facility.

Similarly, it has been agreed that the rules relating to margins (in the ASX and ASX 24 Rules) and death of a client and default by a client in relation to futures market transactions (in the ASX Rules) will be retained on a transitional basis only for one year after the transfer of supervision.

Other issues

The previous circular indicated that there would also be amendments to the ASX Rules to provide for 'Type 2 Client Access' and to review and update the rules relating to trade errors, cancellations and dealing disputes. Feedback received during the consultation process and discussions with ASIC indicated that more time was required to consider these amendments. Hence, these amendments will be dealt with separately for ASX.

The ASX 24 Rules refer to Client Access, which maintains the status quo by allowing access either through a Trading Participant's system or other than through a Trading Participant's system.

There have been amendments to the error and trade cancellation rules in the ASX 24 Rules to streamline the rules. However the cancellation ranges and method for establishing the Determined Price remain the same.

Procedures to the Operating Rules

The Procedures to the ASX Operating Rules and the Procedures, Determinations and Practice Notes to the ASX 24 Operating Rules have been restructured in line with the restructure of the Rules. The new Procedures will be made available on the ASX website shortly.

Once the new Rules become effective a new arrangement will be put in place for making substantive amendments to the Procedures to the ASX and ASX 24 Operating Rules. When making substantive amendments ASX will ordinarily consult with participants regarding the proposed amendments at least four weeks prior to the amendments becoming effective.

ASX will commence this process by notifying participants (by circular) of the proposed amendments, and participants will then be given an opportunity to comment. ASX will consider any comments received from participants before the Procedure amendments are finalised and implemented.

Note however that this process will not apply to amendments which are not substantive, amendments which relates to changes to the trading system which are notified in advance under the ITS Access Agreement (or ASX Trade Access Agreement) and any amendments which need to be implemented as a matter of urgency.

Consequential changes to other rules

Consequential changes have been made to the ASX Enforcement and Appeals Rulebook (previously called the Australian Securities Exchange Disciplinary Processes and Appeals Rulebook), the ASX Clear Operating Rules (previously called the ACH Clearing Rules), the ASX Settlement Operating Rules (previously called the ASTC Settlement Rules), the ASX Clear (Futures) Operating Rules (previously called the Clearing Rules of SFE Clearing), the Austraclear Regulations and the ASX Listing Rules.

These rule amendments were also formally lodged on 29 June 2010. They are subject to formal regulatory clearance which is expected to be given by 1 August 2010. Copies of these rule amendments will also be made available on the ASX website shortly, in advance of the effective date. A summary of the key changes is provided below:

ASX Enforcement and Appeals Rulebook

- ASX (ie each market & CS facility licensee) will have the power to take enforcement action and impose sanctions for a contravention of the rules which occurs after the date of transfer of supervision to ASIC ("**Transfer Date**"), with some changes also being made to the available sanctions for enforcement action to better reflect the role of ASX following the transfer of supervision to ASIC;
- Cessation of the Disciplinary Tribunal (other than to continue to deal with contraventions occurring prior to the Transfer Date);
- Prior to taking enforcement action, ASX will issue a Submission Notice to the participant, setting out the circumstances giving rise to the alleged breach and factors in assessing the proposed sanction and giving the participant the opportunity to respond by written submissions;
- ASX will take enforcement action by issuing an Enforcement Notice (or an Alleged Minor Infringement Notice in lieu of an Enforcement Notice for minor breaches) setting out the grounds for the contravention and sanction;
- Where a participant complies with an Alleged Minor Infringement Notice, the participant is not, by reason only of having complied, viewed as having committed the relevant breach and the participant will not be named in any publication regarding the breach. Where a participant does not comply with the Alleged Minor Infringement Notice ASX can issue an Enforcement Notice;
- A participant must comply with an Enforcement Notice or may appeal to the Appeal Tribunal (in accordance with current appeal processes);
- Removal of certain other rights of appeal under ASX and ASX 24 Operating Rules in accordance with changes proposed to the ASX and ASX 24 Operating Rules;
- To the extent that the respective operating rules already contemplate a right of appeal from a suspension or termination decision which is not currently provided for in the Australian Securities Exchange Disciplinary Processes and Appeals Rulebook, incorporating such appeal rights in the rulebook.

C&S facility rulebooks

- Each CS facility licensee will have the power to take enforcement action and impose sanctions for a contravention of the rules which occurs after the Transfer Date, replacing the current Disciplinary Tribunal determination process (see new enforcement process referred to above);
- Removal of certain rights of appeal of the participant from decisions of the Disciplinary Tribunal to suspend or terminate a participant pursuant to enforcement/disciplinary action (given that the Disciplinary Tribunal will no longer deal with conduct after the Transfer Date and the removal from the ASX Enforcement and Appeals Rulebook of the right to suspend or terminate a participant for a breach of the rules pursuant to enforcement/disciplinary action);
- An expansion of the circumstances where the C&S facility licensee can exercise existing suspension and termination powers under its operating rules. Namely, where the participant fails to comply with sanction action taken by the licensee under the new enforcement processes (or disciplinary action imposed by the old disciplinary tribunal where the conduct was prior to the

Transfer Date) or where the rulebook presently does not (absent the abovementioned suspension or termination rights) provide grounds for a suspension or termination following a significant type rule breach or a failure to continue to comply with the ongoing admission requirements;

- Facilitating the immediate actioning of an ASTC decision to suspend, or impose restrictions on, the participation of an ASTC Participant in certain circumstances including default type events. Such immediate actioning is currently applicable to corresponding Disciplinary Tribunal decisions (which as indicated above will cease to apply) and brings the ASTC rules framework into line with the other rules frameworks;
- To the extent that the respective operating rules or the Australian Securities Exchange Disciplinary Processes and Appeals Rulebook do not provide for a right of appeal from a suspension or termination decision by the licensee, clarifying that general references to the effect of decisions during an appeal apply only when a notice of appeal is given in circumstances where such appeal rights apply;
- Transitional provisions to provide for the existing Disciplinary Tribunal and Appeal Tribunal to continue to have powers to hear and determine disciplinary action for conduct prior to the Transfer Date;
- Amendments to reflect removal of existing business connections and employee dealing requirements relating to frontrunning, given the assumption by ASIC (as part of the transfer of supervision) of the comparable ASX Market Rule provisions which deal with these matters (ACH Clearing Rules only).

Consequential changes to ASX Enforcement and Appeals Rulebook Procedures

The Procedures to the ASX Enforcement and Appeals Rulebook are proposed to be amended in line with the changes to the ASX Enforcement and Appeals Rulebook referred to above. The current proposed draft new ASX Enforcement and Appeals Rulebook Procedures will also be made available on the ASX website shortly.

Attachment A – ASX Operating Rules

New Section	Content from existing ASX Rules
1. Access to the Market	<ul style="list-style-type: none"> • Access to the Market (Section 3) • Trading Permissions (Section 12) • Allocation of unique identifiers (Section 12) • Ongoing requirements (Section 4) • Resignation (Section 3)
2. Products	<ul style="list-style-type: none"> • Legal description of classes of financial product (Section 9) • Quotation of Cash Market Products (Section 16) • Warrants (Section 10) • AQUA Products (Section 10A) • Derivatives Market Products (Section 11)
3. Trading Rules	<ul style="list-style-type: none"> • General Obligations (Section 13.1) • Orderly Trading (Section 14) • Trade Errors, Cancellations and Dealing Disputes (Section 15) • Trading of Cash Market Products (Section 16) • Trading of Derivative Market Products (Section 25) • Reporting (Sections 16 and 21) • Settlement (Section 5.7.3)
4. Execution, quote display and reporting services	<ul style="list-style-type: none"> • General Rules relating to the Trading Platform (Section 31) • TradeMatch (Section 31) • VolumeMatch (Section 31) • Bulletin Board (Section 31) • AQUA Quote Display Board (Section 10B) • Wholesale Loan Securities Market (Section 26) • Reporting Facilities (Sections 18, 22, 24)
5. Monitoring Compliance and Enforcing Conduct	<p>Covers Section 28 (Supervision, Disciplinary Matters, Tribunal Proceedings and Appeals) and a number of related rules including:</p> <ul style="list-style-type: none"> • Breach of Trading Permission requirements (Section 12.2) • Breach of Operational Requirements (Section 13.3.8 to 13.3.10) • Breach of VolumeMatch book requirements (Sections 31.13.10, 31.13.11, 31.13.13) • Breach of trading restrictions and limits (Section 25.5) • Sanctions against Market Participants who are partnerships (Section 4.13.7) • Termination of Trading Permission or admission of substantially inactive Market Participants (Sections 3.10 and 12.4) • Effect of termination on obligations of Market Participant (Section 3.11)
6. General Rules	<p>Covers Section 1 (Introduction and General Rules) and a number of other general rules including:</p> <ul style="list-style-type: none"> • Foreign Participants and other Market Participants with Overseas Activity (Section 4.5) • Persons acting for Market Participant (Sections 4.1.2, 4.16) • Compensation Arrangements (Section 4.15, 7.21, 7.22) • Records, information, returns and recordings (4.9.10, 4.11, 4.17, 4.19)

7. Definitions and Interpretation	Covers Section 2 (Definitions and Interpretation)
8. Transitional rules	Transitional matters

Note that Rules relating to clearing arrangements which previously appeared in Section 5 have been moved to a new Schedule 1. The current Sections 10 and 10A (Warrants and AQUA Products) will be moved to new Schedules 10 and 10A. Schedules 6 (Short Selling Margin Requirements) and 7 (Forward Delivery Legal Title and Deposit Requirements) will be deleted as they have become redundant following changes to the short selling regulatory landscape and the removal from the ASX Market Rules of the rules to which the Schedules correspond. Other Schedules have not been changed other than to update cross references.

Attachment B – ASX 24 Operating Rules

New Section	Content from existing SFE Rules
1. Access to the Market	<ul style="list-style-type: none"> • Access to the Market (Rules 2.1.5, 2.2.2, 2.2.2) • Trading Permissions (Rule 1.7; 2.2.6) • Allocation of unique identifiers (Rule 3.3.1) • Ongoing requirements (Rule 2.2) • Resignation (Rule 2.2.9) • Trading for US Customers (Rules 2.2.6, 2.2.30)
2. Products	<ul style="list-style-type: none"> • Legal description of classes of financial product (Section 6) • Derivatives Market Products (Section 6)
3. Trading Rules	<ul style="list-style-type: none"> • General Obligations (Section 3) • Orderly Trading (Rule 1.4; Section 3) • Trade Errors, Cancellations and Dealing Disputes (Rules 1.11, 1.13) • Trading of Derivative Market Products (Rule 2.2.13) • Reporting (Rule 2.2.4) • Registration (Section 4)
4. Execution, quote display and reporting services	<ul style="list-style-type: none"> • General Rules relating to the Trading Platform (Section 3) • Reporting Facilities (Rules 3.4; 3.5)
5. Monitoring Compliance and Enforcing Conduct	Covers Section 5 (Supervision, Disciplinary Matters, Tribunal Proceedings and Appeals) and a number of related rules including: <ul style="list-style-type: none"> • Breach of Trading Permission requirements (Rule 1.7) • Breaches of Operational Requirements (Rule 2.2)
6. General Rules	Covers Section 1 (Introduction and General Rules) and a number of other general rules including: <ul style="list-style-type: none"> • Records, information, returns and recordings (Rules 2.2.23; 2.2.28)
7. Definitions and Interpretation	Covers Section 7 (Definitions and Interpretation)
8. Transitional rules	Transitional matters

The Individual Contract Specifications for each product listed on SFE (old Section 6) will be included in Schedule 1 to the Rules. The only changes to Individual Contract Specifications will be numbering and cross-referencing changes.

The Definitions are a combination of ASX and SFE definitions. For the purposes of harmonizing the new ASX and ASX 24 (SFE) Rules, an ASX definition has been adopted where it deals with the same matter as an existing SFE definition. SFE definitions are retained where they are not relevant to the ASX.