Consultation Paper 1/2015 on:

- the Chi-X Multi-Asset Platform;
- the launch of the Chi-X market maker regime.

13 February 2015

Consultation Closes: Friday 20 March 2015

Chi-X Australia Pty Ltd
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### CONTENTS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part I – Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Part II- Regulatory Framework</td>
<td>5</td>
</tr>
<tr>
<td>Part III – Overview of Proposed Rules Changes</td>
<td>8</td>
</tr>
<tr>
<td>Part IV – Approval of Product Issuers</td>
<td>10</td>
</tr>
<tr>
<td>Part V – Approval of Investment Products</td>
<td>12</td>
</tr>
<tr>
<td>Part VI – Ongoing Requirements for Investment Products</td>
<td>20</td>
</tr>
<tr>
<td>Part VII – CMAP Trading</td>
<td>22</td>
</tr>
<tr>
<td>Part VIII - Compliance and Indemnities</td>
<td>23</td>
</tr>
<tr>
<td>Part IX - Market Makers in ASX Listed Securities</td>
<td>24</td>
</tr>
<tr>
<td>Annexure One – List of Consultation Questions</td>
<td>29</td>
</tr>
<tr>
<td>Annexure Two – Draft Proposed CMAP Operating Rules</td>
<td>33</td>
</tr>
<tr>
<td>Annexure Three – Draft Proposed CMAP Operating Rules: Procedures</td>
<td>55</td>
</tr>
<tr>
<td>Annexure Four - Draft Proposed CMAP Information Pack</td>
<td>66</td>
</tr>
</tbody>
</table>
PART I - INTRODUCTION

1.1.1 Chi-X is pleased to announce it plans to launch a market for the listing and trading of investment products. Chi-X plans to start with the listing and trading of warrants on our new Chi-X Multi Asset Trading Platform (CMAP) in November 2015. The listing of Exchange Traded Funds (ETFs) will follow shortly thereafter, with subsequent launch phases for other investment products. The Chi-X proposals have been developed in response to the demand for a cost efficient market operator with a committed focus on working with issuers, participants and all investors to enhance the Australian market for investment products.

1.1.2 The core values of Chi-X are competition, innovation, technology and client partnership. They have been the key elements in the successful delivery by Chi-X of competition in the trading of cash equity securities and have driven the proposals to list and trade investment products. The launch of CMAP at the end of this year will bring the core values of Chi-X to the Australian market place for investment products. More specifically, for the investment product market in Australia, Chi-X aims to:

(i) significantly reduce costs for product issuers;

(ii) increase efficiencies in product delivery to investors via the application of modern technology – trading in the investment products will be available to all Chi-X market participants via standard market access methods (FIX connectivity);

(iii) encourage innovation in product design, within the safe boundaries of a listed and regulated market;

(iv) increase the breadth and depth of listed investment products available to Australian investors.

1.1.3 This consultation paper (CP) contains a comprehensive outline of the proposed Operating Rules (Rules – see annexure two), Operating Rules: Procedures (Procedures - see annexure three) and Information Pack (annexure four) that will govern the approval of and ongoing requirements for issuers/products and aspects of trading unique to the new platform. The proposed application forms for Product Issuers and Investment Products are attached to the Information Pack. The CP also contains Rules and Procedures that will apply to market makers in CMAP products and ASX listed securities traded on Chi-X (annexure five).

1.1.4 The Operating Rules (Rules), Operating Rules: Procedures (Procedures) and Information Pack, set out in annexures two to five, have been drafted for the launch of phases one and two and feedback upon the proposals is sought from all interested stakeholders. The products admitted to quotation in phases one and two will only trade on the Chi-X market. Feedback is also sought upon each of the numbered consultation questions that are embedded in the relevant CP text and which relate to some important issues in the areas covered. A list of the consultation questions is in annexure one.

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1 All proposals are subject to ASIC regulatory approvals.
1.1.5 The consultation period runs for five weeks, closing on 20 March 2015. Set out below is the proposed timeline for the consultation, related regulatory processes and the proposed launch of the first phase of CMAP.

1.1.6 Any queries concerning this consultation should be directed to:

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1.1.7 Submissions should be provided to:

cp1@chi-x.com

or posted to:

Consultation Paper 1 of 2015  
Chi-X Australia Pty Ltd  
Level 23 Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000

1.1.8 All submissions will be published upon the Chi-X web site unless confidentiality is expressly requested in the submission.
PART II – REGULATORY FRAMEWORK

2.1 Introduction

2.1.1 Chi-X currently operates a market that provides secondary market trading in securities that are admitted to trading or listed by other market operators. The Chi-X market licence and regulatory framework reflects this fundamental feature of the existing Chi-X market. Admitting investments to trading will therefore require changes to some aspects of the regulatory framework under which Chi-X operates. This Consultation Paper is primarily concerned with the changes to the Chi-X Operating Rules that are necessary to admit and trade investment products and the documents that will accompany those changes. It may, however, be helpful for stakeholders to understand the wider regulatory framework applying to the proposed changes.

2.2 Chi-X Operating Rules and Operating Rules: Procedures

2.2.1 The Rules have effect, under section 793B of the Corporations Act, as a contract under seal between:

(a) Chi-X and each participant in the market;

(b) a participant and each other participant.

2.2.2 The Procedures relate to the operation of the Rules, and a rule may require participants to comply with that rule as set out in the Procedures.

2.3 Chi-X Market Licence

2.3.1 The existing Chi-X market licence will need to be amended prior to the launch of CMAP and Chi-X is currently working with ASIC to achieve this. Among other things, Chi-X will need to finalise the changes to the Operating Rules that are the subject of this consultation before the licence can be amended. It is envisaged that the licence will be amended in the third quarter of 2015 with a view to the CMAP platform launching in November 2015.

2.4 ASIC Market Integrity Rules

2.4.1 Participants trading on the Chi-X market must comply with the ASIC Market Integrity Rules (Competition in Exchange Markets) and ASIC Market Integrity Rules (Chi-X Australia Market). These rules are currently drafted to only apply to trading in equity market products that are listed on the ASX. Therefore these rules will need to be amended to cover trading in investment products admitted to trading on the Chi-X market.

2.5 ASIC Class Order Relief

2.5.1 Over time a significant library of class orders and wider ASIC relief from requirements in the Corporations Act, has developed in relation to the products that will be traded on CMAP. These ASIC instruments are the domain of ASIC and some are currently drafted by reference to ASX markets. ASIC will review the relevant class orders and waivers, as applied for by Chi-
X for the purposes of CMAP products. A list of the possible class orders is contained in attachment three to the Information Pack at Annexure Four. Stakeholders may wish to review this list and provide feedback on (a) whether there are additional class orders or other ASIC waivers or relief that may be necessary for issuers, participants, market makers, investors and wider stakeholders in CMAP and (b) if so the reasons why that is the case.

Consultation Question 1: Do you have any comments on:

(a) whether the class orders identified by Chi-X in attachment 3 to the Information Pack at Annexure Four should be the subject of an application by Chi-X to ASIC for similar relief to aide the establishment of CMAP?

(b) whether there are additional class orders or other ASIC waivers or relief that may be necessary for issuers, participants, market makers, investors and wider stakeholder in CMAP; and if so, the reasons why that is the case?

2.6 ASX Clearing and Settlement Arrangements

2.6.1 Chi-X has a commitment from ASX Clear Pty Ltd and ASX Settlement Pty Ltd that the same clearing and settlement arrangements will be in place for CMAP products in phase one and two, as currently exist for equivalent products admitted to trading by ASX.

2.7 Compensation Arrangements

2.7.1 Chi-X currently has compensation arrangements in place that meet the requirements in Division Three of Part 7.5 of the Corporations Act for compensating retail investors. Chi-X is proposing that this compensation regime will continue in its application to CMAP trading and is not proposing to amend any rules in this regard.

2.8 Market Making in ASX Listed Securities

2.8.1 The regime proposed by Chi-X for market making in ASX listed securities consists of:

(i) the continuous two way quoting obligations contained in the Rules and Procedures at annexure five;

(ii) a benefit for a registered market maker of being able to execute naked short sales in those securities in which it is registered as a market maker so long as it believes on reasonable grounds that a securities lending arrangement can be put in place to allow delivery and, by the end of each day, it can acquire or borrow sufficient products to ensure it can deliver all products sold on the day delivery is due (this benefit is referred to in this CP as "short sale relief")².

² The language used to describe the reasonable belief that the market maker must have is taken from the relief provided in respect of hedging activities in an underlying security by market makers in derivative products – see page 11 of Regulatory Guide 196 on Short Selling retrieved on 3 February 2015 from http://www.asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-196-short-selling/.
2.8.2 The proposed short sale relief in 2.8.1(ii) requires ASIC relief. Chi-X will incorporate the outcome of this consultation, including any feedback received, in a formal request to ASIC for short sale relief to be provided to Chi-X registered market makers.
PART III – OVERVIEW OF THE PROPOSALS

3.1 Overview – CMAP Framework

3.1.1 Chi-X will publish three important documents on CMAP: the Rules, the Procedures and the Information Pack. The Information Pack is intended to be a self-contained guide to the operation of CMAP for all interested stakeholders. Therefore it may be a useful starting point for those wanting an overview of the CMAP proposal. However, feedback is primarily sought upon the requirements contained in the Rules, as those requirements provide the basis for the contents of the Procedures and Information Pack. The proposed amendments to the Rules so that Chi-X can trade CMAP products will be subject to Ministerial non-disallowance. Feedback on the Procedures and Information Pack is also very much welcomed as they will be key documents in the application of the rules to the different day to day scenarios that may arise.

3.1.2 The CP text also contains a series of specific questions upon which feedback is sought. The questions are also listed in annexure one. Feedback is sought in these areas as they are important in determining key aspects of the CMAP platform.

3.2 Overview - CMAP Rules

3.2.1 It is proposed to place the new rules relating to CMAP in a new section 14 of the Operating Rules. The Rules in section 14 are structured to follow the sequence of events in the approval of CMAP issuers, products and trading:

(i) rules 14.2-14.5 - approval of and ongoing requirements for product issuers;
(ii) rules 14.6-14.15 - approval of and ongoing requirements for CMAP products;
(iii) rules 14.16-14.19 - requirements in respect of trading in CMAP products; and

3.2.2 The Rules are supplemented with Procedures that provide further detail on the requirements in the Rules. Chi-X is also proposing to issue an Information Pack that may assist product issuers, participants, investors and wider stakeholders in the operation of CMAP.

3.2.3 Chi-X has structured the Rules so that Product Issuers must be approved and registered prior to its investment products being admitted to trading. This is intended to:

(i) create a framework where meeting applicable Corporations Act or equivalent offshore requirements, including those applied on a modified basis pursuant to ASIC or other relief, will satisfy the Rules in the area covered by those legislative provisions;
(ii) have a single section of the Rules relating to all investment products;
(iii) provide for and assist Chi-X taking a lead regulatory role in the review of CMAP products before they are admitted to quotation; and

(iv) facilitate the expeditious consideration by Chi-X of new product applications relating to products that are similar to those which are already trading.

Consultation Question 2: Do you have any comments on the proposed structure of the CMAP Rules?

3.3 Overview - Market Making Rules

3.3.1 The liquidity requirements for CMAP products require Rules and Procedures relating to market making. Chi-X has previously consulted upon and obtained Ministerial approval for market making Rules relating to ASX listed securities traded on the Chi-X market. These existing Rules have not yet come into force as the benefits for market makers complying with the quoting obligations in the rules have not yet been finalised.

3.3.2 Chi-X is proposing to integrate the CMAP market making requirements into the existing market making rules. The consultation questions relating to CMAP market making are included in section 5.10 of the Consultation Paper on the approval and ongoing requirements for CMAP investment products. The Consultation Paper also covers one aspect of the existing market making Rules that must be resolved for those rules to come into force: the potential for short sale relief to be provided to registered Chi-X market makers in ASX listed securities trading in compliance with obligations contained in the rules. This aspect of the CP is dealt in Part VIII of the Consultation Paper.

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\[3\] The benefits for CMAP market makers may come within existing class orders relating to market making in ETF and other derivative products and is to be considered by ASIC (see section 2.5 above). This relief is separate from that which Chi-X is seeking for market makers in ASX listed securities.
PART IV – APPROVAL OF PRODUCT ISSUERS

4. Approval of Product Issuers

4.1.1 The Rules provide Chi-X with discretion in registering a product issuer and contain criteria that a firm must meet in order to be eligible for approval as a product issuer. This part of the CP outlines the criteria that must be met for a firm to be eligible for registration as a CMAP product issuer and lists specific questions on which the views of stakeholders are sought.

4.2 The Application Process

4.2.1 The application process for product issuer requires a firm to complete an Issuer Application Form (IAF) which is in a form prescribed by Chi-X. A copy of the current proposed IAF is attachment one to the Information Pack at annexure three to this CP. The information an applicant must provide in an IAF includes regulatory status, organisational competence and financial position.

Consultation Question 3: Do you have any comments upon the information an applicant must provide in the IAF? Is there any information that you think should be included/excluded from the current draft of the IAF?

4.3 Eligibility Criteria

4.3.1 A product issuer needs to be sufficiently robust in a variety of areas for Chi-X to be confident that it will fulfil its obligations in respect of the products it issues. Therefore Chi-X has set out minimum requirements that must be met in order for an entity to be registered as a CMAP product issuer. The main requirements relate to the type of entity that a product issuer must be. The proposed Rules may enable firms to leverage any existing regulatory requirements to which they may be subject. A CMAP product issuer, or a guarantor with which it has a written arrangement (see section 4.4 below), must be one of the following:

(a) an authorised deposit-taking institution (ADI) within the meaning of the Banking Act (1959) (Cth);

(b) the holder of an Australian financial services licence which authorises it to undertake the activities it will engage in as a product issuer;

(c) a government, government body or instrumentality;

(d) the holder of a licence or authorisation in another jurisdiction, in which it is subject to adequate supervision of capital standards and has net tangible assets or capital that are sufficient to support the applicant’s obligations in respect of the relevant investment products it has issued or proposes to issue;

(e) a responsible entity of a managed investment scheme registered under Chapter 5C of the Corporations Act; or
(f) a firm of a type otherwise approved by Chi-X, such approval having been notified to ASIC and in respect of which Chi-X has not received an objection from ASIC within the four weeks following notification.

Consultation Question 4: Do you have any comments upon the entity requirements for CMAP product issuers? Are there any entities that you think should be included/excluded?

4.4 Guarantors

4.4.1 Some product issuers may arrange their business so that the entity issuing CMAP products is not able to provide sufficient financial resources to stand behind the products it issues. In these circumstances a product issuer may enter an arrangement with a third party, called a guarantor, whereby the guarantor takes on obligations relating to the products that have been issued. The Rules are intended, in these circumstances, to cascade the relevant obligations (eg with respect to financial resources and regulatory status) on to the guarantor.

Consultation Question 5: Do you have any comments on the rules concerning arrangements between products issuers and guarantors?

4.5 Ongoing Requirements for Chi-X Registered Product Issuers

4.5.1 The Rules are designed to enable a product issuer to take advantage of any existing regulatory standards it has to satisfy in its existing business. Therefore the key ongoing requirements for registered product issuers relate to:

(i) notifying Chi-X of any material non-compliance with its regulatory obligations;

(ii) notifying Chi-X of any material changes to its regulatory status or the information it has previously provided to Chi-X as part of its application to be registered as a CMAP product issuer.

Consultation Question 6: Do you believe it is appropriate to allow a product issuer to rely upon its regulatory obligations in satisfying ongoing obligations under the Chi-X CMAP Rules? Are there any additional obligations a product issuer should satisfy?
PART V – APPROVAL OF INVESTMENT PRODUCTS

5.1 Product Approval

5.1.1 As alluded to above, the framework contained in the Rules provides for a product issuer, registered with Chi-X, to apply for investment products to be admitted to trading on CMAP. An application form that may be used is at attachment two to the Information Pack at **annexure three** to this CP. The following are the key features of the product approval process:

(i) Chi-X retains an absolute discretion on whether to admit an investment product to quotation. This is to ensure that Chi-X is able to prioritise the interests of investors and maintain an orderly market in the products traded on CMAP.

(ii) An investment product must satisfy the eligibility criteria contained in the proposed Rules 14.8 to 14.12 in order to be eligible for quotation.

5.1.2 The criteria that a CMAP product must satisfy include:

(i) a product application form (PAF) must be completed and submitted to Chi-X;

(ii) the title and description of the product must be clear and not misleading;

(iii) the product must be able to be cleared and settled;

(iv) Chi-X must be provided with a copy of each relevant disclosure document;

(v) arrangements must be in place to ensure sufficient liquidity in secondary market trading;

(vi) the underlying assets must satisfy specified requirements;

(vii) the terms of issue and any investment mandate and/or other constituent documents must meet specified requirements.

5.1.3 The remainder of this part of the CP discusses the eligibility criteria for CMAP investment products.

5.2 The Product Application Form

5.2.1 A registered CMAP product issuer must complete and submit a PAF (a current draft is attachment two to **annexure three**) to Chi-X. The information/documents that must be submitted with the PAF include:

(a) all disclosure documents relating to the product;

(b) a legal opinion that the product falls within the category of products able to be traded on CMAP;
5.2.2 The PAF is intended to ensure that Chi-X is provided with the relevant information necessary for it to consider when exercising the discretion contained in the Rules on whether to admit a product to trading.

**Consultation Question 7:** Do you have any comments on the Product Application Form? Is there any information that should be included/excluded?

5.3 Clear and not misleading description and Clearing/Settlement requirements

5.3.1 An investment product must not be described in a way that creates a risk of a false or misleading impression with respect to that or any other product. Therefore the title and description of an investment product must be clear and not misleading in order to be eligible for quotation. An investment product must be capable of clearing and settlement before it can be admitted to trading and the Rules require these criteria to be satisfied before an investment product can be admitted to trading on CMAP.

**Consultation Question 8:** Do you have any comments on the requirements for:

(a) a product title and description to be clear and not misleading; and/or

(b) the requirement for a product to satisfy clearing and settlement criteria before it can be admitted to trading?

5.4 Disclosure Documents

5.4.1 The current regulatory framework in Australia requires the issuer of most investment products to publish specified information before the product is offered to investors. The requirements relating to this information are contained in the Corporations Act, ASIC guidance, ASIC relief (where applicable) and the offshore equivalents of the Corporations Act requirements. The Chi-X rules do not impose additional information disclosure...
requirements but do require a product issuer to provide Chi-X with copies of all the documents that contain the information required to be provided by these regulatory requirements. The product approval process will involve Chi-X considering the disclosure documents and, if Chi-X has any concerns regarding this information, Chi-X will either:

(i) not admit the product to quotation;
(ii) impose conditions on the admission of the document to quotation;
(iii) take other steps to address its concerns.

Consultation Question 9: Do you have any comments on the disclosure requirements in the CMAP product approval process?

5.5 Underlying Assets - Overview

5.5.1 As is stated in the Information Pack at annexure three, Chi-X is of the view that it should encourage innovation and work with issuers to explore and develop a broad range of possible underlying assets for CMAP products. This will benefit investors and wider stakeholders. However it is also important to ensure that the underlying assets of an investment product do not pose an unacceptable risk to the fair, orderly and transparent operation of the Chi-X market. The following paragraphs outline the proposed restrictions on the underlying assets of CMAP products.

5.6 Underlying Assets - Readily available and transparent pricing mechanism

5.6.1 The Rules preclude an investment product from having underlying assets that do not have a readily available and transparent pricing mechanism. An underlying asset that does not have a readily available and transparent pricing mechanism may pose unsatisfactory risks to the orderly trading of the investment product. The Procedures contain guidance on what a “readily available and transparent pricing mechanism” may mean in particular circumstances. The Information Pack outlines that Chi-X is of the view that rather than exhaustively listing the acceptable pricing mechanisms, it is preferable to state the underlying principles and factors that product issuers should consider when deciding what mechanisms may be appropriate. The Information Pack lists the following factors as matters Chi-X may take into account when deciding whether an underlying asset has a readily available pricing mechanism:

(i) Is the price of the underlying asset available at a regular time on a daily basis?
(ii) Is the price available to members of public?
(iii) Will the product issuer make the price available on its web site or any other place readily available to members of the public?
5.7 Underlying Assets - Sufficient Quantity

5.7.1 The orderly trading of an investment product will in part depend on the availability of a sufficient quantity of underlying assets and sufficient liquidity. A lack of sufficient underlying assets or underlying liquidity may pose a greater risk of aberrant trading in the underlying asset and associated investment products, particularly at or around the times specified in the terms of issue for expiry or delivery.

5.8 Underlying Assets - Prohibited Underlying Assets

5.8.1 It is currently envisaged that actively managed funds and products that have a dominant purpose of providing leveraged exposure, will not be admitted to quotation in the first two phases. This is to allow the rules relating to these products to be developed in anticipation of their being included in the phase three. The rules are therefore currently drafted to preclude:

(i) an ETF being admitted to quotation on CMAP if the dominant purpose is to provide leveraged exposure to unit holders (see rule 14.11(d)(i));

(ii) an investment product being admitted to trading if it is an actively managed fund (see rule 14.11(d)(ii) and the definition of “actively managed fund”).

5.8.2 The Procedures contain non-exhaustive examples of derivatives that may or may not have a dominant purpose of providing leveraged exposure (see section 1 of Procedure 14.11 in annexure three). The Procedures are based upon the principle that an OTC derivative, not linked to an exchange derivative and not entered for the purpose of managing foreign exchange or interest rate risk, may be more likely to have a dominant purpose of providing leveraged exposure. The Procedures and Information Pack currently outline that Chi-X is likely to regard an OTC derivative as providing leveraged exposure if, on an ongoing or regular basis, it has a level of notional exposure that exceeds 5% of the fund’s net asset value (with the exception of an OTC derivative that is entered to manage foreign exchange or credit risk). Chi-X is, however, also considering an alternative rule/procedures framework in this area that would involve:

(iv) How volatile is the product in between the times at which it is regularly priced?

(v) Is there an objective accuracy standard and monitoring regime in place for the mechanism?

(vi) Is it clear to potential investors how the underlying price that is made available will impact on the price of the CMAP product?

Consultation Question 10: Do you agree with the approach of Chi-X to the requirements for an underlying pricing mechanism to be readily available and transparent?
(i) replacing the ‘5%’ figure in paragraph 1.1 of Procedure 14.11 and paragraph 4.5.2 of the Information Pack, with ‘10%’; and

(iii) additional rules relating to underlying assets for ETFs that include an “leveraged OTC derivative”, which will be defined to mean “An OTC derivative that is or is proposed to be an underlying asset in an ETF and that provides a notional exposure of up to 10% of the net asset value of the ETF”.

5.8.3 The Rules and Procedures that relate to leveraged OTC derivatives are [italicised] in annexures two and three and consultation question 10(iv) seeks specific feedback upon the alternative rule frameworks that are proposed.

Consultation Question 11: Do you have any comments on:

(i) whether the rules, procedures and Information Pack provide sufficient clarity on the products that will not be admitted to quotation;

(ii) whether Chi-X should broaden/narrow the products that can be admitted to quotation and if so why;

(iii) the criteria for excluding, in the case of ETFs, underlying assets that have the dominant purpose of providing the holder of the ETF with a leveraged exposure to a further linked underlying asset;

(iv) which alternative set of rules is appropriate with respect to the OTC derivatives that may be an underlying asset for an ETF: those that restrict OTCs to those with a notional exposure of 5% of the net asset value of the ETF or those that provide a notional exposure of 10% of the net asset value of the ETF and impose additional requirements on those products?

5.9 Underlying Assets - Index Criteria

5.9.1 Recent cases have caused regulators to focus on and propose new requirements for the governance of benchmarks. The indices used as underlying assets for CMAP investment products may be affected by these proposals⁴. Accordingly the following requirements exist for investment products that are based on or connected to an index:

(i) A product issuer must provide Chi-X with a written authorisation from the owner of any index that is an underlying asset or connected to a product that it is seeking to have admitted to trading on CMAP;

(ii) A product issuer must ensure that the index provider has:

⁴ See, for example, the IOSCO Principles for Financial Benchmarks, retrieved on 27 January 2015 from http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf
A. a robust and transparent methodology for constructing and maintaining the index, including eligibility criteria and measures that mitigate the risks and expense of frequent or unexpected rebalances;

B. robust and transparent governance arrangements with regards to the index, including conflicts of interest arrangements;

C. systems and controls that will maintain the integrity of the index and mitigate the risk of manipulation or distortion by insiders or related parties of index providers for their own financial benefit and to the detriment of investors;

D. arrangements for the dissemination of index information that will ensure all market participants and investors are treated equally; and

E. complies with relevant guidance issued by Chi-X, ASIC and/or any other applicable regulatory authority in respect of index selection principles.

5.9.2 A product issuer must state in a Product Application Form:

(i) whether the product issuer is related to the index provider and if so provide an explanation of the governance arrangements in place between the product issuer and index provider;

(ii) how the index satisfies the requirements listed above in paragraph 5.9.1(ii).

Consultation Question 12: Do you agree that the requirements relating to the use of indices by CMAP product issuers are appropriate?

5.10 Liquidity Obligations

5.10.1 The rules propose three ways in which a product issuer can satisfy the requirements for a CMAP product to have sufficient liquidity to ensure orderly secondary market trading:

(i) ensuring that there is an initial spread of holders in the product to ensure there is sufficient secondary market trading in the investment products once they are admitted to trading – at present the number of holders required to satisfy this requirement is set at 1000;

(ii) entering an arrangement with a Chi-X registered market maker (see below) to maintain an order in the CMAP order book that is of a reasonable bid and volume;

(iii) a product issuer can elect to maintain sufficient liquidity itself – in this case it must ensure that it maintain internal arrangements that ensure the liquidity provided is sufficient.
5.10.2 Chi-X is not proposing to prescribe the metrics of what a reasonable bid or volume may be as this will depend on the nature of the investment product itself. Chi-X is proposing to monitor secondary market trading in CMAP products and issue alerts to product issuers if there is an aberration in the maintaining of liquidity. The rules are structured so that Chi-X is in a position to take action to require both the market maker and the product issuer to take steps to address any deficiencies in the liquidity being provided.

**Consultation Question 13:** Do you have any comments on the proposed liquidity requirements for CMAP products?

5.11 Terms of Issue

5.11.1 It is important that the terms of issue of a CMAP product provide certainty so that investors may rely upon the core features of an investment product only being amended in certain specified circumstances. Some of the requirements in the rules that embody this principle include:

(i) the investment mandate of an investment product must only be amended by a resolution approved by 75% of the holders;

(ii) the terms of issue must not be amended other than as set out in proposed rule 14.12(e).

5.11.2 This does not mean, for example, that an issuer of an investment product linked to an index must seek unit holder approval prior to amending the companies making up the index in accordance with the terms of that index. The rules have also sought to balance the requirement of enduring certainty for investors with pragmatic flexibility to allow product issuers to amend the terms of issue where that does not materially prejudice the interests of unit holders.

5.11.3 Chi-X is of the view that it is not appropriate to prescribe all the possible circumstances in which changes relating to an investment product require the approval of existing unit holders. Rather, the rules list a set of principles that should be sufficient to provide guidance on the steps that should be taken on a case by case basis.

**Consultation Question 14:** Do you think the rules relating to the constituent documents of an investment product are sufficiently clear and certain?
5.12 Valuation

5.12.1 As well as examining the pricing mechanisms for an underlying asset, Chi-X will also consider the way the investment product itself is valued. This will not necessarily involve a mathematical analysis of any valuation model that a product issuer may use, but it will involve an examination of the way in which the valuation of an investment product may impact on an investor’s ability to take reasonable investment decisions with respect to the investment product and/or the orderly operation of the market in the investment product.

Consultation Question 15: Do you have any comments on the valuation requirements for CMAP products?
PART VI – ONGOING REQUIREMENTS FOR INVESTMENT PRODUCTS

6.1.1 The ongoing requirements for investment products fall into the following categories:

(i) disclosure requirements;

(ii) continuing compliance with the eligibility criteria;

(iii) continuing compliance with the terms of issue and any disclosure documents relating to the product; and

(iv) the need for arrangements (eg a trust) to ensure that the underlying assets of covered investment products are available for delivery to holders.

6.2 Disclosure Requirements

6.2.1 Rule 14.14 contains the following disclosure requirements:

(i) a continuous disclosure requirement and applicable exemptions;

(ii) disclosure requirements relating to the indicative net asset value of an ETF;

(iii) Chi-X must be provided with each disclosure document\(^5\) in respect of an investment product;

(iv) periodic reports consisting of annual reports, half yearly reports and, in the case of ETFs, monthly reports on the number of units on issue.

6.3 Continuous, Periodic and Ad Hoc Disclosure Requirements

6.3.1 Chi-X is proposing a single consolidated continuous disclosure rule that is based on the underlying applicable principles contained in the Corporations Act. It requires a product issuer to disclose information that is not generally available but that relates to a product issuer or investment product and which would influence a reasonable investor when deciding whether to trade in an investment product. Chi-X is of the view that this single consolidated disclosure rule is preferable to referring to several Corporation Act provisions that may apply and applicable ASIC guidance.

6.3.2 As is stated in Procedure 14, CMAP investment products that are admitted to quotation may be unlisted disclosing entities to which section 675 of the Corporations Act may apply. The continuous disclosure requirement contained in rule 14.14 is intended to be equivalent to

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\(^5\) “Disclosure document” is defined in the Rules to mean a document containing any information required to be disclosed in relation to an investment product (a) under the Corporations Act, (b) pursuant to any waiver or other relief granted in respect of the Corporations Act requirements, or (c) any equivalent offshore requirement[s].
the obligation in section 675 so that any disclosure made to satisfy section 675 may also be submitted to Chi-X in satisfaction of the obligation under rule 14.14.

Consultation Question 16: What are your views on the Chi-X approach to continuous disclosure?

6.3.2. The Rules also contain requirements to:

(i) continue providing Chi-X with all disclosure documents\(^6\) relating to an investment product after it has been admitted to trading;

(ii) publish the indicative net asset value and number of units on issue of an investment product that is an ETF;

(iii) publish annual and other periodic reports specified in rule 14.14 in annexure two.

Consultation Question 17: Are there any further categories of information that Chi-X should require to be disclosed on an ad hoc or periodic basis?

6.4 Continuing Compliance with the Eligibility Criteria, terms of issue, initial disclosure documents and trust arrangements

6.4.1 The rules also contain ongoing requirements for CMAP products that require product issuers to notify Chi-X of any changes in the information provided to Chi-X in support of the application for the product to be admitted to trading. This should ensure Chi-X and investors are kept informed of any changes to the basis upon which the product initially satisfied the eligibility criteria.

Consultation Question 18: Do you have any comment on the requirements for CMAP products to notify any changes to the initial basis upon which the product satisfied the eligibility criteria?

\(^6\) Ibid footnote 5.
PART VII – CMAP TRADING

7.1.1 The Rules cover trading issues raised by CMAP products including:

(i) the transfer of investment products;
(ii) the register of holders;
(iii) the exercise and expiry of cash settled and deliverable investment products;
(iv) trading halts; and
(v) exchange traded fund special trades.

7.1.2 The Rules on trading are based on long held trading conventions in the Australian market. The Rules on trading halts ensure that priority is given to the protection of investors and the fair, orderly and transparent operation of the Chi-X market.

Consultation Question 19: Do you have any comments on the Rules relating to CMAP trading? Are there any further areas relating to trading in CMAP products that should be included?
PART VIII – COMPLIANCE & INDEMNITIES

8.1.1 The proposed Rules contain compliance requirements and indemnities that are specific to CMAP product issuers. They require:

(i) a product issuer to comply with a direction issued by Chi-X in relation to an investment product; and

(ii) a product issuer and a guarantor to provide any information requested by Chi-X in relation to an investment product.

8.1.2 A product issuer must respond without delay to a direction issued by Chi-X. A product issuer and guarantor must respond without delay to a request for information relating to continuous disclosure under rule 14.14. A product issuer and guarantor must respond to a request for information that does not relate to continuous disclosure, within a reasonable time.

Consultation Question 20: Do you have any comment on the compliance and indemnity requirements imposed upon product issuers and/or guarantors?
PART IX – MARKET MAKERS IN ASX LISTED SECURITIES TRADED ON CHI-X

9.1.1 As outlined in paragraph 3.3.1 above, Chi-X has previously consulted upon and obtained Ministerial approval for Operating Rules on Chi-X registered market makers in ASX listed securities. However, the market maker programme has not yet been launched as Chi-X has been involved in discussions with ASIC on the benefits that could be provided to Chi-X registered market makers in return for compliance with the continuous two way quoting obligations contained in the Rules. Chi-X is now in a position to consult upon the final proposed Operating Rules relating to Chi-X registered market makers, the proposed relief that they may be entitled to and the expected benefits of the programme.

9.1.2 The final proposed rules are the same as those which have previously received Ministerial approval, except for the metrics on the continuous quoting obligation, which have been increased. The following paragraphs outline the proposed rule framework and the proposed short sale relief for market makers that comply with the continuous quoting obligation.

9.2 Market Making Rules - The Framework

9.2.1 The proposed rules on market making in ASX listed securities are set out in annexure five. The general framework will involve a participant undertaking to Chi-X to comply with the affirmative obligations specified in the Rules and Procedures, including a continuous two way quoting obligation. Chi-X will have a general discretion to register a participant as a market maker if it has provided an undertaking to comply with the market making obligations in an agreed list of no less than 50 securities. The detailed metrics on the affirmative obligations are set out in the Rules and Procedures, which also provide for enforcement action to be taken if a market maker does not fulfil the required obligations.

9.3 Market Making Rules – Discretion to Register Participants as Market Makers

9.3.1 The market making obligations include separating market making activities from all other activities as a participant and complying with the continuous quoting obligation specified in paragraph 9.3.2 for at least 50 securities. The 50 securities must be agreed with Chi-X, which may take the following matters into account when exercising its discretion on whether a participant should be registered to make markets in a nominated security:

(i) the existing liquidity in that market, both in aggregate across all platforms and solely on Chi-X;

(ii) any settlement risks posed by a market maker receiving short sale relief in those securities;

(iii) the benefits to end investors of a participant complying with the continuous quoting obligations.

Consultation Question 21: Do you agree that a participant and Chi-X should be able to nominate 50 securities listed by ASX as the securities in which a Chi-X participant will act as a registered market maker upon the Chi-X market?
9.3.2 The proposed continuous quoting obligations are specified in Table 2.2 of Procedure 4.9 (set out in annexure Five) and are as follows.

(a) For stocks in the top 50 by market capitalisation, orders of a minimum value of $10,000 must be maintained for 85% of active continuous trading\(^7\) with a maximum spread determined by the price as follows:

<table>
<thead>
<tr>
<th>Price</th>
<th>Maximum Tick Size of the Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2</td>
<td>3</td>
</tr>
<tr>
<td>Greater than or equal to $2 but less than $10</td>
<td>3</td>
</tr>
<tr>
<td>Greater than or equal to $10 but less than $20</td>
<td>3</td>
</tr>
<tr>
<td>Greater than or equal to $20 but less than $30</td>
<td>4</td>
</tr>
<tr>
<td>Greater than or equal to $30 but less than $40</td>
<td>5</td>
</tr>
<tr>
<td>Greater than or equal to $40 but less than $50</td>
<td>6</td>
</tr>
<tr>
<td>Greater than or equal to $50 but less than $60</td>
<td>7</td>
</tr>
<tr>
<td>Greater than or equal to $60 but less than $70</td>
<td>8</td>
</tr>
<tr>
<td>Greater than or equal to $70 but less than $80</td>
<td>8</td>
</tr>
<tr>
<td>Greater than or equal to $80</td>
<td>9</td>
</tr>
</tbody>
</table>

(b) For stocks outside the top 50 by market capitalisation but within the S&PASX 200, orders of a minimum value of $5,000 must be maintained for 80% of active continuous trading, with a maximum spread determined by the price as follows:

<table>
<thead>
<tr>
<th>Price</th>
<th>Maximum Tick Size of the Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2</td>
<td>3</td>
</tr>
<tr>
<td>Greater than or equal to $2 but less than $10</td>
<td>4</td>
</tr>
<tr>
<td>Greater than or equal to $10 but less than $20</td>
<td>4</td>
</tr>
<tr>
<td>Greater than or equal to $20 but less than $30</td>
<td>5</td>
</tr>
<tr>
<td>Greater than or equal to $30</td>
<td>On a case by case basis but greater than or equal to 6</td>
</tr>
</tbody>
</table>

(c) For stocks outside the ASX 200, orders of a minimum value of $2,500 must be maintained for 75% of active continuous trading, with a maximum spread determined by the price as follows:

<table>
<thead>
<tr>
<th>Price</th>
<th>Maximum Tick Size of the Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2</td>
<td>3</td>
</tr>
<tr>
<td>Greater than or equal to $2 but less than $10</td>
<td>4</td>
</tr>
<tr>
<td>Greater than or equal to $10 but less than $20</td>
<td>4</td>
</tr>
<tr>
<td>Greater than or equal to $20</td>
<td>On a case by case basis but greater than or equal to 5</td>
</tr>
</tbody>
</table>

\(^7\) “Active continuous trading” is defined in the rules at annexure Five to mean, in this context, the aggregate time in which the Chi-X market is in continuous trading for an equity market product but excluding (a) the period during which the equity market product is in an opening or closing auction or a regulatory halt on the listing market and (b) the first fifteen and last twenty two minutes of the continuous trading phase on the Chi-X market.
9.4 Final Market Making Rules – Disciplinary Powers

9.4.1 The Rules propose that Chi-X may de-register a participant on a permanent or temporary basis and set out a framework for the registration regime, temporary suspension and amendment of the affirmative obligations. The market maker obligations will not apply on an “opt in, opt out” basis but rather must be adhered to on a sustained basis.

9.4.2 It will be possible for a participant to apply to review a decision by Chi-X on a participant’s registration and de-registration as market maker. This will require a minor amendment of existing Rules on the review process and the inclusion in rule 4.9 of a sub paragraph on the right to apply for that review.

9.4.3 As Chi-X is proposing that market makers receive short sale relief in return for complying with the continuous quoting obligations, it is important that Chi-X has in place a robust monitoring and enforcement regime to ensure that those obligations are being fulfilled and the benefits justifiably received. The proposed rules include a provision that will empower Chi-X to require a participant registered as a market maker to provide information to Chi-X as requested and take action if there is non-compliance with a market making undertaking. Chi-X will monitor compliance with the market maker regime on an automated basis through its compliance and operations departments, with the compliance team having ultimate responsibility for monitoring compliance with the obligations. Given the proposed benefits that will be provided to market makers, the immediate focus of the enforcement regime for market makers will be the withdrawal of the market maker status of the firm.

9.5 The Benefits of Market Maker Registration – Proposed Relief

9.5.1 Chi-X is proposing to formally apply to ASIC for short sale relief that will enable a Chi-X registered market maker, complying with the two quoting obligations in the rules, to engage in naked short selling so long as it believes, on reasonable grounds at the time of the sale, that a securities lending arrangement can be put in place to allow delivery and that, by the end of each day, it can acquire or borrow sufficient securities to ensure it can deliver all securities sold on the day delivery is due. Chi-X is of the view that:

(i) this benefit is commensurate with the additional liquidity that the market maker will be obliged to bring to the Chi-X market;

(ii) participants, issuers, investors and wider stakeholders will benefit in a number of ways from a market maker programme that provides this benefit to firms that comply with the continuous quoting obligations and some of these are outlined in the following paragraphs.

9.6 The Benefits to Wider Stakeholders of the Market Maker Programme

9.6.1 Chi-X liquidity is in large part generated by passive liquidity providers that provide two way quotes. Maintaining two way quotes is impacted by the prohibition on naked short selling and the requirement for each short sale to be covered by a stock lending agreement. To meet this requirement, a liquidity provider must be able to locate the securities covered by a
stock lending agreement prior to the start of the trading day. This enables those securities to be called upon as required pursuant to any subsequent short sale trading that takes place on that day pursuant to the two way quoting. Providing the locate service has become uneconomical for the firms that provide this service to liquidity providers. If the locate service is not offered, the liquidity providers are not able to undertake two way quoting in the relevant securities. This diminishes the available liquidity on Chi-X. There are, however, firms prepared to enter lending agreements at the end of each trading with a liquidity provider so that sufficient securities can be acquired or borrowed to ensure the liquidity provider can deliver all securities it has sold, on the day delivery is due.

9.6.2 Therefore, providing the short sale relief specified in paragraph 9.5.1 above will enable passive liquidity providers to quote in a greater number of securities on the Chi-X market. This will increase the liquidity pool available to participants and end investors and do so in a way that generates the benefits to the Australian market place of the liquidity provided by Chi-X trading, and that are outlined below.

9.6.3 The benefits of competition in the Australian equities market have been substantial. Capital Markets CRC Limited stated in a study that analysed the introduction of competition:

[The CMCRC study] provide[s] evidence that market efficiency, as proxied by transaction costs and price discovery, are improved in the wake of competition.....We estimate the welfare affects to be between $36-220m to market participants in the first year alone.\(^8\)

9.6.4 Analysis undertaken by the Strategic Intelligence Unit at ASIC has concluded that from the commencement of competition in market infrastructure to January 2013, the benefits of competition may have been worth up to $300million per year. Within the first twelve months of Chi-X Australia launching competing products, some of the ASX fees charged to ASX participants for those products had decreased from over $500,000 p.a. to no more than $12,000 p.a.

9.6.5 While the decision to introduce competition in secondary market trading is now an entrenched part of the Australian landscape, the evidence in the preceding paragraphs nonetheless emphasises the benefits in enhancing competition across the securities trading universe through mandated two way quoting pursuant to the market maker programme.

9.6.6 Market making programmes in equity trading are acknowledged globally as a means of increasing liquidity in a way that enhances market quality. Since Chi-X first consulted on a market maker programme, the Singapore Stock Exchange has launched a market maker programme that has seen improvements in the bid-offer spread and the depth of the market, with the SGX CEO stating:

Since the introduction of market-makers and liquidity providers in June 2014, investors have been able to trade larger size orders at the same or better prices in stocks quoted by these participants\(^9\).

\(^8\) See the abstract on page one of http://www.cmcrc.com/documents/1372142696hascompetitionbeenbeneficiaostralianmarketplace.pdf.

9.6.7 The Australian cash equities market is different to that in Singapore, but Chi-X is hopeful that given the many features common to the two markets, a market maker programme on Chi-X can enhance Australia’s markets in a similar way to that which has occurred on SGX.

9.6.8 The benefits of market making and an acknowledgement that the regulation of short selling is not directed at legitimate market making activity, are also expressly mentioned in IOSCO and UK government reports.10

Consultation Question 22: Do you have any comments on:

(i) whether the benefit of short sale relief is commensurate with the guaranteed additional liquidity that a Chi-X registered market maker complying with the two way quoting obligations will provide?

(ii) the proposed benefits to wider stakeholders of the Chi-X market maker programme?

9.7 Mitigating the Risks Posed by Granting Short Sale Relief

9.7.1 The short sale relief being sought is from legal requirements that exist to achieve important regulatory goals. They include the risks to settlement failure11. Chi-X is of the view that those goals can be achieved if the relief is provided in the following ways:

(i) the relief being sought still requires the market maker to hold a reasonable belief that the securities will be delivered;

(ii) the nature of market making is that net positions are largely flat so that there are no or minimal net positions creating any settlement risks;

(iii) market makers are subject to enhanced monitoring of transparent obligations creating an incentive to meet any delivery obligations.

Consultation Question 23: Do you have any comments on the risks posed by granting the proposed short sale relief to Chi-X market makers?


ANNEXURE ONE

Consultation Questions

PART II – REGULATORY FRAMEWORK

2.5 ASIC Class Order Relief

Consultation Question 1: Do you have any comments on:

(a) whether the class orders identified by Chi-X in attachment 3 to the Information Pack at Annexure Four should be the subject of an application by Chi-X to ASIC for similar relief to aide the establishment of CMAP?

(b) whether there are additional class orders or other ASIC waivers or relief that may be necessary for issuers, participants, market makers, investors and wider stakeholder in CMAP; and if so, the reasons why that is the case?

PART III – OVERVIEW OF THE PROPOSALS

3.2 Overview - CMAP Rules

Consultation Question 2: Do you have any comments on the proposed structure of the CMAP Rules?

PART IV - PRODUCT ISSUERS

4.2 The Application Process

Consultation Question 3: Do you have any comments upon the information an applicant must provide in the IAF? Is there any information that you think should be included/excluded from the current draft of the IAF?

4.3 Eligibility Criteria

Consultation Question 4: Do you have any comments upon the entity requirements for CMAP product issuers? Are there any entities that you think should be included/excluded?

4.4 Guarantors

Consultation Question 5: Do you have any comments on the rules concerning arrangements between products issuers and guarantors?

4.5 Ongoing Requirements for Chi-X Registered Products Issuers

Consultation Question 6: Do you believe it is appropriate to allow a product issuer to rely upon its regulatory obligations in satisfying ongoing obligations under the Chi-X CMAP Rules? Are there any additional obligations a product issuer should satisfy?
PART V - APPROVAL OF INVESTMENT PRODUCTS

5.2 The Product Application Form

Consultation Question 7: Do you have any comments on the Product Application Form? Is there any information that should be included/excluded?

5.3 Clear and not Misleading Description and Clearing/Settlement Requirements

Consultation Question 8: Do you have any comments on the requirements for:

(i) a product title and description to be clear and not misleading; and/or

(ii) the requirement for a product to satisfy clearing and settlement criteria before it can be admitted to trading?

5.4 Disclosure Documents

Consultation Question 9: Do you have any comments on the disclosure requirements in the CMAP product approval process?

5.6 Underlying Assets – Readily available pricing mechanism

Consultation Question 10: Do you agree with the approach of Chi-X to the requirements for an underlying pricing mechanism to be readily available?

5.8 Underlying Assets – Prohibited Underlying Assets

Consultation Question 11: Do you have any comments on:

(i) whether the rules, procedures and Information Pack provide sufficient clarity on the products that will/will not be admitted to quotation?

(ii) whether Chi-X should broaden/narrow the products that can be admitted to quotation and if so why?

(iii) the criteria for excluding, in the case of ETFs, underlying assets that have the dominant purpose of providing the holder of the ETF with a leveraged exposure to a further linked underlying asset?

(iv) which alternative set of rules is appropriate with respect to the OTC derivatives that may be an underlying asset for an ETF: those that restrict OTCs to those with a notional exposure of 5% of the net asset value of the ETF or those that provide a notional exposure of 10% of the net asset value of the ETF?
5.9  Underlying Assets – Index Criteria

Consultation Question 12: Do you agree that the requirements relating to the use of indices by CMAP product issuers are appropriate?

5.10  Liquidity Obligations

Consultation Question 13: Do you have any comments on the proposed liquidity requirements for CMAP products?

5.11  Terms of Issue

Consultation Question 14: Do you think the rules relating to the constituent documents of an investment product are sufficiently clear and certain?

5.12  Valuation

Consultation Question 15: Do you have any comments on the valuation requirements for CMAP products?

PART VI – ONGOING REQUIREMENTS FOR INVESTMENT PRODUCTS

6.3  Continuous, Periodic and Ad Hoc Disclosure

Consultation Question 16: What are your views on the Chi-X approach to continuous disclosure?

Consultation Question 17: Are there any further categories of information that Chi-X should require to be disclosed on an ad hoc or periodic basis?

6.5  Continuing Compliance with the Eligibility Criteria, terms of issue, initial disclosure documents and trust arrangements

Consultation Question 18: Do you have any comment on the requirements for CMAP products to notify any changes to the initial basis upon which the product satisfied the eligibility criteria?

PART VII – CMAP TRADING

Consultation Question 19: Do you have any comments on the Rules relating to CMAP trading? Are there any further areas relating to trading in CMAP products that should be included?

PART VIII - COMPLIANCE AND INDEMNITIES

Consultation Question 20: Do you have any comment on the compliance and indemnity requirements imposed upon product issuers and/or guarantors?

PART IX – MARKET MAKERS IN ASX LISTED SECURITIES TRADED ON CHI-X

9.3  Market Making Rules – Discretion to Register Participants as Market Makers
Consultation Question 21: Do you agree that a participant and Chi-X should be able to nominate any 50 securities listed by ASX as the securities in which a Chi-X participant will act as a registered market maker upon the Chi-X market?

9.6 The Benefits to Wider Stakeholders of the Market Maker Programme

Consultation Question 22: Do you have any comments on:

(i) whether the benefit of short sale relief is commensurate with the guaranteed additional liquidity that a Chi-X registered market maker complying with the two way quoting obligations will provide?

(ii) the proposed benefits to wider stakeholders of the Chi-X market maker programme?

9.7 Mitigating the Risks Posed by Granting Short Sale Relief

Consultation Question 23: Do you have any comments on the risks posed by granting the proposed short sale relief to Chi-X market makers?
ANNEXURE TWO

PROPOSED CHANGES TO THE OPERATING RULES FOR THE NEW CMAP PLATFORM
14. THE CHI-X MULTI-ASSET PLATFORM (CMAP) OPERATING RULES

14.1 Preliminary

(a) This rule 14 contains the requirements for product issuers, investment products and trading on the Chi-X multi-asset platform (CMAP).

(b) The approval of a product issuer or the admission of an investment product to quotation under these Rules should not be interpreted in any way as an indication of Chi-X’s approval of the merits of the product issuer, or of an investment product. Chi-X takes no responsibility and to the extent permitted by law disclaims all liability for the performance by a product issuer of its obligations in respect of an investment product admitted to quotation on the Chi-X multi-asset platform, or the performance of an investment product.
CMAP PRODUCT ISSUERS – REGISTRATION AND ELIGIBILITY CRITERIA

14.2 CMAP Issuers – Registration as a Product Issuer

(a) Chi-X may, in its absolute discretion:

(i) register or refuse to register a product issuer;

(ii) impose pre and/or post registration conditions on an applicant or a registered product issuer;

(iii) revoke or suspend the registration of a product issuer.

(b) An applicant may request a review of a decision by Chi-X under rule 14.2(a) to:

(i) refuse to register a product issuer;

(ii) deregister a product issuer.

(c) The process by which Chi-X will register a product issuer is set out in the procedures and requires the completion and signing of an Issuer Application Form (IAF) in which the applicant agrees to be bound by this rule 14.

(d) The procedures contain further information on the circumstances in which the registration of a product issuer may be revoked or suspended.

14.3 CMAP Issuers – Eligibility Criteria

For an applicant to be eligible for approval as a product issuer it must have adequate human, technological and financial resources in place to perform its obligations as a product issuer and be one of the following:

(a) an authorised deposit-taking institution (ADI) within the meaning of the Banking Act (1959) (Cth);

(b) the holder of an Australian financial services licence which authorises it to undertake the activities it will engage in as a product issuer;

(c) a government, government body or instrumentality;

(d) the holder of a licence or authorisation in another jurisdiction, in which it is subject to adequate supervision of capital standards and has net tangible assets or capital that are sufficient to support the applicant’s obligations in respect of the relevant investment products it has issued or proposes to issue;

(e) in a legally binding arrangement with a guarantor that:

(i) has adequate human, technological and financial resources in place to perform its obligations as a guarantor;
(ii) provides an unconditional and irrevocable guarantee by the guarantor in favour of the holders of an investment product issued by the applicant as a product issuer; and

(iii) requires the guarantor to be an entity specified in rule 14.3(a),(b) or (c), for the duration of the guarantee; and

(f) a responsible entity of a managed investment scheme registered under Chapter 5C of the Corporations Act; or

(g) otherwise approved by Chi-X, such approval having been notified to ASIC and in respect of which Chi-X has not received an objection from ASIC within the four weeks following notification.

14.4 CMAP Issuers – Duties and Continuing Obligation to Satisfy Rule 14.3

An applicant that is registered as a product issuer:

(a) owes Chi-X Australia a duty to comply with this rule 14 and this duty is owed in addition to any other obligations it may have as a participant;

(b) must continue to satisfy rule 14.3 as outlined in its application to be registered as a product issuer.
CMAP PRODUCT ISSUERS – ONGOING REQUIREMENTS

14.5 CMAP Issuers - Ongoing Requirements

(a) A **product issuer** must immediately notify Chi-X in writing if there is, or is a reasonable risk that there will be, a material change to:

(i) the information contained in or attached to the IAF it submitted to Chi-X; or

(ii) the Australian financial services licence held by the **product issuer** (if applicable);

(iii) the ability of the **product issuer** to perform its obligations as a **product issuer**.

(b) A **product issuer** must immediately notify Chi-X in writing if it is in material non-compliance with its regulatory obligations.

(c) A **product issuer** must at all times comply with the applicable **rules**, **procedures** and any guidance notes, guides, trading notices, technical specifications, directions, decisions, requirements and conditions issued, made or imposed by Chi-X.

(d) A **product issuer** and any **guarantor** must comply with rule 14.14 and the applicable **procedures** in relation to each **investment product** admitted to **quotation** that it has issued or guaranteed respectively.

(e) The **product issuer** and any **guarantor** must comply as soon as practicable with any notice to produce or direction issued by Chi-X under rule 14.20.

(f) A **product issuer** must satisfy any additional requirements set out in the **procedures**.

(g) A **product issuer** must, upon request, provide a copy of its current annual report to a **holder**.

(h) A **product issuer** must comply with the continuous and periodic disclosure requirements contained in rule 14.14.

(i) A **product issuer** must pay all fees associated with the quotation of the **investment products** it has issued as and when they fall due.
CMAP INVESTMENT PRODUCTS – APPROVAL AND ELIGIBILITY CRITERIA

14.6 CMAP Investment Products - Approval

(a) Chi-X may, in its absolute discretion, grant, refuse, revoke, impose conditions on or suspend the quotation of an investment product.

(b) Chi-X may impose pre-quotation conditions on an investment product.

14.7 CMAP Investment Products – Eligibility Criteria

For an investment product to be eligible for quotation:

(a) it must meet the eligibility criteria contained in rules 14.8 to 14.12 and satisfy any pre-quotation conditions that have been imposed; and

(b) Chi-X must have no objections to the basis on which the investment product satisfies the eligibility criteria.

14.8 CMAP Investment Products – Eligibility Criteria – Basic Requirements

(a) The investment product must be issued by a product issuer that is:

(i) registered as a product issuer of investment products of the type for which quotation is sought; and

(ii) complying with the rules.

(b) The product issuer must accurately complete and sign a product application form (PAF) and provide any information required by Chi-X in connection with the quotation of the investment product.

(c) The investment product must be an approved financial product.

(d) A product issuer must ensure that an investment product has a title and description that:

(i) are clear and not misleading;

(ii) distinguish the investment product from other investment products already admitted to trading on Chi-X or any other regulated market;

(iii) comply with ASIC regulatory guidance on naming convention requirements for investment products.

(e) The investment product must be approved for clearing by the designated central counterparty or an alternative central counterparty.
(f) The **product issuer** must satisfy any pre-quotation conditions imposed by **Chi-X** and certify to **Chi-X** that the conditions have been satisfied.

(g) The **product issuer** must have paid all fees associated with the **quotation** of the **investment product**.

### 14.9 CMAP Investment Products – Eligibility Criteria – Disclosure Documents

(a) A **product issuer** seeking the quotation of an **investment product** must provide **Chi-X** with a copy of the **disclosure document** (and any **supplementary disclosure document**) that it is required to produce in respect of the **investment product**.

(b) An **investment product** will not be admitted to quotation until **Chi-X** has received a copy of all **disclosure documents** relating to that **investment product**.

(c) The **procedures** contain guidance on the **disclosure documents** that may be required in respect of each of the different types of **investment products** traded on **CMAP**.

(d) A **product issuer** that considers it is not required to produce any **disclosure document** in relation to an **investment product** for which **quotation** is sought must provide evidence satisfactory to **Chi-X** on why that is the case.

### 14.10 CMAP Investment Products - Eligibility Criteria – Liquidity Obligations

(a) A **product issuer** must ensure that there will be sufficient liquidity for each quoted **investment product** it has issued and state how it will satisfy this eligibility criterion in the application for quotation.

(b) A **product issuer** may satisfy the liquidity requirements in paragraph (a) of this rule 14.10 by ensuring:

   (i) the initial and ongoing spread of **holders** is adequate and reasonable for the purpose of ensuring there is sufficient liquidity in the **investment product**; or

   (ii) liquidity is maintained in that **investment product** by the **product issuer**:

      A. trading itself to maintain a reasonable bid and volume order in the order book and in accordance with the **Procedures**;

      B. entering an arrangement with a **market maker** under paragraph (c) of this rule 14.10, although this does not discharge the product issuer from the obligation in paragraph (a) of this rule 14.10.

(c) A **product issuer** may appoint a **participant**, registered with **Chi-X** as a **market maker** in accordance with section 4.9 of these **rules** and the applicable **procedures**, as its agent to make a market in an **investment product**.

(d) The appointment by a **product issuer** of a **participant** as its agent under paragraph (c) of this rule 14.10, must be in writing and contain details of the way in which the
market maker will maintain an order of a reasonable bid and volume in the order book for the relevant investment product.

14.11 CMAP Investment Products – Eligibility Criteria – Underlying Assets

The underlying assets and/or the product issuer of an investment product, must meet the criteria in (a) to (d) [(f)] of this rule 14.11 for the investment product to be eligible for quotation. The procedures contain further guidance on what may satisfy these criteria.

(a) The underlying assets of the investment product may include:

(i) a security, derivative, debenture, bond or other financial product admitted to trading by the holder of an Australian market licence;

(ii) a security, derivative, debenture, bond or other financial product traded on a regulated market and that is subject to substantially equivalent disclosure requirements to those which would apply if the product were admitted to trading by the holder of an Australian market licence and which are acceptable to Chi-X;

(iii) a debenture or bond in respect of which sufficient information will be available on a timely basis to participants and markets makers to not impair the fair, orderly and transparent operation of the Chi-X market, and which is issued by:

A. a company that is listed on a regulated market;

B. a government or statutory entity; or

C. an entity regulated by an independent prudential supervisor in its home state.

(iv) a commodity or currency that is subject to a pricing and disclosure regime that will not impair the fair, orderly and transparent operation of a market for an investment product substantially linked to that commodity or currency;

(v) an index based on the financial products in (i)-(iv) above.

(b) A product issuer of an investment product that references an index (whether because the index is the underlying asset or otherwise) must:

(i) provide Chi-X with a written authorisation from the owner of the index;

(ii) ensure that the index provider has:

A. a robust and transparent methodology for constructing and maintaining the index, including eligibility criteria and measures that
mitigate the risks and expense of frequent or unexpected rebalances;

B. robust and transparent governance arrangements with regards to the index, including conflicts of interest arrangements;

C. systems and controls that will maintain the integrity of the index and mitigate the risk of manipulation or distortion by insiders or related parties of index providers for their own financial benefit and to the detriment of investors;

D. arrangements for the dissemination of index information that will ensure all market participants and investors are treated equally;

E. complies with relevant guidance issued by Chi-X, ASIC and/or any other applicable regulatory authority in respect of index selection principles.

(iii) state in the PAF:

A. whether the product issuer is related to the index provider and if so provide an explanation of the governance arrangements in place between the product issuer and index provider;

B. how the index satisfies the requirements in sub paragraph (b)(ii) of this rule 14.11.

(c) The product issuer must ensure that:

(i) there is a sufficient number of underlying assets available to be acquired in respect of an investment product that may require delivery of those assets;

(ii) in any event the number of underlying assets that may have to be acquired to meet the delivery obligations of an investment product, does not exceed:

A. during the period an investment product is admitted to quotation until the expiry of the product, 50% of the class of underlying asset that is available to meet that required acquisition; and/or

B. during the period that is 14 days either side of the expiry, 20% of the class of underlying asset that is available to meet that required acquisition.

(d) The underlying assets must not include:

(i) in the case of an investment product that is an exchange traded fund (ETF), a derivative that has the dominant purpose of providing the holder of the investment product with a leveraged exposure to a further linked underlying asset; or
(ii) an actively managed investment fund; or

(iii) an asset or index that is not subject to a readily available and transparent pricing mechanism.

[(e) The product issuer of an ETF that includes an underlying asset that is a leveraged OTC derivative must ensure that:

(i) the legal and beneficial title to any collateral is held by the ETF;

(ii) at any time the ETF is able to either take immediate delivery of any collateral or the proceeds of its sale.

(f) The product issuer of an ETF that has an underlying asset that is a leveraged OTC derivative must ensure that:

(i) the counterparty of the leveraged OTC derivative, or a guarantor in respect of the failure of the counterparty to fulfil its obligations under the OTC derivative, is an authorised deposit-taking institution (ADI), or a foreign deposit taking institution subject to equivalent regulation to an ADI;

(ii) the assets that may be obtained as collateral under the leveraged OTC derivative are restricted to the securities in the S&P ASX 200, cash, Australian government debentures or bonds, or assets set out in Rules 14.11(a)(i)-(v) (being assets which constitute the underlying asset).]

14.12 CMAP Investment Products – Eligibility Criteria – Investment mandate and Constituent Documents

(a) An investment product that is an exchange traded fund (ETF) must have an investment mandate or other document outlining the investment approach of those responsible for managing the fund.

(b) The product issuer must have provided Chi-X with a copy of the terms of issue, any relevant investment mandate or other constituent document for the investment product.

(c) The investment mandate of an investment product must only be amended by the approval of a resolution, containing the proposed amendment, by 75% of the votes of holders, excluding the product issuer and/or its associates from the denominator in the calculation of that percentage and votes being cast on a one for one basis. The resolution must be put at a meeting convened by the product issuer in compliance with paragraph (f) of this rule 14.12.

(d) The terms of issue for an investment product must make provision for the adjustment of exercise rights where the investment product is linked to an underlying asset that may be subject to corporate or other events impacting on the nature of that underlying asset (for example a reduction in capital, bonus/rights
issues and capital restructurings of an underlying cash equity market product or the modification/discontinuance of an underlying index).

(e) The terms of issue for an investment product must not be capable of amendment other than as follows:

(i) the expiry date may be amended in the case of an extraordinary event or as otherwise set out in the terms of issue;

(ii) the terms of issue for a particular investment product may be amended at a meeting convened by the product issuer in compliance with paragraph (g) of this rule 14.12, if the amendment is approved by 75% of the holders, excluding the product issuer and/or its associates from the denominator in the calculation of that percentage and votes being cast on a one for one basis;

(iii) with the consent of Chi-X for the purpose of:

A. complying with a legal requirement
B. a direction issued by Chi-X;
C. rectifying any manifest error or ambiguity in the terms of issue in a manner that does not materially prejudice the interests of holders;
D. to permit transfers;
E. an adjustment pursuant to change in an underlying asset that involves a reduction or restructuring of capital, a bonus or rights issue or the discontinuance or modification of an index;
F. any other amendment that does not materially prejudice the interests of holders.

(f) A product issuer must provide Chi-X with at least four weeks’ notice of an amendment to the terms of issue that may result in operational changes to the trading, clearing or settlement of an investment product.

(g) A product issuer convening a meeting for the purpose of proposing a resolution to amend the terms of issue or an investment mandate must take reasonable steps to provide each holder with:

(i) a notice of the meeting containing the substance of the proposed resolution 15 or more business days prior to the date of the meeting;

(ii) a proxy form that enables the appointment of person to vote for the holder and does not suggest a choice as to the identity of that proxy or voting intention.
The terms of issue must:

(i) state the way in which the intrinsic value of the investment product will be calculated;

(ii) in the case of cash settled investment products, require the product issuer to pay the holder an amount equivalent to the intrinsic value at the expiry date within 10 business days of the expiry;

(iii) in the case of deliverable investment products:
   A. require the product issuer to comply with its delivery obligations within the 20 business days following receipt of an effective notice of exercise;
   B. outline the way in which an assessed value payment, and any costs, will be calculated in event a holder fails to give an effective notice of exercise within the time limits contained in the terms of issue;
   C. provide for the calculation of the assessed value payment to be paid to the holder where the holder does not provide a notice of exercise within the time prescribed in the terms of issue and the investment product has an intrinsic value equal to or greater than 5% of the exercise price of the investment product.

(i) The constituent documents of an ETF must provide for the daily off market redemption of units in the ETF.

[(i) The constituent documents of an ETF must:

(i) provide for the daily off market redemption of units in the ETF.

(ii) in the case of an ETF that has an underlying asset that is a leveraged OTC derivative:
   A. not permit the issuer to have recourse to holders of such products;
   B. disclose the assets that may be obtained as collateral under the OTC derivative.]

14.13 CMAP Investment Products – Eligibility Criteria – Disclosures upon Quotation

(a) When Chi-X makes a decision to admit an investment product to quotation it may, in accordance with the procedures, disclose the following in relation to that investment product:

(i) the disclosure documents
(ii) any information provided in respect of the eligibility criteria relating to liquidity obligations (rule 14.10), underlying assets (rule 14.11) and/or the investment mandate/constituent documents (rule 14.12).
14.14 CMAP Investment Products - Ongoing Requirements – Continuous and Periodic Disclosure

(a) A product issuer must disclose to Chi-X any information that is not generally available, that relates to the product issuer or an investment product it has issued and which would influence a reasonable investor in the investment product when deciding whether or not to trade in that investment product.

(b) A product issuer must make the disclosure required by (a) immediately it becomes aware of the information and in accordance with the procedures.

(c) A product issuer is exempt from the requirement to make the disclosure in rule 14.14(a) if to disclose the information would prejudice the legitimate interests of the product issuer and:
   (i) a reasonable investor in the investment product would not be misled by the failure to disclose the information; and
   (ii) the product issuer is reasonably able to ensure the confidentiality of the information.

(d) The indicative net asset value of an investment product that is an ETF must be disclosed by a product issuer:
   (i) on each business day;
   (ii) on the product issuer’s web site;
   (iii) in accordance with the terms of issue of the investment product; and
   (iv) to the Chi-X disclosure interface.

(e) A product issuer must provide Chi-X with a copy of every disclosure document the issuer is required to publish in relation to an investment product that has been admitted to quotation. Chi-X will publish each disclosure document it receives in accordance with the procedures.

(f) A product issuer and guarantor must lodge the following documents with Chi-X in accordance with the procedures and within 75 days of the end of the period to which they relate:
   (i) any annual report issued by the product issuer and, if applicable, any guarantor and, if not included in that report, a statement of assets, liabilities and equity that would enable a reasonable investor in the investment products to assess the ability of the product issuer and/or guarantor to meet the terms of issue;
(ii) a half yearly report relating to the assets, liabilities and equity of the product issuer and, if applicable, guarantor, and that would enable a reasonable investor in the investment products to assess the ability of the product issuer and/or guarantor to meet the terms of issue.

(g) A product issuer of an ETF must publish the number of units on issue on the last business day in a month. The publication must occur within five business days of the end of each month.

((g) A product issuer of an ETF must publish within five business days of the end of each month:

(i) the number of units on issue on the last business day in that month.

(ii) in the case of an ETF that has an underlying asset that is a leveraged OTC derivative:

A. the aggregate exposure of the ETF to all leveraged OTC derivative counter-parties as a percentage of the net asset value of the ETF; and

B. the value of assets (excluding the value of leveraged OTC derivatives, but inclusive of collateral) held by the ETF as a percentage of the net asset value of the ETF.]

14.15 CMAP Investment Products - Ongoing Requirements

(a) A product issuer must ensure that an investment product continues to meet the eligibility criteria for investment products and any conditions imposed by Chi-X, after it is admitted to quotation.

(b) A product issuer must notify Chi-X, and publish on the product issuer’s web site, any material change to the matters in rule 14.11(b).

(c) A product issuer of a fully covered investment product must:

(i) ensure that the underlying assets that are the subject of the investment product are held in a trust, custodial or other similar arrangement approved by Chi-X and are only dealt with in accordance with the terms of that arrangement;

(ii) conduct an annual audit of compliance with the requirements in sub-paragraph (b)(i) of this rule 14.14 and provide a copy of that audit to Chi-X.

(d) A product issuer must ensure an investment product complies with the terms of issue and any requirements contained in a disclosure document relating to that investment product.

((e) A product issuer of an ETF that has an underlying asset that is a leveraged OTC derivative must:
(i) monitor the aggregate exposure of the fund to all OTC derivative counter-parties on a daily basis; and

(ii) in the event the aggregate exposure of the fund to all OTC derivative counter-parties exceeds 10% of the net asset value of the ETF, take steps within one trading day to acquire further collateral to ensure that the aggregate exposure is reduced to 10% or less of the net asset value of the ETF.]
CMAP TRADING

14.16 CMAP Trading – Transfers

(a) The transfer of an investment product must comply with:

(i) the Corporations Act;

(ii) the Clearing Rules and the Settlement Rules;

(iii) the rules; and

(iv) any other requirements set out in the procedures.

(b) In respect of each investment product, a product issuer must establish and maintain a register of holders that contains:

(i) the name and address of the holder; and

(ii) the date on which the holder’s details were entered into the register.

(c) A product issuer may establish an issuer sponsored subregister in respect of an investment product. An issuer sponsored subregister must comply with the Settlement Rules.\(^\text{12}\)

(d) A product issuer must:

(i) have its register of holders audited at least once every 12 months by a registered company auditor;

(ii) provide Chi-X with a certificate from the registered company auditor, engaged pursuant to rule 14(d)(i), certifying that the processing of transfers is in accordance with the rules;

(iii) ensure that the places at which the transfer of investment products are to be lodged for registration are open during the times set out in the procedures;\(^\text{13}\)

(iv) comply with the Clearing Rules and the Settlement Rules.

14.17 CMAP Trading – Exercise and expiry of cash settled and deliverable investment products

(a) A product issuer must make any settlement payment or delivery on the exercise of, respectively, a cash settled investment product or a deliverable investment product:

\(^{12}\)Rule 14.16(c) may be amended and/or deleted once ASX Settlement arrangements are finalised.

\(^{13}\) Rule 14.16(a)-(d) may be amended and/or deleted once ASX Settlement arrangements are finalised.
(i) after it receives an effective notice of exercise; or

(ii) in the event it does not receive an effective notice of exercise, in accordance with the terms of issue and if the terms of issue do not provide for the calculation or dispatch of an assessed value payment, then the amount and dispatch of the payment must be completed according to rule 14.15(b).

(b) If the holder of a deliverable investment product exercises the investment product and the product issuer fails to satisfy its obligations under the terms of issue within 20 business days following the date of the effective exercise, the product issuer must, without prejudice to any other rights the holder may have, pay to the holder, within 10 days of receiving a request to do so from Chi-X or the holder, liquidated damages no less than:

For investment products, other than one involving a put option, with an underlying asset:

\[ L = 1.1 \times S \]

For all other investment products (including puts):

\[ L = 1.1 \times E \]

Where:

L is the liquidated damages amount;

S is the arithmetic average of the daily volume weighted average prices of the underlying asset on the 5 Trading Days following the expiry date excluding special, late and overseas sales; and

E is the exercise price of the investment product.

14.18 CMAP Trading – Halts and the Application of the Operating Rules Generally

(a) Chi-X may, in its absolute discretion, halt or suspend trading of any investment product on the Chi-X market if Chi-X considers it appropriate to do so, having regard to the protection of investors and the need to ensure the Chi-X market is fair, orderly and transparent.

(b) Trading in investment products which are admitted to quotation shall be conducted by participants in accordance with the rules.

14.19 CMAP Trading – Exchange-Traded Fund Special Trade

(a) A participant may execute an Exchange-Traded Fund Special Trade with the product issuer of an ETF where the participant is selling securities as part of the subscription process or buying securities as part of a redemption process and the transaction is reported in accordance with the procedures.
14.20 Obligation to Comply with a Direction or Request for Information

(a) Chi-X may direct a product issuer to take specified steps in relation to any investment product and the product issuer must comply with that direction without delay.

(b) Chi-X may require a product issuer and any guarantor to provide Chi-X with any information in relation to an investment product. The product issuer and any guarantor must comply with that request:
   (i) without delay, if the requirement relates to continuous disclosure under rule 14.14;
   (ii) within a reasonable time depending on the circumstances of the case, if the request does not relate to the continuous disclosure of information under rule 14.14.

(c) A product issuer may request a review of a direction issued by Chi-X under rule 14.20(a) but must comply without delay and continue to comply pending the outcome of the review.

14.21 Indemnity

(a) Each product issuer (and, if applicable, any guarantor) indemnifies Chi-X in relation to all claims arising from, or in relation to, an investment product issued by the product issuer including, without limitation, any claim from any person arising from or in relation to any disclosure document or supplementary disclosure document or any other disclosure by the product issuer and any failure by the product issuer or any guarantor of the product issuer to comply with its obligations under these rules, the terms of issue, the Corporations Act or other applicable laws.
### New Definitions

| **Actively managed investment fund** | An investment fund managed by a person that has day to day discretion in the investment strategy and/or selection of **underlying assets**, for the fund. |
| **Approved financial product** | A financial product approved by ASX Settlement in accordance with section 8 or section 13 of the **Settlement Rules**. |
| **Cash settled warrant** | A warrant in relation to which the settlement obligations under the **terms of issue** are satisfied by payment of a **cash amount**. |
| **Chi-X multi-asset platform (CMAP)** | The trading platform operated by Chi-X for trading in investment products. |
| **Deliverable warrant** | A warrant in relation to which the settlement obligations under the **terms of issue** are satisfied by transfer of the **underlying assets**. |
| **Derivative** | As defined in section 761D of the **Corporations Act**. |
| **Disclosure document** | The document(s) published by a **product issuer** which contains the information that is: |
|  | (a) if the **Corporations Act** applies to a **product issuer**, required to be provided under the **Corporations Act** in connection with the **issue** or **quotation** of an **investment product**, including without limitation a prospectus or product disclosure statement and information required to be disclosed under a **product issuer's** continuous or periodic disclosure obligations; or |
|  | (b) if the **Corporations Act** does not apply to a **product issuer**, required to be provided in connection with the issue or quotation of an **investment product** under: |
|  | (i) an exemption from the **Corporations Act** requirements; or |
|  | (ii) any disclosure requirements imposed under equivalent offshore requirements to those in (a) or (b)(i) and that apply to a **product issuer**. |
| **Disclosure Interface** | The disclosure interface specified in the technical specification. |
| **Eligibility criteria for investment products** | The criteria contained in **rules 14.8 to 14.12** |
| **Exchange-Traded Fund Special Trade** | A trade executed pursuant to **rule 14.19**. |
| **Exchange Traded Fund (ETF)** | A **financial product** issued by the **product issuer** pursuant to the **terms of issue** and which: |
|  | (a) is admitted to **quotation** by Chi-X as an exchange traded fund; |
(b) is a managed investment scheme under the *Corporations Act*
(c) complies with the applicable registration requirements;
(d) provides under the **terms of issue** for:
   (i) the continuous issue and quotation of new interests in the scheme;
   (ii) the issue of new interests in the scheme in return for a subscriber transferring to the scheme a portfolio of securities;
   (iii) the application for and redemption of interests in the scheme in the primary market, in specie or in cash.

| **Guarantor** | An entity that falls within the categories specified in rule 14.3(a), (b) or (c) and which guarantees the **product issuer's** obligations to **holders**. |
| **Holder** | A person who holds legal title to an **investment product**, as determined in accordance with the **terms of issue**. |
| **Investment product** | A warrant or exchange traded fund issued by the **product issuer** pursuant to the **terms of issue** and, depending on the context, either:
   (a) the subject of an application to **Chi-X** to be admitted to quotation; or
   (b) admitted to quotation by **Chi-X** as an investment product. |
<p>| <strong>IAF, Issuer Application Form</strong> | An Issuer Application Form approved and made available by <strong>Chi-X</strong> for the purpose of applying to be registered as a <strong>product issuer</strong>. |
| <strong>Issuer sponsored subregister</strong> | As defined in the <strong>Settlement Rules</strong>. |
| <strong>Leveraged OTC derivative</strong> | An OTC derivative that is or is proposed to be an underlying asset in an ETF and that, in accordance with paragraph 1.1(a) of procedure 14.11, provides a notional exposure of up to 10% of the net asset value of the ETF. |
| <strong>Market maker</strong> | A participant that has been registered as a market maker by <strong>Chi-X</strong> under rule 4.9 |
| <strong>PAF, Product Application Form</strong> | A Product Application Form approved and made available by <strong>Chi-X</strong> for the purpose of applying to have an investment product admitted to quotation. |
| <strong>Product issuer</strong> | In relation to an investment product, the entity which issues the <strong>investment product</strong>. |
| <strong>Quotation</strong> | Admitted to quotation on <strong>CMAP</strong> pursuant to rule 14.6. |
| <strong>Regulated Market</strong> | A market that is subject to regulation that is at least the equivalent of the regulation of a market operator licenced under section 795B(1) of the Corporations Act. |
| <strong>Security</strong> | As defined in the <strong>Corporations Act</strong>. |
| <strong>Settlement Rules</strong> | The operating rules of ASX Settlement Pty Ltd (ABN 49 008 504 532). |</p>
<table>
<thead>
<tr>
<th><strong>supplementary disclosure document</strong></th>
<th>A document which updates, add to or otherwise amends the information contained in a disclosure document.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Terms of issue</strong></td>
<td>The terms of issue of an investment product and which sets out the contractual arrangements between products issuers and holders, including the rights, obligations and conditions associated with the investment product.</td>
</tr>
<tr>
<td><strong>Underlying asset</strong></td>
<td>The financial product(s) or other asset(s) by reference to which an investment product is valued.</td>
</tr>
</tbody>
</table>
| **Warrant**                          | A financial product issued by a product issuer pursuant to the terms of issue and which:  

(a) satisfies the definition of ‘warrant’ contained in the Corporations Act; and  
(b) is admitted to quotation under rule [14.6] by Chi-X as a warrant. |

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**Amended Rules**

4.4 **Classes of Financial Products**

4.4.1 The classes of financial products that may be traded on the Chi-X market are equity market products and investment products. The procedures contain a further description of the specific equity market products and investment products that are able to be traded on the Chi-X market.

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**Amended Definitions**

| There are no amended definitions | |

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ANNEXURE THREE

PROPOSED CHANGES TO THE OPERATING RULES: PROCEDURES FOR THE NEW CMAP PLATFORM
It is proposed to insert the following text at the end of the current Procedures.

P14.2: CMAP Issuers – Registration as a Product Issuer

1. Approval

1.1 To be eligible for registration as a product issuer, an applicant must:

(a) complete and sign the Issuer Application Form (IAF) made available by Chi-X;

(b) provide any additional information required by Chi-X in connection with the application.

2. Adequate Financial Resources

2.1 An applicant that is intending to issue products that may expose holders of that product to a counterparty risk to the issuer, will not have adequate financial resources to perform its obligations as product issuer unless it has a:

(a) long term debt rating of investment grade or its equivalent by a ratings agency acceptable to Chi-X and net tangible assets sufficient to support the proposed issue; or

(b) legally binding arrangement with a guarantor that satisfies the requirements in paragraph 2.1(a) of this procedure.

3. Deregistration and Suspension of Product Issuers

3.1 Chi-X may, in its absolute discretion, suspend or revoke the registration of a product issuer if Chi-X considers, acting reasonably, that the product issuer is or may be, or may become, unable or unwilling to comply with, or has failed to comply with, the rules, the procedures and any guidance notes, guides, trading notices, technical specifications, directions, decisions, requirements or conditions of Chi-X.

3.2 Chi-X may, in its absolute discretion, grant, suspend or revoke the registration of a product issuer by giving one month’s prior notice in writing, if the product issuer has no investment products currently admitted to quotation on Chi-X.
P14.5: CMAP Issuers – Ongoing Requirements

1. Notification Requirements

1.1 Rule 14.5(a) requires a product issuer to notify Chi-X immediately it becomes aware that it may cease to comply with rule 14.3 in the way that was outlined in its application to be registered as a product issuer. The notification must be provided to:

The Compliance Department

au.compliance@chi-x.com
tel: + 61 (0) 2 8078 1718

1.2 Chi-X may require a product issuer that provides such notice to re-apply to be registered as a product issuer.

P14.6: CMAP Investment Products – Approval

1. The Suspension and Revocation of Investment Product Quotation

1.1 Chi-X may, in its absolute discretion, suspend or revoke the quotation of an investment product if Chi-X considers that the relevant product issuer may be or may become, unable or unwilling to comply with, or has failed to comply with, the rules, the procedures and any guidance notes, guides, trading notices, technical specifications, directions, decisions requirements and conditions of Chi-X in respect of that investment product.

P14.8: CMAP Investment Products – Eligibility Criteria – Basic Requirements

1. Applications for Approval of an Investment Product

1.1 Chi-X will make available a product application form (PAF) that may be used by an applicant to apply for the approval of an investment product.


1. Corporations Act Requirements

1.1 The disclosure requirements relating to the initial offering of an investment product are found in the Corporations Act and vary according to the type of product being issued. The CMAP Issuer Pack contains further information and guidance upon the eligibility criteria relating to the Corporations Act and disclosure documents.
1.2 Once a decision has been made to admit an investment product to quotation, Chi-X will publish each disclosure document in its possession relating to that investment product.

P14.10: CMAP Investment Products - Eligibility Criteria – Liquidity Obligations

1. An Adequate and Reasonable spread of holders

1.1 Whether the initial and ongoing spread of holders is adequate and reasonable will depend on the circumstances of each investment product. A product issuer should record its methodology for determining what is an adequate and reasonable spread of holders and the application of that methodology to a particular investment product. Further information and guidance on the eligibility criteria relating to liquidity obligations is contained in the CMAP Issuer Pack.

2. Reasonable Bid and Volume

2.1 A product issuer that proposes satisfying the liquidity requirement in paragraph (a) of rule 14.10 by trading itself to maintain a reasonable bid and volume, or by entering an arrangement with a market maker, must ensure that a reasonable bid and volume is maintained for 90% of the time during which the investment product is in active continuous trading.

2.2 A product issuer is not required to be registered as a market maker in order to satisfy the liquidity requirements by trading itself as outlined in paragraph (b)(ii)A of rule 14.10.

2.3 A participant may register with Chi-X as a market maker in investment products by following the process set out in rules 4.9 to 4.14 and the applicable procedures.

P14.11: CMAP Investment Products - Eligibility Criteria – Underlying Assets

1. Financial Products Excluded from being an underlying asset

1.1 Rule 14.11(d)(i) states that to be eligible for approval, a product that is an ETF must not have an underlying asset that is a derivative that has the dominant purpose of providing the holder with a leveraged exposure to a further underlying asset. The following are non-exhaustive examples of a derivative that, in the case of a product that is an ETF, Chi-X will consider as having the dominant purpose of providing the holder with a leveraged exposure to a linked underlying asset:
(a) an OTC derivative that on an ongoing or regular basis has a level of notional exposure that exceeds 5% [10%] of the fund’s net asset value (with the exception of an OTC derivative falling within paragraph 1.2(b) of this Procedure 14.11);

(b) a derivative that is embedded into an ETF to provide exposure to a multiple of a standard delta 1 index for a defined period;

(c) a derivative that is embedded into an ETF to provide exposure to an index that itself provides exposure to a multiple of a standard delta 1 index.

1.2 The following are non-exhaustive examples of a derivative that does not, on its own, have the dominant purpose of providing the holder of the investment product with a leveraged exposure to a linked underlying asset:

(a) a call or put option over a share or standard delta 1 index;

(b) a derivative used for the dominant purpose of managing foreign exchange or interest rate risk.

1.3 Rule 14.11(d)(iii) precludes a CMAP product from being based on an underlying asset that is not subject to a readily available and transparent pricing mechanism. This does not require an underlying asset to be trading at the same time that the CMAP product is trading. CMAP products may be based upon underlying assets that are primarily traded offshore. In these instances, the criterion in rule 14.11(d)(iii) may be satisfied if the underlying asset is subject to a transparent pricing mechanism that is regularly available at the same or predictable times in a way that enables an investor in the CMAP product to make reasonable investment decisions on the price of that underlying asset.

1. Disclosure

1.1 A product issuer must provide the information required to be disclosed under rule 14.14 to the disclosure interface in compliance with the rules, procedures, technical specifications and guidance notes issued by Chi-X.

1.2 All investment products admitted to quotation are unlisted disclosing entities to which section 675 of the Corporations Act may apply. The disclosure requirement contained in rule
14.14 is intended to be equivalent to the obligation in section 675 and any disclosure made to satisfy section 675 may also be submitted to Chi-X in satisfaction of the obligation under rule 14.14.

1.3 A product issuer is entitled to take into account the continuous disclosure obligations relating to an underlying asset when assessing whether the product issuer is required to make a disclosure under rule 14.14(a). More specifically, if it is reasonable to assume that the information required to be disclosed under rule 14.14(a) will also be required to be disclosed under the continuous disclosure obligations relating to the underlying asset then the product issuer may rely upon continuous disclosure relating to the underlying asset as satisfying the product issuer’s obligations under rule 14.14(a).

1.4 A product issuer must, at a minimum, provide Chi-X with the following information under rule 14.14(a):

(a) any information that is not generally available and that a reasonable investor in the investment product would expect, if it were generally available, to have a material effect on the price or value of that investment product;

(b) any information in relation to an investment product of which the product issuer is aware and that, if not disclosed, may lead to a false market for that investment product;

(c) the payment of dividends or distributions in relation to an investment product;

(d) any information that the product issuer is required to disclose to ASIC under section 675 of the Corporations Act or under the conditions contained in an exemption granted by ASIC to an issuer in respect of section 675;

(e) any information that the product issuer is required to disclose under section 323DA of the Corporations Act or under the conditions contained in an exemption granted by ASIC to an issuer in respect of section 323DA.

2. Annual and Half Yearly Reports

2.1 The annual report, half yearly report and statement of assets, liabilities and equity, required to be lodged with Chi-X under rule 14.14(f) must be lodged within 75 days of the end of the annual/half financial year with:

The Compliance Department
au.compliance@chi-x.com
tel: + 61 (0) 2 8078 1718
2.2 A product issuer or guarantor may lodge a copy of a report with Chi-X by notifying Chi-X of the place where the information is available in a way that enables Chi-X to obtain that report free of charge.

3. Number of Units on Issue

3.1 A product issuer may satisfy the requirement in rule 14.14(g) by publishing the number of units on issue at the end of the month, on the issuer’s web site within five days of the month’s end.

P14.15: CMAP Investment Products – Ongoing Requirements

1.1 The effect of rule 14.15(c) and rule 14.12(i) is to require a product issuer of an investment product that is an ETF to maintain off market redemption facilities daily pursuant to and as outlined in the constituent documents of the ETF.

P14.19: CMAP Trading - Exchange-Traded Fund Special Trade

1.1 A participant must complete the following steps when reporting an Exchange-Traded Fund Special Trade:

(a) The participant must submit a trade report, relating to the Exchange-Traded Fund Special Trade, in accordance with the Technical Specification that is published on the Chi-X web site as the version in force at the time the report is submitted.

(b) At the same time that the report is submitted to Chi-X, email Chi-X Operations at au.ops@chi-x.com with the following information:

(i) the name of the Participant and applicable PID;
(ii) the ETF that is the subject of the Exchange-Traded Fund Special Trade;
(iii) the number of portfolios traded;
(iv) the total consideration;
(v) for each financial product in the Exchange-Traded Fund Special Trade:
   A. the identifier for the financial product;
   B. the number of the financial product that have been traded;
   C. the price of each trade;
   D. the consideration of each trade.
PROPOSED AMENDMENT OF PROCEDURE 1.6 ON THE RIGHT TO REVIEW A CHI-X DECISION REGISTERING/DEREGISTERING PRODUCT ISSUERS, APPROVING STRUCTURED PRODUCTS AND A DIRECTION ISSUED TO A PRODUCT ISSUER/GUARANTOR

In the text from Procedure 1.6 below:

(a) double underlining indicates text to be inserted;

(b) strikethrough indicates text to be deleted; and

(c) “…….” indicates text in the original which is not relevant to the proposed amendment.

<table>
<thead>
<tr>
<th>P1.6: Reviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Requesting a Review</strong></td>
</tr>
<tr>
<td>1.1 A <strong>participant</strong> can only request a review of a decision if the <strong>rules</strong> state that the decision may be reviewed.</td>
</tr>
<tr>
<td>1.2 The following <strong>rules</strong> state that a <strong>participant</strong> may request a review of the decisions that are specified:</td>
</tr>
<tr>
<td>(a) <strong>rule 4.9(c)</strong> states that a <strong>participant</strong> may request a review of a decision by <strong>Chi-X</strong> under <strong>rule 4.9(a)</strong> to register or deregister a <strong>participant</strong> as a <strong>market maker</strong>;</td>
</tr>
<tr>
<td>(b) <strong>rule 5.2</strong> states that a <strong>participant</strong> may request a review of a decision by <strong>Chi-X</strong> under <strong>rule 5.1(e)</strong> to modify or restrict a <strong>participant’s</strong> access to the market in order to ensure a fair, orderly and transparent market;</td>
</tr>
<tr>
<td>(c) <strong>rule 5.5</strong> states that a <strong>participant</strong> may request a review of the exercise by <strong>Chi-X</strong> of the powers in <strong>rule 5.4(d)</strong> in respect of a market-related <strong>dispute</strong>;</td>
</tr>
<tr>
<td>(d) <strong>rule 9.1(b)</strong> states that a <strong>participant</strong> may request a review of disciplinary action taken by <strong>Chi-X</strong> under <strong>rule 9.1(a)</strong>;</td>
</tr>
<tr>
<td>(e) <strong>rule 9.6</strong> states that a <strong>participant</strong> may request a review of a decision by <strong>Chi-X</strong> under the default powers in <strong>rule 9.5</strong> to restrict, suspend or terminate a <strong>participant’s</strong> access to the <strong>Chi-X market</strong>;</td>
</tr>
<tr>
<td>(f) <strong>rule 14.2(b)</strong> states that a review may be requested of a decision under <strong>rule 14.2(a)</strong> to refuse or to deregister the registration of a <strong>product issuer</strong>;</td>
</tr>
</tbody>
</table>
(g) rule 14.20(c) states that a participant may request a review of a direction issued by Chi-X under rule 14.20(a), to a product issuer and/or a guarantor.

1.3 Notification of a request for a review must comply with procedure 13.7 and be given to:

(a) Chi-X Compliance in the case of a notification of a request for a review made under rules 4.9(c), 5.2, 9.1(b) or 9.6, 14.2(c) or 14.20(c):

(b) Market Operations in the case of a notification of a request for a review made under rule 5.5(a).

8. Interim Measures

8.1 Lodging a request for a review pursuant to rules 4.9(c), 5.2, 5.5 or 9.6, 14.2(c) or 14.20(c) has no impact on the decision in respect of which the request is made. That decision will remain in force unless and until it is changed by the Review Committee.

9. Review Outcomes

9.1 In the case of a review conducted pursuant to a request made under rules 4.9(c), 5.2, 5.5 or 9.6, 14.2(c) or 14.20(c), the Review Committee may confirm, vary or quash the decision in respect of which the review is being sought.

9.2 In the case of a review conducted pursuant to participant objection under rule 9.1(b) or a referral from Chi-X under rule 9.1(d), a Review Committee may impose or utilise one or more of the sanctions in rule 9.3 and as outlined in procedure 9.1.

9.3 There is no appeal from a decision of the Review Committee.

9.4 The decision of the Review Committee may be enforced by Chi-X as if it were the decision that was reviewed.

10. Review Fees

10.1 The fees for lodging a request for a review are as follows:

(a) a review under rule 4.9(c) of a decision under rule 4.9(b) to register or deregister a participant as a market maker - $5,000.
(a) a review under rule 5.2 of a decision under rule 5.1(e) to restrict/modify a participant's access to the market for the purpose of maintaining a fair, orderly and transparent market - $5,000.

(b) a review under rule 5.5 of the exercise by Chi-X of the powers in rule 5.4(d) in respect of a market dispute - nil;

(c) a review under rule 5.1(b) of disciplinary action taken by Chi-X under rule 5.1(a) - $5,000;

(d) a review under rule 9.6 of a decision by Chi-X under the default powers in rule 9.5 to restrict suspend or terminate a participant's access to the Chi-X market - $5,000;

(e) a review under rule 14.2(c) of a decision under rule 14.2(b)(ii) or 14.2(b)(iii) to register and deregister respectively a product issuer - $5,000;

(f) a review under rule 14.20(c) of a direction issued under rule 14.20(a) to take specified steps - $5,000.

10.2 A Review Committee has the discretion to order the refund of a fee paid by a participant for a review of under rule 9.1(b) of disciplinary action taken by Chi-X under rule 9.1(a).

PROPOSED AMENDMENT OF PROCEDURE 13.7 ON THE NOTIFICATION REQUIREMENTS FOR A REQUEST TO REVIEW A CHI-X DECISION REGISTERING/DEREGISTERING A PARTICIPANT AS A MARKET MAKER

In the text below double underlining indicates text to be inserted and strikethrough indicates text to be deleted, in the current procedure 13.7.

P13.7: Notifications

1. Written notice

1.1 Unless otherwise specified in the exceptions listed in paragraph 1.2 below, notifications to Chi-X by a participant under the rules should be addressed to:

Market Operations
Chi-X Australia
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
1.2 The following exceptions to paragraph 1.1 apply:

(a) The notice is in relation to a request for a review pursuant to rules 4.9(c), 5.2, 9.1(b), or 9.6, 14.2(c) or 14.20(c);

(b) The notice is in respect of actual or contemplated disciplinary proceedings under the rules;

(c) The notice relates to a confidential matter, complaint or allegation of conflict of interest concerning the operation of the Chi-X market;

(d) Specific correspondence with a participant directs how notices are to be provided.

1.3 Notifications that fall within the exceptions specified in paragraph 1.2 should be addressed to:

Compliance
Chi-X Australia
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Tel: +61 2 8078 1700
Email: compliance-cxa@chi-x.com
ANNEXURE FOUR

PROPOSED INFORMATION PACK
FOR THE NEW CMAP PLATFORM
1. INTRODUCTION

1.1.1 This Information Pack on the Chi-X Multi Asset Platform (CMAP) has been developed in conjunction with issuers and Chi-X participants. It is intended to assist product issuers, participants, financial advisers, investors and wider stakeholders understand what is necessary to issue and trade products on the CMAP. The Information Pack does not have the status of Operating Rules, but is intended to assist interested parties in applying those rules to their own circumstances.

1.1.2 The pack provides information on the following:

Section 2: Key Features and Regulatory Framework

- 2.1 Key Features
- 2.2 Regulatory Framework

Section 3: How Product Issuers Become Registered

- 3.1 The Issuer Application Form
- 3.2 Financial Resource Requirements

Section 4: Admitting CMAP Products to Quotation:

- 4.1 Introduction
- 4.2 Underlying Assets – Readily Available and Transparent Pricing Mechanism
- 4.3 Underlying Assets – Valuation
- 4.4 Underlying Assets – Sufficient Quantity
- 4.5 Underlying Assets – Leveraged Exposure
- 4.6 Underlying Assets – Actively Managed Funds
- 4.7 Disclosure Documents
- 4.8 Liquidity Obligations
- 4.9 Liquidity Obligations – Initial Spread of Holders
- 4.10 Liquidity Obligations – Maintaining a Reasonable Bid

Section 5: Ongoing Requirements for CMAP Products

- 5.1 Overview
- 5.2 Continuous Disclosure
- 5.3 Trading Halts, Suspensions and Terminations

Section 6: Class Orders
2. THE CMAP MARKET: KEY FEATURES AND REGULATORY FRAMEWORK

2.1 Key Features

2.1.1 CMAP will offer trading in warrants and ETFs. CMAP warrants will only be traded on Chi-X while ETFs and other structured products that are admitted to quotation on CMAP may be traded on alternate platforms. The investment products admitted to quotation on CMAP are collectively referred to in this Information Pack as CMAP products.

2.1.2 CMAP products will have the following features:

(i) they will be issued or guaranteed by investment grade entities;

(ii) retail investors will be covered by a compensation regime that covers loss arising from defalcation and/or fraud;

(iii) secondary market trading will take place on an established, reliable and efficient technology platform that is integrated with the existing Chi-X trading platform;

(iv) conduct will be governed by the Chi-X Operating Rules, ASIC Market Integrity Rules and a Corporations Act framework;

(v) secondary market trading will involve the existing Chi-X trading community and a regulated market making regime.

2.2 Regulatory Framework

2.2.1 The CMAP Operating Rules are designed so that product issuers seek approval independently of any product that may be admitted to quotation. This is to facilitate the expeditious admission to quotation of products that are similar in nature and risk to those already admitted. This structure will not result in a product issuer being subject to any additional delay for the quotation of its products than if a single product approval process is in place.

2.2.2 Chi-X is conscious that in most cases the requirements applying to CMAP issuers and products will be found in the Corporations Act, the terms of any relief or waiver granted in respect of Corporations Act requirements, or in equivalent offshore provisions. The CMAP Operating Rules and Procedures are structured so that:

- as a general principle, the CMAP Operating Rules will not require product issuers to meet any requirements beyond those contained in the Corporations Act, applicable waivers/relief or the equivalent offshore requirements\(^\text{14}\);

- satisfying the requirements in the Corporations Act, applicable waivers/relief or the equivalent offshore requirements, is necessary to satisfy the CMAP rules;

- the requirements in the Corporations Act, applicable waivers/relief or the equivalent offshore requirements, will apply to CMAP Issuers on a basis that will take into account

\(^{14}\) As with all general principles, there will be exceptions to this and they are specified in the rules and some of the commentary below.
any changes in those requirements either on a legislative or interpretative basis or on the basis of relief that ASIC has provided to a particular issuer;

- Chi-X can take a lead role in reviewing the satisfaction of the Corporations Act requirements by CMAP issuers and products.
3. HOW PRODUCT ISSUERS BECOME REGISTERED

3.1 The Issuer Application Form

3.1.1 Chi-X has issued an Issuer Application Form (IAF – attachment one) that must be completed by a firm seeking to have CMAP products admitted to quotation. The IAF is designed to be self-explanatory but applicants should contact the CMAP team prior to commencing the application process.

3.1.2 The application process is intended to ensure that an applicant provides Chi-X with the necessary information for Chi-X to assess whether the product issuer satisfies the following key principles:

(i) the product issuer has the regulatory authorisation necessary to issue products of the type that it is proposing to issue;

(ii) the product issuer has the organisational resources and competence to undertake the activities required of a CMAP product issuer;

(iii) the product issuer has sufficient financial resources and prudential controls to meet the requirements of being a product issuer (eg having sufficient financial resources to satisfy any counterparty risks that a product issuer may pose to holders);

(iv) any guarantor that a product issuer is proposing to use, has sufficient financial resources and prudential controls to ensure the product issuer it has guaranteed will be able to meet its obligations in respect of any product it issued;

(v) the product issuer has satisfactory clearing and settlement arrangements in place; and

(vi) there are identifiable individuals at the product issuer who will take responsibility for issuance, compliance and systems issues.

3.1.3 The issuer application form is also intended to enable Chi-X to ensure that it is aware of the type of products that will be issued by a product issuer and to assess at an early stage whether the product issuer will satisfy the requirements in respect of issuing those types of products. This should facilitate the consideration by Chi-X, at a later stage, of any application to issue products.

3.2 Financial Resource Requirements

3.2.1 The financial resources required to issue a CMAP product will depend on the nature of the product and more specifically whether the product is of a type whereby the product issuer will pose a counterparty or market risk to the holders of the product. A product that involves delivery of an underlying asset to a holder requires the product issuers to maintain financial resources for the life of the product so that the issuer is in a position to provide the underlying asset at expiry. Often the financial resource requirement may be covered by the regulatory requirements imposed on a product issuer, however in some circumstances it may be necessary for a product issuer to use a guarantor to meet the financial resource requirements.
4. ADMITTING CMAP PRODUCTS TO QUOTATION

4.1 Introduction

4.1.1 This section of the Pack outlines and provides guidance on some of the key eligibility criteria that must be met before a product can be admitted to quotation. Chi-X has issued a Product Application Form (PAF - attachment two) that must be completed by any registered product issuer seeking to have a product admitted to quotation. The form is designed to facilitate product issuers providing a number of annexures to the Application Form in which the key criteria for a product being admitted to trading will be addressed.

4.1.2 This section provides further information on the following key aspects of the product approval process:

(i) **Underlying Assets** - Chi-X encourages innovation and is keen to work with issuers in exploring a broad range of possible underlying assets for CMAP products with the aim of serving the interests of end investors. The underlying assets by which a CMAP product may be valued or priced must, however, meet specified criteria including the following:

(a) CMAP products must be valued or priced by reference to underlying assets that have a readily available and transparent pricing mechanism and section 4.2 below outlines some features of a pricing mechanism that satisfies these requirements;

(b) the product issuer must have an appropriate valuation model for any underlying assets and their interaction and impact upon the price of the product that will be issued (this does not involve the assessment by Chi-X of a derivative valuation model, for example, but rather an assessment of the transparency and clarity for investors on how the product may be valued – see section 4.3);

(c) there must be sufficient underlying assets for the investment product to operate in a fair, orderly and transparent manner at all times, including at or around expiry or any time when the underlying assets may have to be delivered under the terms of issue of the product (see section 4.4);

(d) ETF products will not be admitted to quotation if they provide leveraged exposure and section 4.5 outlines what products are excluded from CMAP trading because of this;

(e) at this stage actively managed funds may not be traded on CMAP and section 4.6 provides further information on the types of funds that may come within this description;

(f) the eligibility criteria relating to investment products that reference indices (see section 4.7);

(ii) **Disclosure Documents** - CMAP Rules require product issuers to provide Chi-X with a copy of all documents issued to potential investors so that Chi-X can review those documents prior to a product be admitted to trading; section 4.8 provides further information on what documents are caught by this obligation and the interaction of the various requirements found in the Corporations Act, ASIC relief and CMAP rules;
(iii) **Liquidity Obligations** - Chi-X must be satisfied, before a product is admitted to trading, that it will be sufficiently liquid for holders to be able to exit their holdings and sections 4.9 to 4.11 provide further information on what is necessary to satisfy this requirement.

4.2 **Underlying Assets - Readily Available and Transparent Pricing Mechanism**

4.2.1 Chi-X is of the view that it is not appropriate to exhaustively list every acceptable pricing mechanism. Rather, the most efficient process, for product issuers and end investors, is for Chi-X to state the underlying principles and factors which product issuers should take into account when deciding what pricing mechanism should exist for the underlying assets they are considering. In this context, some aspects of a pricing mechanism that may be taken into account by Chi-X when deciding whether it is readily available and transparent include:

(i) Is the price of the underlying asset available at a regular time on a daily basis? Some underlying assets may be traded on overseas exchanges and the fact that they are not being actively re-priced on an ongoing basis will not preclude their being traded on the Chi-X market if the price is available at a regular time prior to the open of the Chi-X market.

(ii) What is the nature of the pricing mechanism? For example, is the pricing undertaken by a regulated entity in a supervised manner, such as that undertaken by a regulated market or a Swap Execution Facility?

(iii) Is the price available to members of public?

(iv) Will the product issuer make the price available on its web site or any other place readily available to members of the public?

(v) How volatile is the product in between the times at which it is regularly priced?

(vi) Is there an objective accuracy standard and monitoring regime in place for the mechanism?

(vii) Is it clear to potential investors how the underlying price that is made available will impact on the price of the CMAP product?

4.2.2 For some products based on offshore assets, the pricing mechanism may be closed during Australian trading hours. This will not of itself mean that the asset does not have a readily available and transparent pricing mechanism during those times: investors will be aware of the nature of the underlying asset and the daily basis on which it is priced.

4.3 **Underlying Assets – Valuation**

4.3.1 When reviewing a product for admission to quotation, Chi-X will consider the way in which the product will be valued by reference to the specified underlying assets. This does not mean Chi-X will require or seek to conduct a peer review of any mathematical models that may be used. Rather it will mean that Chi-X will require transparency and a robust framework around the way in which a product will track its underlying assets and any impact this process may have on the fair, orderly and transparent operation of the Chi-X market.
4.4 Underlying Assets – Sufficient Quantity

4.4.1 The fair and orderly trading of a CMAP product will be impacted by the sufficiency of supply of underlying assets related to that product. For example:

(i) a CMAP product that involves the potential delivery of underlying assets will be impacted by the sufficiency of the supply of the underlying assets available for that delivery;

(ii) the orderly trading of a CMAP product that does not involve the delivery, but that directly tracks the price, of an underlying asset may be impacted by aberrations in the sufficiency of the supply of that underlying asset.

4.4.2 These two examples are not intended to exhaustively state the circumstances in which the supply of underlying assets is a relevant consideration for Chi-X when deciding whether products will be admitted to quotation, but they are intended to provide a flavour of the matters that will be considered. For those products that are warrants, Chi-X will generally interpret these requirements to mean that:

(i) a minic warrant may only trade in respect of securities that are in the top 200 of the most liquid corporate names listed traded on the ASX; and

(ii) the number of warrants that may be able to be issued may be restricted to a particular number.

4.5 Underlying Assets – Leveraged Exposure

4.5.1 Exchange Traded Funds will not be admitted to quotation on the Chi-X market if the dominant purpose of the fund is to provide leveraged exposure to unit holders. In the vast majority of cases it will be apparent when an ETF provides leveraged exposure: the purpose of the product will be to commit a holder to an exposure that may be a multiple of an initial outlay. The rules and procedures are structured to provide assistance in identifying these cases and expressly state that warrants are not excluded from being admitted to quotation because they provide leveraged exposure: the leveraged exposure must be the dominant purpose of the derivative that makes up the underlying asset.

4.5.2 There may be edge cases where it is not apparent on the face of the ETF if a derivative that is an underlying asset, has the dominant purpose of providing leveraged exposure. In these cases, Chi-X may take into account the following matters when deciding on a case by case basis whether a product provides leveraged exposure:

(i) how will the product perform economically up to and including expiry – matters to take into account here include the range of the economic performance and the extent to which an investment in the product tracks any non-derivative underlying asset on a one for one or multiple basis;

(ii) what does any disclosure document describe as the purpose of any derivative included in the product?

(iii) if a derivative is being used as an underlying asset then is it:
(a) used for the dominant purpose of managing risk (e.g., foreign exchange or interest rate risk);

(b) used for the dominant purpose of more efficiently gaining an economic exposure, through the use of exchange-traded derivatives, to the underlying reference assets of those derivatives, but only on a temporary basis (i.e., less than 28 days, which cannot be extended by rolling over or replacing the derivative); or

(c) an over-the-counter traded derivative, and if so what is the level of the notional exposure of the product to the derivative — if it exceeds 5% [10%] of the fund’s net asset value then this may suggest that a purpose of the derivative is to provide leveraged exposure (unless the exposure is attributable to circumstances that were not reasonably foreseeable by the responsible entity, such as unforeseen market movements or large redemption requests, and the exposure is for a period of no more than three consecutive business days).

4.6 Underlying Assets — Actively Managed Funds

4.6.1 CMAP does not offer trading in actively managed funds, a term which is defined in the rules to mean an investment fund managed by a person that has day to day discretion in the investment strategy and/or the selection of assets in the underlying fund. Chi-X will take the following matters into account when deciding whether a product, for which quotation is sought, is actively managed:

(i) the day to day discretion that is provided to the investment manager;

(ii) the complexity of the investment strategy or structure;

(iii) the extent to which the management strategy is opaque or otherwise kept from the investing public as an indication that the value of the fund comes from the intellectual property in a confidential management strategy; and

(iv) the existence and size of any performance fee.

4.6.2 In the vast majority of cases it will be apparent when a product is an actively managed fund and Chi-X does not envisage that it will be necessary to build up a database of edge cases to assist in discerning what products will fall under this category.

4.7 Underlying Assets — Index Criteria

4.7.1 The rules contain criteria that must be satisfied before a product that references an index, as an underlying asset or otherwise, will be admitted to quotation. The criteria include the methodology for the construction and rebalancing of the index and in general this will require a product issuer to only use the indices of a provider that operates according to a set of pre-determined rules and objective criteria. The index methodology should not permit retrospective changes to previously published index values, except in order to correct errors. Prospective changes to the methodology or criteria used to calculate the index or to select its components or factors should not be made without reasonable notice being provided to users and investors or by way of supplementary disclosure documents.
4.7.2 The criteria also require transparent governance arrangements, and Chi-X will take into account the following when assessing whether to quote a product that references an index:

(i) the extent to which the index valuation processes is independently undertaken, especially where the index provider and product issuer are related;

(ii) the governance arrangements and levels of transparency in any disclosure documents, including governance/transparency on:

(a) the selection of index constituents and composition,
(b) the calculation methodology for passive investors
(c) the frequency and limits on re-balancing;
(d) matters that would enable an investor to replicate the index;
(e) what will occur when an index is no longer representative of its intended function;
(f) the management of conflicts of interest, particularly where the index provider and product issuer are members of the same corporate group;

4.7.4 The approach of Chi-X in this area will be informed by any regulatory developments that may take place concerning index governance, including any guidance from ASIC, IOSCO or other regulatory authorities.

4.8 Disclosure Documents

4.8.1 Chi-X is conscious that CMAP product issuers are subject to significant disclosure requirements that are primarily found in the Corporations Act, for Australian issuers, or equivalent offshore requirements for issuers located outside Australia. These disclosure requirements will apply to a product both initially, before it is admitted to quotation, and an ongoing basis once it has commenced trading on CMAP. This section of the Pack considers the disclosure requirements that must be met for a product to be admitted to quotation.

4.8.2 Rather than add to the initial disclosure requirements imposed on a product, the Chi-X rule framework requires issuers to fulfil the disclosure requirements that are imposed by the Corporations Act, if it applies, or by equivalent offshore requirements or in an exemption from the Corporation Act requirements. This outcome is obtained through the following:

(i) The term ‘disclosure documents’ is used in the Operating Rules and Procedures to refer to the information which a product issuer is required by to publish to potential investors in the product.\(^\text{15}\);
(ii) The rules require product issuers to provide Chi-X with copies of all ‘disclosure documents’ relating to a product before that product can be admitted to quotation;

(iii) Chi-X will review those documents prior to the product being admitted to quotation;

(iv) Chi-X and any appropriate regulatory authority may liaise in respect of the product offering.

4.8.3 An issuer will therefore be required to lodge, and Chi-X will review prior to quotation, the following documents:

(i) each Product Disclosure Statement (PDS) and any supplementary or replacement PDS in respect of the Investment Product;

(ii) each prospectus that a CMAP issuer is required to issue.

4.8.4 Chi-X is of the view that adopting this rule framework has the advantage of:

(i) ensuring that whatever changes take place under underlying legislative requirements (eg pursuant to court interpretations or parliamentary changes) are reproduced in the same way in the Chi-X rules on an ongoing basis;

(ii) issuer can rely on one set of controls and regulatory requirements;

(iii) investors can rely on one homogenous set of requirements and compare like for like as much as possible;

(iv) all stakeholders can work towards enhancing one set of disclosure requirements as a way of improving Australia’s markets.

4.9 Liquidity Obligations

4.9.1 In order to ensure the fair and orderly trading of CMAP products, issuers are required to ensure there is sufficient liquidity for existing holders to exit positions. The rule framework is intended to apply this principle while (a) allowing issuers sufficient flexibility to implement measures that are suitable to the circumstances of each product and (b) enabling Chi-X to take a rigorous and robust approach, when required, to ensuring investors are able to exit their holdings.

4.9.2 A product issuer must ensure the liquidity obligations contained in the rules are satisfied through one of the following measures specified in the rules:

(i) ensuring there is a sufficient initial and ongoing spread of holders to satisfy requirements; or

(ii) ensuring a reasonable bid and volume is maintained in the market so that investors can exit holdings.

4.9.3 An issuer does not have to satisfy both of these requirements.
4.10 Liquidity Obligations – Initial and Ongoing Spread of Holders

4.10.1 The following are some of the matters Chi-X will take into account in determining whether a product issuer has taken sufficient steps to ensure there is an adequate initial spread of holders:

(i) the number of registered retail holders relative to the net asset value of the underlying assets – for example 1000 holders for a fund with a net asset value of $10 million;

(ii) the authorised participants entitled to partake in the initial issue of securities;

(iii) the likely level of investor interest in the product, based on past performance and the views of any authorised participants entitled to partake in the initial issues of the securities.

4.11 Liquidity Obligations – Maintaining a reasonable bid and volume

4.11.1 There are two aspects to maintaining a reasonable bid and volume:

(i) ensuring that the bid is maintained in the market for a requisite period of time; and

(ii) ensuring that the price and volume of the bid satisfy minimum criteria for being reasonable.

4.11.2 The following are some of the matters Chi-X will take into account when deciding whether an issuer has taken steps to ensure there is sufficient liquidity through arrangements for maintaining a reasonable bid:

(i) Is there an arrangement with a Chi-X registered market maker that requires the market maker to be present with a reasonable bid in the market for at least 90% of the time the product is trading on CMAP? Chi-X will require written evidence of the arrangement and the basis upon which the market maker will be required to maintain the bid, including any incentives or sanctions for failure to comply with the reasonable bid requirements, that may be in place.

(ii) Has the issuer undertaken itself to maintain a reasonable bid in the market for 90% of the time? In this case Chi-X will require evidence of the systems and controls that the issuer has in place to ensure that the bid is maintained in the market for the required period of time.

4.11.3 Chi-X will have systems in place to detect when a market maker is not complying with the obligation to maintain a reasonable bid for 90% of the time the product is trading on CMAP. The systems will be set up to ignore the time during which the market for an underlying asset is in a trading halt and times during which the Chi-X market is not open or it is otherwise not technically possible for the market maker to submit orders to the Chi-X market.

4.11.4 As a rule, product issuers and market makers are best placed to determine the price and volume of a reasonable bid. In some circumstances determining a reasonable bid will be relatively straightforward due to the relationship between the product and the underlying asset. In other circumstances it may be more complex and require mathematical modelling.
5 ONGOING DISCLOSURE REQUIREMENTS FOR PRODUCT ISSUERS AND PRODUCTS TRADED ON CMAP

5.1 Overview

5.1.1 The CMAP Rules contain disclosure requirements that product issuers must continue to meet after a product is admitted to quotation. The following are some of the key features of the ongoing disclosure requirements in the CMAP rules:

(i) Investment Products that are valued or priced by reference to another product will often meet any continuous disclosure obligations by relying upon the continuous disclosures in relation to the underlying asset. Hence the importance of the rules mentioned above in relation to underlying assets being readily able to be transparently priced.

(ii) There are some key periodic disclosures that are very important for investors and so are expressly set out in the Rules, even though they may also be covered by the continuous disclosure rule.

(iii) The rules contain a single overarching continuous disclosure rule to ensure a common benchmark for all CMAP products – this rule is discussed further in the next section.

(iv) There are ongoing disclosure requirements contained in the Corporations Act, and the CMAP rules seek to incorporate these requirements as part of the rules, either in the way they inform the continuous disclosure requirement (see below), or as independent requirements that must be met under the rules relating to disclosure documents.

5.2 Product, Periodic and Continuous Disclosure

5.2.1 The rules contain the following disclosure requirements.

(i) Initial or product disclosure requirements, which are contained in rule 14.9 and usually relate to documents published when the product is first launched and/or are provided to an investor when he/she first acquires an interest. The documents that product issuers will be required to produce to Chi-X under rule 14.9, and which Chi-X will publish on its announcements platform, include any prospectus or product disclosure statement (PDS) published in respect of an investment product. Initial or product disclosure is discussed in more detail in section 4.8 above.

(ii) Periodic disclosure requirements which are contained in rules 14.14(d), (e), (f) and (g). The rule 14.14(e) requirements will usually relate to financial reports, auditor reports and director’s reports that are required to be lodged with ASIC in respect of the managed investment scheme connected to an ETF or warrant. The rule 14.14(d), (f) and (g) requirements expressly state the information/documents to which they relate: indicative net asset value (14.14(d)), annual and half yearly reports (14.14(f)) and a statement of the number of units on issue (14.14(g)). A product issuer must provide this information/documentation to Chi-X and it will be published on the Chi-X announcements platform.

(iii) Continuous disclosure requirements in rule 14.14(a) which provide a general overarching obligation on all product issuers and will be satisfied by a product issuer...
complying with any relevant continuous disclosure requirements that may be imposed on it under the Corporations Act.

5.2.2 The single overarching continuous disclosure obligation imposed upon product issuers is based upon the need for a reasonable investor to be able to obtain the information necessary to make a decision on whether to invest in a CMAP product. The need for reasonable investor to have this information also underpins the various Corporations Act continuous disclosure obligations. In many instances a reasonable investor may be able to rely on the continuous disclosure relating to the underlying assets when deciding whether to invest in a CMAP product, and this is recognised in the Procedures.

5.2.3 Some investment products may be subject to a continuous disclosure obligation in s675 of the Corporations Act and some are subject to only the periodic disclosure obligation in section 1017D. However, Chi-X requires all issuers to provide the information that a reasonable investor would be influenced by in making a decision on whether to invest. Chi-X is of the view a reasonable investor would be influenced by information that the Corporations Act requires an issuer to publish. What is required by this obligation will be shaped by the existing statutory obligations that are imposed on an issuer but will never be less than the information that would influence a reasonable investor in deciding whether or not to invest in securities.

5.2.4 Some of the key continuous disclosure obligations that the issuer of an ETF on CMAP will have are specified in the Procedures and include, for example the payment of dividends or distributions in relation to an investment product. As outlined above, these disclosures may also be required under periodic disclosure requirements.

5.3 Trading Halts, Suspensions and Terminations

5.3.1 The protection of the interests of investors is the key priority for Chi-X when supervising Investment Products admitted to quotation on CMAP. This key priority will inform and shape the approach of Chi-X to trading halts, suspensions and product terminations. In many cases the terms of issue of a product will outline when halts and terminations may take place. However it is not possible for anyone to exhaustively foresee the different circumstances that may befall an investment product and accordingly there may be occasions when Chi-X is required to consider whether a trading halt or product termination should take place. Chi-X will consider the following non-exhaustive factors when it is required to exercise its discretion and implement a trading halt or terminate the quotation of an investment product:

(i) the primacy of the interest of investors;

(ii) the importance of investors being able to enter/exit positions;

(iii) the importance of all potential and actual investors trading on the basis of equal access to price sensitive information;

(iv) the importance of investment products trading in accordance with the terms of issue;

(v) the extent to which an investment product may no longer be priced or valued in the same way as outlined or implied in any relevant disclosure document.
6. CLASS ORDERS

6.1.1 Over time a significant library of class orders and wider ASIC relief from requirements in the Corporations Act, has developed in relation to the products that are traded on CMAP. These orders are the domain of ASIC and some are currently drafted by reference to ASX Markets. Chi-X is proposing to work with ASIC to obtain market neutral language where possible in these orders. **Attachment Three** contains a list of class orders that have been issued by ASIC and that may be relevant for Investment Product issuers to consider. At a high level, class order relief is available in the following areas:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin lending:</td>
<td>Product issuers that have issued products embedding debt facilities may not have to comply with margin lending requirements;</td>
</tr>
<tr>
<td>PDS requirements:</td>
<td>Retail investors acquiring investment products in the secondary market may not need to be issued with a PDS or prospectus before they acquire the product;</td>
</tr>
<tr>
<td>Settlement products:</td>
<td>CMAP Products will be subject to regulations specifying that they are able to be settled in CHESS;</td>
</tr>
<tr>
<td>Market making:</td>
<td>CMAP registered market makers may be entitled to short sale relief;</td>
</tr>
<tr>
<td>Equal treatment:</td>
<td>In some specified cases, product issuers may be exempt from Corporations Act requirements to treat all product holders equally – for example where the product is distributed through authorised participants.</td>
</tr>
</tbody>
</table>
ATTACHMENT ONE [ANNEXURE FOUR]

CMAP Issuer Application Form

(IAF)

Version 0.1
How to apply

This form is for use by entities seeking registration as a product issuer on the Chi-X Multi-Asset Platform (CMAP) operated by Chi-X Australia Pty Ltd (Chi-X) ABN 47 129 584 667.

There are a number of documents required to be annexed to this application form for registration as a product issuer. Applicants are therefore requested to adhere to the prescribed annexure numbering.

Applicant’s company name:

Principal contact concerning application:

Phone number:

Email address:

Address:

Date:

Applicants are advised to contact Chi-X in advance of submitting their application:
Tel: +61 2 8078 1700
email: au.info@chi-x.com

Completed applications should be returned to:
Chi-X Australia
CMAP Team
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Email: cmap@chi-x.com.au
Privacy Statement

As part of this application and in the course of participation in the Chi-X market, Chi-X requires you to submit personal information about your employees and officers. Chi-X will collect, retain and process any personal information that you provide in accordance with the Privacy Act 1988 (Cth) and Chi-X’s privacy policy.

Chi-X will keep personal information secure and use it for the purposes of administering, implementing, delivering, supporting, improving and marketing Chi-X products, services and data. You agree to obtain and provide all necessary consents and that personal information may be disclosed:

a) where that disclosure is permitted by, and made in accordance with, the Chi-X Rules;
b) to the Australian Securities and Investments Commission, the Reserve Bank of Australia, any other regulatory authority and any of their respective delegates; and
c) where that disclosure is required to comply with any legal, statutory or regulatory requirement.

Failure to provide personal information in whole or part may hinder your participation and Chi-X’s administration and operation of the market. Chi-X’s Privacy Policy is available on the website www.chi-x.com.au and you may request a copy and access to your personal information by contacting Chi-X Compliance on:

- Tel: +61 2 8078 1718
- Email: au.compliance@chi-x.com
Applicant Agreement

By executing this application form an applicant:

1. acknowledges that this application is subject to the Chi-X Operating Rules (Rules), as varied from time to time, and that if the application is accepted the applicant will be bound by the Rules;

2. undertakes that if registered as a product issuer, it will comply with the Rules as in force from time to time, even if the applicant’s registration is suspended;

3. represents and warrants to Chi-X that the:
   a) applicant understands its obligations under the Rules, the Market Integrity Rules (Chi-X Market), Market Integrity Rules (Competition in Exchange Markets), Chapters 6 and 7 of the Corporations Act and any regulations made under Chapters 6 and 7; and
   b) information contained in and annexed to this application form is true and correct in all respects;

4. acknowledges that Chi-X will rely on the information provided by the applicant in considering this application and acknowledges that any omission or misstatement may lead to rejection of the application or, if the application is approved, subsequent suspension and/or revocation of the applicant’s status as a CMAP product issuer;

5. indemnifies Chi-X and its employees and officers to the fullest extent permitted by law in respect of any loss, claim, action or expense arising from or connected with, any breach of this agreement by the applicant or resulting from reliance on the information contained in or annexed to this application to the extent that such loss, claim, action or expense has not resulted from the fraud, wilful misconduct or gross negligence of Chi-X or its employees and officers;

6. waives any rights, title, interests, privileges, advantages, powers or benefits that may accrue in relation to the information submitted in this application, and consents to Chi-X obtaining information from, and passing information to (a) credit agencies in relation to the applicant and acknowledges that this application authorises such a source to release information to Chi-X; (b) investigative agencies or any other source as permitted by law, in relation to the applicant or this application and that Chi-X considers relevant to this application, and acknowledges that this application authorises such a source to release information to Chi-X; and (c) government agencies, regulatory authorities, exchanges, market operators, clearing and settlement facilities, service providers and third party clearers for regulatory purposes or as is necessary for this application;

7. represents and warrants to Chi-X (as the case may be) that it is not aware of anything that may impact on its ability to comply with its obligations under the Rules and its Australian financial services licence (AFSL) or exemption (as applicable).

EXECUTED for and on behalf of [name of applicant] by:

Signature of director

Name

Dated

Signature of director/secretary

Name

Dated
Applicant Information

The information set out below should be included where the form permits or be included in the appropriate annexure referred to in the relevant part below. Importantly, please refer to the Chi-X Operating Rules and the Procedures before completing an application.

1. Applicant Details

1.1 Please provide full details of:

(a) the principal place at which the business of the applicant is, or will be carried on; and

(b) full address of all other places at which the business of the applicant is, or will be carried on.

1.2 Does the applicant intend using a business name?

Yes ☐ No ☐

If yes, please include details of the business name and state whether or not the business name is registered in all States & Territories

1.3 Please provide the following details in respect of the applicant:

(a) place and date of incorporation/registration;

(b) ABN/ACN; and

(c) Registered office address.

1.4 Please provide details of each director and secretary of the applicant.

1.5 Please provide a corporate structure diagram showing all related bodies corporate (see the definition in section 50 of the Corporations Act) and entities exercising control (see the definition in section 50AA of the Corporations Act) of the applicant.

1.6 Please provide an organisation chart showing management structure, including key executives, responsible managers, responsible executives and reporting lines.
2. Principal Business Activity

Describe the nature of the principal business, or intended principal business of the applicant. The description provided should be consistent with any description submitted to ASIC as part of an application for an AFSL, or alternatively explain the differences in the description provided to ASIC and the description submitted with this application.

3. Licencing Information

3.1 Does the applicant hold an AFSL which authorises the applicant to carry on the business it intends to conduct as a product issuer on the CMAP platform? Or, alternatively, has the applicant applied for a variation to its AFSL?

- Yes
- No

3.2 If yes, please attach a copy of the AFSL or AFSL variation (ANNEXURE A).

If yes, go to Section 4.

If no, go to Section 3.3.

3.3 Has the applicant obtained an exemption from the requirement to obtain an AFSL from the Australian Securities and Investments Commission? If yes, please include relevant details (ANNEXURE B).

- Yes
- No

If yes, go to Section 4.

3.4 If the applicant does not hold an AFSL or relevant exemption, has the applicant applied for an AFSL or relevant exemption? If yes, please attach a copy of the application and advise on the status of the application. Alternatively, provide reasons and appropriate documentation to support the case that an AFSL is not required (ANNEXURE C).

- Yes
- No

4 Organisational Competence

4.1 Please provide an up to date Table of Organisational Competence containing summaries of the investment products experience and expertise of:

(i) the board directors
(ii) responsible managers

(iii) senior managers responsible for investment products, including those managers responsible for the issuing, sales, monitoring, trading, valuing, redemption and/or termination of those products.

4.2 Please provide an explanation of the products that the applicant intends to issue on CMAP. The explanation should include full details of the underlying assets.

4.3 Please provide a brief outline of the applicant’s history of product issuance, including but not limited to the issue of the type of products and underlying assets described in response to 4.2.

4.4 Please provide details of the systems and controls that will be used for the issuance, monitoring, valuation and redemption of proposed CMAP products.

4.5 Please provide details of the systems and controls in place at the applicant in respect of any sales functions undertaken by the applicant, or another entity within the same corporate group, of CMAP products.

4.6 Please provide an outline of the processes, including relevant systems and controls, that the applicant will use for the sign off of any new product.

5  Financial Position

5.1 If the applicant is a regulated entity then please confirm the basis on which it is prudentially regulated and provide evidence that the firm is in compliance with its capital obligations.

5.2 If the applicant holds an AFSL, then please provide the most recent audit confirmation of compliance with the financial requirements under the AFSL conditions (ANNEXURE D).

5.3 Please provide any third party credit rating concerning the applicant and/or a proposed/actual guarantor.

5.4 Please outline how the financial position of the applicant is sufficient to manage the maximum possible exposure of the applicant to the holders of products it intends to issue on CMAP.

6  Guarantors

6.1 Please provide full details of any guarantor relationship that the applicant is proposing to rely on to satisfy the eligibility criteria including:
   (a) the full name, ABN or equivalent if incorporated outside Australia, and principal place of business of the guarantor
   (b) an outline of how the guarantor fulfils the criteria in rule 14.3(a),(b) or (c);
   (c) a copy of the last three years financial reports and statements for the guarantor;
   (d) full details of the regulatory status of the guarantor, including the most recent statement on its prudential status (eg FS71);
(e) the relationship if any between the applicant and the guarantor, other than that contained in the guarantor arrangements;

7 Clearing and Settlement Arrangements

7.1 Are any products currently issued by the applicant cleared and settled through ASX Clear/Settlement?
   Yes ☐ No ☐

7.2 If yes, does the applicant propose issuing CMAP products with the same clearing/settlement profile?
   Yes ☐ No ☐

7.3 If the answer is no to either of 7.1 or 7.3, then please attach an outline of the clearing and settlement profile of the products that the applicant intends to issue on CMAP. The profile should address:
   (i) valuation and risk models that will be used for the products to be issued;
   (ii) the availability of any underlying assets to meet the clearing and settlement cycles imposed by ASX Clear and ASX settlement;
   (iii) the processes and frequency by which the net tangible assets and/or net asset value of any products issued on the CMAP will be calculated and published;
   (iv) how the applicant will maintain a registry for each CMAP product it issues.

7.4 Please provide:
   (a) any existing certification from ASX Clear and Settlement that the product is ready to be cleared and settled; or
   (b) a written consent authorising ASX Clear and ASX Settlement to engage directly with Chi-X on the certification of the product.

Note that a product will not be admitted to trading until ASX Clear and ASX Settlement have certified that the product has been registered for clearing and settlement.

8 Technology Resources

8.1 Please specify the application(s) (both proprietary & vendor) that the applicant will use to develop, monitor and administer the products issues on the CMAP.
9 Principal Contacts: authorised executives

9.1 Please nominate authorised executives in respect of the functions identified below. Please include at least one or more alternates:

<table>
<thead>
<tr>
<th>Function</th>
<th>Executive (incl role)</th>
<th>Contacts Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Issuance</td>
<td></td>
<td>Phone number:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Email address:</td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
<td>Phone number:</td>
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<tr>
<td></td>
<td></td>
<td>Email address:</td>
</tr>
<tr>
<td>Product Administration</td>
<td></td>
<td>Phone number:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Email address:</td>
</tr>
</tbody>
</table>

Chi-X Market Operations may contact the people nominated above concerning the product issuer’s dealings with Chi-X on a day to day basis and it is acknowledged that Chi-X may act on the instructions and otherwise rely on information provided by any authorised executive notified to Chi-X. This would include without limitation, acting on any request by the authorised executive to halt trading in a product, the cancellation of transactions, changes to system configuration, market making, etc. Chi-X may accept instructions from authorised executives in a form acceptable to Chi-X in the circumstances.

The applicant must ensure that details of these authorised executives are kept up to date in accordance with the Rules.

10 Other Regulatory Arrangements

10.1 Is the applicant or an associate of the applicant an existing issuer of products traded on a licensed Australian market?

Yes ☐ No ☐

If yes, please attach full details (ANNEXURE E). If the applicant is the same entity as an issuer of products traded on the ASX, please provide details of any unique ISIN codes issued by ASX in respect of the products issued.

10.2 Is the applicant a member (or equivalent) of any other financial market (including ATS, MTF, PTS) and/or clearing and settlement facility?

Yes ☐ No ☐

If yes, please attach full details (ANNEXURE F).
11 Related Participants

11.1 Please state whether any of the following apply:

(a) is any officer or employee of the applicant also an officer or employee of a Chi-X participant (other than the applicant itself)?
   Yes ☐ No ☐

(b) is the applicant a related body corporate of a Chi-X participant?
   Yes ☐ No ☐

(c) does the applicant share common premises with, or allow its premises to be accessed by, another Chi-X participant or its officers or employees?
   Yes ☐ No ☐

(d) does the applicant share common computer facilities with, or link its computer facilities to, another participant?
   Yes ☐ No ☐

If the answer to any of paragraphs (a) to (d) above, is "Yes", please attach relevant particulars (ANNEXURE G).

12 Publicity

12.1 Do you agree to Chi-X identifying the applicant as a CMAP product issuer and using the applicant’s logo in Chi-X publicity and marketing materials (including on its website) for this purpose?

   Yes ☐ No ☐

12.2 If yes, please email a copy of the logo to au.support@chi-x.com in jpeg format if you consent to this taking place.

12.3 If you would like to use Chi-X’s logo in the applicant’s publicity and marketing materials to indicate it is a products issuer on CMAP, please email au.support@chi-x.com to provide details on how it is proposed to be used and request approval.
ATTACHMENT TWO [ANNEXURE FOUR]

CMAP Product Application Form

(PAF)

Version 0.1
How to apply

This form is for use by a registered CMAP Product Issuer seeking Chi-X approval for a new product to be admitted to trading. There are a number of documents required to be annexed to this application form for registration as a product issuer. Applicants are therefore requested to adhere to the prescribed annexure numbering.

Applicant’s company name: 

Principal contact concerning application: 

Phone number: 

Email address: 

Address: 

Date: 

Applicants are advised to contact Chi-X in advance of submitting their application:
Tel: +61 2 8078 1700
email: au.info@chi-x.com

Completed applications should be returned to:
Chi-X Australia
CMAP Team
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Email: cmap@chi-x.com.au
Privacy Statement

As part of this application and in the course of participation in the Chi-X market, Chi-X may require you to submit personal information about your employees and officers. Chi-X will collect, retain and process any personal information that you provide in accordance with the Privacy Act 1988 (Cth) and Chi-X’s privacy policy.

Chi-X will keep personal information secure and use it for the purposes of administering, implementing, delivering, supporting, improving and marketing Chi-X products, services and data. You agree to obtain and provide all necessary consents and that personal information may be disclosed:

a) where that disclosure is permitted by, and made in accordance with, the Chi-X Rules;
b) to the Australian Securities and Investments Commission, the Reserve Bank of Australia, any other regulatory authority and any of their respective delegates; and
c) where that disclosure is required to comply with any legal, statutory or regulatory requirement.

Failure to provide personal information in whole or part may hinder your participation and Chi-X’s administration and operation of the market. Chi-X’s Privacy Policy is available on the website [www.chi-x.com.au](http://www.chi-x.com.au) and you may request a copy and access to your personal information by contacting Chi-X Compliance on:

- Tel: +61 2 8078 1718 or
- Email: au.compliance@chi-x.com
Applicant Agreement

By executing this application form an applicant:

1. acknowledges that this application is subject to the Chi-X Operating Rules (Rules), as varied from time to time, and that if the application is accepted the applicant will be bound by the Rules;

2. undertakes that if the product is admitted to quotation, both the product and the applicant will comply with the applicable Rules in force from time to time, even if the applicant’s registration and/or trading in the product is suspended;

3. represents and warrants to Chi-X that the:
   a) applicant understands its obligations under the Rules, the Market Integrity Rules (Chi-X Market), Market Integrity Rules (Competition in Exchange Markets), Chapters 6 and 7 of the Corporations Act and any regulations made under Chapters 6 and 7; and
   b) information contained in and annexed to this application form is true and correct in all respects;

4. acknowledges that Chi-X will rely on the information provided by the applicant in considering this application and acknowledges that any omission or misstatement may lead to rejection of the application or, if the application is approved, subsequent suspension in the quotation of the product and/or revocation of the applicant’s status as a CMAP product issuer;

5. indemnifies Chi-X and its employees and officers to the fullest extent permitted by law in respect of any loss, claim, action or expense arising from or connected with, any breach of this agreement by the applicant or resulting from reliance on the information contained in or annexed to this application to the extent that such loss, claim, action or expense has not resulted from the fraud, wilful misconduct or gross negligence of Chi-X or its employees and officers;

6. waives any rights, title, interests, privileges, advantages, powers or benefits that may accrue in relation to the information submitted in this application, and consents to Chi-X obtaining information from, and passing information to (a) credit agencies in relation to the applicant and acknowledges that this application authorises such a source to release information to Chi-X; (b) investigative agencies or any other source as permitted by law, in relation to the applicant or this application and that Chi-X considers relevant to this application, and acknowledges that this application authorises such a source to release information to Chi-X; and (c) government agencies, regulatory authorities, exchanges, market operators, clearing and settlement facilities, service providers and third party clearers for regulatory purposes or as is necessary for this application;

7. represents and warrants to Chi-X (as the case may be) that it is not aware of anything that may impact on its ability to comply with its obligations under the Rules and its Australian financial services licence (AFSL) or exemption (as applicable).

EXECUTED for and on behalf of [name of applicant] by:

_________________________________________  ______________________________________
Signature of director                         Signature of director/secretary

_________________________________________
Name

_____________________________________
Dated
Product Information

The information set out below should be included where the form permits or be included in the appropriate annexure referred to in the relevant part below. Importantly, please refer to the Chi-X Operating Rules and the Procedures before completing an application.

1. Product Details

1.1 Please state the name of the product for which approval is sought:

1.2 Please complete the table below in respect of each product for which approval is sought:

<table>
<thead>
<tr>
<th>Default Description/ISIN</th>
<th>Exercise Price</th>
<th>Expiry Date</th>
<th>Call/Put/ETF</th>
<th>Index Multiplier (if applicable)</th>
<th>Issue Size</th>
<th>Warrants/ETF units per underlying parcel</th>
<th>Exercise Style</th>
</tr>
</thead>
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</tr>
</tbody>
</table>

1.3 Please identify the underlying asset(s) and the basis upon which the applicant is of the view that there is a fair, orderly and transparent market in respect of those assets.

2. Required Documentation

2.1 Please attach:

   (a) the Offering Circular, Product Disclosure Statement (PDS), Prospectus and any other disclosure document prepared in respect of the product (Annexure A);

   (b) a legal opinion that the product falls within the category of products able to be traded on CMAP (Annexure B);

   (c) an outline of the valuation modelling that has been undertaking in respect of the product for which quotation is sought and any underlying assets (Annexure C);

   (d) a copy of any underwriting agreement or other contract entered in relation to dealing in the product (Annexure D);

   (e) a copy of any agreement or arrangement with a guarantor in relation to the product (Annexure E);
(f) the analysis upon which the product issuer relies for concluding that the rule 14.11(c) requirements concerning underlying assets are satisfied (Annexure F);

(g) any distribution agreements in respect of the product (Annexure G);

(h) the terms of issue for the product (Annexure H);

(i) copies of any trust deeds relating to the product (Annexure I);

(j) product approvals relating to any similar products admitted to trading on a licenced Australian market and upon which the product issuer may wish to rely as supporting the application for approval of the current application (Annexure J).

3. Guarantor

3.1 Please provide full details of any guarantor relationship that the applicant is proposing to rely on to satisfy the eligibility criteria including:
   (a) the full name, ABN or equivalent if incorporated outside Australia, and principal place of business of the guarantor (Annexure K);
   (b) an outline of how the guarantor fulfils the criteria in rule 14.3(a), (b) or (c) (Annexure K);
   (c) a copy of the last three years financial reports and statements for the guarantor (Annexure K);
   (d) full details of the regulatory status of the guarantor, including the most recent statement on its prudential status (eg FS71) (Annexure K);
   (e) the relationship if any between the applicant and the guarantor, other than that contained in the all relevant written agreements covered by 3.1(a).

This information does not have to be re-submitted if it has already been provided in a previous application to Chi-X.

4. Liquidity

4.1 How does the product issuer propose it will satisfy rule 14.10(a) requirements for liquidity:

   - Adequate and reasonable initial spread of holders □
   - Market Maker Arrangement □
   - Other □

4.2 If the product issuer has entered an arrangement with a Chi-X registered markets maker then please attach a copy of the market maker arrangement (Annexure L), which must include:

   (a) the minimum order value that must be maintained by the market maker for the duration of the quoting obligation ratio;
6. **Index Provider**

6.1 Please state whether the product issuer is related to the index provider and if so an explanation of the governance arrangements in place between the product issuer and index provider *(Annexure M)*.

6.2 Please provide the written authorisation from the owner of the index at *Annexure M*.

6.3 Please provide *(Annexure M)* the information satisfying rule 14.11(b)(ii), namely the:

   (a) transparent methodology for constructing and maintaining the index, including eligibility criteria and measures that mitigate the risks and expense of frequent or unexpected rebalances;

   (b) transparent governance arrangements with regards to the index, including conflicts of interest arrangements;

   (c) systems and controls that will maintain the integrity of the index and mitigate the risk of manipulation or distortion by insiders or related parties of index providers for their own financial benefit and to the detriment of investors;

   (d) arrangements for the dissemination of index information that will ensure all market participants and investors are treated equally.

7. **Entitlements**

7.1 Please provide full details of any entitlement of any person to participate in the issue of the products *(Annexure N)*.

8. **Register and Clearing/Settlement Arrangements**

8.1 Are any products currently issued by the applicant cleared and settled through ASX Clear/Settlement?

   Yes ☐ No ☐

8.2 If yes, does the applicant propose issuing CMAP products with the same clearing/settlement profile?

   Yes ☐ No ☐

8.3 If the answer is no to either of 6.1 or 6.2, then please attach an outline of the clearing and settlement profile *(Annexure O)* of the products that the applicant intends to issue on CMAP. The profile should address:

   (a) valuation and risk models that will be used for the products to be issued;

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16 See table 2.2 in Procedure 4.9 of the Operating Rules: Procedures.
(b) the availability of any underlying assets to meet the clearing and settlement cycles imposed by ASX Clear and ASX settlement;
(c) the processes and frequency by which the net tangible assets and/or net asset value of any products issued on the CMAP will be calculated and published;
(d) how the applicant will maintain a registry for each CMAP product it issues.

8.4 Please provide (at Annexure O):

(a) any existing certification from ASX Clear and Settlement that the product is ready to be cleared and settled; or
(b) a written consent authorising ASX Clear and ASX Settlement to engage directly with Chi-X on the certification of the product.

Note that a product will not be admitted to trading until ASX Clear and ASX Settlement have certified that the product has been registered for clearing and settlement.

8.5 Please state the address at which the register of product holders will be maintained and any third party arrangement the product issuer has entered in respect of that registry.

8.6 Please outline any existing or proposed arrangements for the clearing and settlement of the product.

9 Publicity

9.1 Do you agree to Chi-X identifying the product as a CMAP issued product and using the logo of the applicant and product in Chi-X publicity and marketing materials (including on its website) for this purpose?

[ ] Yes [ ] No

9.2 If yes, please email a copy of the logo to au.support@chi-x.com in jpeg format if you consent to this taking place.

9.3 If you would like to use Chi-X’s logo in the applicant’s publicity and marketing materials to indicate it is a products issuer on CMAP, please email au.support@chi-x.com to provide details on how it is proposed to be used and request approval.
### ATTACHMENT THREE [ANNEXURE FOUR]

<table>
<thead>
<tr>
<th>Class Order</th>
<th>Matters Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/25</td>
<td>Allows a responsible entity to set price of a new issue by reference to the higher of prevailing market price and NAV.</td>
</tr>
<tr>
<td>07/422</td>
<td>The purpose of this CO is to allow listed schemes to undertake on market buy backs.</td>
</tr>
<tr>
<td>13/1621</td>
<td>The purpose of this CO is to declare the circumstances in which a responsible entity may issue an interest in a scheme without having first provided a PDS</td>
</tr>
<tr>
<td>13/519</td>
<td>The purpose of this CO is to declare the circumstances in which a responsible entity must call a meeting to consider and vote on a proposed resolution</td>
</tr>
<tr>
<td>13/656</td>
<td>The purpose of this CO is to provide relief to responsible entities that enables them to make an offer of interests to wholesale/offshore members without contravening section 601FC(1)(d).</td>
</tr>
<tr>
<td>13/657</td>
<td>Relief to enable a responsible entity to exercise discretion on amount of consideration</td>
</tr>
<tr>
<td>02/312</td>
<td>Title and transfer: for the purposes of paragraph 7.11.03(1)(b) of the Corporations Regulations 2001 (the “Regulations”), each of the classes of financial products referred to in Schedule A is a financial product the transfer of which will be effected through ASTC under the Regulations</td>
</tr>
<tr>
<td>10/288</td>
<td>Exempts a market maker from reporting a covered short sale transaction in course of performing its function as a market maker of an ETF.</td>
</tr>
<tr>
<td>13/721</td>
<td>This class order provides for relief from equal treatment of members, relevant interest and substantial holdings provisions in the Act to facilitate quotation of exchange traded funds on the AQUA Market.</td>
</tr>
<tr>
<td>09/774</td>
<td>This Class Order provides conditional relief to market makers to permit them to engage in naked short selling in order to hedge risks from their market making activities.</td>
</tr>
<tr>
<td>00/2451</td>
<td>Electronic lodgement of financial report or directors’ report with ASX as agent for ASIC</td>
</tr>
<tr>
<td>13/680 NB this is not on the CO web page</td>
<td>Exceptions from pre-trade transparency requirements: ASX and Chi-X markets: ASIC relieves a Participant from the obligation to comply with Rule 4.1.1(1) of the Competition Rules in the case where the Participant enters into a Transaction as an “Exchange-Traded Fund Special Trade” in accordance with Rule [3310] of the ASX Operating Rules and reported to ASX in accordance with Procedure 3310 of the ASX Operating Rules Procedures</td>
</tr>
<tr>
<td>02/312</td>
<td>Part 7.11, Division 4 financial products for ASTC: specifically refers to warrants trading on ASX and AQUA products as being Div 4 financial products for ASTC</td>
</tr>
<tr>
<td>13/655</td>
<td>601GAE Discretions in constitutional provisions that set the amount of the consideration for the acquisition of interests – AQUA. modified the application of Chapter 5C of the Act in relation to responsible entities of registered managed investment schemes other than timesharing schemes so that if the constitution of a registered managed investment scheme contained provisions to the effect of the terms of that class order, then the responsible entity of the scheme could set the issue price of interests in certain circumstances including issue of interests in schemes that are not traded on a financial market other than the AQUA market of ASX Limited based on the value of scheme assets less any liabilities payable out of scheme property, and issue in schemes that are traded on a financial market other than the AQUA market of ASX Limited based on market price</td>
</tr>
<tr>
<td>Class Order</td>
<td>Description</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>13/1200</td>
<td>This class order provides temporary relief to AQUA quoted and Listed managed investment scheme issuers from the obligation under s1017D to give periodic statements to members of the schemes. After the temporary exemption period expires, the instrument modifies the obligation under s1017D for these issuers to overcome the practical difficulties in complying with the obligation in its non-modified form.</td>
</tr>
<tr>
<td>13/721</td>
<td>This class order provides for relief from equal treatment of members, relevant interest and substantial holdings provisions in the Act to facilitate quotation of exchange traded funds on the AQUA Market.</td>
</tr>
</tbody>
</table>
ANNEXURE FIVE

PROPOSED CHANGES TO THE OPERATING RULES AND OPERATING RULES: PROCEDURES FOR CHI-X REGISTERED MARKET MAKERS
PROPOSED ADDITION OF RULES 4.9 TO 4.14 ON MARKET MAKERS

It is proposed to insert the following text immediately following the current rule 4.8.

4.9 REGISTRATION AS A MARKET MAKER

(a) Chi-X may register a participant as a market maker.

(b) Chi-X may, in its absolute discretion:

(i) refuse to register a participant as a market maker; and/or

(ii) deregister a participant as a market maker.

(c) A participant may request a review of a decision by Chi-X to refuse to register a participant under rule 4.9(b)(i) and/or to deregister a participant as a market maker under rule 4.9(b)(ii).

(d) The process by which Chi-X will register a participant as a market maker is set out in the procedures and requires a participant to provide a completed market maker undertaking to Chi-X.

4.10 MARKET MAKER OBLIGATIONS

(a) A participant that is registered as a market maker must comply with the market maker undertaking that it has provided to Chi-X unless and until:

(i) the participant has been deregistered as a market maker; or

(ii) the market maker undertaking has been amended pursuant to rule 4.11.

4.11 AMENDMENT OF AND TEMPORARY RELIEF FROM THE MARKET MAKER OBLIGATIONS

(a) A participant may propose to Chi-X that the undertaking it has provided be amended but the original undertaking will continue to apply until Chi-X has agreed to and specified the date on which the amended market maker undertaking will take effect, after which a participant must comply with the market maker undertaking as amended.

(b) A participant that is a registered market maker and is seeking temporary relief from the obligation to comply with a market making undertaking, should apply under rule 1.5 for a waiver from the obligation under rule 4.10.

4.12 DEREGISTRATION

(a) A participant that is registered as a market maker but does not comply with the market maker undertaking is liable to be deregistered as a market maker either totally or partially in respect of a particular subset of the specified market maker securities in which it has been registered as a market maker.
(b) A participant may, three months or more after it has been registered as a market maker under rule 4.9(a), apply to be deregistered as a market maker from the beginning of the second month following the date on which Chi-X received the application. The application for deregistration may be made in respect of either:

(i) one or more securities on the list of specified market maker securities that it has specified in its market maker undertaking, so long as deregistering from the listed securities does not take the number of specified market securities in which it is registered below 50; or

(ii) all the securities in which it is registered as market maker.

4.13 THE REGISTER

(a) The register of market makers will be published on the Chi-X website. The register shall list each specified market maker security in which the participant is a market maker.

4.14 CHI-X POWERS AND OBLIGATIONS ON PARTICIPANTS THAT ARE REGISTERED

(a) Chi-X may require a participant that is registered as a market maker to provide any information and material in connection with its activities as a market maker.

(b) A participant must provide any information and material required by Chi-X pursuant to this rule within the time limits specified by Chi-X.
It is proposed to insert the following text in the Procedures immediately following the existing Procedure 4.8.

<table>
<thead>
<tr>
<th>P4.9: Market Making Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Process for Registration</td>
</tr>
<tr>
<td>1.1 The process for registration as a market maker is as follows:</td>
</tr>
<tr>
<td>(a) A participant that wants to be considered by Chi-X for registration as a market maker must provide Chi-X with a completed market maker undertaking;</td>
</tr>
<tr>
<td>(b) Chi-X will consider each market maker undertaking that it receives and then decide whether to exercise its discretion under rule 4.9(a) to register the participant as a market maker;</td>
</tr>
<tr>
<td>(c) the obligation to comply with the market maker undertaking will commence no later than the first day of the month following a participant's registration as a market maker;</td>
</tr>
<tr>
<td>(d) Chi-X will continuously monitor compliance with the market maker undertaking and may request information from a participant under rule 4.10 in respect of that participant's market making activities;</td>
</tr>
<tr>
<td>(e) Chi-X may deregister a participant as a market maker at any time.</td>
</tr>
<tr>
<td>2. Undertaking to Fulfil Affirmative Obligations</td>
</tr>
<tr>
<td>2.1 This section of Procedure 4.9 sets out the matters that must be contained in the market maker undertaking. The market maker undertaking is separated into two parts:</td>
</tr>
<tr>
<td>(a) the obligations that must be met by a firm seeking to be a market maker in no less than 50 equity market products traded on the Chi-X market;</td>
</tr>
<tr>
<td>(b) the obligations that must be met by a firm seeking to be a market maker in CMAP investment products.</td>
</tr>
</tbody>
</table>
The obligations and metrics are fundamentally different according to whether the market making undertaking relates to CMAP investment products or equity market products.

2.2 A market maker undertaking submitted to Chi-X may be in the form of the template published on the Chi-X web site. A market maker undertaking relating to an application to be registered as market maker in no less than 50 equity market products must contain an undertaking to:

(a) enter and maintain bid and ask orders that are each in excess of the minimum order value specified in table 2.2 and that create a bid-ask spread that is not more than the maximum spread specified in table 2.2;

(b) comply with the requirements in paragraph 2.2(a) for at least the quoting obligation ratio of active continuous trading, calculated over a monthly period by summing the ratio of active continuous trading on each trading day that the participant has submitted orders complying with the requirements in 2.2(a) and dividing that figure by the number of trading days in the month;

(c) comply with the requirements in 2.2(a) and (b) in respect of a subset of the securities traded by Chi-X, the subset having been agreed between Chi-X and the participant prior to the market maker undertaking being made but:

(i) in the case of market making for cash equity products, consisting of not less than 50 of the securities traded on the Chi-X central limit order book;

(ii) in the case of investment products, consisting of the investment product(s) that are the subject of an agency arrangement between the market maker and a product issuer under rule 14.10(c);

(d) separate market making activities from all other activities in respect of the Chi-X market; and

(e) notify Chi-X immediately it becomes aware that it is failing to comply with paragraphs (a) – (d) above and provide a complete explanation for the failure to comply.

2.3 Chi-X will allocate each security traded on the central limit order book into one of three groups for the purposes of specifying the minimum order value, the maximum spread, and the trading obligation ratio that will apply to market making in each security. Table 2.2 contains the value of each of these measures in respect of each security traded on the Chi-X central limit order book. Investment products are also included in the table as a separate product grouping.

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17 A list of the securities traded will be available on the Chi-X Australia web site: www.chi-x.com.au

13 February 2015
2.4 **A market maker undertaking** relating to an application to be registered as a **market maker** in CMAP investment products must contain an undertaking to:

(a) act in good faith when entering arrangements with **product issuers** that specify the price and volume of a reasonable bid in the **investment products** in which it has agreed to act as a **market maker**;

(b) enter and maintain orders in the order book that are in compliance with the market making arrangements agreed with the **product issuer**;

(c) comply on a daily basis with the requirements in paragraph 2.4(b) for at least the **quoting obligation ratio** of **active continuous trading**, the quoting obligation ratio in being calculated daily by summing the ratio of **active continuous trading** on each trading day that the **market maker** has submitted orders complying with the requirements in 2.4(b) and dividing that figure by the period of continuous trading in the relevant **investment product** on that day, less any time during which the Chi-X market is not open or it is not technically possible for the **market maker** to submit orders to the Chi-X market;

(d) separate market making activities from all other activities in respect of the Chi-X market; and

(e) notify Chi-X immediately it becomes aware that it is failing to comply with paragraphs (a) – (d) above and provide a complete explanation for the failure to comply.
### TABLE 2.2

<table>
<thead>
<tr>
<th>Security Group</th>
<th>Minimum Order Value</th>
<th>Maximum Spread: Price (P) : Maximum Spread (in tick size)</th>
<th>Quoting Obligation Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group one (Top 50 by market capitalisation)</td>
<td>$10,000.00</td>
<td>$&lt; P &lt; $2: 3 $2 ≤ P &lt; $10: 3 $10 ≤ P &lt; $20: 3 $20 ≤ P &lt; $30: 4 $30 ≤ P &lt; $40: 5 $40 ≤ P &lt; $50: 6 $50 ≤ P &lt; $60: 7 $60 ≤ P &lt; $70: 8 $70 ≤ P &lt; $80: 8 $80 ≤ P : 9</td>
<td>85%</td>
</tr>
<tr>
<td>Group Two (remainder of ASX 200)</td>
<td>$5,000.00</td>
<td>$&lt; P &lt; $2: 3 $2 ≤ P &lt; $10: 4 $10 ≤ P &lt; $20: 4 $20 ≤ P &lt; $30: 5 $30 ≤ P: on a case by case basis (but ≥ 6)</td>
<td>80%</td>
</tr>
<tr>
<td>Group Three (remainder)</td>
<td>$2,500.00</td>
<td>$&lt; P &lt; $2: 3 $2 ≤ P &lt; $10: 4 $10 ≤ P &lt; $20: 4 $20 ≤ P : on a case by case basis (but ≥ 5)</td>
<td>75%</td>
</tr>
<tr>
<td>Investment Products</td>
<td></td>
<td>The amount specified in the agency agreement between the <strong>product issuer</strong> and the <strong>market maker</strong>.</td>
<td>90%</td>
</tr>
</tbody>
</table>

The spread, if any, specified in the agency agreement between the **product issuer** and the **market maker**.
3. Consequences of Failing to Comply with a Market Maker Undertaking

3.1 A participant that fails to comply with a market maker undertaking it has provided to Chi-X is liable to be deregistered as a market maker and/or disciplinary action for a breach of the rules.

P4.14: Chi-X powers and obligations on participants that are registered as market makers

1.1 It is important that participants registered as market makers comply with the obligations contained in the market making undertaking they have provided to Chi-X. Therefore it is also important that participants registered as market makers respond to requests from Chi-X for information in connection with their market making activities within the time specified by Chi-X in that request. Failure to comply with a request may amount to a breach of the Rules. A participant that believes that the time specified for compliance with a request is unreasonably short must notify Chi-X as soon as possible after it receives the request that more time will be needed to provide the information and/or documentation sought.
PROPOSED AMENDMENT OF PROCEDURE 1.6 ON THE RIGHT TO REVIEW A CHI-X DECISION
REGISTERING/DEREGISTERING A PARTICIPANT AS A MARKET MAKER

In the text from Procedure 1.6 below:

(a) double underlining indicates text to be inserted;

(b) strikethrough indicates text to be deleted; and

(c) “……” indicates text in the original which is not relevant to the proposed amendment.

P1.6: Reviews

1. Requesting a Review

1.1 A participant can only request a review of a decision if the rules state that the decision may be reviewed.

1.2 The following rules state that a participant may request a review of the decisions that are specified:

(a) rule 4.9(c) states that a participant may request a review of a decision by Chi-X under rule 4.9(a) to register or deregister a participant as a market maker;

(b) rule 5.2 states that a participant may request a review of a decision by Chi-X under rule 5.1(e) to modify or restrict a participant’s access to the market in order to ensure a fair, orderly and transparent market;

(c) rule 5.5 states that a participant may request a review of the exercise by Chi-X of the powers in rule 5.4(d) in respect of a market-related dispute;

(d) rule 9.1(b) states that a participant may request a review of disciplinary action taken by Chi-X under rule 9.1(a);

(e) rule 9.6 states that a participant may request a review of a decision by Chi-X under the default powers in rule 9.5 to restrict, suspend or terminate a participant’s access to the Chi-X market.

1.3 Notification of a request for a review must comply with procedure 13.7 and be given to:

(a) Chi-X Compliance in the case of a notification of a request for a review made under rules 4.9(c), 5.2, 9.1(b) or 9.6;
(b) Market Operations in the case of a notification of a request for a review made under rule 5.5(a).

8. **Interim Measures**

8.1 Lodging a request for a review pursuant to rules 4.9(c), 5.2, 5.5, or 9.6 has no impact on the decision in respect of which the request is made. That decision will remain in force unless and until it is changed by the Review Committee.

9. **Review Outcomes**

9.1 In the case of a review conducted pursuant to a request made under rules 4.9(c), 5.2, 5.5, or 9.6, the Review Committee may confirm, vary or quash the decision in respect of which the review is being sought.

9.2 In the case of a review conducted pursuant to participant objection under rule 9.1(b) or a referral from Chi-X under rule 9.1(d), a Review Committee may impose or utilise one or more of the sanctions in rule 9.3 and as outlined in procedure 9.1.

9.3 There is no appeal from a decision of the Review Committee.

9.4 The decision of the Review Committee may be enforced by Chi-X as if it were the decision that was reviewed.

10. **Review Fees**

10.1 The fees for lodging a request for a review are as follows:

(a) a review under rule 4.9(c) of a decision under rule 4.9(b) to register or deregister a participant as a market maker - $5,000.

(b) a review under rule 5.2 of a decision under rule 5.1(e) to restrict/modify a participant’s access to the market for the purpose of maintaining a fair, orderly and transparent market - $5,000.

(c) a review under rule 5.5 of the exercise by Chi-X of the powers in rule 5.4(d) in respect of a market dispute - nil;

(d) a review under rule 9.1(b) of disciplinary action taken by Chi-X under rule 9.1(a) - $5,000;
(d) (e) A review under rule 9.6 of a decision by Chi-X under the default powers in rule 9.5 to restrict suspend or terminate a participant’s access to the Chi-X market - $5,000.

10.2 A Review Committee has the discretion to order the refund of a fee paid by a participant for a review of under rule 9.1(b) of disciplinary action taken by Chi-X under rule 9.1(a).

PROPOSED AMENDMENT OF PROCEDURE 13.7 ON THE NOTIFICATION REQUIREMENTS FOR A REQUEST TO REVIEW A CHI-X DECISION REGISTERING/DEREGISTERING A PARTICIPANT AS A MARKET MAKER

In the text below double underlining indicates text to be inserted and strikethrough indicates text to be deleted, in the current procedure 13.7.

P13.7: Notifications

1. Written notice

1.1 Unless otherwise specified in the exceptions listed in paragraph 1.2 below, notifications to Chi-X by a participant under the rules should be addressed to:

Market Operations
Chi-X Australia
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Tel: +61 2 8078 1700
Email: operations-cxa@chi-x.com

1.2 The following exceptions to paragraph 1.1 apply:

(e) The notice is in relation to a request for a review pursuant to rules 4.9(c), 5.2, 9.1(b) or 9.6;

(f) The notice is in respect of actual or contemplated disciplinary proceedings under the rules;

(g) The notice relates to a confidential matter, complaint or allegation of conflict of interest concerning the operation of the Chi-X market;

(h) Specific correspondence with a participant directs how notices are to be provided.
1.3 Notifications that fall within the exceptions specified in paragraph 1.2 should be addressed to:

Compliance
Chi-X Australia
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Tel: +61 2 8078 171800
Email: compliance-cxa@chi-x.com
Definitions – it is proposed that each of the following definitions will be added to the definitions for the Operating Rules and Operating Rules: Procedures

**active continuous trading**

depending on whether the trading relates to an **equity market product** or **investment product**:

(i) for an **equity market product**, the aggregate time in which the Chi-X market is in continuous trading for an equity market product but excluding:

(a) the period during which the equity market product is in an opening or closing auction or a regulatory halt on the listing market;

(b) the first fifteen and last twenty two minutes of the continuous trading phase on the Chi-X market;

(ii) for an **investment product**, the aggregate time in which the Chi-X market is in continuous trading for the investment product but excluding:

(a) if the investment product is a covered warrant, the day on which the covered warrant expires;

(b) the period during which no firm price is available for at least 10% of the underlying assets of the investment product;

(c) the first fifteen minutes of the continuous trading phase on the Chi-X market.

**market maker**
a participant that has been registered as a market maker by Chi-X under rule 4.9

**market maker undertaking**
an undertaking by a participant to Chi-X to comply with the affirmative obligations contained in procedure 4.9

**maximum spread**
the number of ticks specified in table 2.2 in procedure 4.9 and that is the maximum allowable number of ticks between the bid and offer that must be maintained by a market maker in order to comply with its market maker undertaking.

**minimum order value**
the minimum order size specified in table 2.2 in procedure 4.9 and that is the minimum order size of the bid and offer orders that must be maintained by a market maker in order to comply with its market maker undertaking.
**quoting obligation ratio**

the percentage of *active continuous trading* on the Chi-X market specified in table 2.2 in **procedure 4.9** and for which a *market maker* must maintain bid and offer orders in compliance with its **market maker undertaking**

**security**

As defined in section 761A of the Corporations Act

**specified market maker securities**

depending on the context, either the list of *securities* in which a participant may be a *market maker* and which is published by Chi-X on its web site or the subset of that list in respect of which a particular participant has undertaken to meet the requirements listed in paragraph 2.2 of procedure 4.9.