



**Response Paper on Consultation Paper 2 of 2016
concerning:**

- Transferable Custody Receipts (TraCRs);
 - and
 - Quoted Managed Funds (QMFs).
-

20 December 2017

Chi-X Australia Pty Ltd

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PART I: - INTRODUCTION

- 1.1.1 In 2016, Chi-X commenced consultation on the regulatory, commercial and technology framework for the launch of transferable custody receipts (TraCRs), an exciting new investment product that will trade exclusively on the Chi-X market.
- 1.1.2 Since then, Chi-X has engaged extensively with external stakeholders to further develop that framework. Chi-X and the TraCR product issuer are now in the final stages of obtaining the required regulatory approvals and it is therefore appropriate, in this paper, to provide the following information to participants and wider stakeholders:
- (a) in Part II – an overview of how TraCRs will work;
 - (b) in Part III – an outline of where the framework has been enhanced, following engagement with stakeholders, from that outlined in Consultation Paper 2 (CP 2) of 2016;
 - (c) in Part IV – an outline of how the class order relief discussed in CP 2 has been managed;
 - (d) in Part V – an outline of submissions we received on CP 2;
 - (e) in Part VI – the status of the proposed technical and operational changes in CP 2, including those relating to closing prices, market data feeds, reference data and GTC orders;
 - (f) in Part VII – an update to miscellaneous rule amendments relating to quoted funds and to address minor typographical errors in the rules;
 - (g) in Part VIII – the new Operating Rules (**attachment one**) and Operating Rules: Procedures (**attachment two**) that will come into force in time for the launch of TraCRs.
- 1.1.3 An update on the proposals in CP2 relating to Quoted Managed Funds (QMFs) will be provided in the New Year.
- 1.1.4 Any queries concerning this Response Paper (RP) should be directed to:

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PART II: – HOW TRACRS WILL WORK**2.1 Introduction**

2.1.1 As was outlined in CP 2, TraCRs will provide Australian investors with the opportunity to invest in the economic performance of leading global companies while enjoying the protection of the Australian regulatory framework supported by Australian market operators. Retail investors familiar with the services offered by leading global businesses will be able to invest in those companies in Australian dollars and their investment will be subject to Australian regulations.

2.2 Some Key Features – A TraCR is Different from the Underlying Asset

2.2.1 A TraCR will be a standalone financial product that is separate from the underlying share to which it relates. A TraCR issuer will be an entirely separate corporate entity from the company issuing the underlying shares. TraCRs are unsponsored financial products as the issuer of the underlying assets does not and is not required to consent to the issue of a TraCR that is based on that underlying share.

2.2.2 The value of the underlying share of a TraCR and the applicable foreign exchange rate will be the main factors in determining the Australian dollar price performance of the TraCR. Market makers will provide liquidity on the Chi-X market by providing a reasonable bid based on these prices. This is further explored in section 3.3 below.

2.2.3 Contrary to what was outlined in CP 2 of 2016, a TraCR will be issued and trade on a one to one ratio with the underlying share (one TraCR will equate to one underlying share). A single TraCR will provide the holder with the beneficial ownership of a single underlying share and no TraCRs will be quoted that provide an entitlement to a fraction of an underlying share. This may change in future in response to investor demand and/or depending on the price of any proposed underlying assets. This is different from the proposals on the ‘set ratio’ outlined in CP 2 of 2016, where we sought feedback on whether the framework should provide for a TraCR entitling a holder to a fraction of the underlying asset.

2.2.4 Investing in TraCRs will also incur different fees to those which apply to investing in the underlying shares. The fees will be fully outlined in the product disclosure statement (PDS) published by the product issuer. The fees charged to TraCR holders may include:

- (a) Corporate action fees, which will be charged each time a corporate action (including the payment of a special dividend) occurs in respect of an underlying share and results in:
 - (i) cash being distributed; or
 - (ii) the sale of securities (including rights);
- (b) Service fees, which will be charged each time an ordinary dividend is paid on the underlying share.

2.2.5 The fees charged by a product issuer to a broker acting for an investor applying direct to the issuer for the issue/cancellation of a TraCR may include:

- (a) Issuance fees, which will be charged for creating new TraCRs from underlying shares held by an investor (note that investors will not be charged this fee when buying TraCRs on the Chi-X market);
- (b) Cancellation fees, which will be charged when a TraCR is cancelled pursuant to a cancellation request made by a holder in compliance with the terms of issue (note that this fee will not be charged when TraCRs are sold on the Chi-X market).

2.3 Some Key Features – How TraCRs are Traded

- 2.3.1 TraCRs can be bought and sold on Chi-X by placing an order with a Chi-X participant. Before a retail client can place an order to buy a TraCR, however, the participant must obtain an acknowledgement that the client has read and understood an investor fact sheet. The fact sheet is published by Chi-X and will be provided to investors by Chi-X participants.
- 2.3.2 Investors may also acquire TraCRs by applying to the issuer to transfer an existing holding of the underlying shares into a TraCR holding. Investors may also cancel an existing holding of TraCRs by making a cancellation request pursuant to which an equivalent number of underlying shares will be transferred to the holder. However the terms of issue for the TraCR will set out requirements that must be met (eg the holding of a US brokerage account), for this to occur. Using these processes to acquire/exit a TraCR holding may incur additional fees and investors will need to read the PDS to understand what these fees are. Investors should also discuss the fees, risks and benefits of investing in TraCRs with a Chi-X participant or their financial adviser/broker.

2.4 Some Key Features – Requirements Imposed on Product Issuers

- 2.4.1 The product issuer of a TraCR will need to satisfy the eligibility criteria for product issuers contained in the Chi-X Operating Rules, including with respect to holding an Australian Financial Services licence (AFSL) and having sufficient resources to meet its obligations as a TraCR issuer. The product issuer will be required to have an agreement with a custodian that will have the responsibility of holding the underlying assets to ensure that the TraCR issuer is able to fulfil its obligations in respect of the TraCR product.

2.5 Some Key Features – Requirements for a Product to be Quoted as a TraCR

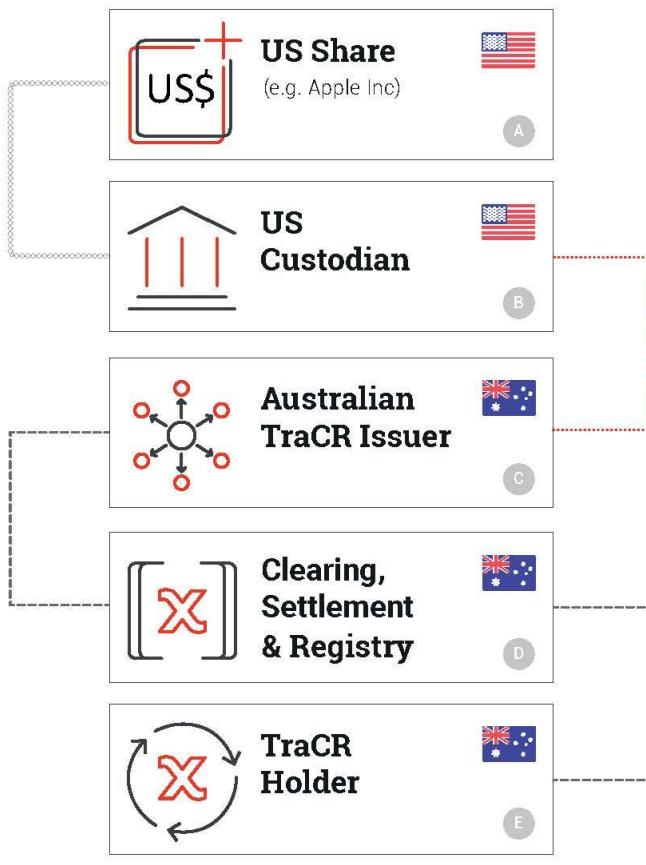
- 2.5.1 TraCRs will be financial products, as defined in the Corporations Act, and must be based on underlying shares that are included in a primary index of specified offshore markets, currently NASDAQ and NYSE. The underlying shares must have traded on one of these markets for at least twelve months, unless the company in question has recently undergone a corporate restructure¹, in which case Chi-X may exercise its discretion to allow a TraCR to

¹ This scenario would capture what occurred with Google when it was restructured and new shares in the entity Alphabet Ltd became publicly traded.

be based on the new underlying share. Examples of the eligible underlying assets for TraCRs include the common equity shares of Facebook, Amazon and Alphabet.

- 2.5.2 The shares on which TraCRs are based will be the subject of future announcements.
- 2.5.3 Additional requirements that must be met before a product can be quoted as a TraCR will include:
 - (a) the disclosure framework relating to the underlying assets, including that governing the continuous and periodic disclosures relating to that asset, must meet minimum standards;
 - (b) the terms of issue for the TraCR and contractual framework for the TraCR and underlying asset, must provide beneficial ownership and conversion rights for the holder.
- 2.5.4 The basic structure of the TraCR product is outlined on the following page.

DIAGRAM ONE



Legend

..... Legal title (to the US share) Beneficial interest —— Legal title to the TraCR and a beneficial interest in the US Share

A – The TraCR is based on a US listed share.

B – The US custodian holds the US shares for the benefit of the TraCR issuer.

C – The TraCR issuer holds an AFSL and issues, redeems and manages the operational processes for TraCRs issued over the US shares as outlined in the terms of issue.

D – TraCRs settle through CHESS and are held on the holder's HIN in the same way as Australian securities. The registry records the number of TraCRs issued, bought and sold and the payments made in relation to each holding. The registry also provides services such as emails and other communications on behalf of the issuer, to holders. The Registry also collates voting and other instructions from holders and forwards them to the issuer.

E – Investors hold legal title to the TraCRs and have a beneficial interest in the US shares held by the US custodian.

PART III: CHANGES TO THE FRAMEWORK PROPOSED IN CP 2 OF 2016

3.1 Introduction

3.1.1 Following the consultation process, and in response to feedback from stakeholders, Chi-X has made a number of enhancements to the TraCR framework. This part of the RP provides an outline of the changes and why they have been introduced.

3.2 Corporate Actions

3.2.1 Chi-X received consistent feedback that greater clarity needed to be provided to TraCR investors on how corporate actions are dealt with and so the following changes to the TraCR framework have been introduced.

3.2.2 The Chi-X web site will contain information provided by the product issuer of a TraCR on the corporate actions relating to that TraCR, including:

- (a) the basis of quotation;
- (b) any distributions;
- (c) events relating to the underlying assets and in respect of which the TraCR holder may have a voting right; and
- (d) any split or consolidation².

3.2.3 The product issuer of a TraCR will also be required to:

- (a) take all reasonable steps to give effect to any instructions it may receive from a holder in relation to any corporate actions (see new rule 14.23A(b)(iv)); and
- (b) notify the holder of a TraCR of any corporate actions (see new rule 14.23A(b)(vi), including:
 - (i) any distribution of cash or other assets paid or distributed to the holder;
 - (ii) any meeting or proxy event relating to the underlying assets and in respect of which the holder may have a voting right; and
 - (iii) any split or consolidation of the TraCRs.

3.2.4 Diagram one outlines the importance in the TraCR structure of the custodian of the underlying assets. This importance extends to the way in which corporate actions are managed and so the TraCR framework has been enhanced to require the custodian of the underlying assets to:

² See the amendments to rule 7.2 and definition of “corporate action” in **attachment one**

- (a) notify the product issuer of all corporate actions relating to the underlying asset;
 - (b) take reasonable steps to give effect to any instructions it may receive from a product issuer in relation to any corporate actions, having regard to the total cost of complying with those instructions (eg the cost of obtaining legal advice on the availability of a rights issue that only a minimal percentage of holders may want to exercise).
- 3.2.5 Finally, the new framework clarifies that a product issuer is required to disclose the basis of quotation of each TraCR it has issued, including whether the TraCR, or the underlying share on which it is based, is trading ex or cum any entitlements and/or benefits relating to the relevant underlying assets.
- 3.2.6 Chi-X is of the view that these enhancements will help to ensure TraCR investors will more clearly understand and be able to exercise their rights and entitlements with respect to corporate actions.

3.3 The Liquidity Framework

- 3.3.1 Chi-X has further enhanced the liquidity framework for TraCRs in response to stakeholder feedback. It is important that investors acquiring TraCRs have confidence that they will be able to exit their holdings at a reasonable price that reflects the Australian dollar price of the underlying assets on which the TraCR is based. Chi-X has addressed this requirement through the following principles which combine the existing operating rules and investment product framework with new requirements:
- (a) a retail investor must be able to exit the holding of an investment product traded on Chi-X, and do so at a reasonable price, in order for the market in that product to be fair, orderly and transparent;
 - (b) the ways in which an investor will be able to access liquidity in an investment product should be transparent; and
 - (c) the agreement between a TraCR product issuer and the custodian of the underlying assets must contain terms which will enable the TraCR issuer to satisfy the key rule requirements imposed on an issuer, including those relating to liquidity.
- 3.3.2 Chi-X has therefore developed the TraCR liquidity framework so that it now consists of the following liquidity pools which investors can use to exit their TraCR holding:
- (a) a TraCR can be sold on the Chi-X market, including to a market maker providing liquidity pursuant to the market maker fee arrangements outlined on the Chi-X web site (this is discussed further in paragraph 3.3.4 below);
 - (b) an investor can instruct their Australian broker to cancel their TraCR holding and trigger arrangements for the Australian issuer/depositary to deliver the corresponding underlying shares to the holder's US broking account. The investor will be required to take the steps outlined in the PDS/terms of issue that are

necessary to trigger the arrangement for the product issuer to transfer the underlying shares to the US account – this was outlined in CP 2 of 2016 and is covered in the new rule 14.23A(b); and

- (c) in the event that there is no liquidity provided by a market maker, pursuant to the fee arrangements discussed in (a) above, for 20 consecutive trading days on the Chi-X market, an investor will be able to ask the TraCR issuer to sell the underlying shares to which those TraCRs relate, on the holder's behalf. The shares will then be sold on NYSE or Nasdaq and the depositary issuer will cancel the TraCRs and pay the net sales proceeds to the holder (after deducting any TraCR cancellation fee and the US brokerage fees and expenses). The Operating Rules require this to be outlined in the terms of issue of a TraCR (see rule 14.23A(c)).

3.3.3 TraCR investors should therefore clearly understand the liquidity that may be available for the purpose of exiting a holding.

3.3.4 An important pool of liquidity referenced in paragraph 3.3.2 above is that provided by market makers and Chi-X has made some changes to the way in which this liquidity will be provided. In CP 2 of 2016, we proposed that liquidity would be provided by market makers pursuant to the obligations specified in rule 4.9 of the Chi-X Operating Rules. Following stakeholder feedback, Chi-X has instead decided to have market maker fee arrangements that a product issuer may be able to rely upon. These arrangements are outlined on the Chi-X web site at <https://www.chi-x.com.au/trading-information/fund-market-making/>. These arrangements are similar to those which have traditionally been applied on markets in Australia.

3.3.5 You will also be able to acquire TraCRs:

- (a) on the Chi-X market in the same way you buy quoted Australian shares; and
- (b) by applying through your broker to the issuer for TraCRs to be issued to you in return for your delivering one underlying share to the Custodian for each TraCR being applied for.

3.4 Investor Fact Sheet

3.4.1. Chi-X has amended the investor fact sheet requirements so that it is now issued by Chi-X. This will enable a single fact sheet to be issued to cover TraCRs generally, in keeping with feedback from stakeholders. The fact sheet will be accessible from www.tracrs.com.au.

3.4.2 The fact sheet is not intended to replace the required detailed disclosure in the product disclosure statement or other offer documents, however, it will provide a brief outline of:

- what a TraCR is;
- how it is traded;
- information on the TraCRs web site;
- tax considerations;
- compensation arrangements relating to TraCRs; and

- the differences between TraCRs and the underlying shares on which they are based.

3.4.3 Chi-X participants must obtain an acknowledgement that a retail client has read and understood the fact sheet before they can accept and submit to the Chi-X market an order from that client to buy a TraCR.

3.5 The eligibility criteria for TraCRs and TraCR issuers

3.5.1 As was outlined in CP 2 of 2016, many of the changes to the existing Operating Rules to accommodate TraCRs are contained in new requirements that must be met for a product issuer of TraCRs to be registered and for a TraCR to be granted quotation. We will:

- (a) apply the existing rules for product issuers and investment products to TraCRs, so that the current eligibility criteria for investment products must be met by a product issuer of TraCRs and the TraCR product itself;
- (b) create new eligibility criteria for TraCRs that are primarily contained in rules 14.23A and 14.23B.

3.5.2 For example, new eligibility criteria require a product issuer of a TraCR to have an AFSL that authorises it to undertake custodian and/or depository activities. This will ensure that the TraCR issuer is being supervised pursuant to its regulatory status as an entity that holds financial products on trust for retail investors.

3.5.3 We have also enhanced the eligibility criteria for quoting a TraCR by requiring:

- (a) the terms of issue of a TraCR to:
 - (i) outline what happens on termination;
 - (ii) state that the issuer will undertake all reasonable endeavours to give effect to any instruction it receives relating to corporate actions;
 - (iii) ensure a holder can convert a TraCR into cash if the liquidity provided by a market maker is absent for a period of 20 consecutive business days (defined in the rules as an “illiquidity event”, see rule 14.23A(c) in Part VIII below); and
 - (iv) state that the issuer will notify the TraCR holder of any corporate actions;
- (b) the product disclosure statement for a TraCR to contain:
 - (i) information on the underlying asset and where a TraCR holder can find the regulatory disclosures relating to that product;
 - (ii) descriptions of how to participate in corporate actions and convert the TraCR into the underlying shares; and

-
- (iii) a description of fees and the rights of ownership, of the underlying assets, to which holders of a TraCR are entitled.
 - (c) the custody agreement between the TraCR issuer and the custodian of the underlying shares to state that the custodian will:
 - (i) undertake all reasonable endeavours to give effect to any instructions from the product issuer on behalf of TraCR holders; and
 - (ii) notify the TraCR issuer of information relating to corporate actions and other relevant events concerning the underlying assets.

3.6 The Disclosure Framework

- 3.6.1 As foreshadowed in CP 2 of 2016 (see in particular section 3.6 of that CP), Chi-X has developed a disclosure framework to address some of the issues raised by the unsponsored nature of TraCRs: the primary continuous disclosure obligations on a TraCR issuer will be those relating to the TraCR itself, rather than any information concerning the underlying asset on which the TraCR is based. As the TraCR is an unsponsored product, this creates issues as to the information available to Australian investors on the underlying asset. In addition, the non-alignment of US and Australian trading days may require Chi-X to independently manage the impact of the publication of price sensitive information on the trading of a TraCR.
- 3.6.2 The Chi-X disclosure framework is targeted at addressing these issues and ensuring a fair, orderly and transparent market is maintained, by:
 - (a) providing, on the designated Chi-X web site, www.tracrs.com.au, a consolidated source of information relating to the underlying assets of a TraCR, including real/near real time information relating to a TraCR and its associated underlying securities;
 - (b) managing the impact of published price sensitive information upon a TraCR by, for example, implementing trading halts where appropriate to enable the orderly dissemination of price sensitive information.
- 3.6.3 These measures are also provided pursuant to conditions in the Chi-X licence that will:
 - (a) require the web site www.tracrs.com.au to be available to the public; and
 - (b) for trading halts to be imposed if the web site itself or any price sensitive data relating to a TraCR, or the underlying shares on which it is based, becomes unavailable.

3.7 The Set Ratio

- 3.7.1 Chi-X has decided that TraCRs will be issued on a one for one ratio with the underlying assets. This is in keeping with feedback received on CP 2 of 2016 and should result in the product being easier for investors to understand and manage.

3.8 Volatility Controls

- 3.8.1 Since CP 2 of 2016, ASIC has proposed that the definition of “equity market product”, in the Market Integrity Rules (Competition in Exchange Markets) ('MIRs'), be amended to include TraCRs. As a result the MIRs applying to volatility controls, including those relating to extreme trading ranges and anomalous order thresholds, will apply to TraCRs. In particular the extreme trade ranges specified in the table rule 2.2.1 of the MIRs will apply to TraCR products.

3.9 Seasoned equity requirements

- 3.9.1 Chi-X has made some minor amendments to the rules clarifying that in the case of a corporate restructure a company may still satisfy the requirement of having traded on the NYSE/Nasdaq markets for 12 months, even if the actual shares that are currently traded have only recently commenced trading, given the corporate restructure.

3.10 What occurs in the event an underlying asset no longer satisfies the eligibility criteria

- 3.10.1 Chi-X has clarified that if the underlying assets of a TraCR cease satisfying the eligibility criteria then a decision will be made on a case by case basis on what should occur to the TraCR. Chi-X considered having a hard rule to cover this scenario but has decided against doing so given the risks to investors from trading that took advantage of an outcome mandated in the Operating Rules.

3.11 Short sale reporting

- 3.11.1 Chi-X has clarified its arrangements for short sale reporting of TraCRs. As TraCRs are not quoted on ASX, all short sales must be reported to Chi-X, which is different from the current arrangements for the short sale reporting of ASX listed and quoted products traded on Chi-X, which are reported to ASX. The arrangements for reporting TraCR short sales clarify that participants must lodge gross short sale transaction reports with Chi-X before 9am the day after the date of the short sale and do so in the format specified at <https://www.chi-x.com.au/trading-information/chi-x-products-gross-short-sales-reports>.

3.12 Definition of a TraCR

- 3.12.1 The definition of a TraCR captures the same principles as contained in the definition upon which we consulted, however we are moving to simpler drafting by incorporating the eligibility criteria in rules 14.23A and 14.23B rather than duplicating those requirements in the definition.

PART IV: CLASS ORDER RELIEF

- 4.1.1 In CP 2, Chi-X outlined the areas of class order relief that it thought was necessary for the launch of TraCRs. As the TraCR product evolved, it has become clear that it is appropriate for class orders in the areas listed in CP 2 to be the subject of bilateral applications by a TraCR issuer and Chi-X participant, where applicable. For example, it became clear that it was appropriate for a TraCR issuer to consider and if necessary apply to ASIC for relief from the obligations contained in the Corporations Act relating to:
 - (i) the issue of a prospectus;
 - (ii) disclosures relating to the underlying shares; and
 - (iii) any requirements for operating a managed investment scheme that may apply to a TraCR issuer given the way the product is structured.
- 4.1.2 It also became clear that it would be appropriate, given the nature of the market maker arrangements that will apply to firms providing liquidity in TraCRs, for those firms to apply bilaterally to ASIC for relief from any short selling restrictions.
- 4.1.3 ASIC has also issued a declaration made under section 1075A of the Corporations Act, which is to the effect that the transfer of TraCRs admitted to quotation on Chi-X will be effected through ASX Settlement Pty Limited under regulations made for the purposes of section 1074A.

PART V: SUBMISSIONS RECEIVED

5.1.1 Chi-X received six submissions in response to CP 1 of 2016. One of these was a non-confidential submission received from the Australian Financial Markets Association (AFMA) and the other five were confidential. The following table provides an anonymised outline, at a high level, of the feedback received in the five confidential submissions and an outline of the submission received from AFMA.

	Service Providers	Regulated Firm	Service Provider	AFMA ³	Regulated Firm	Service Provider
1(a) Do you have any comments on the structure of TraCRs? (b) Are there any structural requirements not addressed in the outline in section 2.1 that are necessary or preferable to manage the interests of investors and any other stakeholders?	Queried whether more information was required on: (i) Corporate events (ii) Tax documentation (iii) S672(a) and (b) Corps Act (iv) Announcement process for corporate events (v) cum/ex trading	Chi-X has adequately: <ul style="list-style-type: none">• described benefits of TraCRs;• classified and defined TRaCRs;• undertaken to provide investors with a clear and concise explanation of the investor fact sheet;• addressed the obligations to be imposed on issuers/ custodians.	Best practice is for investors to receive a written or electronic notification and voting card for the underlying asset company meeting event. Further, it would be expected that investors would be provided with the capability to execute their vote, either via paper or electronically, up to a reasonable cut-off time prior to the meeting Preference is for a single source of Australian market reference data for security codes and corporate action information, as is provided by ASX ReferencePoint	Provided a submission on the overall proposals stating: AFMA believes that competition in financial markets should work to the benefit of market participants and investors by delivering lower prices, innovation and better market access. New financial products such as TraCRs and QMFs are a demonstration of innovation in a competitive Australian market which benefits investors through increased choice.	Wants more details on transmutation, charges and corporate actions (eg pass through, timing and reductions applied).	Underlying principles well explained in the CP. Is looking for further explanation of whether Chi-X or the custodian host information released by underlying issuers and the fees involved. Very supportive of TraCRS: "bring a world of investment opportunities to Australian shores, enabling investors and market participants to access international markets, provide exposure to better value and growth opportunities and the ability to diversify and invest in high quality global brands and industries that do not exist on any Australian exchange today."
2(a) Do you agree that a product issuer should be able to issue TraCRs that trade on a set underlying asset ratio other than 1:1?	No comment on this in general but would like clarity on how to manage fractions.	Supports flexibility in set ratios but also agrees with 1:1	Agrees with ratios other than 1:1		(a) Prefers set ratio of 1-1 for simplicity and consistency (b) Protections	Basis other than 1:1 is OK.

³ This submission is not confidential

	Service Providers	Regulated Firm	Service Provider	AFMA ³	Regulated Firm	Service Provider
(b) Do you think any obligations, in addition to those in paragraph 2.2.1(a)-(c), should be imposed on product issuers in order to ensure the protection of investors?	Believes fractions should be rounded down.			Interested members have not indicated any concerns or identified problems with the rules and procedures as set out in CP 02/2016 being approved and implemented in their proposed form. Accordingly, the rule and procedure changes supporting the introduction of TraCRs and QMFs may proceed through the regulatory approval process with the indication from AFMA that there are no issues in our view with the changes that need attention.	required around fractions	
3(a) Do you agree with benefits listed? (b) any structural aspects not addressed and that are necessary/desirable to manage interests of investors/stakeholders	No comment	See 1 above	<p>Additional benefits could include:</p> <ul style="list-style-type: none"> • Reduction of costs to issuers of CHESS statement fees • Exclude paper investor communications to TraCR investors • Offer electronic-only investor voting to shareholders – this service should be easily accessible to brokers who can integrate electronic voting into their websites/client portfolio • Offer Virtual Shareholder Meetings to shareholders. Virtual Shareholder Meetings are allowed in the U.S., where investors can submit their votes at the Virtual or Hybrid AGM. This is an established approach and proven solution for enabling the 	(a) No comment (b) none	(a) Interested in understanding what will occur with issue and redemption and interaction with registry. (b) dividends should be announced with an estimated \$A rate and be followed by a final A\$ rate once FX performed. Notes that voting not offered for all ASDR Programmes. Has queries on whether there will be multiple issuers and whether ASX will be able to compete with its products.	

	Service Providers	Regulated Firm	Service Provider participation of investors	AFMA ³	Regulated Firm	Service Provider
4. Do you agree that TraCRs should be defined as investment products and subject to the investment product regime in the Operating Rules as outlined in section 3.3 and 3.4 of the CP? Please provide any additional comments or analysis that assist in understanding and supporting your position	No comment.	See above in 1	n/a		No comment	TraCRs should result in additional tax obligations on investors/registrar.
5(a) Does the rule and infrastructure framework outlined in section 3.6 of the CP ensure that there will be sufficient information for an investor to make reasonable investment decision in relation to a TraCR? : (b) Is there any additional information, not covered by the rule and infrastructure framework outlined in section 3.6, that is required to ensure an investor can make reasonable investment decisions in relation to a TraCR?	No comment	Investors should rely on disclosures by issuer of underlying assets (as in US ADR programme)	Need to make investors clearly aware of their voting entitlements		(a) Yes (b) No substantive comments	(a) Wants to know if IFS is online only? (b) Thinks terms and conditions should embed: direct crediting of dividend payments and ecomms should be the only channel to communicate with investors.
6. Do you agree with the requirements for the terms of issue of a TraCR? Should any additional terms be required	Refers to comments on fractions in Q2. Rule 3.7.1(d) needs to be expanded for clarity	Proposed terms are consistent with those in other jurisdictions and nothing is absent.			Agrees with requirements and thinks no additional terms required	Agrees
7. (a) Do you agree that a product	Greater clarity	See 1 above	(a) Supports principle of		(a) Investors need to be fully informed as TraCRs	(a) More efficient if the IFS was online only and investors

	Service Providers	Regulated Firm	Service Provider	AFMA ³	Regulated Firm	Service Provider
issuer should be required to publish an Investor Fact Sheet [IFS] containing the information specified in paragraphs 3.8.2(a) to (d)? (b) Should a product issuer be able to rely upon a single investor fact sheet to provide the information required in respect of all TraCRs with underlying assets traded on the same specified market? (c) Should a product issuer be able to rely upon a single investor fact sheet to provide the information required in respect of all TraCRs with underlying assets traded on a limited number of separate specified markets?	required on corporate actions. Also the IFS should cover tax.		<p>relevant, clear and timely information being provided to investors. And requirement for brokers to record client has read and understood the document.</p> <p>(b) Single sheet should be sufficient subject to need for IFS to provide sufficient detail on entitlements, rights and remedies available to the investor</p> <p>(c) Agrees</p>		<p>are different to other listed securities. Information fact sheet is relevant and needs to include costs additional to those involved in holding underlying securities.</p> <p>(b) No comment</p> <p>(c) One fact sheet for all Chi-X quoted TraCRs should be sufficient.</p>	<p>directed to where it was.</p> <p>(b) Favours a single IFS.</p> <p>(c) A single fact sheet could be made to work even if multiple issuers and separate markets involved.</p>
8. Do you agree that, on a cost benefit analysis, the requirements outlined above impose appropriate obligations on a product issuer and custodian in order to ensure the protection of the interests of investors	No comment	n/a	Has a solution for the investor acknowledgement.		Agrees	Wants clarification on roles of Chi-X, product issuer and custodian on matters such as dividends and corporate actions.
9. Do you agree that a cost benefit analysis justifies requiring a participant, before they can submit orders to acquire a TraCR on behalf of a retail investor, to have received an acknowledgement from a retail investor that he/she has read and understood the investor	No comment	n/a	See answer for 7(a)		Reiterates need for investors to be fully informed and efficiency in having one and not multiple fact sheets.	No comment

	Service Providers	Regulated Firm	Service Provider	AFMA ³	Regulated Firm	Service Provider
fact sheet						
10. Do you agree with the proposed timeline for the release of the operational and technical changes relating to TraCRs	Would like to see clear technical specifications rating to fractions, conversion, and taxation prior to trading commencing.	n/a	Shortened timeline could reduce costs and has products that could assist in this regard.		The more time to prepare the better.	Supports staged release and introducing TRaCRs in a steady flow and to raise awareness and stimulate demand.
11. Do you agree with the approach to incorporating QMFs as outlined in the proposed change to the rules and procedures	No comment		n/a		Not enough information to form an opinion	Proposed changes are consistent with ETF protocols and AQUA rules.
12. : Do you have any comments on any of the proposed miscellaneous amendments to the Rules	No comment		n/a		No comment	Need to align ETF/QMF definition on rules (pp 27 and 29) and procedures (p 55). Conversions between TraCR and underlying asset should only require completed asap and not by a time requirement.
13. Do you have any comments on the proposed class order relief that will be sought to enable the launch of QMF and TraCR products on the investment product platform	No comment	Supports the proposals in the CP.			Relief from the obligation to provide a PDS may be appropriate if the fact sheet provides all the information required.	Agrees with disclosure relief proposed and again seeks clarification on roles with respect to corporate actions, dividends and voting rights.

PART VI: PROPOSED TECHNICAL AND OPERATIONAL CHANGES

- 6.1.1 In CP 2 of 2016, Chi-X outlined several changes that may be required for the Chi-X Trading System (CTS). The proposed changes outlined, and the status of each, is as follows:
- (a) Changes to the Chi-X market data feed to include the real time indicative net asset value of TraCRs:- this addition to the market data feed is not proceeding as the real time Australian dollar value of the underlying shares on which TraCRs are based, is being provided on the TraCRs web site at www.tracrs.com.au;
 - (b) Changes to market data feeds to reflect that TraCRs are in a trading halt or suspension while the remaining market continues to trade:- these changes were introduced in release 5.1 of the CTS which was released into production in November 2016 and has been operating effectively since that time;
 - (c) Closing prices:- Chi-X commenced publishing Chi-X closing prices for all ASX listed products traded on Chi-X on 1 May 2017. The closing price for TraCRs will be published in the same way.
 - (d) A new instrument type to cater for the introduction of TraCRs:- TraCRs have been allocated security type 8 in the ASX reference data products and security type 10 in Chi-X reference data products - these security types were included in release 5.1 (see (b) above);
 - (e) The introduction of multi day orders such as good till cancel:- this change is not currently proceeding and stakeholders will be kept informed of any developments in this area.
- 6.1.2 As outlined above, the production release of the CTS that caters for the trading of TraCRs has been used in production since November 2016. TraCRs trade in the same way as cash equity products and so participants will be able to trade on CTS after the launch of TraCRs without noticing any significant changes.

PART VII: MISCELLANEOUS AMENDMENTS

7.1.1 We have taken the opportunity provided by the introduction of new rules and procedures to accommodate the launch of the TraCRs, to make the following miscellaneous amendments of a minor nature:

- (a) We have corrected a formatting error in the definition of active continuous trading;
- (b) We have introduced the generic term ‘quoted fund’ to capture all investment products that are funds. This will assist in applying the rules on an equal basis, where appropriate, to all funds and assist in expediting the introduction of new types of quoted funds as the investment product platform further develops.
- (c) We have clarified that rule 14.34 and the requirements it contains on the exercise and expiry of cash settled and deliverable products, applies to warrants only. This aligns Chi-X rules with those applying to other markets trading similar products.
- (d) OTC derivatives – we have changed the defined term ‘leveraged OT derivative’ to ‘OTC derivative’ to clarify that it is any OTC derivative that is caught by the Rules and Procedures relating to leveraged exposure. In addition we have modified the existing provisions relating to the use of OTC derivatives by quoted funds to clarify the following:
 - (i) An OTC derivative can be the underlying asset of a quoted fund so long as it does not have the dominant purpose of providing the holder of the investment product with leveraged exposure to a further linked underlying asset (rule 14.20(a) ;
 - (ii) If the ongoing or regular exposure of a quoted fund to all OTC derivative counterparties exceeds 5% of the quoted fund’s net asset value, then this may suggest that the purpose of those derivatives is to provide leveraged exposure – see paragraph 1.3 of Procedure 14.20;
 - (iii) All OTC derivatives that are underlying assets must meet the requirements in:
 - rule 14.21 on the eligibility criteria for an underlying asset that is an OTC derivative;
 - rule 14.26 on (a) the prohibition on counterparty recourse to holders and (b) the disclosure of collateral;
 - rule 14.30 on the periodic disclosure of notional aggregate exposure to all OTC derivative counterparties, and
 - rule 14.31 on the daily monitoring of the exposure of a quoted fund to all OTC derivative counterparties and the requirement to take

immediate action to ensure that the exposure of the fund to all OTC derivative counterparties does not exceed 10% of the net asset value of the quoted fund.

- (e) We have clarified in rule 14.24(e) that the terms of issue of an investment product must state that they will only be amended in a way that is consistent with rule 14.25. This rule aligns the express requirements in the Chi-X rules with those applying in other markets and was an implicit requirement in the existing rule framework.

PART VIII: OPERATING RULES AND OPERATING RULES PROCEDURES

- 8.1.1 This Part VIII of the RP contains the relevant rules and procedures relating to TraCRs. The entire Operating Rules and Operating Rules: Procedures can be accessed at www.chi-x.com.au/compliance.
- 8.1.2 The Operating Rules relating to the proposals covered in this RP commence on page 25. The new rules that have been introduced as outlined in this RP are indicated in the text below by underlining, with deletions indicated by ~~strikethrough~~. The **text in red** is directly impacted by the proposed amendments. The remaining rules are reproduced to provide a wider context for the rules that have been amended.
- 8.1.3 The Operating Rules: Procedures relating to the proposals covered in this RP commenced on page 56. The new procedures that have been introduced as outlined in this RP are indicated in the text below by double underlining, with deletions indicated by ~~strikethrough~~. The **text in red** is directly impacted by the proposed amendments. The remaining rules are reproduced to provide a wider context for the procedures that have been amended.

ATTACHMENT ONE – AMENDMENT OF THE OPERATING RULES

In this attachment, single underlining indicates text to be inserted and ~~strikethrough~~ indicates text to be deleted. **Red text indicates relevant terms, text or rules directly impacted by the proposed amendments.** “...” indicates procedures that are not directly relevant to the proposed amendments and so have not been included.

1 INTERPRETATION AND APPLICATION OF RULES

1 Definitions

In these rules, the following words have the following meanings, unless the context requires otherwise.

Active Continuous Trading	The aggregate time in which the Chi-X market is in continuous trading for the investment product but excluding:
	(a) the period during which no firm price is available for at least 10% by value of the underlying assets of the investment product ;
	(b) the first fifteen minutes of the continuous trading phase on the Chi-X market ;
	(c) the last thirteen twelve minutes of the continuous trading phase on the Chi-X market ;
	(d) the time during which the theoretical value of the investment product is less than the minimum price step allowed for orders submitted to the Chi-X Market ;
	(e) the time during which a product issuer , or a market maker with which it has entered an arrangement under rule 14.16, has experienced an operational disruption or is subject to a regulatory requirement, that has prevented the product issuer and/or the market maker from submitting orders to the Chi-X market .
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.
Alternative central counterparty	An alternative clearing and settlement facility to the designated central counterparty , in respect of which Chi-X has given consent under rule 6.2.
Approved financial product	A financial product approved by ASX Settlement in accordance with section 8 or section 13 of the Settlement Rules .
ASIC	The Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691 or the market for financial products operated by ASX Limited (as applicable).
Board	The board of directors of Chi-X .
Business Day	A day on which the Chi-X market is open and any other day notified by Chi-X to participants .
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	Chi-X Australia Pty Limited ACN 129 584 667.
Chi-X Market	The market for specified classes of financial products operated by Chi-X .
Claim	A claim made in accordance with rule Error! Reference source not found. in relation to a loss .
Clearing Participant	An entity which is a clearing participant or clearing member of a

	designated central counterparty/alternative central counterparty and is authorised to clear relevant transactions under the rules of the designated central counterparty/alternative central counterparty .
Clearing Rules	The operating rules of the designated central counterparty or an alternative central counterparty (as applicable).
Client	The customer of a participant .
Compliance Committee	A sub-committee of the Board the members of which will include an Independent Non-Executive Director of the Board and the Head of Chi-X Compliance and may include other suitably qualified members of the legal profession and financial services industry.
Control and Controller	As defined in the Corporations Act .
<u>Corporate action</u>	<u>Depending on the context, the corporate action taken by:</u> <ul style="list-style-type: none"> (a) <u>the issuer of a financial product traded on Chi-X, to provide an entitlement to the holders of that financial product;</u> and/or (b) <u>the issuer of the underlying asset(s) of an investment product traded on Chi-X, to provide an entitlement to the holders of that underlying asset.</u>
Corporations Act	The <i>Corporations Act 2001</i> (Cth), as amended from time to time, including any regulations made thereunder.
Covered warrant	A deliverable or cash settled warrant issued by a product issuer that has a trust arrangement in place for a sufficient number of the underlying assets or equivalent financial products to be available to meet: <ul style="list-style-type: none"> (a) the exercise of all outstanding deliverable warrants; or (b) the obligations of a product issuer on all outstanding cash settled warrants.
<u>Custodian</u>	<u>The person who holds the underlying assets of a TraCR on behalf of the product issuer and on trust for the holder.</u>
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 .
Designated central counterparty	A clearing facility approved by Chi-X for the purposes of this definition and set out in the procedures .
Disclosure document	The document(s), including any supplementary disclosure documents , that a product issuer is: <ul style="list-style-type: none"> (a) required to provide 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) required to provide in connection with the issue or quotation of an investment product under:

	(i) an exemption from or modification of requirements in the Corporations Act ; or
	(ii) any disclosure requirements imposed under applicable 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.
Dispute	Has the meaning given in rule 5.4(a) .
Eligibility criteria for investment products	The criteria contained in rules 14.11 to 14.26 .
Employee	In relation to a participant means a director, employee, officer, agent, representative, consultant or adviser of that participant , or an independent contractor who acts for or by arrangement with a participant .
Equity market product	As defined in the Market Integrity Rules (Chi-X Market) .
ETF financial product	A financial product issued by or provided pursuant to an ETF .
<u>ETR Reference price</u>	<u>The reference price determined by Chi-X pursuant to the application of the extreme trade range rules in the Market Integrity Rules (Competition in Exchange Markets)⁴</u>
Exchange Traded Fund (ETF)	<p>A collective investment scheme:</p> <ul style="list-style-type: none"> (a) that is either <ul style="list-style-type: none"> (i) a managed investment scheme under the Corporations Act that complies with the applicable registration requirements; or (ii) a type of foreign company specified in the procedures which has the economic features of a managed investment scheme including: <ul style="list-style-type: none"> A. the pooling or use of contributions in a common enterprise with respect to property of any description, including money, that enables those taking part through the contribution of money or otherwise, to receive profits or income arising from that property; and B. those taking part do not have day to day control over the operation of the property; and (b) is granted quotation as an exchange traded fund; and (c) for which the price of the underlying asset is continuously disclosed and immediately ascertainable; and (d) that can continuously issue new ETF financial products in the scheme that are quoted; and

⁴ This term only appears in the Operating Rules: Procedures and is provided here for ease of reference.

	(e) which allows applications for and redemptions of ETF financial products in the scheme in the primary market, in specie, in cash or a combination of in specie and in cash.
Exchange-Traded Fund Special Trade	A trade executed pursuant to rule 14.36 .
Excluded loss	A loss that under section 885D of the Corporations Act is not a Division 3 loss.
Financial product	As defined in the Corporations Act .
Fidelity fund	The compensation fund described in rule 11 .
Foreign Company	As defined in the Corporations Act .
Guarantor	An entity that holds an AFSL in respect of its activities as a guarantor , or otherwise falls within the categories specified in rule 14.3(b)(i), (ii) or (iii) and which guarantees the product issuer's obligations to holders .
GST Law	Means the same as "GST Law" means in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth)
Holder	A person who holds legal title to an investment product , as determined in accordance with the terms of issue .
<u>Illiquidity Event</u>	<u>The event described in rule 14.23A(c).</u>
Investment product	A warrant , or exchange traded fund or transferable custody receipt 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 .
<u>Investor Fact Sheet</u>	<u>The document published by Chi-X which outlines:</u>
	(a) <u>the nature of TraCRs and how they are traded;</u>
	(b) <u>how TraCRs are different to cash equity shares, including those that are the underlying assets to which they relate;</u>
	(c) <u>how to obtain real time price sensitive information and continuous disclosures relating to the underlying assets;</u>
	(d) <u>the risks of trading TraCRs.</u>
Issuer Application Form, IAF	An Issuer Application Form approved and made available by Chi-X for the purpose of applying to be registered as a product issuer .
Issuer sponsored subregister	As defined in the Settlement Rules .
Leveraged OTC derivative	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 14.20, provides a notional exposure from 5% and of up to 10% of the net asset value of the ETF.
Listing Market	The market on which Chi-X determines an equity market product has its primary listing, which unless determined otherwise, is the primary market operated by ASX .

Loss	Has the meaning given in rule 11.7 .
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 .
Market Integrity Rules (Chi-X Market)	The Market Integrity Rules (Chi-X Market) made by ASIC.
Market Integrity Rules (Competition in Exchange Markets)	The Market Integrity Rules (Competition in Exchange Markets) made by ASIC.
Match, matching	The electronic matching on the Chi-X market of buy and sell orders submitted to the Chi-X market .
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, if applicable, offer orders that must be maintained by a market maker in order to comply with its market maker undertaking .
Minister	The Minister that at the relevant time has portfolio responsibility for the regulation of the Chi-X Market .
Order	An electronic message submitted to the Chi-X market to buy or sell a financial product .
Off market transaction	A transaction executed (a) other than by a match and (b) in compliance with the Market Integrity Rules (Competition in Exchange Markets) .
<u>OTC derivative</u>	<u>An OTC derivative that is or is proposed to be an underlying asset in a quoted fund and that:</u> <ul style="list-style-type: none"> (a) <u>in accordance with paragraph 1.1 of procedure 14.20, does not, on its own or in aggregate with other OTC derivatives, result in the quoted fund having an exposure to all OTC derivative counterparties of more than 10% of the net asset value of the quoted fund;</u> (b) <u>on an initial and ongoing basis satisfies those rules expressed to apply to OTC derivatives.</u>
Participant	An entity admitted as a participant of Chi-X under these rules and whose admission has not been terminated or whose resignation has not taken effect.
Procedures	The procedures made by Chi-X under rule 1.7 .
Product Application Form, PAF	A Product Application Form approved and made available by Chi-X for the purpose of applying to have an investment product admitted to quotation .
Product issuer	In relation to an investment product , the entity which issues the investment product .
Quotation	Admitted to quotation by Chi-X pursuant to rule 14.9 .

<u>Quoted financial product</u>	A financial product issued by a product issuer and traded on the Chi-X market pursuant to the quotation of an investment product.
<u>Quoted fund</u>	An investment product that is an Exchange Traded Fund (ETF) . ⁵
Quoted investment product	An investment product that has been admitted to quotation by Chi-X pursuant to rule 14.9 .
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, if applicable, offer orders in compliance with its market maker undertaking .
RCTI	A Recipient Created Tax Invoice as described in rule 13.5 .
Reference price	The reference source for Chi-X pegged orders that is set out in column two of table 1.1 of Procedure 4.5 for each of the pegged orders specified in column one of that table. ⁶
Regulated Market	A market, specified in the procedures , 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 .
Related Body Corporate	As defined in the Corporations Act .
Relevant Transaction	A transaction in respect of financial products that arises upon the matching of orders on the Chi-X market or which is reported as an off-market transaction to Chi-X under these rules .
Retail Client	As defined in the Corporations Act .
Review Committee	The committee established to review and decide on a particular matter in accordance with these rules and the procedures .
Rules	These rules .
Security	As defined in the Corporations Act .
Settlement Rules	The operating rules of ASX Settlement Pty Ltd (ABN 49 008 504 532).
Supplementary Disclosure Document	A document which replaces, updates, adds to or otherwise amends the information contained in a previously published disclosure document .
Terms of issue	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.
Trading Notice	A notice issued by Chi-X on its website.
<u>Transferable Custody Receipt (TraCR)</u>	<u>An investment product that:</u> <ul style="list-style-type: none"> (a) <u>is issued by a registered product issuer;</u> (b) <u>has an underlying asset that is held by a custodian on behalf of the product issuer and, ultimately, the holder of the TraCR;</u>

⁵ Note that while the only quoted funds at present are exchange traded funds, the term ‘quoted funds’ will be a drafting aid in facilitating the streamlined addition of other fund types to the rules as the Chi-X quoted fund market develops.

⁶ This defined term is only found in the **Procedures** and is included here for ease of reference.

(c) is priced by reference to the Australian dollar value of the share that is the underlying asset;

(d) satisfies the eligibility criteria that is specifically related to TraCRs.

Underlying asset

The **financial product(s)** or other asset(s) by reference to which an **investment product** is valued and, in the case of a TraCR, must consist solely of the security which is beneficially owned by the **TraCR holder**.

Warrant

A **financial product** issued by a **product issuer** pursuant to the **terms of issue**, which is granted **quotation** as a warrant, and satisfies the definition of 'warrant' contained in the **Corporations Act**, as modified by any instruments or class order made thereunder.

4 TRADING

4.1 Access to Chi-X market

A **participant** is responsible for all obligations and liabilities arising from the entry, amendment, deletion and execution of all electronic messages, including orders, submitted to the **Chi-X market** by or on behalf of the **participant**.

4.2 Hours of operation

Chi-X will determine and set out in the **procedures** the times during which the **Chi-X market** will be open. A **participant** may only submit, amend, or delete orders from the **Chi-X market** during those times.

4.3 Trade reporting

A **participant** may report to the **Chi-X market** an **off market transaction** that has not already been reported to another licensed market. The report must comply with the **procedures**.

4.4 Classes of financial products

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**.

4.5 Orders and matching

- (a) A **participant** may submit the following **order** types to the **Chi-X market**:
 - (i) limit **orders**; or
 - (ii) pegged **orders** that are referenced to a source specified in the **procedures**.
- (b) An order submitted to the **Chi-X Market**:
 - (i) must have the mandatory attributes specified in the **procedures**; and
 - (ii) may have the optional attributes specified in the **procedures**.
- (c) All orders entered into the **Chi-X market**:
 - (i) are firm and available for execution, subject to **rule 4.6**;
 - (ii) will be **matched** based on price/visibility/time priority, subject to the exceptions set out in the **procedures**; and
 - (iii) must otherwise comply with the **procedures**.
- (d) If a **client** places an **order** with a **participant** and expressly or implicitly instructs the **participant** to only use the **Chi-X market** in relation to the **order**, then the **participant** must make a record of this and retain the record for seven years and produce it to **Chi-X** upon request.
- (e) **Chi-X** may impose restrictions and limits in relation to the entry of **orders** or the execution of **relevant transactions**.

- (f) The **matching** of buy and sell **orders** in the **Chi-X market** results in a contract between the **participants** responsible for the entry of those **orders** for the acquisition and sale of the relevant **financial products** at the price and volume that has been **matched**, subject to these **rules** and the **procedures**.

4.6 Purging of orders

An **order** in the **Chi-X Market** that is **unmatched** at the close of trading will automatically be cancelled by **Chi-X** in accordance with the **procedures**.

4.7 Order routing

- (a) A **participant** may provide, or arrange for the provision of, an automatic order routing facility or direct market access to a **client** which enables the **client** to submit **orders** to the **Chi-X market**.
- (b) A **participant** that submits orders to the **Chi-X market**, or who provides, or arranges for the provision of facilities under paragraph (a), shall, at all times, have adequate order management systems, procedures and controls in place to prevent the entry of erroneous **orders** to the **Chi-X market**.
- (c) A **participant** is responsible for all **orders** submitted by the **participant**, including those submitted by a **client** to whom the **participant** provides, or arranges for the provision of, facilities under paragraph (a).

4.8 Short sale reporting

Where a **participant** is required to provide information to **Chi-X** under Division 5B of the **Corporations Act** or the **Market Integrity Rules (Competition in Exchange Markets)** in respect of sell **orders** or relevant transactions involving a sale by the **participant**, the **participant** must provide the information to **Chi-X** in accordance with the **Corporations Act** and the **Market Integrity Rules (Competition in Exchange Markets)** and in the form and by the time specified in the **procedures**.

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 **investment products** 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 **investment products** in which it is a **market maker**; or
 - (ii) all **investment products** 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** web site. The register shall list each **investment product** 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**.

4.15 Pre-Conditions for Trading in a TraCR

A participant must not submit an order, on behalf of a retail client, to buy a TraCR unless the participant, in accordance with the procedures:

- (a) **has provided the retail client with an investor fact sheet;**
- (b) **has obtained from that retail client an acknowledgment that the retail client has read and understood the investor fact sheet;**
- (c) **does not market TraCRs as ordinary cash equities, including those which are the underlying asset of a TraCR; and**
- (d) **clearly distinguishes TraCRs from ordinary cash equities, including those which are the underlying asset of a TraCR, in the information it provides or makes available to retail clients.**

5 FAIR AND ORDERLY MARKET

5.1 Chi-X orderly markets powers

Chi-X may take any action it considers necessary to ensure that the **Chi-X market** is fair, orderly and transparent, including:

- (a) rejecting one or more **orders** or other electronic messages submitted to **Chi-X** or entered into the **Chi-X market**;
 - (b) suspending or halting trading in all or part of the **Chi-X market**;
 - (c) cancelling or amending any **relevant transaction**;
 - (d) directing any **participant** to take, or not to take, specified action in connection with the **Chi-X market**;
 - (e) modifying, restricting or suspending access by one or more **participants** to all or part of the **Chi-X market**; or
 - (f) requesting a **designated central counterparty** or **alternative central counterparty** to exercise its powers.
-

5.3 Suspension of access to or trading on the Chi-X market

Chi-X may suspend access to or cease trading on the **Chi-X market** if:

- (a) **Chi-X** determines a systems or communications problem has occurred or is likely to occur which may result in disorderly trading conditions on the **Chi-X market**;
 - (b) a specific **financial product** is the subject of a suspension or trading halt on the **listing market**; or
 - (c) the underlying asset of a TraCR is placed into a trading halt or suspension (see also rule 14.35);
 - (d) Chi-X is of the view that a TraCR should be placed into a trading halt to enable the dissemination of information that relates to the underlying asset of the TraCR or otherwise impacts on the TraCR (see also rule 14.35);
 - (e) the Market Integrity Rules (Competition in Exchange Markets) require the market to be suspended or halted; or
 - (f) Chi-X, in its absolute discretion, considers it appropriate to do so.
-

7.2 Corporate actions

- (a) A **participant** shall treat a listed financial product as being 'ex' a benefit from the time that **financial product** is marked 'ex' that benefit on the **listing market**.

- (b) The Chi-X TraCR web site will contain the information provided by the **product issuer** of a TraCR on the **corporate actions** relating to that TraCR, including:
- (i) the basis of quotation of the **TraCR**,
 - (ii) any distribution or payment of cash or other assets to the **holder** of the **TraCR**;
 - (iii) any meeting or proxy event relating to the **underlying assets** and in respect of which the **holder** may have a voting right;
 - (iv) any split or consolidation of the **holder's TraCRs**.
- (c) Chi-X will take no responsibility for marking a **listed financial product or a quoted investment product** as 'ex' or 'cum' a benefit on the Chi-X market.
- (e)(d) The responsibility for accurately pricing a listed financial product or a quoted investment product undergoing or impacted by a **corporate action** is solely with the participant.
- ...

14 INVESTMENT PRODUCTS

14.1 Preliminary

- (a) The **rules** in section 14 contain requirements for the registration of **product issuers** and the quotation of and trading in **investment products**.
- (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**, or the performance of an **investment product**.

14.2 Product 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) revoke or suspend the registration of 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 the **rules** as they apply to **product**

issuers, including those relating to waivers, reviews, error trades and those in section 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 Product Issuers – Eligibility Criteria

- (a) For an applicant to be eligible for approval as a **product issuer** it must:
 - (i) have adequate human, technological and financial resources in place to perform its obligations as a **product issuer**;
 - (ii) subject to **rule 14.4**, have an Australian financial services licence which authorises it to undertake the activities it will engage in as a **product issuer**;
 - (iii) in the case of an applicant seeking registration as a **product issuer** of TraCRs, have an Australian financial services licence which authorises it to undertake custodian and/or depositary activities.
- (b) An applicant will not satisfy **rule 14.3(a)(i)** unless it satisfies **Chi-X** that it is one of the following:
 - (i) an entity that is prudentially regulated by the Australian Prudential Regulation Authority or an equivalent regulatory authority specified in the **procedures**;
 - (ii) a government, government body or instrumentality, that has a guarantee by the relevant government Treasury authority covering the payments due by the proposed **product issuer**;
 - (iii) the holder of an Australian financial services licence or an authorisation in another jurisdiction, pursuant to which it is subject to the adequate supervision of capital standards, and has a low long term credit risk and net tangible assets that are sufficient to support the proposed issue;
 - (iv) in a legally binding arrangement, with a **guarantor**, that satisfies the requirements in **rule 14.3(c)**;
 - (v) a responsible entity of a managed investment scheme registered under Chapter 5C of the **Corporations Act**; or
 - (vi) otherwise approved by **Chi-X**.
- (c) An applicant may satisfy the criteria in **rule 14(a)(i)** by entering a legally binding arrangement with a **guarantor** that has adequate human, technological and financial resources in place to perform its obligations as a **guarantor**, if the arrangement:
 - (i) provides an unconditional and irrevocable guarantee by the **guarantor**, relating to the obligations of the **product issuer**, in favour of the **holders** of an **investment product** issued by the applicant as a **product issuer**; and
 - (ii) requires the **guarantor** to:
 - A. hold an Australian financial services licence in respect of its activities as a **guarantor**, unless the Corporations Act does not require such a licence in respect of the **guarantor's** activities as a **guarantor**; and

- B. be an entity specified in **rule 14.3(b)(i), (ii) or (iii)** for the duration of the guarantee.
- (d) An applicant that is intending to issue **investment products** pursuant to an arrangement whereby the **underlying assets** or the economic performance of those **underlying assets**, are not held on trust or otherwise retained solely for the benefit of **holders**, will not satisfy the requirement in **rule 14.3(a)(i)** to have adequate financial resources unless it:
- (i) is an entity specified in **rule 14.3(b)(i), (ii) or (iii)**; or
 - (ii) has a legally binding arrangement, that satisfies the requirements in **rule 14.3(c)**, with a **guarantor** that is an entity specified in **rule 14.3(b)(i), (ii) or (iii)** and has a low long term credit risk and net tangible assets sufficient to support the proposed issue; or
 - (iii) is otherwise approved by **Chi-X**.

14.4 Product Issuers – Eligibility Criteria - AFSL

An applicant is not required to hold an Australian financial services licence if the **Corporations Act** does not require a licence in respect of the applicant's proposed activities as a **product issuer**.

14.5 Product Issuers – Duties and Continuing Obligation to Comply with the Rules in Section 14

An applicant that is registered as a **product issuer**:

- (a) owes **Chi-X Australia** a duty to comply with the **rules** contained in section 14 as they apply to **product issuers**, and this duty is owed in addition to any other obligations it may have as a **participant**;
- (b) must continue to satisfy **rules 14.3 and 14.4** as outlined in its application to be registered as a **product issuer**.

14.6 Product Issuers - Ongoing Requirements – Material Change

A **product issuer** must immediately notify **Chi-X** in writing and in accordance with the **procedures**, if there is, or is a reasonable risk that there will be, a material change to:

- (a) the information contained in or attached to the **IAF** it submitted to **Chi-X**, including any changes to the principal contacts/authorised executives outlined in the **IAF**;
- (b) the Australian financial services licence held by the **product issuer** (if applicable);
- (c) the way in which it satisfied the eligibility criteria for registration as a **product issuer**;
- (d) its compliance with any pre and/or post registration conditions that were imposed upon it; or
- (e) the ability of the **product issuer** to perform its obligations as a **product issuer**.

14.7 Product Issuers - Ongoing Compliance Requirements

- (a) A **product issuer** must immediately notify **Chi-X** in writing, and in accordance with the **procedures**, if it is in material non-compliance with its regulatory obligations.

- (b) 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**.
- (c) A **product issuer** and any **guarantor** must comply with the disclosure requirements in **rules** 14.28 to 14.30 and the applicable **procedures** in relation to each **investment product** admitted to **quotation** that it has issued or guaranteed respectively.
- (d) 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** 14.37.

14.8 Product Issuers - Miscellaneous Ongoing Requirements

- (a) A **product issuer** must satisfy any additional requirements set out in the **procedures**.
- (b) A **product issuer** must, upon request, provide a copy of its current annual report to a **holder**.
- (c) A **product issuer** must pay all fees associated with the quotation of the **investment products** it has issued as and when they fall due.

14.9 Investment Products - Quotation

- (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**.
- (c) For the sake of clarity, **Chi-X** does not maintain an official list of products but rather admits investment products to **quotation**. As outlined in the **procedures**, **Chi-X** will not admit to **quotation** a **financial product** issued by an entity with a level of control over the **financial product** that requires the regulatory framework of a **listing market** to ensure the fair, orderly and transparent trading of that **financial product**.
- (d) The procedures contain further information on the suspension or revocation of the **quotation** of an **investment product**.

14.10 Investment Products – Eligibility Criteria

For an **investment product** to be eligible for **quotation**:

- (a) it must meet the applicable **eligibility criteria** contained in **rules** 14.11 to 14.26 and satisfy any pre-**quotation** conditions that have been imposed; and
- (b) **Chi-X** must have no objections to the **terms of issue** or the basis on which the **investment product** satisfies the **eligibility criteria**.

14.11 Investment Products – Basic Eligibility Criteria for the Product Issuer

To be eligible for **quotation**, the **investment product** must be issued by a **product issuer** that:

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

- (b) is complying with the **rules**;
- (c) has, in accordance with the **procedures**, accurately completed and signed a **product application form (PAF)** and provided any information required by **Chi-X** in connection with the **quotation** of the **investment product**;
- (d) has satisfied any pre-quotation conditions imposed by **Chi-X** and certified to **Chi-X** that the conditions have been satisfied;
- (e) has paid all fees associated with the **quotation** of the **investment product**.

14.12 Investment Products – Basic Eligibility Criteria for the Investment Product

To be eligible for **quotation**, the **investment product** must:

- (a) be an **approved financial product**;
- (b) have 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 guidance on naming convention requirements for **investment products**; and
 - (iv) includes an outline, in the relevant **disclosure document**, of the differences between an investment product* that is listed, as that term is defined in the **Corporations Act**, and an **investment product** that is quoted on a market such as **Chi-X**.
- (c) be approved for clearing by the **designated central counterparty** or an **alternative central counterparty**.

* Note that this use of the term ‘investment product’ in rule 14.12(b)(iv) is emboldened in the current version of the rules. This indicates that the term is being used to mean ‘investment product’ as defined in the definitions section of the Operating Rules. This is incorrect. The term should not be emboldened: it is being used to mean an ‘investment product’ that is listed.

14.13 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 any **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 further information on the **disclosure documents** that may be required in respect of each of the different types of **investment products** that may be quoted.

- (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.

14.14 Investment Products - Eligibility Criteria – Liquidity Obligations

- (a) A **product issuer** must ensure that there will be sufficient liquidity for each **quoted investment product** it issues and state how it will satisfy this eligibility criterion in the application for quotation.
- (b) **Rules** 14.15 and 14.16 and the **procedures** contain further information on how a **product issuer** may satisfy **rule** 14.14(a) and what a **product issuer** must do to ensure ongoing compliance with the liquidity requirements once an **investment product** is admitted to quotation.

14.15 Investment Products - Eligibility Criteria – How to Satisfy the Liquidity Obligations

A **product issuer** will fulfil the liquidity obligation in **rule** 14.14(a) if it satisfies **Chi-X** that:

- (a) the ongoing spread of **holders** is adequate, reasonable and in compliance with any applicable requirements in the **procedures**, for the purpose of ensuring there is sufficient liquidity in the **investment product**; or
- (b) liquidity will be maintained in the **investment product** by the **product issuer**:
 - (i) trading itself to maintain a reasonable bid and volume **order** in accordance with the **procedures**; or
 - (ii) entering an arrangement with a **market maker** under **rule** 14.16 to maintain a reasonable bid and volume **order** in compliance with the **procedures**, although this does not discharge the **product issuer** from its obligation to comply at all times with **rule** 14.14(a);
 - (iii) having in place other arrangements which meet the requirements set out in the **procedures**.

14.16 Investment Products - Eligibility Criteria – Liquidity Obligations and Market Makers

- (a) 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**.
- (b) The appointment by a **product issuer** of a **participant** as its agent under this **rule** 14.16, must be in writing and contain details of the way in which the **market maker** will maintain, in accordance with these **rules** and the **procedures**, an **order** of a reasonable bid and volume for the relevant **investment product**. The details provided must, at a minimum, include an outline of how the **market maker** will maintain, and the **product issuer** will monitor, compliance with the requirement to maintain a reasonable bid and volume order for the minimum period of **active continuous trading** specified in the **procedures**, including **procedure** 14.15 and 4.9.

14.17 Investment Products – Eligibility Criteria – Underlying Assets

To be eligible for quotation, the **underlying assets** of an **investment product** must be linked to one of the following:

- (a) a **security, derivative**, debenture, bond or other **financial product** specified in the **procedures** and that is admitted to trading by the holder of an **Australian market licence**;
- (b) a **security, derivative**, debenture, bond or other **financial product** specified in the **procedures**, that is traded on a **regulated market** and 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**;
- (c) a debenture or bond in respect of which sufficient information will be available on a timely basis to **participants** and **market makers** to ensure they can reliably determine the price at which the **underlying asset** is bought or sold, and which is issued by:
 - (i) a company that is listed on a **regulated market**;
 - (ii) a government or statutory entity; or
 - (iii) an entity regulated by an independent prudential supervisor in its home state;
- (d) a commodity or currency:
 - (i) that is subject to a pricing and disclosure mechanism that is available on a timely basis to **participants** and **market makers** to ensure they can reliably determine the price at which the **underlying asset** is bought or sold; or
 - (ii) for which there is a regulated derivatives market which controls price discovery;
- (e) a widely regarded index based on the **financial products** in (a)-(d) above and which in the case of an index based on a debenture or bond, is specified in the **procedures**.

The procedures specify the **regulated market(s)** on which a **financial product** linked to an **underlying asset** is traded and/or on which a company, that has issued debentures or bonds linked to an **underlying asset**, is listed.

14.18 Investment Products – Eligibility Criteria – Underlying Assets - Indices

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

- (a) provide **Chi-X** with a written authorisation from the owner of the index;
- (b) ensure that the index provider has:
 - (i) 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;
 - (ii) robust and transparent governance arrangements with regards to the index, including conflicts of interest arrangements;
 - (iii) 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;
 - (iv) arrangements for the dissemination of index information that will ensure all market participants and investors are treated equally;

- (v) complied with the relevant guidance issued by ASIC and/or any other applicable regulatory authority in respect of index selection principles;
- (c) state in the **PAF** and publish on the **product issuer's** web site in accordance with the **procedures**:
 - (i) whether the product issuer is a **related body corporate** of the index provider and if so provide an explanation of the governance arrangements in place between the **product issuer** and index provider and how they address the issues raised by the index provider being a **related body corporate**;
 - (ii) how the index satisfies the requirements in paragraph (b) of this **rule 14.18**.

14.19 Investment Products – Eligibility Criteria – Underlying Assets – Sufficient Quantity

The **product issuer** of a **warrant** must ensure that:

- (a) there is a sufficient quantity of **underlying assets** available to be acquired in respect of an **investment product** that may require delivery of those assets;
- (b) 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:
 - (i) 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
 - (ii) 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.

14.20 Investment Products – Eligibility Criteria – Excluded Underlying Assets

- (a) The **underlying assets** must not include:
 - (i) in the case of an **investment product** that is a **quoted fund** ~~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 does not have a readily available price or value.
- (b) The procedures contain further information on what may be precluded from being an **underlying asset** by this **rule 14.20**.

14.21 Investment Products – Eligibility Criteria – Leveraged OTC Derivatives

The **product issuer** of an **quoted fund ETF**, that has an aggregate notional exposure to all includes an underlying asset that is an **leveraged OTC derivatives** of more than 5% of the **quoted fund's net asset value**, must ensure that:

- (a) the legal and beneficial title to any collateral in the **OTC derivative** is held by the **quoted fund ETF**;

- (b) at any time the **quoted fund ETF** is able to either take immediate delivery of any collateral or the proceeds of its sale;
- (c) the counterparty of the **leveraged OTC derivative**, or a **guarantor** in respect of the failure of the counterparty to fulfil its obligations under the **leveraged OTC derivative**, is an authorised deposit-taking institution (ADI), or a foreign deposit taking institution that is subject to regulation that is equivalent to that imposed on an ADI and is in a jurisdiction specified in the **procedures**;
- (d) any **guarantor** under rule 14.21(c), has provided an unconditional guarantee in favour of the **quoted fund ETF** to fulfil the obligations of the counterparty under the **leveraged OTC derivative**; and
- (e) the assets that may be **obtained as collateral under the leveraged OTC derivative are specified in the product application form** and the product disclosure statement, prospectus or other offer document for the **investment product** and are restricted to the securities in the S&P ASX 200, cash, Australian government debentures or bonds, or any non-derivative asset set out in rule 14.17 that is consistent with the investment objectives of the **investment product**.

14.22 Investment Products – Eligibility Criteria – Investment mandate and Constituent Documents

- (a) An **investment product** that is an **quoted fund 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 include the investment mandate or outline of the investment approach of those responsible for managing the fund in the product disclosure statement, prospectus or other offer document for the **investment product** and provide **Chi-X** with a copy of that the product disclosure statement, prospectus or other offer document.

14.23 Investment Products – Eligibility Criteria – TraCRs Amending the Investment Mandate

An investment product that is a TraCR must, in addition to any other applicable eligibility requirements in rules 14.11 to 14.26, meet the eligibility criteria in rules 14.23A and 14.23B.

14.23A Investment Products – Eligibility Criteria – TraCRs – Underlying Assets, Terms of Issue, Offer Documents

- (a) The underlying asset of a TraCR must be:
 - (i) a member of the S&P 500 index or the Dow Jones Industrial Average; and
 - (ii) listed on either the New York Stock Exchange or NASDAQ market and, unless otherwise specified in the procedures, have been so listed for a period of at least twelve months.
- (b) The terms of issue of a TraCR must:
 - (i) enable the holder of a number of TraCRs to convert, on demand and subject to the terms of issue, that holding into the same number of underlying assets;
 - (ii) describe in detail what steps a holder has to take to convert a holding of TraCRs into the underlying assets;

- (iii) state the circumstances in which a **TraCR** may be terminated by the **product issuer** and any consequential processes, including the time limits that may apply for **holders** to take any action (for example, to convert the holding of **TraCRs** into a holding of the **underlying asset**);
 - (iv) require the **product issuer** to undertake all reasonable endeavours to give effect to any instructions it may receive from a **holder** in relation to any **corporate actions**, having regard to the total cost of complying with those instructions (eg the cost of obtaining legal advice on the availability of a rights issue that only a minimal percentage of holders may want to exercise);
 - (v) where rule 14.23A(c) applies, ensure that a **holder** can convert the **TraCR** holding into a cash amount specified in the **terms of issue** and consisting of the Australian dollar equivalent of the price of the **underlying asset** sold pursuant to the **holder** exercising that right, less any reasonable fees incurred by the **product issuer** for executing the cash conversion;
 - (vi) require the **product issuer** to notify the **holder** of any **corporate actions**, including any:
 - A. distribution or payment of cash or other assets to the **holder**;
 - B. meeting or proxy event relating to the **underlying assets** and in respect of which the **holder** may have a voting right;
 - C. split or consolidation of the **holder's TraCRs**; and
 - D. entitlement to give instructions to exercise rights in respect of the **underlying assets** to which the **holder's TraCRs** relate, where the **product issuer** has reasonably determined that it is lawful and practicable to accept those instructions.
- (c) This rule 14.23A(c) outlines when an **illiquidity event** takes place and applies where:
- (i) a **TraCR** satisfies the liquidity criterion in rule 14.14 on an ongoing basis by relying partially or wholly on liquidity provided by a **participant** registered as a market maker under either a **Chi-X** fee arrangement or rule 4.9; and
 - (ii) there is no secondary market liquidity in that **TraCR**, pursuant to those fee arrangements or rule 4.9, for a period of twenty continuous working days.
- (d) The product disclosure statement, prospectus or other offer document for a **TraCR** must:
- (i) disclose the market on which the **underlying asset** has its primary listing and provide sufficient information for a reasonable investor to locate the regulatory disclosures made by the issuer of that **underlying asset**;
 - (ii) include an overview of the regulatory disclosures the issuer of an **underlying asset** is required to make and what information the disclosures may contain;
 - (iii) clearly describe how the **holder** of a **TraCR** can participate in **corporate actions**, class actions, and/or exercise any voting rights, that are attached to the ownership of the **underlying asset**;

- (iv) clearly describe how a **holder** can convert a **TraCR** holding into a direct holding of the **underlying assets**;
- (v) clearly describe the fees relating to the holding of **TraCRs**, including those relating to **corporate actions** generally, the exercise of rights as a beneficial owner of the **underlying assets** (eg dividends and voting) and any tax implications that may apply;
- (vi) clearly describe the rights of ownership, of the **underlying asset**, to which holders of a **TraCR** are/are not entitled;

14.23B Investment Products – Eligibility Criteria – TraCRs Custody Agreement

The agreement between the **product issuer** of a **TraCR** and the **custodian** of the **underlying assets** to which the **TraCR** relates, must not be amended without prior notice to **Chi-X** and must require the **custodian** to:

- (a) hold the appropriate licence authorisations and approvals to comply with its obligations as the **custodian** for the **TraCR**;
- (b) have an organisational structure that manages the potential conflicts of interest it may face and supports the separation of the **underlying assets** relating to the **TraCR** from the **custodian's** own assets;
- (c) have adequate resources to perform custodial activities in relation to the **underlying assets** in accordance with the **custody agreement**, including:
 - (i) adequate staff with the knowledge, skills, time and authority to perform custodial functions under the **custody agreement**;
 - (ii) systems for recording all transactions, relating to the **underlying assets** which are the subject of the **custody agreement**, and all income, distribution and other administrative activities;
 - (iii) the means, where necessary, to segregate staff responsible for custodial activities;
- (d) hold the **underlying assets** on trust on behalf of the **holder**, except for **underlying assets** held in a jurisdiction outside of Australia where a trust structure is not recognised and the **product issuer** is reasonably of the view that the assets are held in a manner that provides effective protection for **holders** of the **TraCR** in the event of the insolvency of the **custodian** and in which case the basis for that view must be provided in writing to **Chi-X**;
- (e) maintain records of all transactions, relating to the **underlying assets** which are the subject of the **custody agreement**, and all income, distributions and other administrative activities;
- (f) take all the steps necessary for the **custodian** to facilitate the conversion, in compliance with the **terms of issue**, of a holding of **TraCRs** to a holding of **underlying assets**;
- (g) notify the **product issuer** of all **corporate actions** relating to the **underlying asset**;
- (h) undertake all reasonable endeavours to give effect to any instructions it may receive from a **product issuer** in relation to any **corporate actions**, having regard to the total cost of complying with those instructions (eg the cost of obtaining legal advice on the

availability of a rights issue that only a minimal percentage of holders may want to exercise);

- (i) take any steps reasonably required to facilitate the **product issuer** complying with a direction under rule 14.37(a);
- (j) produce to the **product issuer** any information in the **custodian's** possession, or that the **custodian** is reasonably able to obtain, and which is required to comply with a requirement under rule 14.37(b);
- (k) as necessary, appoint a sub-custodian in the jurisdiction where the underlying assets relating to the **TraCR** are based and engage that **custodian** on terms which are consistent, as far as practicable, with the requirements in this rule 14.23B;
- (l) neither lend nor part with possession of the **underlying assets** except on the instructions of the **product issuer**.

~~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 in compliance with rule 14.32(d).~~

14.24 Investment Products – Eligibility Criteria – Terms Of Issue – Required Content

The **terms of issue** for an **investment product** must:

- (a) 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);
- (b) state the way in which the intrinsic value of the **investment product** will be calculated;
- (c) 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;
- (d) in the case of deliverable **investment products*:**
 - (i) require the **product issuer** to comply with its delivery obligations within the 20 business days following receipt of an effective notice of exercise;
 - (ii) outline the way in which an assessed value payment, and any costs, will be calculated in the event a **holder** fails to give an effective notice of exercise within the time limits contained in the **terms of issue**;
 - (iii) ensure that the assessed value payment is at least equal to the intrinsic value less reasonable costs;
 - (iv) 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**;

- (e) state that the terms of issue will only be amended in a way that is consistent with rule 14.25.

*A TraCR is not a cash settled or deliverable investment product under this rule 14.24.

14.25 Investment Products – Eligibility Criteria – Amending the Terms of Issue

To be eligible for quotation, the **terms of issue** of an **investment product** must not be capable of amendment other than as follows:

- (a) the expiry date may be amended in the case of an extraordinary event defined in the **terms of issue**;
- (b) the **terms of issue** ~~for of an a-particular investment product that is a warrant~~, may be amended at a meeting convened by the **product issuer** in compliance with rule 14.32(d), 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;
- (c) with the consent of **Chi-X** for the purpose of:
 - (i) complying with a legal requirement;
 - (ii) a direction issued by **Chi-X**;
 - (iii) rectifying any manifest error or ambiguity in the **terms of issue** in a manner that does not materially prejudice the interests of **holders**;
 - (iv) to permit transfers;
 - (v) an adjustment pursuant to a 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;
 - (vi) any other amendment that does not materially prejudice the interests of **holders**.
- (d) the amendment(s) must comply with any ongoing requirements specified in these **rules**.

14.26 Investment Products – Eligibility Criteria – Terms of Issue of a Quoted Fund

The constituent documents of a quoted fund ~~a ETF~~ must

- ~~(a) provide, in compliance with the procedures, for the daily off market redemption of ETF financial products;~~

~~in the case of a quoted fund a ETF that has an underlying asset that is an leveraged OTC derivative:~~

- (a) not permit the issuer to have recourse to the holders of such products the quoted financial products relating to that quoted fund;
- (b) disclose the assets that may be obtained as collateral under the **OTC derivative**.

14.27 Investment Products – Eligibility Criteria – Disclosures upon Quotation

When **Chi-X** makes a decision to admit an **investment product** to quotation it will, in accordance with the **procedures**, disclose all **disclosure documents** and any other information provided in respect of the eligibility criteria relating to liquidity obligations, **underlying assets** and/or the investment mandate/constituent documents.

14.28 Investment Products - Ongoing Requirements – General Disclosure Requirement

A **product issuer** must, in accordance with the **procedures**, provide **Chi-X** with a copy of every **disclosure document** the **product issuer** is required to provide, under the **Corporations Act** or other applicable requirements, 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**.

14.29 Investment Products - Ongoing Requirements – Continuous Disclosure

- (a) A **product issuer** must, in accordance with the **procedures**, disclose to **Chi-X** information:
 - (i) it is required to disclose to **ASIC**, under sections 675 or 1017B of the **Corporations Act**, in relation to an **investment product** that it has issued and is admitted to **quotation**; and
 - (ii) which it would be required to disclose to **ASIC** under sections 675 or 1017B of the **Corporations Act** if a **quoted investment product** it has issued, or **ETF quoted financial products** relating to that **investment product**, were an unlisted disclosing entity or ED securities respectively (irrespective of whether or not they are in fact an unlisted disclosing entity or an ED security); and
 - (iii) which it is required to disclose to **ASIC** or an overseas regulatory authority in respect of a **quoted investment product** it has issued, pursuant to an exemption from or modification of any provisions in the **Corporations Act**, and that is made publicly available by **ASIC** or the overseas regulator; and
 - (iv) that would be required to be disclosed under section 323DA of the **Corporations Act**, if either the **product issuer** or the **quoted investment products** it has issued were listed.
- (b) A **product issuer** may rely on a previous disclosure of information to **Chi-X** to satisfy an obligation under this **rule 14.29**, but must ensure there is no additional information required in the later disclosure.
- (c) For the sake of clarity, a **product issuer** must disclose [the following](#) information to **Chi-X** under this **rule 14.29**:
 - (i) any information that is not generally available and relates to a **quoted investment product** it has issued, the **product issuer** or a **guarantor** with which it has an arrangement under **rule 14.3(c)**, and which may lead to a false market in that **investment product** or otherwise impact on the price of the **investment product**;
 - (ii) any information about dividends or distributions paid to **holders**;
 - (iii) any distribution or dividend statements (or distribution or dividend information) that are made available or provided to **holders**;

- (iv) the basis of quotation of each **TraCR** it has issued, including whether the **TraCR**, or **underlying asset** on which it is based, is trading ex or cum any entitlements and/or benefits attached to the relevant **underlying asset**;
 - (v) an **illiquidity event** relating to a **TraCR** it has issued and of which the **product issuer** should reasonably be aware.
- (d) A **guarantor** must disclose to Chi-X any information that is not generally available and relates to a **quoted investment product** issued by a **product issuer** with which it has an arrangement under rule 14.3(c), and which may lead to a false market in that **investment product** or otherwise impact on the price of the **investment product**.
- (e) Chi-X will publish the information it receives under this rule 14.29, in accordance with the **procedures**.

14.30 Investment Products - Ongoing Requirements – Periodic Disclosure

- (a) The net asset value of an **investment product** that is a **quoted fund** ~~a~~**ETF** must be disclosed by the **product issuer**:
 - (i) on each **business day**;
 - (ii) on the **product issuer's** web site and/or to the **Chi-X** disclosure interface; and
 - (iii) in accordance with the **terms of issue** of the **investment product**.
- (b) A **product issuer** may disclose the indicative net asset value of a **quoted fund** ~~a~~**ETF** on a regular basis throughout a trading day, in which case the **product issuer** must disclose:
 - (i) the indicative net asset value per interest in the **quoted fund** **ETF**, in the case of a **quoted fund** ~~a~~**ETF** that has only one class of interests; or
 - (ii) the indicative net asset value for each class of interests.
- (c) A **product issuer** of a warrant, and any **guarantor** of such a product issuer, 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) an 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 **warrants** **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 **warrants** **investment products** to assess the ability of the **product issuer** and/or **guarantor** to meet the **terms of issue**.
- (d) A **product issuer** of a quoted fund ~~a~~**ETF** must publish within five business days of the end of each month:
 - (i) the number of individual units **ETF financial products** on issue, in relation to that **quoted fund**, on the last business day in that month;

- (ii) in the case of a quoted fund or ETF that has an aggregate notional exposure to all underlying asset that is a leveraged OTC derivatives of more than 5% of the quoted fund's net asset value:
- A. the exposure of the quoted fund ETF to all leveraged OTC derivative counter-parties as a percentage of the net asset value of the quoted fund ETF; and
 - B. the value of assets (excluding the value of leveraged OTC derivative, but inclusive of collateral) held by the quoted fund ETF as a percentage of the net asset value of the quoted fund ETF.

14.31 Investment Products - Ongoing Requirements and - Changes to the Eligibility Criteria for all Investment Products, Indices, Covered Warrants and leveraged OTC Derivatives

- (a) A **product issuer** must ensure that an **investment product** continues to meet the **eligibility criteria** and any conditions imposed by **Chi-X**, after it is admitted to **quotation**.
- (b) A product issuer must notify **Chi-X** of any material change to the information it provided or relied upon in the application for an **investment product** to be admitted to **quotation**.
- (c) A product issuer must publish on the **product issuer's** web site, any material change to the information it provided or relied upon in the application for an **investment product** to be admitted to **quotation**, and that related to an index referenced by that **investment product**.
- (d) A **product issuer** of a **covered warrant** 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 subparagraph (d)(i) of this rule 14.31 and provide a copy of the auditor's report to **Chi-X** no later than the time at which the **product issuer's** next annual report is lodged with **Chi-X**.
- (e) A **product issuer** of a quoted fund or ETF that has an underlying asset that is an leveraged OTC derivative must:
 - (i) monitor the notional exposure of the fund to all **OTC derivative** counter-parties on a daily basis; and
 - (ii) in the event the aggregate notional exposure of the fund to all **OTC derivative** counter-parties exceeds 10% of the net asset value of the quoted fund ETF, take steps within one trading day to acquire further collateral to ensure that the notional exposure to all OTC derivative counterparties is reduced to 10% or less of the net asset value of the quoted fund ETF.

14.32 Investment Products – Ongoing Requirements – The Terms of Issue

- (a) A **product issuer** must ensure an **investment product** it has issued complies on an ongoing basis with the **terms of issue** and any requirements contained in a **disclosure document** relating to that **investment product**.

- (b) A **product issuer** must provide **Chi-X** with a copy of any new or amended **terms of issue** relating to an **investment product** that it has issued and has been **admitted to quotation**.
- (c) 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**.
- (d) 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) written 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 a person to vote for the **holder** and does not suggest a choice as to the identity of that proxy or voting intention.

14.33 Trading in Investment Products – 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:
 - (i) contains the name and address of the **holder**;
 - (ii) contains the date on which the **holder's** details were entered into the register;
 - (iii) complies with the **Corporations Act** requirements for maintaining a register as if:
 - A. the **investment products** were shares in a company, in the case of an investment product that is a warrant or TraCR;
 - B. the **investment products** were shares in a company or units in a scheme, in the case of an investment product that is a quoted fund or ETF.
- (c) In respect of each **investment product**, a **product issuer** must issue and send out holding statements that comply with the **Corporations Act** as if the **investment products** were shares in a company.
- (d) 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**.

(e) 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 14.33(e)(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**;
- (iv) comply with the **Clearing Rules** and the **Settlement Rules**.

14.34 Trading in Warrants Investment Products – Exercise and expiry of cash settled and deliverable warrants investment products

- (a) A **product issuer** must make any settlement payment or delivery on the exercise of a cash settled **investment product** or a deliverable **warrant investment product**:
 - (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 in compliance with the requirements in **rule 14.24**, then the amount and dispatch of the payment must be completed according to **rule 14.34(c)**.
- (b) The settlement payment made under **rule 14.34(a)** must be of an amount that is:
 - (i) equivalent to the intrinsic value of the **warrant investment product**, in the case of cash settled **warrants investment products**; or
 - (ii) the assessed value payment or the liquidated damages amount calculated in accordance with **rule 14.34(c)**, in the case of deliverable **warrants investment products**.
- (c) If the **holder** of a deliverable **warrant investment product** exercises the **warrant 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 **warrants investment products**, other than one involving a put option, with an **underlying asset**:

$$L = 1.1 \times S$$

For all other **warrants 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 **warrant investment product**.

- (d) Any dispute in relation to the calculation of the intrinsic value of a cash settled **warrant investment product**, must be referred to Chi-X for resolution. The decision of Chi-X will be binding.

14.35 Trading in Investment Products – Halts and the Application of the Operating Rules Generally

- (a) Chi-X may, in its absolute discretion, halt or suspend the 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**.

14.36 Trading in Investment Products – Off Market Transactions

- (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**.

14.37 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 disclosure under **rules 14.28-14.30**;
 - (ii) within a reasonable time depending on the circumstances of the case, if the request does not relate to the disclosure of information under **rules 14.28-14.30**.
- (c) A **product issuer** may request a review of a direction issued by Chi-X under **rule 14.37(a)** but must comply with that direction without delay and continue to comply pending the outcome of the **review**.

14.38 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.

ATTACHMENT TWO – AMENDMENT OF THE PROCEDURES

In this attachment, double underlining indicates text to be inserted and ~~strikethrough~~ indicates text to be deleted. **Red text indicates relevant terms, text or rules directly impacted by the proposed amendments.** “...” indicates procedures that are not directly relevant to the proposed amendments and so have not been included.

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P14.33 Trading in Investment Products – Transfers

P14.36 Trading in Investment Products – Exchange-Traded Fund Special Trade

Section 1: INTERPRETATION & APPLICATION OF THE RULES

P1.1: Definitions

- 1.1 Words defined in the **rules** have the same meaning in these **procedures** unless otherwise specified.

P Definitions: Active Continuous Trading

1. Trading Halt or Suspension in Underlying Assets

- 1.1 For the sake of clarity, the period during which no firm price is available for at least 10% by value of the **underlying assets** of the **investment product** will include, in the case of an **investment product** with a single **underlying asset**, when there is a trading halt or suspension in that **underlying asset**.

- 1.2 The fact that the market for a **financial product** is closed does not necessarily mean there is no firm price available for that **financial product**. In these circumstances, the issue of whether a firm price is available may depend, for example, on the availability of a last closing price and a reasonable hedge for that **financial product**.

P Definitions: Exchange Traded Fund (ETF)

1. A Foreign Company Specified in the Procedures

- 1.1 An open ended management investment company registered with the US Securities and Exchange Commission under the Investment Company Act 1940 (USA) is a foreign company specified in the **procedures**, for the purposes of the definition of **Exchange Traded Fund**.

P Definitions: Regulated Market

1. A Market Specified in the Procedures

- 1.1 The following markets are specified in the **procedures** for the purposes of the definition of **regulated market**:

NASDAQ

New York Stock Exchange (NYSE)

...

P2.4 Additional requirements for applicants that do not hold an AFSL

- 1.1 For the purposes of rule 2.4, an applicant that does not hold an Australian financial services licence must:
- (a) satisfy **Chi-X** that ~~that~~ it is not required to hold an Australian financial services licence*;
 - (b) if the applicant is domiciled outside Australia:
 - (i) satisfy **Chi-X** that the applicant is regulated by a foreign exchange or regulatory authority in respect of its activities as a **participant** of **Chi-X**; or
 - (ii) provide **Chi-X** with a legal opinion from independent lawyers in each jurisdiction in which it would be undertaking activities as a participant of **Chi-X**, outlining the basis on which it is not required to be regulated in that jurisdiction for those activities;
 - (c) provide any undertaking and performance bond required by **Chi-X** in respect of its participation.

*An applicant may satisfy **Chi-X** that it is not required to hold an Australian financial services licence by providing **Chi-X** with a legal opinion from independent lawyers outlining the basis on which the applicant is not required to hold an Australian financial services licence in respect of its activities as a participant of **Chi-X**.

...

Section 4: TRADING

P4.2: Hours of Operations

1. Trading phases

- 1.1 The trading phases for the **Chi-X market** are set out below:

Phase	Time AEST (Applicable products)	Supported Functions
Technical Connectivity	06:00 (All products)	<ul style="list-style-type: none"> Commencement of technical connectivity to the Chi-X market. Participants may login to the Chi-X technical infrastructure.
Pre-Market	06:35 until 10:00 (All products except currency, commodity and index warrants) 06:35 until 09:50 (currency, commodity and index warrants)	<ul style="list-style-type: none"> Participants may check connectivity and details concerning securities available for trading but will <u>not</u> be able to enter orders into the Chi-X market; The Chi-X trading system will not match orders; Participants may report trades under the rules by the time specified in the Market Integrity Rules (Competition in Exchange Markets).
Continuous Trading	09:50 until 16:13 (currency, commodity and index warrants) 10:00 until 16:13 (All products except currency, commodity and index warrants)	<ul style="list-style-type: none"> Participants may enter orders into the Chi-X market, including hidden but not visible MOC orders for ASX listed equity market products; Orders are matched in accordance with the rules; Trade reporting is supported in accordance with the rules.
@Last	16:12 until 16:20 (ASX listed equity market products)	<ul style="list-style-type: none"> Participants may only enter visible and hidden MOC orders into the Chi-X market in this phase; MOC orders are matched in accordance with the rules.
Post-Trading Administration	16:13 until 18:55 (All products)	<ul style="list-style-type: none"> This phase initially operates in parallel with the @Last Trading phase and the following applies to non-MOC orders during this phase: <ul style="list-style-type: none"> Participants cannot enter or amend orders but may cancel orders; The Chi-X trading system does not match orders in this phase; Participants may report trades under the rules; All orders remaining in the Chi-X market at the end of this phase will automatically be cancelled.
Technical Connectivity Ends	19:00 (All products)	<ul style="list-style-type: none"> All participant connections to Chi-X are closed. Intraday trade cancellations no longer possible.

P4.3: Trade Reporting**1. Reporting Requirements**

- 1.1 A **participant** must comply with the requirements in this **procedure** 4.3 when reporting a **relevant transaction** to **Chi-X** under **rule** 4.3.

2. Reporting Process

- 2.1 This section of Procedure 4.3 outlines the reporting process for equity market products. The executing **participant** (which is typically the seller under the **Market Integrity Rules (Competition in Exchange Markets)** but not in all cases) is to report the **relevant transaction** in accordance with and at the times specified in the **Market Integrity Rules (Competition in Exchange Markets)**.
- 2.2 Where the **off market transaction** is a large principal transaction, the participant may delay reporting to the **Chi-X market** in accordance with the **Market Integrity Rules (Competition in Exchange Markets)**.
- 2.3 Upon receipt of trade reports in respect of **off market transactions**, **Chi-X** will:
- send an unsolicited trade confirmation message to the counterparty if the counterparty to the **off market transaction** is a **participant**; and
 - publish details of the trade on its market data feed.

3. Categories of off market trade to be specified on trade report

- 3.1 This section of Procedure 4.3 outlines technical requirements for trade reports in equity market products. On each trade report submitted to the **Chi-X market**, **participants** must specify the details required in the **Chi-X** technical specifications, including one of the following pre-trade transparency exceptions under the **Market Integrity Rules (Competition in Exchange Markets)** that is relied upon for the **off market transaction**:
- Block trades;
 - Large portfolio trades;
 - Trades with price improvement;
 - Permitted trades during the post-trading hours period;

-
- (e) Permitted trades during pre-trading hours period; and
 - (f) Out of hours trades.

3.2 **Relevant transactions** executed:

- (a) during the Post-Trading Administration phase must, if reported to the **Chi-X market**, be reported immediately on the **business day** on which they are transacted; and
- (b) after the end of the Post-Trading Administration phase must, if reported to the **Chi-X market**, be reported by no later than the time specified in the **Market Integrity Rules (Competition in Exchange Markets)**.

4. Reporting of Foreign to Foreign transactions

- 4.1 This part of **procedure 4.3** applies to **securities** with foreign ownership limits, as specified in Schedule 1 of the ASX Settlement Operating Rules.
- 4.2 A foreign to foreign (FOR) transaction is one in which there is no increase in the foreign ownership of the relevant security. If reported as foreign to foreign, **Chi-X** will provide this information to the **designated central counterparty** so that settlement of the transaction can be effected in accordance with the ASX Settlement Operating Rules applicable to FOR financial products. In practical terms, this means that the transaction will be excluded from settlement so that ownership of the securities passes from one foreign owner to another foreign owner.
- 4.3 FOR trades may be submitted to **Chi-X** as a trade report using the appropriate identifier for FOR transactions details of which are set out in the technical specifications.

5. Reporting Process – Off Market Transaction in Investment Products

- 5.1 This section of procedure 4.3 applies to trade reports of **investment products**. A **participant** may report an **Exchange Traded Fund Special Trade** in accordance with rule 14.36 and the associated **procedures**.
- 5.2 A **participant** may report an **off market transaction** in a **warrant** during the Post-Trading Administration trading phase where the **off market transaction**:
 - (a) completes an order received prior to 16:13² on the trading day;
 - (b) is a bona fide hedge; or

- (c) executes an order received after 16:13~~2~~ on the trading day.

5.3 A participant may report an off market transaction in a TraCR, during the Post-Trading Administration trading phase, where the off market transaction:

- (a) completes an order received prior to 16:13 on the trading day;
- (b) is a bona fide hedge; or
- (c) executes an order received after 16:13 on the trading day.

P 4.4: Classes of Financial Products

- 1.1 For the purposes of **rule 4.4**, **financial products** in the following classes may be quoted on the **Chi-X market** for trading by **participants** if determined by **Chi-X**:
- (a) securities quoted on **ASX**;
 - (b) listed managed investment products quoted on **ASX**, including ETFs;
 - (c) **investment products** granted **quotation** by **Chi-X**.
- 1.2 The list of specific **financial products** available for on-market trading and trade reporting will be published on the **Chi-X** website: www.chi-x.com.au.

P4.5: Orders and matching

1. Pegged Orders

- 1.1 For the purposes of **rule 4.5(a)(ii)**, the reference source for pegged **orders** on the **Chi-X market** will be the following **reference prices**:

Table 1.1

Pegged Order Types	Reference Price
NearPointX (Primary Peg), FarPointX (Market Peg) and Mid-PointX (Mid-Peg) orders	A national best bid and offer (NBBO) as calculated by Chi-X in accordance with ASIC guidance as published from time to time.

Market on Close (MOC) orders	The closing price of each equity market product as published by ASX at the conclusion of its closing auction. If no closing price results from the closing auction, the last traded price on that trading day.
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- 1.2 As noted in **procedure 4.2**, participants may submit hidden MOC **orders** from the commencement of continuous trading. If hidden MOC **order matches** against another hidden MOC **order** before the applicable **reference price** is available, both sides will receive a message, in accordance with the technical specification, confirming that the **orders** have been **matched**. Hidden MOC **orders matched** before the applicable **reference price** becomes available will result in a **relevant transaction** unless:
- (i) no **reference price** eventuates for the MOC **orders**; or
 - (ii) the security in question is placed in a regulatory halt that prevents the closing auction taking place on the ASX.
- 1.3 An event of default by a **participant**, under the rules of a **designated central counterparty** or an **alternate central counterparty**, may result in a **relevant transaction** arising from a matched MOC **order** submitted by that **participant** being rejected by the **designated central counterparty** or an **alternate central counterparty**. Any such rejection may occur even if the event of default takes place after the matching of MOC **orders** submitted by that **participant** but prior to it being known whether the conditions in paragraph 1.2(i) and (ii) above have been satisfied.
- 2. MOC Orders during the @Last Trading Session**
- 2.1 Participants are able to enter visible and hidden MOC orders during the **@Last** trading phase. As such, unpriced visible MOC orders are only able to be entered during the **@Last** phase from 16:13² to 16:20. Visible MOC orders will display stock, size and side, but not price. Visible and hidden MOC orders will be able to interact in the **@Last** trading phase.
- 3. Order Attributes**
- 3.1 **Orders** submitted to the **Chi-X market** must comply with the technical specifications. Those specifications provide an exhaustive list of mandatory attributes, which include:

-
- (a) security code;
 - (b) price, for non-MOC orders;
 - (c) quantity;
 - (d) buy or sell;
 - (e) clearing participant.
- 3.2 **Orders** submitted to the **Chi-X market** must comply with the technical specifications. Those specifications provide an exhaustive list of optional attributes, which include:
- (a) undisclosed quantity;
 - (b) iceberg;
 - (c) hidden provided the order value is above \$0;
 - (d) minimum executable quantity;
 - (e) broker preferencing (for hidden **orders** only);
 - (f) time in force, including:
 - (i) Immediate or cancel;
 - (ii) Fill or kill;
 - (iii) Preference and kill;
 - (iv) Preference or kill;
 - (v) Good till time;
 - (vi) Day order.

4. Execution Priority

- 4.1 This part of **procedure** 4.5 contains the only exceptions to the **matching** priority specified in the **rules**.

4.2 Orders submitted by **Participants** that opt-in to broker preferencing, in accordance with the requirements in the technical specifications, will be matched as follows:

- (i) hidden **orders** other than MOC **orders** will **match** on the basis of price/visibility/participant/time priority; and
- (ii) MOC **orders** will match on the basis of visibility/participant/time priority.

4.3 MOC **orders** for which broker preferencing is not enabled will be matched on a visibility/time priority basis.

P4.6: Purging of orders

1.1 All unmatched **orders** in the **Chi-X market** at the end of Post Trade Administration phase will be purged by **Chi-X**.

P4.8: Short sale reporting

1.1 For the purposes of rule 4.8, **participants** must submit to an agent nominated by Chi-X the short sale information required by the **Corporations Act** in respect of **relevant transactions** in equity market products that it has executed on the **Chi-X Market**, where the **relevant transaction** involves a short sale or partial short sale. Information required to be submitted under this paragraph 1.1 of **procedure 4.8** must be submitted by no later than 9:00 AM:

- (a) if the sale occurs after the start of the trading day but before 7.00pm – on the next trading day after entering into an agreement to sell;
- (b) if the sale occurs after 7.00pm but before the start of the next trading day – on the second trading day after entering the agreement to sell.

1.2 Reports provided to the agent nominated by **Chi-X** may be submitted in the format specified by that agent and must contain the following information required by regulation 7.9.100 of the Corporations Regulations:

- ASX code;
- Company name;
- the total number of each financial product that will vest in the buyer under the arrangement.

- 1.3 **Chi-X** must not change the agent nominated by it to receive the short sale information required of **participants** under the **Corporations Act** without consulting with and providing reasonable notice to **participants** on the proposed change.
- 1.4 For the purposes of rule 4.8, participants must submit to Chi-X the short sale information required by the Corporations Act in respect of relevant transactions it has executed on the Chi-X Market in investment products, where the relevant transaction involves a short sale or partial short sale. Information required to be submitted under this paragraph 1.4 of procedure 4.8 must be submitted by no later than 9:00 AM:
- (a) if the sale occurs after the start of the trading day but before 7pm – on the next trading day after entering into an agreement to sell;
 - (b) if the sale occurs after 7pm but before the start of the next trading day – on the second trading day after entering the agreement to sell.
- 1.5 The report submitted to Chi-X may be submitted in the format specified on the Chi-X website and must contain the following information required by regulation 7.9.100 of the Corporations Regulations:
- Chi-X code;
 - investment product name;
 - the total number of each investment product that will vest in the buyer under the arrangement.

P4.9: Market Making Requirements

1. Process for Registration

- 1.1 The process for registration as a market maker is as follows:
- (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**;
 - (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**;

- (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**;
- (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;
- (e) **Chi-X** may deregister a **participant** as a **market maker** at any time.

2. Undertaking to Fulfil Affirmative Obligations

- 2.1 A **market maker undertaking** relating to an application to be registered as a **market maker** in **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 may act as a **market maker**;
 - (b) enter and maintain **orders** 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 2.1(b) for at least the **quoting obligation ratio** of **active continuous trading**; and
 - (d) notify **Chi-X** immediately it becomes aware that it is failing to comply with paragraphs (a) – (c) above and provide a complete explanation for the failure to comply.

TABLE 2.2

Financial Product Group	Minimum Order Value	Maximum Spread: Price (P) : Maximum Spread (in tick size)	Quoting Obligation Ratio
Investment Products	The amount specified in the agency agreement between the product	The spread, if any, specified in the agency agreement between the product issuer and the	90%

	issuer and the market maker but not less than: <ul style="list-style-type: none"> (i) a bid value of \$1,000 when the bid price is \$0.05 or greater; (ii) a bid value of \$500 when the bid price is less than \$0.05. 	market maker.	
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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 under **rules** 9 or 10 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.

(d) P4.15: Pre-Conditions for Trading in a TraCR

1. Investor Fact Sheets

1.1 A participant may satisfy rule 4.15(a) by providing a retail client with a single investor fact sheet relating to TraCRs. That is, rule 4.15 can be satisfied by providing a retail client with an investor fact sheet on a single occasion and obtaining an acknowledgement from the retail investor that they have read and understood that investor fact sheet.

2. Distinguishing TraCRs from Ordinary Cash Equities

2.1 A participant that is clearly distinguishing TraCRs from ordinary cash equities will clearly separate the market analysis, pricing, research and asset allocation information provided to retail clients in relation to TraCRs from that information which it provides in relation to ordinary cash equities.

Section 5: FAIR AND ORDERLY MARKET

P5.1 Chi-X orderly markets powers

1. Trading halts and suspensions

- 1.1 Under rule 5.1(b), **Chi-X** has the power to place one or more products quoted on the **Chi-X market** into a trading halt or suspension. If the **listing market** places one or more **equity market products** into a trading halt or suspension then **Chi-X** will automatically do likewise. After doing so, **Chi-X** will assess whether maintaining the halt or suspension on the **Chi-X market** is justified. **Chi-X** will notify **participants** if it proposes removing a trading halt/suspension for an equity market product before the trading halt or suspension for that same product has been removed on the **listing market**.
- 1.2 When an **equity market product** has been placed into a trading halt then the **Chi-X market** will, in relation to that **equity market product**:
- (a) not accept new orders or allow existing orders to be amended; **and**
 - (b) allow a participant to cancel existing orders.
- 1.3 **Chi-X** will place a **TraCR** into a trading halt or suspension if the underlying asset of the **TraCR** are suspended from trading on the **listing market** for reasons other than a technical issue in the systems of that market.
- 1.4 **Chi-X** will consider on a case by case basis whether published information, (for example, information relating to the relevant underlying asset), requires a **TraCR** to be placed into a temporary trading halt to enable the dissemination of that information on the **Chi-X web site** where it will be accessible to all investors. The **TraCR** web site will clearly display any such trading halt.

P5.3 Suspension of Access to or Trading on the Chi-X Market

1. Market Integrity Rules (Competition in Exchange Markets)

- 1.1 Rule 5.3(e) states that **Chi-X** will suspend trading in a financial product traded on its market if it is required to do so by the **Market Integrity Rules (Competition in Exchange Markets)**. The extreme trade range rules in the **Market Integrity Rules (Competition in Exchange Markets)** apply to **TraCRs**. Accordingly, **Chi-X** will impose a

trading suspension pursuant to those extreme trade range rules, whenever a bid/offer is received for a TraCR at a price which is:

- (a) greater than the ETR reference price by the amount of the applicable extreme trading range specified in the Market Integrity Rules (Competition in Exchange Markets); and
- (b) above, in the case of a bid, or below, in the case of an offer, the ETR reference price; and
- (c) is not prevented from entering the Chi-X market by the anomalous order thresholds imposed by Chi-X.

P7.2 Corporate Actions

1. Trading Status

- 1.1 The basis of quotation of a TraCR, including the ex and cum status with respect to any benefits or entitlements attached to the underlying asset, is determined by the product issuer. Chi-X will distribute this information on the Chi-X web site and as the applicable reference data for the TraCRs quoted on Chi-X.

Section 14: INVESTMENT PRODUCTS

P14.2: Product 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. Deregistration and Suspension of Product Issuers

- 2.1 **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**.
- 2.2 **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**.

P14.3: Product Issuers – Eligibility Criteria

1. Adequate Resources

- 1.1 The eligibility criteria in rule 14.3 applies to prospective **product issuers** of the complete range of **investment products** able to be quoted by **Chi-X**. The way in which an applicant will be required to satisfy that criteria will depend on the **investment products** it is seeking to issue. For example:
- (a) a **product issuer** of **warrants** that are not **covered warrants**, will be considered by **Chi-X** to be issuing **investment products** whereby the **underlying assets** or the economic performance of those **underlying assets**, are not held on trust or otherwise retained solely for the benefit of **holders**, and

accordingly will be required to satisfy one of the requirements in **rule 14.3(d)(i)-(iv)**:

- (b) a responsible entity of a managed investment scheme registered under Chapter 5C of the **Corporations Act** may not, on its own, have sufficient resources to be registered as a **product issuer of investment products** that provide an option to the **holder** to acquire an **underlying asset** at some time in the future without the **product issuer** being required, under the **terms of issue** and at the time the holder acquires the option, to acquire the **underlying asset** and hold it on trust for the benefit of investors.

2. Equivalent Regulatory Authorities under rule 14.3(b)(i)

- 2.1 There are no such regulatory authorities currently specified.

3. Otherwise approved

- 3.1 The holder of an Australian financial services licence authorised to undertake custodian and/or depositary activities, may, in respect of an application to be registered as a product issuer of TraCRs, be approved as a product issuer by Chi-X under rule 14.3(b)(vi).

P14.6: Product Issuers – Ongoing Requirements – Material Change

1. Notification Requirements

- 1.1 The notifications required by **rule 14.6** must be made immediately the **product issuer** becomes aware of the relevant information and 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 notice of a material change that would impact on the ongoing satisfaction of the eligibility criteria, to re-apply to be registered as a **product issuer**.

P14.7: Product Issuers – Ongoing Compliance Requirements

1. Notification Requirements

- 1.1 The notification required by **rule 14.7(a)** must be provided to:

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

P14.9: 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**.

2. Chi-X is not a Listing Market

- 2.1 As stated in **rule 14.9(c)**, **Chi-X** is not a listing market and **investment products** admitted to **quotation** by **Chi-X** are not listed products. The principal difference between listed products and **investment products** that are admitted to **quotation**, is the level of control and influence that the issuer of the product has over the listed or quoted product. An issuer that has a significant level of control over its securities is required to apply a greater degree of rigour to the disclosure, corporate governance and corporate control relating to those securities than an issuer of an **investment product**, such as a **warrant** or **ETF**, which tracks another **underlying asset**.

P14.11: Investment Products – Basic Eligibility Criteria for the Product Issuer

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**.

P14.13: Investment Products – Eligibility Criteria – Disclosure Documents

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 applicable offshore requirements and vary according to the type of product being issued. The **Information 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**.

P14.14: Investment Products – Eligibility Criteria – Liquidity Obligations

1. Tradeable Custody Receipts (TraCRs)

- ~~1.1 A TraCR is unlikely to satisfy the liquidity criterion in rule 14.14 unless the product issuer has engaged one or more Chi-X registered market makers to provide liquidity in compliance with the obligations specified in procedure 4.9.~~

P14.15: Investment Products - Eligibility Criteria – How to Satisfy the Liquidity Obligations

1. An Adequate and Reasonable Spread of Holders

- ~~1.1 An investment product that is a quoted fund or ETF must have:~~

- (a) at least 1000 separate holders; and
- (b) a net asset value of \$10million for a product issuer;

~~to satisfy the liquidity obligations in the eligibility criteria by having an ongoing spread of holders that ensures there is sufficient liquidity.~~

The investment product may satisfy this requirement after its launch, up to which time a product issuer must still satisfy the requirements in rule 14.14(a). 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**, including how it will ensure that the requirement is satisfied on an ongoing basis. Further information and guidance on liquidity obligations is contained in the Information Pack.

2. Reasonable Bid and Volume

- 2.1 A **product issuer** that proposes satisfying the liquidity requirement in rule 14.14(a) as outlined in rule 14.15(b) (that is by trading itself to maintain a reasonable bid and volume, or by entering an arrangement with a **market maker** to do so), must:
- (a) ensure that an **order** of a reasonable bid and volume is maintained for 90% of the time during which the **investment product** is in **active continuous trading**;
 - (b) take all reasonable steps to ensure that the minimum value of the reasonable bid and volume order is no less than the minimum parameters set out in the Information Pack;
 - (c) provide information, in the application for an **investment product** to be admitted to **quotation**, on the systems and controls that will ensure that the **product issuer** maintains a reasonable bid and volume by either trading itself or through an arrangement with a **market maker**.
- 2.2 **Active continuous trading** is the aggregate time in which the **Chi-X Market** is in continuous trading for the **investment product**, but excluding:
- (a) the period during which no firm price is available for at least 10% by value of the **underlying assets** of the **investment product**, including, in the case of an **investment product** with a single **underlying asset**, when there is a trading halt or suspension in that **underlying asset**;
 - (b) the first fifteen minutes of the continuous trading phase on the **Chi-X market**;
 - (c) the last thirteen minutes of the continuous trading phase on the **Chi-X market**;

- (d) the time during which the theoretical value of the **investment product** is less than the minimum price step allowed for orders submitted to the **Chi-X Market**;
 - (e) the time during which a **product issuer**, or a **market maker** with which it has entered an arrangement under **rule 14.16**, has experienced an operational disruption or is subject to a regulatory requirement, that has prevented the **product issuer** and/or the **market maker** from submitting **orders** to the **Chi-X market**.
- 2.3 A **product issuer** must notify **Chi-X** Operations without delay, and in any event within 30 minutes, if the **product issuer** or a **market maker** with which it has an arrangement under **rule 14.16**, experiences an operational disruption or is subject to a regulatory requirement, pursuant to which orders cannot be submitted to the **Chi-X market**. The notification must be provided by email to au.ops@chi-x.com. The notification will be disclosed on the announcements page of the **Chi-X** web site.
- 2.4 An example of a regulatory requirement that may preclude a **product issuer** or **market maker** from submitting orders is a prohibition on short selling an **investment product**: this requirement may preclude the two way quoting required in an agreement entered by a **product issuer** under paragraph 3.1 of this **procedure 14.15** or an arrangement entered under **rule 14.16**.
- 2.5 A **product issuer** or **market maker** that is experiencing operational difficulties or is subject to regulatory requirements that preclude it from submitting **orders**, must:
- (a) take immediate steps to address the disruption/obtain regulatory relief respectively, in a way that will enable **orders** by the **product issuer** or **market maker** to be submitted as soon as possible; and
 - (b) upon being able to continue making a market in the relevant **investment product(s)**, email au.ops@chi-x.com with the details of when the market making will recommence, which will be disclosed to the market on the announcements page of the **Chi-X** web site.
- 2.6 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 **rule 14.15(b)(i)**, but it must satisfy Chi-X that it will have the systems and controls necessary to maintain a reasonable bid and volume in compliance with the **rules**, for example by:

- (a) entering a written agreement with **Chi-X** to maintain a reasonable bid and volume **order** in compliance with the **rules** and **procedures**, for the relevant **quoted investment products** and specifying in that agreement the parameters for the reasonable bid and volume and how those parameters have been determined; or
 - (b) providing a written outline and any relevant certification of the systems that will be used to monitor trading and which incorporate the parameters by which a reasonable bid and volume will be determined.
- 2.7 A **participant** may be registered with **Chi-X** as a **market maker** in **investment products** by meeting the requirements relating to **market makers** in **investment products** in **rules** 4.9 to 4.14, and the applicable **procedures**.

3. **Other arrangements**

- 3.1 A **product issuer** may seek to satisfy the eligibility criterion in **rule** 14.14(a) by reaching an agreement with **Chi-X** on:
- (a) a maximum bid-ask spread; and
 - (b) a minimum quantity of each bid and offer.

The spread and quantity that are agreed between the **product issuer** and **Chi-X**, may only be subsequently varied with the agreement of **Chi-X**.

3.2 A product issuer of TraCRs, may also seek to satisfy the eligibility criterion in rule 14.14(a) by ensuring that TraCR holders will be able to take advantage of a combination of the following:

- (a) **A right to convert, on demand and subject to the terms of issue, that holding into a holding of the underlying assets:**
- (b) **A right, upon an illiquidity event, to cancel that holding and convert it into cash; and**
- (c) **Liquidity provided in that investment product by a participant registered with Chi-X pursuant to Chi-X fee arrangements under which the participant is**

allocated a market maker identifier and provides a reasonable bid and value order for the minimum time specified by Chi-X on its web site.

3.3 The commencement of the twenty day period, for an illiquidity event in an investment product that satisfies the liquidity criterion by relying on a combination of paragraphs 3.2 (a) to (c), will occur when a trading day occurs without a trading halt in that product and the liquidity provided by a market maker does not satisfy the quoting metrics specified in the applicable rule 4.9 or fee arrangements, for the specified minimum quoting time expressed as a percentage of active continuous trading calculated over that day.

3.4 A product issuer that initially satisfies the liquidity criterion in rule 14.14(a) by a combination of the matters in paragraph 3.2(a) to (c) of this procedure, may, once the TraCR has been trading for a period of time, seek to satisfy rule 14.14(a) on an ongoing basis by relying upon the natural levels of liquidity in the TraCR. Any such change in the basis on which a TraCR is meeting the liquidity criterion will be announced to the market.

P14.17: Investment Products - Eligibility Criteria – Underlying Assets

1. Other financial products

1.1 An **investment product** may satisfy the eligibility criteria in **rule 14.7** by having an **underlying asset** that is linked to a **financial product** falling within the category of an “other financial product” in **rule 14.7(a)** or (b). Chi-X will specify in this **procedure** each **financial product** that, in these circumstances, falls within the “other **financial product**” category in **rule 14.17(a)** and (b). At present there are no such **financial products**.

2. Regulated Market

2.1 An **investment product** may satisfy the eligibility criteria in **rule 14.7**, by having an **underlying asset** that is linked to one of the **financial products** specified in **rule 14.17(b)**, (c) or (d) provided that **financial product** is traded on a **regulated market**. Chi-X will specify in this procedure the **regulated markets** on which, in these

circumstances, such a **financial product** is traded. At present there are no such **regulated markets**.

3. An Index based on a Debenture or Bond

- 3.1 There are no such indices currently specified.

P14.18: Investment Products - Eligibility Criteria – Underlying Assets - Indices

1. Disclosures on the Product Issuer web site

- 1.1 The product issuer must make the disclosures required by **rule 14.18(c)** prior to the investment product being quoted. For the sake of clarity, the disclosure must include:

- (a) the criteria for being a constituent of the index;
- (b) the methodology used to construct and maintain the index, including the timing of calculations; and
- (c) the governance arrangements for the index.

P14.20: Investment Products - Eligibility Criteria – Excluded Underlying Assets

1. Financial Products Excluded from being an underlying asset

- 1.1 **Rule 14.20(a)(i)** states that to be eligible for approval, an **investment product** that is a **quoted fund** ~~a~~ **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 a **quoted fund** ~~a~~ **ETF** **or** **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 ~~to an OTC derivative counterparty~~ that exceeds 10% of the fund's net asset value (with the exception of an OTC derivative falling within paragraph 1.2(b) of this Procedure 14.20);

- (b) two or more OTC derivatives that on an ongoing or regular basis have an aggregate level of exposure to **OTC derivative** counterparties that exceeds 10% of the fund's net asset value;
 - (c) a derivative that is embedded into a **quoted fund** or **ETF** to provide exposure to a multiple of a standard delta 1 index for a defined period; and
 - (d) a derivative that is embedded into a **quoted fund** or **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 There may be edge cases where it is not apparent, on the face of the **quoted fund**, whether a derivative that is an **underlying asset** has the dominant purpose of providing leveraged exposure. In these cases Chi-X will have regard to whether the derivative is an over the counter derivative and the level of the exposure of the **quoted fund** to the derivative counterparties on an ongoing or regular basis: – if the exposure to **OTC derivative** counterparties exceeds 5% of the **quoted fund's** net asset value on an ongoing or regular basis then this may suggest that a purpose of the derivative is to provide leveraged exposure.
- ~~Rule 14.20(a)(ii) states that an **underlying asset** must not include an **actively managed investment fund**. The combination of rule 14.20(a)(ii) and the definition of an **underlying asset** as the **financial product** or other asset by reference to which an **investment product** is valued, has the outcome that no **actively managed funds** are able to be admitted to quotation as an **investment product**.~~
- 1.4 Rule 14.20(a)(iii) precludes an **investment product** from being based on an **underlying asset** that does not have a readily available price or value. This does not

require an underlying asset to be trading at the same time that the **investment product** is trading. **Investment products** may be based upon **underlying assets** that are primarily traded offshore. In these instances, the criterion in **rule 14.20(a)(iii)** may be satisfied if the **underlying asset** is subject to a transparent pricing mechanism such as that provided by a **regulated market** or that is otherwise regularly available at the same or predictable times in a way that enables an investor in the **investment product** to make reasonable investment decisions on the price or value of that underlying asset.

- 1.5 The effect of **rule 14.20** and the other **eligibility criteria** in the **rules**, is that **Chi-X** will not admit the following **financial products** to quotation as an **investment product**:
- (a) a listed investment company;
 - (b) a real estate investment trust (REIT) or similar fund;
 - (c) an infrastructure trust or fund;
 - (d) a non-portfolio strategic investment vehicle (such as a private equity fund);
 - (e) an unlisted company, artwork or another collectible, wine or another asset where the price or value is not set by a transparent mechanism.

P14.21: Investment Products - Eligibility Criteria – Leveraged OTC Derivatives

1. **Jurisdiction of Equivalent Regulation – Rule 14.21(c)**

- 1.1 There are no such jurisdictions currently specified.

P14.23A: Investment Products – Eligibility Criteria – TraCRs – Underlying Assets, Terms of Issue, Offer Documents

1. **Underlying Assets**

- 1.1 **Rule 14.23A(a)** requires the **underlying assets** of a **TraCR** to be a member of the **S&P 500 index** or the **Dow Jones Industrial Average**, listed on either the **New York Stock Exchange** or **NASDAQ** market and, unless otherwise specified in the **procedures**, have been so listed for a period of at least twelve months.

- 1.2 Chi-X will specify in this section 1 of **Procedure 14.23A** any securities that are still capable of being an underlying asset of a **TraCR** notwithstanding that, due a corporate restructure, they arguably do not satisfy the requirement of having been listed on either

the New York Stock Exchange or NASDAQ market for a period of at least twelve months.

1.3 There are no such securities currently specified.

2. Ceasing to Satisfy the Criteria in rule 14.23A(a)

2.1 The consequences for a quoted TraCR of an underlying asset ceasing to meet one or more of the criteria in rule 14.23A(a) will be decided on a case by case basis after sufficient notice has been provided to holders.

3. The Terms of Issue, the Product Disclosure Statement or Other Disclosure Document and the Investor Fact Sheet

3.1 Rule 14.23A requires a product issuer to:

- (a) include the matters listed in rule 14.23A(b) in the terms and conditions that govern the legal nature of the TraCR;
- (e)
- (b) include the matters listed in rule 14.23A(d) in the product disclosure statement, prospectus or other offer document;

so that an investor is provided with important information and guidance relating to the TraCR.

3.2 Rule 14.23A(d)(vi) requires a product disclosure statement or other document for a TraCR to describe the limitations on the rights of the ownership of the underlying asset. This description should include an outline of:

- (a) the risks to the TraCR holder in the event of the insolvency of the custodian and how a TraCR holder may obtain legal title to the underlying assets in that scenario;
- (b) any limitation on Australian based holders accessing the legal rights of ownership (for example an inability to participate in class actions or rights issue).

1.1 ~~The effect of the rule 14.26 is that the constituent documents of an ETF must:~~

- (a) ~~ensure that a product issuer of an investment product that is an ETF is required on an ongoing daily basis to maintain off market redemption facilities that will be available to holders of ETF financial products in the ETF;~~
- (b) ~~outline in a way that is readily understandable by a reasonable investor, how holders can, on an ongoing basis, redeem those ETF financial products.~~

P14.27: Investment Products – Eligibility Criteria – Disclosures upon Quotation

1.1 The **disclosure documents** and information received on the eligibility criteria relating to liquidity obligations, **underlying assets** and the investment mandate/constituent documents, will be disclosed by **Chi-X** on the announcements page of the **Chi-X** web site.

P14.28: Investment Products - Ongoing Requirements – General Disclosure Requirement

1. The Structure of the Rules Relating to Ongoing Disclosure Requirements

1.1 **Rules** 14.28 to 14.30 contain ongoing disclosure requirements and are structured so that:

- (a) a general overarching requirement in **rule** 14.28 requires a product issuer to provide **Chi-X** with the information it is required to disclose in relation to a **quoted investment product**, under the **Corporations Act** or other applicable offshore requirement;
- (b) a more specific continuous disclosure requirement in **rule** 14.29 requires **product issuers** to ensure that any information that may impact on the decision of a reasonable investor to invest in or dispose of an **investment product**, is provided to **Chi-X** and is disclosed on a continuous basis;
- (c) a more specific periodic disclosure requirement is imposed by **rule** 14.30 to ensure that a base line of fundamentally important information is regularly provided to **Chi-X** and disclosed at the times specified.

- 1.2 As such, the same piece of information may be required to be disclosed under each of **rules** 14.28, 14.29 and 14.30. However, a single disclosure may be sufficient to satisfy each **rule**. This rule structure is intended to focus **product issuers** on compliance with the **Corporations Act** or equivalent requirements and to ensure that the information published under those requirements is disseminated equally to all current and prospective **holders**. It is also intended to ensure that the principles of disclosure are apparent to **product issuers** so that they can take responsibility for ensuring they make full and appropriate disclosures, including in any non-straightforward cases, where **product issuers** should err on the side of disclosing information to **Chi-X**.

2. The General Disclosure Requirement

- 2.1 The general disclosure requirement in **rule** 14.28 contains an overarching requirement for **product issuers** to provide **Chi-X** with all the information in relation to **quoted investment products** that it is required to provide under (a) the **Corporations Act** or applicable off shore requirements and (b) any exemption from or modified application of the requirements in the **Corporations Act** or any applicable off shore requirements.
- 2.2 The information must be provided to **Chi-X** without delay once it is provided under those other requirements.

3. Disclosure to the Chi-X Disclosure Interface

- 3.1 The requirements for lodging disclosures with **Chi-X** are outlined in the Technical Specification published on the **Chi-X** web site. A **product issuer** must ensure the process for lodging the information that has to be disclosed is completed within the time requirements specified in the **rules** and **procedures**.

4. Disclosure by Chi-X

- 4.1 **Chi-X** will disclose the information provided to it under **rule** 14.28 on the announcements page of the **Chi-X** web site, which will be accessible from the home page www.chi-x.com.au.

P14.29: Investment Products - Ongoing Requirements – Continuous and Ongoing Disclosure

1. **Disclosure**

- 1.1 A **product issuer** must provide the information, required to be disclosed under **rule 14.29(a)**, to the **disclosure interface** without delay once it becomes available and in compliance with the **rules, procedures**, technical specifications and guidance notes issued by **Chi-X**.
- 1.2 The disclosure requirement contained in **rule 14.29** is intended to ensure that a **product issuer** complying with its obligations under the **Corporations Act**, will be complying with the **rules** by providing **Chi-X** with a copy of all the disclosures it has made under the relevant **Corporations Act** provisions.
- 1.3 For the sake of clarity, **rule 14.29(a)(iii)** applies to the situation where an exemption has been granted to a **product issuer** in respect of provisions of the **Corporations Act** other than sections 675 and/or 1017B and as a consequence sections 675 or 1017B do not directly apply to the **product issuer** and/or the **quoted investment product**. In this situation, if the exemption requires the product issuer to comply with section 675 and/or 1017B then that compliance is required by **rule 14.29(a)(iii)**, even though those sections do not apply directly to the **product issuer**.
- 1.4 **Chi-X** will disclose the information provided to it under **rule 14.29** on the announcements page of the Chi-X web site, which will be accessible both from the home page www.chi-x.com.au and, in the case of TraCRs, the home page of the TraCR web site, www.tracrs.com.au.

2. **The Disclosure of an Illiquidity Event**

- 2.1 A **product issuer** will be presumed to be reasonably aware of an **illiquidity event** in a **TraCR** it has issued if:
 - (a) The **product issuer** relies in part or wholly on liquidity provided by a single **market maker** to satisfy its ongoing obligations with respect to the eligibility criterion in **rule 14.14**;
 - (b) Chi-X has announced that **market maker** is no longer subject to the **rule 4.9** or fee arrangements in respect of that **TraCR**; and

- (c) Twenty trading days have elapsed since the announcement in paragraph 2.1(b) and no new market maker arrangements have been announced in respect of that TraCR.
- 2.2 Note that paragraph 2.1 of this **procedure** 14.29 does not mean that an **illiquidity event** will only take place in the circumstances outlined therein. An **illiquidity event** will occur each time the requirements in **rule** 14.23A(c) are satisfied.

P14.30: Investment Products - Ongoing Requirements –Periodic Disclosure

1. **Rule 14.30(a) - Providing Information to the Chi-X Disclosure Interface**
 - 1.1 A **product issuer** that seeks to discharge the obligation in **rule** 14.30(a) by providing the net asset value to the **Chi-X** disclosure interface, must do so without delay once that information becomes available and in compliance with the **rules**, **procedures**, technical specifications and guidance notes issued by **Chi-X**. **Chi-X** will immediately disclose the information provided to it under **rule** 14.30(a) on the announcements page of the Chi-X web site, which will be accessible from the home page www.chi-x.com.au.
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** 14.30(c) 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. **Chi-X** may disclose the reports provided to it under **rule** 14.30(c) on the announcements page of the **Chi-X** web site, which will be accessible from the home page www.chi-x.com.au.

3. **Number of ETF Quoted Financial Products on Issue**

- 3.1 A **product issuer** may satisfy the requirement in **rule 14.30(d)** by publishing the number of **ETF quoted financial products** on issue in relation to the **ETF quoted fund** at the end of the month, on the issuer's web site within five days of the month's end.

4. Disclosure by Chi-X

- 4.1 **Chi-X** will disclose the information provided to it under **rule 14.30** on the announcements page of the **Chi-X** web site, which will be accessible from the home page: www.chi-x.com.au

P14.31: Investment Products - Ongoing Requirements – Changes to the Eligibility Criteria, Indices, Covered Warrants and OTC Derivatives

1. Rule 14.31(a) – Continuing to Satisfy the Eligibility Criteria

- 1.1 As is stated in paragraph 2.1 of **procedure 14.23A**, the consequences for a **TraCR** of an **underlying asset** ceasing to meet one or more of the criteria in **rule 14.23A(a)** criteria will be decided on a case by case basis after sufficient notice has been provided to **holders**.

P14.33: Trading in Investment Products - Transfers

1. Required Opening Times for the Lodging of Transfers

- 1.1 A **product issuer** must ensure that the place at which the transfer of an **investment product** may be lodged for registration, is open on all week days other than:
- (a) gazetted bank holidays or public holidays in the State or Territory in which the office is located; and
 - (b) any other week day on which the **Chi-X market** is closed for trading.

P14.36: Trading in Investment Products - 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.