



Consultation Paper 1/2020 on:

- **Proposed amendments to the Rules and Procedures to accommodate trading in Hybrid Securities**

Monday 13 July 2020

Consultation Closes: Monday 27 July 2020

Chi-X Australia Pty Ltd

ABN 47 129 584 667

1. Introduction

- 1.1 This Consultation Paper outlines proposed changes to the Chi-X Operating Rules (Rules) and Operating Rules: Procedures (Procedures) that are necessary to enable Chi-X to trade hybrid securities currently traded on the ASX market.



- 1.2 Proposed changes to the Rules are set out in **attachment one**, which commences on page 6. Proposed changes to the Procedures are set out in **attachment two**, which commences on page 17.
- 1.3 Submissions will not be treated as confidential unless that is expressly requested in the submission.
- 1.4 Submissions and any queries concerning this CP should be directed to:

Ross Pullen
Head of Product Development
T: + 61 2 8078 1732
E: ross.pullen@chi-x.com

Ellen Morsley
Senior Legal Counsel
T: + 61 2 8078 1738
E: ellen.morsley@chi-x.com

2. Hybrid Securities

- 2.1 Hybrid securities are financial instruments that have both equity and debt features and have been a key part of the Australian retail securities market for many years.
- 2.2 Hybrid securities are currently quoted and traded on ASX, but non-share hybrids cannot be traded on Chi-X due to a technical restriction on the classes of financial products that may be traded under the Chi-X Operating Rules.
- 2.3 Chi-X is intending to amend the Rules and Procedures to enable Chi-X to provide a secondary market for all hybrids which are listed, quoted or traded on ASX.

3. The Proposed Amendment of Section 1.1 and Section 4.4 of the Rules

- 3.1 Section 4.4 of the Rules currently sets out the classes of financial products that may be traded on the Chi-X market.
- 3.2 The proposed amendments include adding debt securities to Rule 4.4 as a class of financial product that may be traded on the Chi-X market.
- 3.3 “Debt Security” is not a defined term in the Corporations Act and is defined very widely in the ASX Listing Rules to include *“any security that ASX decides to classify as a debt security”*¹.
- 3.4 Chi-X has therefore decided not to define the term “Debt Security” in the Rules. However, the Procedures will be amended to provide additional detail on the specific types of debt securities (ie hybrid securities as defined in ASX guidance) that will be traded on the Chi-X market.

Consultation Question – Proposed Changes to Sections 1.1 and 4.4 of the Operating Rules

- (a) Do you agree there is a benefit in Chi-X being able to trade hybrid securities currently quoted on the ASX?
- (b) Do you have any comments on the proposed approach of:
 - (i) amending rule 4.4 to reference “debt securities” as financial products able to be traded on the Chi-X market;
 - (ii) providing greater precision in the Procedures on the type of debt securities that are able to be traded on the Chi-X market?

¹ ASX Listing Rule 19.12

4. The Proposed Amendment of Section 4 and Section 5 of the Procedures

4.1 The trading of hybrid securities on the Chi-X market will require amendments to Section 4 and 5 of the Procedures, which is at **attachment 2**.

4.2 Procedure 4.4 in Section 4 lists the classes of financial products that may be quoted on the Chi-X market for trading by participants. Chi-X is proposing to amend the Procedures to specify that the types of debt securities that will be traded on the Chi-X market are hybrid securities.

4.3 There is no fixed definition of what constitutes a “hybrid security” and it is accepted that the term encompasses a diverse range of financial instruments, whose performance and categorisation may vary according to the financial circumstances of the issuer at a particular time.

4.4 However, ASX guidance² states that any security that constitutes or evidences a debt owing by the issuer and that has the following equity-like features is a hybrid security:

- *The security is a perpetual security;*
- *The security is subordinated to unsecured creditors;*
- *The security provides that the payment of interest is entirely at the discretion of the issuer;*
- *The security allows interest payments to be cancelled or suspended without being capitalised;*
- *The security is transformable at the option of the issuer or a third party into an equity security (whether it is a share, unit or other form of equity security); or*
- *The security attaches a “loss absorption feature” or “knock-out option” that allows the issuer or a third party (such as a prudential regulator) to extinguish the debt in certain circumstances.*

This applies regardless of whether it is classified as debt or equity security under the ASX Listing Rules and regardless of whether or not it convertible at the option of the holder into an equity security.

4.4 Chi-X is therefore proposing to outline in the Procedures that a hybrid security is any security described in relevant documentation as a debt security, convertible debt security or hybrid security, and which ASX has quoted, listed or admitted to trading as a hybrid security³, in accordance with ASX guidance.

² ASX Guidance as at the date of this CP is published as *Guidance Note 34: Naming Conventions for Debt and Hybrid Securities*: https://www.asx.com.au/documents/rules/gn34_debt_and_hybrid_securities.pdf

³ ASX currently categorises hybrid securities into three broad types - convertibles, preference shares and capital notes: <https://www.asx.com.au/products/types-of-hybrid-securities.htm>

4.4 Chi-X is also proposing to make minor amendments in the following areas of sections 4 and 5 of the Procedures, to ensure they apply to hybrid securities as well as equity market products:

- (a) Trading phases;
- (b) Trade reporting;
- (c) Orders and matching;
- (d) Orderly markets power.

Consultation Question – Proposed Changes to Sections 1.1 and 4.4 of the Operating Rules

- (a) Do you agree with the proposed approach of amending the Procedures as outlined, to state that the debt securities that will be quoted and traded on Chi-X are 'hybrid securities' quoted and traded on ASX?
- (b) Has Chi-X correctly identified the necessary consequential Rule and Procedure amendments to be made to accommodate trading in hybrid securities?

ATTACHMENT ONE - CHANGES TO THE CHI-X OPERATING RULES TO ENABLE HYBRID SECURITIES TO BE TRADED ON THE CHI-X MARKET

In the text in this attachment, single underlining indicates text to be inserted and ~~striketrough~~ indicates text to be deleted. Red text indicates relevant terms, text or rules directly impacted by the proposed amendments. “...” indicates rules that are not directly relevant to the proposed amendments and so have not been included. Rules in black text are included to provide context for and assist in any consideration of, the proposed amendments.

1. INTERPRETATION AND APPLICATION OF RULES

1.1 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: <ul style="list-style-type: none">(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 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 fund	A QMF 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 .
Corporate action	Depending on the context, the corporate action taken by: <ul style="list-style-type: none">(a) the issuer of a financial product traded on Chi-X, to provide an entitlement to the holders of that financial product; and/or(b) 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.
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.
Custodian	The person who holds the underlying assets of a TraCR on behalf of the product issuer and on trust for the holder .
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:<ul style="list-style-type: none">(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 .
ETR reference price	The reference price determined by Chi-X pursuant to the application of the extreme trade range rules in the Market Integrity Rules ⁴ .
ETF financial product	A financial product issued by or provided pursuant to an ETF .
Exchange Traded Fund (ETF)	A collective investment scheme: <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

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

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
- (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 .
Fixed income security (eligible portfolio)	A security that is or is proposed to be a constituent of a portfolio in a QMF where either: <ul style="list-style-type: none">(a) the QMF is or will be issued by a product issuer that has proven systems and controls; or(b) the portfolio in which the security is held is a minority portfolio.
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 .
Illiquidity Event	The event described in rule 14.23A(c) .
Independent calculation agent	An entity that is independent of any product issuer and that is widely regarded as having expertise in assessing the net asset value of a quoted fund or part thereof.
Investment product	A warrant, quoted fund or transferable custody receipt issued by the product issuer pursuant to the terms of issue and, depending on the context, either: <ul style="list-style-type: none">(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 .
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 .
Listing Market	The market on which Chi-X determines an equity market product or debt security 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	Any one or more the following sets of Market Integrity Rules, made by ASIC , that are in force at the time in question: (a) ASIC Market Integrity Rules (Securities Markets); (b) ASIC Market Integrity Rules (Competition in Exchange Markets); and/or (c) ASIC Market Integrity Rules (Chi-X Australia Market).
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 .
Minority portfolio	A portfolio of fixed income securities (eligible portfolio) held or proposed to be held in a QMF and that: (a) is valued on a portfolio basis by an independent calculation agent ; and (b) under the investment mandate of the QMF will provide: (i) not more than 10% of the net asset value of the QMF when valued in aggregate with any other minority portfolios ; and (ii) not more than 10% of the net asset value of the QMF , when valued as a single portfolio.

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 .
OTC derivative	An OTC derivative that is or is proposed to be an underlying asset in a quoted fund and that: <ul style="list-style-type: none">(a) 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;(b) on an initial and ongoing basis satisfies those rules expressed to apply to OTC derivatives.
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.
Quoted financial product	A financial product issued by a product issuer and traded on the Chi-X market pursuant to the quotation of an investment product .
Quoted fund	An investment product that is an Exchange Traded Fund (ETF) or a Quoted Managed Fund ⁵ .
Quoted Managed Fund (QMF)	An open ended collective investment scheme that is either: <ul style="list-style-type: none">(a) a managed investment scheme under the Corporations Act that complies with the applicable registration requirements; or(b) 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">(i) 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

⁵ Note that while the only quoted funds at present are exchange traded funds and quoted managed 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.

- (ii) those taking part do not have day to day control over the operation of the property.

QMF financial product	A financial product issued or provided pursuant to a QMF .
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 .
Reliable Pricing Framework (RPF)	A framework for pricing the underlying assets of a QMF that consists of either: (a) an entity that is widely regarded as providing reliable and independent pricing for the relevant asset class of proposed underlying assets and is specified in the procedures ; or (b) a trading platform that is subject to a regulatory framework, specified in the procedures , that covers pricing quality and transparency.
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.

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

Trading Notice	A notice issued by Chi-X on its website.
Transferable Custody Receipt (TraCR)	An investment product that: <ul style="list-style-type: none">(a) is issued by a registered product issuer;(b) has an underlying asset that is held by a custodian on behalf of the product issuer and, ultimately, the holder of the TraCR;(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**, **debt securities** and **investment products**. The **procedures** contain a further description of the specific **equity market products**, **debt securities** 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** 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** 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:

- (a) not market **TraCRs** as ordinary cash equities, including those which are the **underlying asset** of a **TraCR**; and
- (b) clearly distinguish **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.

ATTACHMENT TWO

CHANGES TO THE CHI-X OPERATING RULES: PROCEDURES

TO ENABLE HYBRID SECURITIES TO BE TRADED ON THE CHI-X MARKET

In the text 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 rules that are not directly relevant to the proposed amendments and so have not been included. Rules in black text are included to provide context for and assist in any consideration of, the proposed amendments.

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.
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 MOC orders for ASX listed equity market products <u>and debt securities</u>; 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 and debt securities) (warrants)	<ul style="list-style-type: none"> • Participants may only enter MOC orders into the Chi-X market in this phase; • Participants may report off market transactions in warrants in accordance with the rules; • 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 and debt securities. The executing **participant** (which is typically the seller under the **Market Integrity Rules** but not in all cases) is to report the **relevant transaction** in accordance with and at the times specified in the **Market Integrity Rules**.

- 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**.

- 2.3 Upon receipt of trade reports in respect of **off market transactions**, **Chi-X** will:

- (a) send an unsolicited trade confirmation message to the counterparty if the counterparty to the **off market transaction** is a **participant**; and
- (b) 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 and debt securities. 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** that is relied upon for the **off market transaction**:

- (a) Block trades;
- (b) Large portfolio trades;
- (c) Trades with price improvement;
- (d) 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**.

P 4.4: Classes of Financial Products

1.1 For the purposes of **rule 4.4**, and subject to paragraph 1.2 below, **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**, including debt securities;
- (b) listed managed investment products quoted on **ASX**, including ETFs;
- (c) **investment products** granted **quotation** by **Chi-X**.

1.2 Chi-X has determined that the type of debt security that will be traded on the Chi-X market are those **financial products** which are both:

- (a) referred to in relevant documentation as a debt security, convertible debt security or hybrid security; and
- (b) listed, quoted or admitted to trading on ASX as a hybrid security, as that term is defined in ASX guidance.

1.3 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 or debt security 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 business day.

1.2 As noted in **procedure 4.2**, participants may submit **MOC orders** from the commencement of continuous trading. If **MOC order matches** against another **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**. **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.

Section 5: FAIR & 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 or debt securities** 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 or debt security before the trading halt or suspension for that same product has been removed on the **listing market**.
- 1.2 When an **equity market product or debt security** has been placed into a trading halt then the **Chi-X market** will, in relation to that **equity market product or debt security**:
 - (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** is 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.