



## Compliance Notice

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12 October 2020

Reference Number: 0007/20

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### Subject: Transition to Division 4 Compensation Arrangements

Participants are advised that Chi-X has made significant progress on its transition to division 4 compensation arrangements, whereby Chi-X will join ASX as a member of the SEGC.

It is expected that the transition will take place, subject to final regulatory approvals, on 26 October 2020, from which date the new arrangements will apply.

While most trading on Chi-X is already covered by the National Guarantee Fund (NGF), the compensation fund administered by the SEGC, this step will ensure that the same NGF coverage applies on both the ASX and Chi-X markets.

The changes to the Operating Rules necessary for the transition to occur were consulted on in November 2019 (see [link](#)) and the new rules are very similar to what was consulted on at that time. The requirements on participants that are expected to come into force on 26 October include:

- (a) The content of the notice on compensation arrangements that participants are currently required to give to new clients will change. The proposed new text is set out in **Attachment One**. Participants are not required to send the new notice to existing clients, the new rules require only that it is sent to new clients.
- (b) Participants will be required to provide notifications to some clients on the circumstances where NGF coverage does not apply<sup>1</sup>. These requirements are the same as those in the ASX Rules and participants will be able to rely upon notices previously sent to clients pursuant to those ASX Rules to comply with the Chi-X rule.

It may therefore be prudent for Participants to, at this time, take steps to prepare for the amended content of the Compensation Notices they provide to clients and review their internal procedures for complying with the ASX and Chi-X requirements referred to in (b) above.

A further Compliance Notice on confirmation of the go live date will be published closer to the date, please **contact Chi-X Compliance by email** with any queries in the meantime.

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<sup>1</sup> The circumstances include where a client lends property or money to a participant and when a person is connected to a participant in a way that satisfies the definition of 'excluded person' under the Corporations Regulations.

## **ATTACHMENT ONE – PROPOSED NOTICE TO BE GIVEN TO NEW CLIENTS**

There are two different compensation arrangements that may provide protection for retail investors trading on Chi-X: NGF Arrangements or Division 3 Arrangements. This is because on 26 October 2020, Chi-X became a member of the SEGC, which operates the National Guarantee Fund (NGF).

When do the NGF Arrangements apply? From 26 October 2020, the National Guarantee Fund (NGF) may apply in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act 2001 and Corporations Regulations 2001. Transitional arrangements apply and these are set out on the SEGC's website at [www.segc.com.au](http://www.segc.com.au). For further information on the National Guarantee Fund and what it covers, please contact SEGC, see the SEGC website and refer to Division 4 of Part 7.5 of the Corporations Regulations 2001 (Cth).

When do the Division 3 Compensation Arrangements apply? Where a retail investor suffers a loss in respect of conduct, a transaction or insolvency that occurred before 26 October 2020, that loss may be covered by the Division 3 compensation arrangements. Section 11 of the Chi-X Operating Rules outlines the Division 3 compensation arrangements, including the cessation of the arrangements on 25 October 2027 and the requirement, while the arrangements are in place, to make a claim no later than six months after becoming aware of the loss to which the claim relates. Section 11 also outlines that the losses covered by Division 3 are those resulting from defalcation or fraudulent misuse of your money, property or authority by a Chi-X participant.