

Compliance Notice

24 December 2021

Reference Number: 0004/21

Subject | Feedback on the 2021 Participant Self-Assessment

In August 2021, Chi-X issued the Participant Self-Assessment Questionnaire, which sought feedback from Participants on the extent to which they had considered and adapted their operations to apply recommended good practices in relation to risk management and contingency arrangements.

Chi-X is now an established part of Australia's financial markets infrastructure in terms of daily trading volumes, market data/vendors and the large number of Participants connected to its market. Chi-X is also increasing the extent to which it is embedded into Australian market activity from a technology perspective, and the assets under management of investment products that are uniquely quoted on Chi-X is A\$3.2billion.

It was in this context that the Questionnaire asked Participants to consider and provide information on how they manage the compliance and operational considerations raised by being connected to Chi-X as an alternative market platform to ASX, as well as what steps have been taken to address the challenges faced as a result of an increase in the cyber threat environment and disruptions caused by the COVID-19 pandemic.

In this light, the Compliance Self-Assessment for 2021 focused on the following compliance considerations:

- (a) Business continuity – the arrangements that are in place to mitigate the impact of an unexpected market event on Chi-X Participants are relevant considerations for a participant considering its technology resiliency.
- (b) Cyber security – the preparedness of Chi-X Participants to manage a cyber-attack and processes and procedures to identify and address cyber risk within their organisation.
- (c) Remote working – confirming that Chi-X Participants have adequate policies and procedures to manage long term risks in a disrupted operating environment in order to continue to meet their obligations under the Chi-X Operating Rules, eg as a result of the pandemic where staff are working remotely on a greater scale than has ever been seen before.

Chi-X believes it is important to continue to highlight the key compliance and operational areas to be considered by Participants that may be reviewing their cyber resiliency, disaster recovery models and BCP arrangements, and/or that are considering connectivity models and redundancy arrangements for trading uniquely quoted Chi-X products.

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Chi-X is grateful to all Participants for their timely and informative input, with the following themes arising out of the participant responses:

1. BCP arrangements and testing frequency vary

The extent of connectivity that Participants have in regards to disaster recovery models on Chi-X varies greatly, from having full capability to fail over from the Primary data centre (Equinix) to the backup data centre (Global Switch) and fail over from Primary processes to Standby Processes within Equinix, to not having any direct connection.

Participants that have not directly connected to the Chi-X back-up site stated that this was due to a reliance on system vendors (in particular IRESS) and third parties having BCP on their Chi-X connections and as a result they do not conduct their own BCP/DR testing or participate in Chi-X BCP testing events. The majority of Participants engage in periodic testing of their critical systems and technology on an annual, semi-annual or quarterly basis, however there are some firms that had not undertaken any BCP testing for their Chi-X connection.

Chi-X will continue to liaise with Participants and third party service providers on this topic to ensure that appropriate BCP measures are in place. Chi-X encourages all Participants to continue to review these arrangements on a periodic basis, which includes allocating appropriate resources to participate in Chi-X BCP events as well as performing their own internal tests to ensure that Participants are able to continue trading in the event of a market outage. At present some Participants appear to treat the BCP events as a connectivity test only, involving network/application support people and not traders.

2. Increasing awareness and understanding of cyber risks

While the majority of Participants have implemented formal information security policies and procedures, the responses provided indicated that a number of firms had not tested their procedures to confirm that they are able to manage and respond to a security incident within the last 12 months. There has been a significant rise in the number and severity of cyber threats and data breaches, with Participants identifying phishing attacks and ransomware as the most relevant cyber risk threats to their organisation. It is therefore important that Participants consider prioritising the implementation of good practices to manage risks in this area.

Chi-X encourages all Participants to regularly review and test information security procedures to strengthen their readiness to manage and respond to a cyber-attack incident.

3. Remote access working arrangements

Although the majority of Participants responded that they had enhanced their staff supervision frameworks to address risks arising from the changed operating environment (eg as a result of the COVID-19 pandemic), only a small number of firms have made material changes in respect of their incident management and escalation arrangements. Chi-X acknowledges that some Participants already provided employees with an option to WFH prior to the pandemic and that employees continue to have access to the same systems as they do in the office. However, Chi-X encourages Participants to consider any additional risks arising from the post-pandemic working arrangements, where employees are required or enabled to work remotely consistently for months or years, and ensure that these are covered and managed by their incident management and risk frameworks.

4. Participant Supervision Programme

Chi-X Compliance will continue to meet with Participants to discuss these themes and other supervision related matters as required.

Chi-X Compliance will also be issuing a 2022 Participant Self-Assessment Questionnaire and will provide Participants with further details on this next year.

Any queries on this feedback or responses to the 2021 Questionnaire should be addressed to au.compliance@chi-x.com