Explanatory Memorandum

Amendments to Operating Rules

Effective Date: 11 March 2004

Business Rules – Major Rule Changes

Terminology	We have changed "participating organisation" to "participant" to match the term used in the Corporations Act. The meaning of the word "affiliate" has been changed and the rules now refer to the concept of a "responsible officer". A responsible officer is a natural person trading on the *Exchange*, and it is now not the case that directors of *participants* can be affiliates. Rather they can be *responsible officers* for the *participants*. A *responsible officer,* or previously an *affiliate,* are not allowed to access the market in their own right. They must be authorised by the *participant* and act on behalf of a *participant*.
BR Part A Rule 9	This rule has been deleted as affiliates have now been replaced by responsible officers. The equivalent rule for responsible officers is Part A Rule 10A.
BR Part A Rule 10	Further requirements have been added for the criteria of admission as a participant. For example that the entity hold an Australian Financial Services Licence with appropriate authorisations to trade the securities listed on the NSX. In addition, participants have to nominate at least two responsible officers (rather than directors) and have them approved by the Exchange. Responsible officers have to satisfy the criteria laid down in Part A Rule 10A. The Exchange has grand fathered one partnership under its rules. All new participant applications must be from corporations Part A Rule 12.1(e). These changes better reflect industry practice.
BR Part A Rule 10A	Insertion of a new section detailing the requirements for responsible officers, including a grandfathering provision to ensure a smooth transfer from the affiliate system to the

Business Rules – Major Rule Changes

	responsible officer system.
BR Part A Rule 12	Further requirements have been added for recognition by the Exchange, such as an appropriate AFSL, and evidence of current professional indemnity insurance in accordance with Corporations Act requirements.
BR Part A Rule 13.3	Insertion of a statement that makes it clear that any levies on participants are not refundable.
BR Part A Rule 15.1	Recognition that responsible officers can be representatives of either a partnership (grand fathered) or a corporation.
BR Part A Rule 15.2	This rule has been deleted as there are no sole traders who are participants.
BR Part A Rule 15.4	Change partners to responsible officers to reflect the new regime.
BR Part A Rule 15.5	Participants must hold an Australian Financial Services Licence.
BR Part A Rule 15.6	Participants must only deal in the securities for which they are licenced,
BR Part A Rule 15.7	Insertion of rule requiring that a participant can only deal, on the NSX, those securities for which the NSX is licenced. This rule does not inhibit participants from dealing in securities that NSX is not licenced for as long as the dealing done outside of the NSX.
BR Part A Rule 15.8	Insertion of rule requiring that participants can only authorise people to provide financial services if they are authorised representatives of the participant for the purposes of their AFSL.
BR Part A Rule 27(b)	This change allows the exchange to set the level of its fees. The current fine is not to exceed $25,000.
BR Part A Rule 28	Same change as for Part A rule 27(b).
BR Part A Rule 36.1(d)	Allows a recognised officer or a participant to be suspended or expelled by the Exchange if ASIC suspends or cancels their AFSL.
BR Part B Rule 2.5	This rule mirrors the Corporations Act in allowing a

Business Rules – Major Rule Changes

	participant to charge a wholesale participant brokerage even when acting as principal, provided that they have consent.
BR Part B Rule 16	The term "contract note" has been updated to "confirmation" to match the Corporations Act. In addition, the news provisions regarding providing a single confirmation have been inserted.
BR Part B Rule 17.3	This rule has been deleted, as there is still an obligation that even if the clients are only wholesale clients then they must have the same rights in preference of orders.
BR Part C Rule 13.11	Designated trading representatives must be representatives of a current AFSL holder.
BR Part C Rule 44	A definition of "approved index" has been inserted into the definitions section, which allows the Exchange to notify an index from time to time. This wording has also been placed into Appendix 4.
BR Part C Rule 54	We have deleted appendix 5 relating to approved securities. The reference in the definition of approved securities now reads "as notified by the Exchange from time to time" as the exchange will deal with this issues as and when it comes up by publishing a practice note, rather than in Appendix 5.
BR Part C Rule 60	Insertion of new conditions for a conditional market
BR Part D Rule1	Under the CHESS system, the Exchange is referred to as a "participating exchange", rather than a "non-broker participant". We have updated the rules to reflect this.
BR Part D Rule 13.1(h)	This rule has been deleted as the Corporations Act now contains detailed provisions on dealing with client money which replace the need for this rule.
BR Part E Rule 1.7	This rule provides that where a participant who is also a participant of the ASX then they can lodge their ASX financial returns instead of an NSX an NSX Surplus Liquid Funds return. The ASX report provides the same information as required by NSX to assess a participant's financial compliance.
BR Part E Rule 5.4	We have changed the time period stated so that it automatically equate with the period specified in the

Business Rules – Major Rule Changes

	Corporations Act.
BR Part E Rule 5.9 – 5.12	We have removed these rules as are they are no longer relevant as the Exchange no longer prescribes how auditors reports should be prepared.
BR Part E Rule 9.7	We have changed the fining limit to be consistent with other limits applied elsewhere in the rules.
BR Part F new Rule 4A	This section provides rules for the new compensation arrangements under part 7.5 of the Corporations Act. The proposed rules cover all requirements in the Corporations Act in relation to compensation arrangements. Please see NSX's application for approval of compensation arrangements for further details of how the arrangements will be administered. (separate attached application)
BR Part F Rule 5.2	This rule has been inserted to make rule 5.1 more enforceable.
BR Part F Rule 6	We have removed references to clearing room document boxes as this system is no longer in place.
BR Part F rule 7 and appendix 7	This Appendix has been deleted as the Exchange has now been in operation for some time, and this risk disclosure statement is no longer necessary.
BR Part F New Rule 7	New rule 7 allows the Exchange to fine participants within limits that it publishes from time to time for failure to comply with the Business Rules. This will strengthen the Exchanges enforcement mechanisms in relation to participants.