



Bendigo Stock Exchange

Guide to Becoming a BSX Broker

This guide has been prepared to provide an overview of how a broker may become a BSX Broker and the rights and obligations that accompany membership as a BSX Broker. This guide is not a substitute for the Business Rules, guidance notes or professional advice.

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Enquiries regarding this guide may be made to BSX on 03 9001 0304.

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Overview

This guide provides an overview of what is involved in becoming a BSX Broker. Becoming recognised as a BSX Broker attracts rights and obligations under the Business Rules of the BSX market. This guide outlines what those rights and obligations are and provides an overview of how the BSX market operates.

What is BSX?

BSX evolved from concerns that Australia's current capital market structure prevents many SMEs making a more positive contribution to the economy, employment and development of innovative new products and services.

The key aim of BSX is to assist SMEs gain better access to growth capital. This is being achieved through a suite of capital raising, trading and business services for the SME sector. The BSX market is one of these services.

The BSX web site www.bsx.com.au is a one-stop shop for SMEs. A range of services are provided to assist SMEs and small cap companies at different stages of their development and assist fund raisers, venture capitalists and other investors with a higher level of confidence in the SME sector.

The BSX market offers a small cap market for trading in securities.

The BSX market lists companies, trusts and similar entities.

By providing a trading platform for the small cap market BSX seeks to assist small and medium sized companies raise capital in an environment tailored to meet their specific needs.

In the past, one of the obstacles for the SME sector in attracting investment was that Australia did not have a market focused on SMEs such as in the US, Europe and Asia. People were less willing to subscribe their funds to a venture because they could not be sure whether they could retrieve or relocate their funds at an appropriate time. Now it is easier for small and medium sized companies to raise capital as investors can be certain that the securities they will be issued can be traded.

Australia's SME sector is at the forefront of innovation and entrepreneurial business. The BSX market provides a trading platform for raising capital in order that small to medium sized companies can grow and evolve to meet the challenges of the new millenium.

What are the Benefits of becoming a BSX Broker?

Becoming a BSX Broker can provide an organisation with:

- access to additional underwriting, advisory and trading business;
- an arena to market services, investors and entities wishing to trade, on the BSX web site;
- a cost effective way to build a profile in the SME community;
- a potentially larger client base, particularly in rural and regional areas;

To become a BSX Broker an organisation needs to satisfy the requirements in the BSX Business Rules. The BSX Business Rules have been specifically developed for brokers working in the SME sector while also meeting the regulatory requirements of the Australian Securities & Investments Commission (ASIC).

The BSX Business Rules therefore play an important role in setting standards for the conduct of BSX Brokers who trade on the BSX market.

The BSX Business Rules create a contract between BSX and BSX Brokers and also between BSX Brokers themselves.

BSX has entered into arrangements to minimise any duplication for existing Brokers in complying with the BSX Business Rules.

What are the Key Principles behind the BSX Business Rules?

The BSX Business Rules are based on the following key principles:

- applicants for recognition as BSX Brokers must meet the minimum standards in relation to integrity, competency, experience and financial capacity;
- BSX Brokers must carry out their obligations to their clients in a fair and professional manner and in the best interests of their clients at all times;
- BSX Brokers must meet continuing requirements in relation to integrity, competency, experience and financial capacity to ensure they remain capable of properly carrying out their obligations to BSX, their clients and other BSX Brokers; and
- activities of BSX Brokers and their clients must be carried out in an efficient and certain manner to reduce risk and promote confidence in the functioning of the BSX market.

How to Apply for Membership

BSX regards the application process as an important part of satisfying some of the key principles upon which the BSX Business Rules are based.

First, it ensures that an applicant meets minimum standards in relation to integrity, competency, experience and financial capacity before being recognised as a BSX Broker.

Secondly, it ensures applicants become well aware of the ongoing obligations they will have to meet to ensure they remain capable of properly carrying out their obligations to BSX, their clients and other BSX Brokers.

Key Steps

Becoming recognised as a BSX Broker involves the following key steps:

- gaining an understanding of the initial and ongoing requirements of BSX Brokers;

- carrying out any work required before applying to become a BSX Broker;
- providing a properly executed BSX Broker contract to BSX; and
- submitting a completed BSX Broker application form to BSX together with any other documents and fees required by BSX; and

Understanding of BSX Broker Requirements

There are a range of initial and ongoing requirements that need to be satisfied to be recognised as a BSX Broker. While these requirements will generally be well understood and familiar to brokers of other operational stock exchanges, we encourage all individuals and organisations to gain a good understanding of these requirements before applying to become recognised as a BSX Broker.

The Application

Either an individual or a company may apply to become a BSX Broker.

Natural Persons

To be eligible to become recognised as a BSX Broker, a natural person must:

- satisfy BSX that they are capable of carrying out the obligations of a BSX Broker efficiently, honestly and fairly;
- satisfy BSX that they have been employed for at least two years in a stockbroking capacity;
- satisfy BSX that they have completed the relevant tertiary qualifications;
- undertake to complete any subjects conducted by Securities Institute Education that are prescribed by BSX from time to time;
- not be an insolvent under administration;
- be of good character and high business integrity;
- satisfy BSX that they will devote a substantial amount of time each week working as a Broker; and

- have the necessary financial resources to meet their obligations as a BSX Broker.

Companies

To be eligible to become recognised as a BSX Broker, a company applicant must:

- have a majority of directors who are Australian residents;
- satisfy BSX that it has the required financial resources to meet its obligations as a BSX Broker;
- have a constitution which contains provisions requiring ongoing compliance with the BSX Business Rules and authorises the applicant to obtain information from its members that may be required under the Corporations Law.

Depending on the size of the company, one or more directors must:

- satisfy BSX that they have been employed for at least two years in a stockbroking capacity;
- satisfy BSX that they have completed the relevant tertiary qualifications;
- undertake to complete any subjects conducted by Securities Institute Education that are prescribed by BSX from time to time;
- not be an insolvent under administration;
- be of good character and high business integrity; and
- satisfy BSX that they will devote a substantial amount of time each week working as a Broker.

What are the Financial Obligations of BSX Brokers

The key objective of the financial obligations is to create an appropriate financial operating environment for BSX Brokers and their clients. As such, many of the financial obligations of BSX Brokers in the BSX Business Rules supplement their obligations under the Corporations Law.

The requirements are aimed at ensuring that BSX Brokers have proper procedures in place for dealing with client funds and adequate capital to satisfy their trading obligations on the BSX market.

Record Keeping

A BSX Broker must maintain proper records of business activities. These records include:

- records required to be maintained under the Corporations Law;
- Trust Account details;
- monthly trial balances; and
- annual accounts.

Trust Account

BSX Brokers need to maintain a running ledger of client balances capable of being reconciled to the banking records of the BSX Broker. This system is necessary to meet the ongoing reporting provisions contained in the Corporations Law.

Trial Balances and Annual Accounts

BSX Brokers need to be able to perform a trial balance on a monthly basis and provide to BSX not later than 2 months following year end, a set of audited accounts that give a true and fair view of the state of affairs of the BSX Broker's business.

Audit Arrangements

A BSX Broker must appoint an accountant or a firm of accountants to act as their auditors.

An auditor's report must be lodged with BSX for each financial year.

BSX Brokers should note that the Corporations Law contains provisions regarding notification to both BSX, the auditor and to the Australian Securities and Investments Commission.

Returns to BSX

At the end of every financial year a BSX Broker must lodge a schedule of its investments with the annual accounts.

On a quarterly basis a trust account schedule must also be lodged with BSX.

A BSX Broker that participates in underwriting activities must maintain a register containing the details of each underwriting agreement entered into.

BSX may request additional information regarding a BSX Broker's financial position.

Capital Liquidity Requirements

The capital liquidity regime imposed on BSX Brokers under the BSX Business Rules is aimed at ensuring that BSX Brokers have adequate capital to meet their obligations and any risks associated with those obligations.

BSX's capital liquidity regime builds on the key financial and capital obligations of securities dealers under the Corporations Law so as to provide an appropriate operating environment for BSX Brokers and their clients.

Some BSX Brokers will already be members of another stock exchange. As a result, their securities dealer's licence may not contain financial conditions since they already submit to ASIC returns based on established industry standards.

Some BSX Brokers will not be members of any other stock exchange and are therefore likely to have existing capital adequacy and/or surplus liquid asset requirements included in their securities dealers licence conditions.

BSX intends to make it as simple as possible for members of different regulatory regimes to exhibit compliance with BSX's capital liquidity regime. In particular, BSX intends, to the extent that it is practicable to do so, to make reporting easily aligned to the existing reporting regime contained in the Corporations Law.

Primary Obligations of BSX Brokers

A BSX Broker must ensure at all times that the surplus liquid capital in the business of the BSX Broker is not less than:

- (a) \$50,000.00 or
- (b) 5% of the BSX Broker's adjusted liabilities,

which ever is greater.

A BSX Broker must keep records showing their surplus liquid capital, the level of adjusted liabilities and the level of surplus liquid capital as a proportion of adjusted liabilities. The BSX Accountant may inspect these records.

On a monthly basis, a BSX Broker must lodge with the BSX Accountant surplus liquid capital calculations and a record of aged debtors.

As the ability of BSX Brokers to settle transactions on the BSX market in a timely way is highly dependant upon them having an adequate level of liquid capital, it is important that BSX Brokers comply with the capital liquidity requirements.

What Obligations does a BSX Broker have to Clients

A BSX Broker has many obligations to clients, these obligations include:

Prohibition on Insider Trading

A BSX Broker must not:

- divulge information to clients obtained through other clients, in relation to a security that is not generally available and which would be likely to materially affect the price of the security if the information was generally available; or
- give any advice that would damage the interests of clients.

Discretionary Accounts

A BSX Broker may manage or operate a discretionary account for a client if the client has provided a written authorisation setting out the terms and conditions of operation. A Broker who operates and manages a discretionary account on behalf of a client must:

- not enter into a number of transactions on behalf of a client which are excessive in the circumstances;
- if requested by the client, prepared and forward to the client (within 14 days of the report being made) a report on the discretionary account made up to the end of each quarter in each year including details of the value of transactions in securities and total brokerage, commission and fees charged to the client; and
- keep a written register of the details pertaining to the account.

Disputes and Complaints

The way in which BSX Brokers deal with complaints by their clients can have an important impact on overall operations of the BSX market. BSX therefore has an interest in how BSX Brokers deal with client complaints.

Any dispute regarding a BSX Broker or Brokers will be investigated by BSX if the issue in dispute warrants investigation. However, if it would be more appropriate, the dispute will be referred to a court or other body to make a decision in regards to the dispute.

What are the Business Obligations of BSX Brokers?

A BSX Broker has ongoing business obligations under the Business Rules. These include the obligations to hold a dealer's licence, maintain insurance, and notify BSX of any changes to the business which may affect clients or BSX's ability to operate an orderly and efficient stock exchange.

How does Dealing & Trading Operate on the BSX Market?

The BSX Business Rules regarding dealing are aimed at ensuring that trading takes place in a fair and efficient manner.

Computershare provides the BSX market with a sophisticated trading ASTS service. This service performs the trading algorithm and on a daily basis provides live export of the trade data directly to the BSX web site and to BSX Brokers.

Making Bids and Offers

Only BSX Brokers have the right to make bids and offers and enter into transactions on the BSX market. BSX Brokers can provide bids and offers to the BSX market operator via phone, fax or email. The BSX market operator will then enter the bid or offer into the BSX trading system.

A BSX Broker is responsible for the accuracy of all details of bids and offers, and must have adequate arrangements in place to determine the origin of all orders, bids and offers.

Details of pre trade buy and sell orders will be available to BSX Brokers via BSX's web site. Post trade information, such as trading volumes and prices, will also be available to BSX Brokers via the web site.

BSX Brokers will have the greatest level of access to information on the BSX web site.

Authorised Trading Representatives

A BSX Broker must appoint one or more authorised trading representatives to deal on the BSX market. This is to ensure that BSX Brokers appoint appropriately experienced staff and that it is clear who has authority to trade on their behalf.

BSX Brokers must ensure the conduct of an orderly market and are responsible for ensuring that their authorised representatives do so.

BSX may suspend a Broker's dealing rights or suspend access to the BSX trading system if it is necessary to ensure the ongoing efficiency and integrity of the BSX market.

BSX Trading Phases

The BSX market has three key trading phases – pre-opening, opening and trading. BSX Brokers, and particularly their authorised trading representatives are expected to be familiar with the trading phases and the BSX trading algorithm.

Pre-Opening Phase

The pre-opening phase operates from 2.30 am to 10 am.

During this phase bids and offers can be entered, amended or cancelled.

Trading Phase

The normal trading phase operates from 10.00 am to 4.00 pm.

During this phase bids and offers may be entered, amended or cancelled and will be matched on a price time basis in accordance with the BSX Business Rules.

Crossings and after market trading

The pre-opening phase operates from 4.00 pm to 4.15 pm.

Reporting

End of day reports sent to brokers, media and information vendors from 4.15 pm to 4.30 pm.

Key Trading Responsibilities

BSX Brokers have a range of responsibilities while trading on the BSX market.

The key responsibilities of BSX Brokers may be summarised as follows:

- ensure the conduct of an orderly market;
- not make bids and/ or offers with the intention of creating a false market;
- not engage in transactions that involve no change in beneficial ownership;
- not trade off market in securities quoted on BSX;
- not short sell other than in accordance with the Corporations Law; and
- not trade in securities that are subject to a trading halt.

These responsibilities are in addition to a BSX Broker's obligations under the Corporations Law and the common law.

What are the Clearing & Settlement Arrangements?

Regulatory Objectives

The key objectives of the BSX market clearing and settlement arrangements are to:

- complete transactions entered into on the BSX market as efficiently as possible;
- minimise the risk of transactions not being settled in a timely way;
- resolve outstanding issues in relation to clearing and settlement of transactions efficiently; and
- achieve the above aims as cost effectively as possible.

BSX Brokers must:

- settle trades on a broker to broker basis; and
- settle on a T+5 basis.

BSX Brokers should ensure that they are well aware of their obligations in relation to clearing and settlement and corporate actions.

In particular, they should ensure they have relevant procedures in place so they can comply with their obligations efficiently and effectively.

Settlement Agents

A BSX Broker may appoint a settlement agent approved by BSX to carry out their delivery and settlement obligations. A BSX Broker upon giving prior written notice to BSX may appoint an organisation approved by BSX to act as their settlement agent.

If a BSX Broker appoints a settlement agent they must ensure the settlement agent complies with the BSX Business Rules in relation to settlement of the BSX Broker's transactions.

How are BSX Brokers Supervised?

The overall objective of supervising BSX Brokers is to monitor and enforce compliance by BSX Brokers with the BSX Business Rules and the relevant provisions of the Corporations Law.

BSX is working with ASX to ensure that its supervision regime monitors BSX Brokers in a manner similar to ASX's supervision regime. This will assist some BSX Brokers, who are currently members of the ASX, in understanding the requirements under the BSX Business Rules.

They key areas supervised are:

- applicants with the requirements to become recognised as BSX Brokers;
- BSX Brokers with ongoing requirements, particularly in relation to financial and capital liquidity requirements, clients and their businesses; and
- BSX Brokers with their obligations in relation to the BSX market, particularly in relation to trading and clearing and settlement.

BSX has a range of enforcement options it can pursue in relation to BSX Brokers:

- disciplining a BSX Broker;
- suspending or canceling a BSX Broker's recognition;
- declaring a BSX Broker a defaulter; or
- making a referral to the Australian Securities and Investments Commission.

Enforcement action will not be taken lightly against a BSX Broker, as doing so will often have a significant impact upon a BSX Broker's business and reputation. However, there are clearly times when effective enforcement action is required in order to protect clients of BSX Brokers and the integrity and reputation of the BSX market.

What are the Fees for BSX Brokers

A person or organisation applying to be recognised as a BSX Broker needs to pay all relevant initial fees, charges and levies to BSX. The fees should be paid at the same time the completed application is provided to BSX.

Ongoing fees for membership as a BSX Broker will also apply.

For further information please contact BSX:

Web site: www.bsx.com.au

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Before a broker can make an informed decision about whether to become a BSX Broker the following laws and rules must be considered:

- *Corporations Law; and*
- *BSX Business Rules.*

The Corporations Law and BSX Business Rules are the core laws and rules which BSX Brokers must comply with. However, this is not an exhaustive list. There are laws and regulations which impact upon brokers which are not referred to in this guide. Professional advisers should be consulted for specific advice.