



FGL Compensation Fund Rules

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FEX Global Pty Ltd
 ABN 63 124 127 224

Level 1, 7 Bridge Street,
 Sydney, NSW 2000, Australia

PO Box R506 Royal Exchange
 NSW 1225, Australia

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1 Establishment of the Compensation Arrangements

1.1 Commencement and Nature of Compensation Rules

- (a) These Compensation Rules commence with effect from the date of their approval by the Minister (Commencement Date).
- (b) The provisions of the Compensation Rules are binding and form a contract under seal between each Participant and the Exchange.

1.2 Establishment of Compensation Arrangements

- (a) The Exchange must establish and maintain until the End Date, Compensation Arrangements in accordance with these Compensation Rules and Part 7.5 of the Corporations Act.
- (b) The assets of the Compensation Fund may include:
 - (i) money paid to the Exchange as Contributions or Levies, in accordance with these Compensation Rules, by Participants;
 - (ii) such amount as the Exchange may in its discretion approve, which must be paid to the Compensation Fund by the Exchange;
 - (iii) interests and profits from time to time accruing from the investments of the Compensation Fund;
 - (iv) money recovered by or on behalf of the Exchange in the exercise of a right of action relating to any circumstances or loss as referred to in Rule 9.2;
 - (v) any other money paid into the Compensation Fund by the Exchange; and
 - (vi) any other money lawfully paid into the Compensation Fund.
- (c) On or before Commencement Date a trust and a trust account that is separate from FGL's normal bank accounts will be established as a fidelity fund on behalf of the Compensation Fund.
- (d) On or before the Commencement Date, the Compensation Fund must have assets and the Exchange must secure a Bank Guarantee to provide a source of funds available immediately for the payment of compensation in accordance with these Compensation Rules and Part 7.5 of the Corporations Act. The Bank Guarantee must be of a size such that the sum of the Compensation Fund assets plus the amount of the Bank Guarantee is at least equal to the Minimum Amount. The Bank Guarantee itself is not an asset of the Compensation Fund, but any moneys drawn down under the Bank Guarantee from time to time and paid into the fidelity fund will form part of the assets of the Compensation Fund.
- (e) The Exchange must maintain the Bank Guarantee at a level, including zero, such that the assets of the Compensation Fund plus the amount of the Bank Guarantee equal at least the Minimum Amount until the End Date.
- (f) The Exchange must review the amount of the Compensation Arrangements (whether sourced from the Bank Guarantee or the Compensation Fund or both) annually on each Review Date.
- (g) The Exchange must not vary the Minimum Amount without the prior approval of the Minister.

1.3 Termination of Compensation Arrangements

- (a) The Exchange must maintain the Compensation Arrangements until the date on which the Exchange is no longer required by the Corporations Act to have the Compensation Arrangements (End Date).
- (b) Pursuant to section 885B(1)(h), the Exchange must ensure that, from the End Date, any rights of Clients that have accrued under these Compensation Rules prior to the End Date are adequately protected by maintaining Compensation Arrangements for a period of 6 months from the End Date.

- (c) The amount of the Compensation Arrangements the Exchange is required to maintain for the purposes of Rule 1.3(b) need not exceed the amount of the Compensation Arrangements on the day immediately before the End Date.
- (d) The Exchange must, as soon as practicable after becoming aware of an End Date of the Compensation Arrangements under Rule 1.3(a) and no later than five (5) Business Days after becoming aware, cause to be published in a daily newspaper circulating generally in each State and Territory, a notice specifying the End Date and the date that the Client's right to make a Compensation Claim, in accordance with Rule 1.3(b), ends. The Exchange must also publish the notice on their website.

1.4 Changes to the Compensation Rules

Any changes to the Compensation Rules must be made in accordance with the Corporations Act.

1.5 Scope of the Compensation Fund

These Compensation Arrangements and the Compensation Fund have been established to cater for the markets in products traded on the FEX Global futures market and no other markets.

2 Contributions and Levies

2.1 Participants to Make Contributions

- (a) The Exchange may, without limitation, call on Participants to make an annual contribution to the Exchange. All Contributions will be subject to section 892B of the Corporations Act, will be deposited into the fidelity fund created under Rule 1.2 (c) and form part of the assets of the Compensation Fund in accordance with these Compensation Rules (Contributions).
- (b) The Exchange may, without limitation require that a Contribution (of an amount determined by the Exchange in its discretion) be paid by an applicant for admission as a Participant prior to its admission. Such Contributions will be paid into the fidelity fund and form part of the Compensation Fund.
- (c) The Exchange may impose different levels of Contributions on different classes of Participants, or may exempt any one or more class of Participant from an obligation to pay a Contribution, in whole or in part.

2.2 Participants to pay Levies

- (a) The Exchange may, without limitation, call on Participants to pay an ad-hoc levy to the Exchange. All Levies will be subject to section 883D of the Corporations Act, will be deposited into the fidelity fund created under Rule 1.2 (c) and form part of the assets of the Compensation Fund in accordance with these Compensation Rules (Levies).
- (b) The Exchange may impose different levels of Levies on different classes of Participants, or may exempt any one or more class of Participant from an obligation to pay a Levy, in whole or in part.
- (c) Levies may be requested if:
 - (i) the balance of the fidelity fund for the Compensation Fund is less than the Minimum Amount; or
 - (ii) the balance of the Compensation Fund is insufficient to pay all amounts that are required to be paid out of the Compensation Fund.
- (d) Levies will be calculated using the following methodology:

Levies will be set for each class of Participant on an ad-hoc basis by the Exchange from time to time and will be advised directly to impacted parties. The quantum of levies for a given Participant will be determined by applying the following formula for those Participants being levied:

$$D = A - B$$

C

Where:

A = the Minimum Amount

B = the amount in the Compensation Fund immediately prior to an Exchange determination under Rule 2.2(a)

C = number of Participants being levied

D = amount of Levy to be paid by each Participant

Note: D will then be distributed as the quantum for the current Levy along with the date upon which this amount will first become due and payable.

2.3 Suspension for Non-payment

If a Participant fails to pay any Contribution or Levy within the time specified by the Exchange, that Participant's admission shall be suspended in accordance with the FGL Operating Rules.

2.4 Refund of Contributions

- (a) Participants are not entitled to a refund of any portion of any Contributions or Levies paid under Rule 2.1 and Rule 2.2 respectively in any circumstances, including where the Participant has been suspended or terminated for any reason and where the Participant has resigned.
- (b) Contributions and Levies that became due and payable prior to a Participant's suspension, termination or resignation, together with any accrued but unpaid interest, are payable despite the Participant's suspension, termination or resignation.

3 Payments Covered by Compensation Arrangements

3.1 Losses Covered

Subject to the Corporations Act, Rule 3.3 and Rule 3.4, the Compensation Arrangements will cover losses as follows:

- (a) the person, being a Client, (the Claimant) gave money or other property, or authority over property, to a person in the market (the Defaulter), and the Defaulter was:
 - (i) at that time a Participant; or
 - (ii) a person:
 - (A) whom the Client reasonably believed to be a Participant at that time, and
 - (B) who was a Participant at some earlier time;
- (b) the money or other property, or the authority, was given to the Defaulter in connection with a transaction or a proposed transaction on the Exchange that:
 - (i) was covered by provisions of the Operating Rules of the market relating to transactions effected through the market; and
 - (ii) related to a product that is not covered by a compensation regime constituted by Division 4 of the Corporations Act;
- (c) the transaction constituted or a proposed transaction would constitute the provision of a financial service to the Claimant as a retail client within the meaning of Chapter 7 of the Corporations Act; and
- (d) the Claimant suffers a loss because of:

- (i) where the Claimant gave the Defaulter money or other property –the defalcation or fraudulent misuse of the money or other property by the Defaulter; or
- (ii) where the Claimant gave the Defaulter authority over the property –fraudulent misuse of that authority by the Defaulter.

3.2 Scope of Losses Covered

A Compensation Claim relating to an alleged loss caused by defalcation or fraudulent misuse may be allowed even if:

- (a) the person against whom the defalcation or fraudulent misuse is alleged has not been convicted or prosecuted; and
- (b) the evidence on which the Compensation Claim is allowed would not be sufficient to establish the guilt of the person on a criminal trial in respect of the defalcation or fraudulent misuse.

3.3 Losses Not Covered

The Compensation Arrangements will not be available to compensate the loss suffered by a Claimant where the loss is taken not to be a Division 3 loss under Section 885D of the Corporations Act.

3.4 Operating Costs Covered

The Compensation Fund will repay the reasonable costs incurred by the Exchange in operating the Compensation Arrangements, including, without limitation:

- (a) those costs that have been incurred by the Exchange relating to a Bank Guarantee associated with the Compensation Arrangements; and
- (b) all legal and other expenses incurred in investigating or defending claims or in exercise of a power granted to the Exchange by these Compensation Rules;
- (c) any costs incurred in administering and monitoring the Compensation Arrangements in accordance with the Compensation Rules (including salaries and wages of staff); and
- (d) all costs relating to fund asset investment decisions and actions and all premiums in relation to contracts for insurance or indemnity entered into in relation to the Compensation Arrangements.

However, payment of Exchange invoices will only be made when there is a sufficient balance within the fidelity fund to cover these payments, such that the sum of the Bank Guarantee and the Compensation Fund will remain greater than the Minimum Amount after any payment has occurred. Where there are insufficient funds in the fidelity fund to repay the Exchange immediately, the invoices will be accumulated and each invoice will be paid in turn at the next available opportunity that meets this Rule 3.4.

3.5 Ministerial Approval for Certain Withdrawals

- (a) The Exchange may, from its general funds, give or advance, on such terms as the Exchange thinks fit, any sums of money to its Compensation Fund.
- (b) Money that is advanced under Rule 3.5(a) may, provided it does not result in the size of the Compensation Fund falling below the Minimum Amount, at any time be repaid from the Compensation Fund to the general funds of the Exchange.
- (c) Where the Exchange, under Rule 3.5(b) requires the repayment of the money paid under Rule 3.5(a), then the Minister may approve in writing, on such conditions (if any) that are specified in the approval, the repayment of the whole, or a specified part, of the amount from the Compensation Fund to the general funds of the Exchange, If the Minister does approve the repayment of an amount in accordance with any specified conditions then that amount can be repaid to the Exchange from the Compensation Fund,

- (d) Where a determination is made that the Compensation Fund has excess money, then the Minister, pursuant to the Corporations Act, can approve a purpose for which the excess money may be used by the Exchange.

4 Amount of Compensation

4.1 Amount of Compensation Payable

- (a) Subject to Rule 4.2, 4.3 and 4.4, the amount of compensation payable under these Compensation Rules in respect of a loss falling within Rule 3.1 must not be less than the sum of:
- (b) the actual pecuniary loss suffered by the Claimant calculated by reference to the market value of any relevant assets or liabilities as at the date on which the loss was suffered; and
- (c) the Claimant's reasonable costs of, and disbursements incidental to, making and proving the Compensation Claim.

4.2 Reduction to Amount of Compensation

The amount of compensation payable in accordance with these Compensation Rules may be reduced:

- (a) by reference to a right of set-off available to the Claimant, and
- (b) by the extent to which the Exchange determines that the Claimant was responsible for causing the loss.

The Claimant has no right to appeal a determination by the Exchange that the Claimant contributed to the loss.

4.3 Maximum Amount of Compensation

The maximum compensation (including interest) payable to a Claimant under these Compensation Rules for:

- (a) a Compensation Claim; or
- (b) Compensation Claims referable to a particular event or series of related events,

is half of the Minimum Amount of the Compensation Fund.

4.4 Payment of Interest

If a Compensation Claim is to be allowed the Claimant is entitled to receive Interest at the rate prescribed by the Corporations Regulations:

- (a) on the amount of the actual pecuniary loss; or
- (b) so much of that loss as from time to time has not been compensated by an instalment or instalments of compensation;

in respect of the period commencing on the day the loss was suffered and ending on the day when the compensation, or the last instalment of compensation, is paid.

4.5 Source of Payments

Compensation Claims will be paid out of the Compensation Arrangements in the following order, by calling:

- (a) first, on monies held within the fidelity fund; then

- (b) second, on investments made by the Trustee with funds from the fidelity fund, after liquidation of these investments; then
- (c) third, drawing down on the Bank Guarantee, where this facility is available.

4.6 Priority Compensation Claims and Apportion

Despite Rule 4.1, where the Compensation Fund is for any reason insufficient to meet in full all of the Compensation Claims, the Exchange may, (if, in its absolute discretion, it considers it to be fair and reasonable in the circumstances,) prioritise Compensation Claims or apportion the available funds between all outstanding Compensation Claims on such a basis as is determined by the Exchange.

Otherwise, the Compensation Claims will be paid in date order starting with the earliest Compensation Claim.

4.7 Method of Payment

All compensation payments due under these Compensation Rules will be made as a lump sum or, when the aggregate size of all outstanding Compensation Claims approved is greater than the immediately available monies within the Compensation Fund, the available monies will be apportioned amongst the Claimants in such a manner as the Exchange, on a reasonable basis, thinks equitable.

Where an apportionment has occurred, all outstanding amounts of these claims will be paid as a second payment upon the Compensation Fund having realised sufficient further monies to pay these claims in the form of a lump sum.

5 Claims for Compensation

5.1 Form of Compensation Claim

A Compensation Claim for any payment by way of compensation from the Compensation Arrangements must be made in writing to the Exchange. Guidance Note 50 – Client Application for Compensation provides further details on how to claim. Any Compensation Claim must include:

- (a) details of the Claimant;
- (b) details of the alleged pecuniary loss sustained by the Claimant;
- (c) details of the Defaulter;
- (d) details of the relationship and dealings between the Claimant and that Defaulter;
- (e) details of the Defaulter's conduct which allegedly constitutes defalcation or fraudulent misuse and which allegedly caused the Claimant to sustain a pecuniary loss;
- (f) any other details which the Claimant considers may assist the Exchange in assessing and considering its Compensation Claim; and
- (g) any other details which the Exchange reasonably requests.

5.2 Time for Claim

- (a) A Compensation Claim against the Compensation Arrangements must be made within six (6) months of the Claimant becoming aware of the relevant loss.
- (b) The Exchange may accept a Compensation Claim after the expiry of the time limit in 5.2(a) at its discretion.

6 Exchange may Request Additional Information

- (a) Upon receipt of the information pursuant to Rule 5.1 the Exchange may request (in writing) for the Claimant to provide such further information or documents in relation to the Compensation Claim as the Exchange considers, in its absolute discretion, to be necessary or relevant for the purpose of determining a Compensation Claim.
- (b) The Claimant must comply with the request for information under Rule 6.1 within the time specified by the Exchange in its request (Time Frame) and in the form required by the Exchange. Otherwise, the Exchange may refuse a Compensation Claim made by the Claimant.
- (c) The Exchange may request (in writing) for a Claimant to provide such further information or documents as the Exchange considers necessary for the purpose of exercising the subrogated rights and remedies it has, under Rule 9.2, in relation to a Compensation Claim.
- (d) The Exchange will return any documents obtained under Rule 6.1 or Rule 6.3 as soon as practicable after the Compensation Claim and any associated proceedings have been completed, except where:
 - (i) any law prohibits or prevents the return of the documents;
 - (ii) the documents are no longer in the custody of the Exchange; or
 - (iii) the Claimant indicated to the Exchange that they did not want the documents returned.

7 Determination of Compensation

7.1 Power of the Exchange to Allow and Settle Claims

- (a) The Exchange may at any time after receipt of a Compensation Claim from the Claimant, allow and settle the Compensation Claim in accordance with these Compensation Rules.
- (b) The Exchange may partly allow and partly disallow a Compensation Claim, including in circumstances where the Claimant was responsible or partly responsible for causing the loss.
- (c) The Exchange may disallow a Compensation Claim unless the Claimant exercises its rights of set-off (if any).
- (d) The Exchange may require the Claimant to pay money, or transfer other property, in support of the Compensation Claim.
- (e) The Exchange shall determine a Compensation Claim within three (3) months of the receipt of all the information required under Rule 5.1 and Rule 6.
- (f) The Exchange shall make payments in accordance with its determinations within seven (7) days of notifying the Claimant.

7.2 Notice to the Claimant

- (a) The Exchange must, as soon as practicable after determining a Compensation Claim, notify the Claimant in writing whether the Compensation Claim is allowed, disallowed or partly allowed and partly disallowed.
- (b) If the Exchange disallows or partly disallows a Compensation Claim, the Exchange must include in the notice under Rule 7.2(a) an explanation of its reasons for such disallowance and inform the Claimant that they may submit further information in respect of the Compensation Claim within 10 Business Days of the notice.
- (c) On the receipt of further information under Rule 7.2(b), the Exchange may, at its absolute discretion, reconsider the claim.

7.3 No Admission of Other Liability

The Exchange's allowance of any claim, in whole or in part or any consequential or related act, does not constitute an admission of any liability for any purpose other than the liability to provide compensation in respect of the claim in accordance with these Compensation Rules.

8 Administration and Monitoring

8.1 Administration and Monitoring

- (a) The Exchange is responsible for the administration and monitoring of the Compensation Arrangements. Operational procedures expected to be utilised by the Exchange in meeting its obligations are described in Appendix 1 – Compensation Operating Procedures. These procedures do not form a part of the Compensation Rules and will be adjusted over time by the Exchange.
- (b) The Compensation Arrangements will be administered and monitored by:
 - (i) a senior employee within the Exchange's finance department (Finance Nominee); and
 - (ii) the Exchange's chief compliance officer (Compliance Nominee)

or an equivalent employee for either role as determined by the Exchange.

- (c) The Finance Nominee is responsible for:
 - (i) administration and monitoring of the collection of Contributions and Levies;
 - (ii) administration and monitoring the Bank Guarantee (including ensuring compliance that coverage is equivalent to the amount determined by reference to Rule 1.2 and paying bank fees as they fall due);
 - (iii) if required, calling on the Bank Guarantee;
 - (iv) administration and monitoring of the payment of claims as directed by the Exchange; and
 - (v) providing the Exchange with a monthly update on:
 - (A) the Bank Guarantee (including the payment of fees and whether the Bank Guarantee has been called on);
 - (B) the status of any Exchange invoices and their repayment from the fidelity fund; and
 - (C) the value of Compensation Claims paid and outstanding, and
 - (vi) notifying the Commonwealth of Contributions and Levies received, in accordance with Section 883D of the Corporations Act.
- (d) The Compliance Nominee is responsible for:
 - (i) collecting all relevant materials in relation to a Compensation Claim pursuant to Rules 5.1 and 6 for the Exchange's consideration;
 - (ii) obtaining external advice in relation to a Compensation Claim made pursuant to Rule 5.1;
 - (iii) monitoring current outstanding Compensation Claims; and
 - (iv) providing the Exchange with a monthly update on, amongst other things:
 - (A) the number of outstanding Compensation Claims made and due for consideration;
 - (B) the likelihood of success (if possible) of such outstanding Compensation Claims; and
 - (C) any material complaints that, in the Compliance Nominee's reasonable opinion, may result in a Compensation Claim being made pursuant to Rule 5.1.
- (e) The Exchange will hold monthly meetings to:
 - (i) consider the reports prepared under Rules 8.1(c)(v) and 8.1(d)(iv);
 - (ii) assess whether the Compensation Arrangements are adequate; and
 - (iii) take all actions it considers necessary in its discretion.
- (f) The Exchange may outsource some of the operational functions relating to administration and monitoring of, but not the responsibility for, the Compensation Arrangements. To the extent that any functions of the

Compensation Arrangements are outsourced, the Exchange agrees to use its best endeavours to comply with any reasonable written request for assistance from the entity to which these functions have been outsourced. This may require the Exchange to obtain information from a Claimant or Participant.

8.2 Compliance

- (a) The Exchange must ensure that the Compensation Arrangements are conducted in compliance with the Compensation Rules.
- (b) The Exchange has delegated the responsibility of monitoring compliance with the Compensation Rules to the Compliance Nominee.
- (c) The Compliance Nominee will monitor compliance with the Compensation Rules by:
 - (i) considering the reports prepared under Rules 8.1(c)(v) and 8.1(d)(iv); and
 - (ii) reviewing the determinations made pursuant to the Compensation Rules, including the reasons for those decisions.
- (d) The Compliance Nominee must promptly report to the Exchange any breaches or suspected breaches of the Compensation Rules of which the Compliance Nominee becomes aware.
- (e) The Exchange (or its delegate) must promptly consider any breaches or suspected breaches of which it is notified or otherwise becomes aware.

8.3 Annual Monitoring of Adequacy

- (a) The Exchange will determine whether the Compensation Arrangements are adequate on an annual basis and at such other times as it, in its discretion, considers appropriate in accordance with Rule 1.2(d).
- (b) In determining whether the Compensation Arrangements are adequate, the Exchange will take into consideration:
 - (i) the information prepared under Rules 8.1(c) and (d)
 - (ii) the Exchange's Trading volume and the level of Trading activity;
 - (iii) the number of existing and proposed Trading Participants;
 - (iv) the amount of the Bank Guarantee; and
 - (v) any other information the Exchange considers relevant.

8.4 Annual Review of Adequacy

- (a) The Exchange will review the Compensation Arrangements and the Compensation Rules at least once in each calendar year to:
 - (i) determine whether the Compensation Arrangements are adequate in accordance with Rule 8.3;
 - (ii) consider any breaches or suspected breaches of the Compensation Rules;
 - (iii) review the administration and monitoring procedures; and
 - (iv) consider any other issue the Exchange considers relevant in relation to the Compensation Arrangements or these Compensation Rules.
- (b) In order for the Exchange to discharge its obligations under Rules 8.3 and 8.4(a), the Exchange may:
 - (i) direct the Finance Nominee and/or Compliance Nominee to provide information and reports to the Exchange; and
 - (ii) appoint an independent auditor or other independent compliance professional to review and report on the operation of the Compensation Arrangements and their compliance with the Compensation Rules.
- (c) If at any time the Exchange determines that:

- (i) the Compensation Arrangements are inadequate; or
 - (ii) there has been a breach of the Compensation Rules,
- (d) the Exchange must take all reasonable steps to ensure the inadequacy or breach is rectified.

9 Payment of a Compensation Claim

9.1 Only Claim per Loss

Once a Compensation Claim (First Claim) has been fully or partially allowed under these Compensation Rules and the Claimant has been notified under Rule 7.2(a) and paid the compensation amount, that Claimant must not make any other claim against the Compensation Arrangements in respect of the subject matter of the First Claim.

9.2 Right of Subrogation

- (a) If compensation is paid in respect of a claim under these Compensation Rules, the Exchange is subrogated, to the extent of that payment, to all the Claimant's rights and remedies in relation to the loss to which the claim relates.
- (b) The Exchange may recover from the Defaulter any costs the Exchange incurs in determining the Compensation Claim.

10 Definitions

In this document, unless a contrary intention appears:

Bank Guarantee means the bank guarantee obtained by the Exchange to provide a source of funds for the Compensation Arrangements.

Business Day means a day on which banks are open for business in Sydney, other than a Saturday, Sunday or public holiday.

Claimant has the meaning as set out in Rule 3.1(a).

Client has the meaning given in section 885C(1)(a) of the Corporations Act

Commencement Date has the meaning given in Rule 1.1(a).

Compensation Arrangements means the compensation arrangements established under these Compensation Rules which may be sourced from the Bank Guarantee or the Compensation Fund or both.

Compensation Claim means a claim by a Claimant for compensation under the Compensation Arrangements.

Compensation Fund means the proceeds currently available through the fidelity fund holding all Contributions, Levies, any investments made from funds within the fidelity fund, any interest or liabilities accrued but excluding the Bank Guarantee.

Compensation Rules means these compensation rules, as approved by the Minister.

Compliance Nominee has the meaning given in Rule 8.1(b).

Contributions and Levies mean the contributions and levies called by the Exchange under Rule 2.1(a).

Corporations Act means the Corporations Act (Cth) 2001.

Corporations Regulations means the Corporations Regulations 2001 (Cth).

Defaulter has the meaning as set out in Rule 3.1(a).

End Date has the meaning as set out in Rule 1.3(a).

Exchange has the meaning given in the Operating Rules.

Exchange Market has the meaning given in the Operating Rules.

Finance Nominee has the meaning given in Rule 8.1(b).

Minimum Amount means AUD 1,000,000 or such other amount as approved by the Minister when considering these Compensation Arrangements.

Operating Rules means the operating rules of FEX Global Pty Ltd.

Renewal Date means the date that is 20 Business Days after the Review Date.

Review Date means 1 July of each calendar year, except for the first Review Date. The first Review Date will be 1 July that is at least 12 months after FGL's launch date (for example, if FGL's launch date is 1 October 2018, then the first Review Date is 1 July 2020).

Participant means either a Trading Participant or a Clearing Entity, both of which have the respective meanings given in the Operating Rules.

SCHEDULE A - Table of Cross-reference

The following table shows which FGL Compensation Rules address the requirements in the Corporations Act for approved compensation arrangements.

Corporations Act Provision	FGL Compensation Rule
883A – Legal effect of compensation rules	Rule Error! Reference source not found.
883D – Payment of levies	Rule 2.2 and Rule 8.1(d)(vi)
884A, 884B, 884C – Changes to compensation arrangements	Rule 1.4
885B(1) – Requirements to be complied with for arrangements to be adequate:	
(a) adequate coverage of Div 3 losses in accordance with s 885C and 885D	
885C(1)	Rule 3.1
885C(2)	Rule 3.2
885C(3)	Not applicable (No exclusions are proposed)
885D(1)	Rule 3.1 to 3.3
885D(2)	Rule 3.1 to 3.3
885D(3)	Rule 3.1 to 3.3
(b) adequate compensation in accordance with s 885E (the amount of compensation)	
885E(1)	Rule 4.1
885E(2)	Rule 4.2
885E(3),(4)	Rule 4.3
885E(5)	Rule 4.4
885E(6)	Rule 4.6
(c) deal with how compensation is to be paid in accordance with s885F (method of payment of compensation)	Rule 4.7
(d) deal with the making and determination of claims in respect of Div 3 losses and with the notification of such claims in accordance with s 885G (making and determination of claims)	Rule Error! Reference source not found. and Rule 7
(e) provide for an adequate source of funds for paying compensation in respect of Div 3 losses and in respect of any other losses covered by the arrangements, in accordance with s 885H (the source of funds)	Rule 1.2 and Rule 2.1
(f) include adequate arrangements for administration and monitoring in accordance with s 885I (administration and monitoring)	Rule 8

(g) potential claimants reasonable and timely access to the compensation regime	Throughout, particularly Rule 7
(h) if the licensee ceases to be required to have Div 3 arrangements, the rights of the people to seek compensation are adequately protected	Rule 1.3
886A - One claim in respect of same loss	Rule 9.1
Corporations Act Provision	FGL Compensation Rule
892D – Production or delivery of documents	Rule 6
892E – Power to require assistance	Rule 6
892F – Right of subrogation if compensation paid	Rule 9.2

FGL Compensation Fund Operating Procedures

Internal Document

Version 3.1

22 August 2019

1 Size of the Compensation Fund

1.1 Calculation of Minimum Amount

In calculating the amount of cover appropriate for the compensation fund for the initial period of operation and prior to the first review, FGL found that the most practical and appropriate approach was a comparative analysis to the existing futures exchange operating in Australia. In coming to this conclusion FGL has reviewed international practices and other Australian Market Licensees and the size and structure of their compensation funds relative to the level of business they support.

From this analysis FGL has determined that the Minimum Amount of the FGL Compensation Fund could be calculated by extrapolating a proportional dollar amount from the expected FGL volumes and the relative size of existing Compensation Funds compared to the actual volumes traded on the markets covered by that Fund.

On this basis and using a reference point of the ASX Futures Exchange (ASX24), it can be seen that when the ASX24 had annual trading volumes of approximately 80 to 90 million trades per year the ASX24 had the minimum amount for its compensation fund set at AUD 10 million. FGL has its targeted volume for its first year to 18 months of operation to be between 7 and 10 million trades. (Note: no trading revenue has been assumed in the Financial Plan for the first 12 months). On this basis, a comparable proportionate amount of \$1,000,000 will provide a level of cover appropriate for the FGL market at launch date and for at least 18 months.

In coming to the view that this calculation was conservative, FGL also noted that FGL has no similar products to the Interest rate product, which is the most heavily-traded product on the ASX24 market.

The compensation fund will be regularly reviewed at the appropriate times as set out in the Compensation Rules.

1.2 Review of Minimum Amount

In all future reviews of the Minimum Amount for the FGL Compensation Fund, FGL will take into account the actual growth rates that FGL has achieved compared to budgeted trading volumes and participation rates as well as examining the ongoing applicability of the method described above in determining a suitable value for the Minimum Amount to apply to the FGL Compensation Fund.

2 Exchange Management of Compensation Fund

2.1 Management Responsibilities

The FGL Chief Operating Officer (COO) and the FGL Chief Compliance Officer (CCO) will together be responsible for the operation of the compensation arrangements. The CCO will be responsible for ensuring that the appropriate Minimum Amount of cover is maintained and that any claims are promptly processed in accordance with the Compensation Rules. The COO, on behalf of the Board will ensure that FGL performs the appropriate reviews of the Fund to ensure that FGL continues to comply with its obligations under the Compensation Rules and the Corporations Act.

2.2 Operating Procedures

Details of FGL's arrangement for operating the Compensation Fund are as follows:

- (a) [Monthly reviews] The Finance Department will provide the Board with a report setting out the amount of funds held in the Compensation Fund at the end of the previous month together with details of all formal claims lodged. The Board will review this report in conjunction with a report from the Compliance Department that will detail current claims and their likelihood of success (if possible), and any possible complaints or likely legal action or proceedings that may be commenced that may result in a claim being made against the Compensation Fund.

This process will ensure that the Board is aware, from a practical perspective, of whether there is an adequate level of funds in the Compensation Fund to meet any potential claims.

As part of this monthly review process, the Board will determine whether levies are to be imposed pursuant to Rule 2.2 (Contributions and Levies).

- (b) [Annual reviews] The Finance Department will provide the Board with a report setting out:
- (i) the amount of funds held in the Compensation Fund at the end of the calendar year;
 - (ii) details of all claims made and paid during the year; and
 - (iii) details of all formal claims lodged but remain due for consideration.

The Board will review this report in conjunction with a report from the Compliance Department detailing any potential claims of which the Compliance Department is aware.

As part of this annual review process, the Board will determine whether there needs to be a change in the current policy on Participant contributions or on Investment of Compensation Fund assets.

Prior to conducting its annual review, the Board may appoint a specific director and one person at the senior management level (Compensation Team) to assist in reviewing all relevant information and providing their recommendation (Report) to the Board for review and consideration.

In compiling the Report, the Compensation Team will take into consideration the following points.

- (iv) Balance and structure of assets currently in the Compensation Fund.
- (v) Level of trading activity for a period of time and likely growth of trading activity.
- (vi) Complaints made against a Participant and the likelihood of success. In this respect, the Compensation Team may seek advice from the Chief Compliance Officer and/ or external professional assistance.
- (vii) Annual Contribution level.
- (viii) Number of existing and proposed Participants.

The Board will still review the underlying reports provided by the Finance and Compliance Departments and consider the Report prepared by the Compensation Team. The Board will clarify any queries and obtain further information from the Compensation Team, Compliance Department and Finance Department, as required before making a determination as to whether there are relevant reasons to adjust the funds in the Compensation Arrangements.

Any increase in the Compensation Arrangements is to take effect within 60 days of the Review Date. For the purposes of the first Review Date, the Exchange will determine whether average Trading volumes have increased more than 25% from FGL's projected Trading volume for the first 12 months of approximately 10 million trades.

In its review the Board will consider the average Trading volumes on the Exchange. If these volumes have increased more than 25% since the last Review Date, the Exchange will increase the amount of the Compensation Arrangements by the same percentage as the percentage increase in trading volumes, up to a maximum of \$10,000,000. The increase in the Compensation Arrangements may be achieved either through an increase in the amount of the Bank Guarantee or through an increase in the assets of the Compensation Fund.

The Board may decide to adjust the size of the Bank Guarantee, provided that the balance of the Compensation Arrangements is at no time less than the Minimum Amount. Any adjustment to the Bank Guarantee is to be minuted and is to take effect on and from the next Renewal Date.

The Board may decide to seek approval from ASIC in relation to effectively managing any excess monies within the Compensation Fund.

If the Board determines that the amount in the Compensation Fund needs to be increased, it will resolve to increase the amount of funds in the Compensation Fund and such a determination shall be minuted accordingly.

- (c) [Claim] The Board will be immediately notified of any claim on the Compensation Fund under Rule 5.1 (Form of Compensation Claim) (Claim). The Board will be provided with an update on a monthly basis as to the status of all Claims.

On receipt of such a Claim, the Chief Compliance Officer will investigate the allegations contained in the Claim and draft a report to the Board.

The Board will then review the report, in consultation with senior management and the Chief Compliance Officer. The Board may also seek external professional advice to assist in determining the merits of the Claim.

The Board will then determine whether to allow and settle or deny the Claim in accordance with the procedures set out in Rule 7 (Determination of Compensation). The reasons for the Board's decision will be minuted.

Once a decision has been made, the claimant will be notified in accordance with Rule 7.2 (Notice to the Claimant).

- (d) [Payment] If a decision is made to pay the Claim (whether in full or partially), the Board will then determine whether the payment is to be made in a lump sum (default payment solution) or whether the size of the claim and source of available funds determines that the payment should be made in instalments. This determination will be minuted at the Board meeting.

The relevant bank will then be authorised to release funds to the claimant in accordance with Rule 4.7 (Method of Payment) and all relevant paperwork necessary to effect payment will be completed, including requiring the claimant to sign a Deed of Release.

The Board will ensure that monies held on trust for the Compensation Fund are not released until the Board has determined to pay the Claim in accordance with Rules 7.1(Power of the Exchange to Allow and Settle Claims) and 9 (Payment of a Compensation Claim).

The Board also intends to provide to ASIC on an annual basis, a report of all Claims it:

- (i) has received;
 - (ii) is currently investigating; and
 - (iii) has paid or is to be paid.
- (e) [Monitoring of Arrangements] On an annual basis the COO on behalf of the Board will review all activities relating to the compensation arrangements to ensure that they comply with the Compensation Rules, the Corporations Act and the related Corporations Regulations. This review will entail an examination of four core aspects, namely:
- (i) the capital level of the arrangements, including all changes to the fidelity fund balances, cash inflows, cash outflows and Bank Guarantee arrangements have been conducted in accordance with the Rules, including the documented receipt of any Ministerial Approval for dealing with any excess monies within the Compensation Fund, and that the Minimum Amount has been maintained;
 - (ii) the assessment of claims process, to ensure that a clear and consistent approach has been maintained throughout the investigation, decision making and timely processing steps performed by the Compliance Department and the Board and that this has delivered fair outcomes to all parties involved;
 - (iii) the emergence of any patterns of behaviour, either by external parties (clients of Participants) that indicate questionable veracity to claims or by internal Compliance Department staff or the Board itself that may indicate a failure of process or non-independent action; and

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- (iv) the ongoing appropriateness of the existing arrangements, given the growth of the market over the last year, changes in Participant numbers, changes in market conditions or changes in legislation that may warrant a change to the compensation arrangements.

The results of this assessment will be fed into the Board's annual review and any required actions, as determined by the Board, resulting from this assessment (for example an update to the Compensation Rules to keep them aligned to an amendment to the Corporations Act or a change to the policy on which classes of Participants will be required to provide annual contributions), will be minuted and carried out expeditiously, including appropriate involvement of ASIC and Treasury where required.

2.3 Human Resources

(a) Accountability:

In accordance with the Futures Business Plan – Section: Futures Organisational Staffing, FGL has filled the CCO role on a permanent basis.

(b) Operations:

The role of Finance Nominee will be met in accordance with the Futures Business Plan – Section: Futures Organisational Staffing.

The role of Compliance Nominee will be met in accordance with the Futures Business Plan – Section: Futures Organisational Staffing.

(c) Audit:

The Exchange will use the current FEX Group accountants to audit the accounts of the Compensation Fund.