

Guidance Note

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07 June 2019

Version: 3

Key concepts:

Supervisory Arrangements and monitoring.

Related information:

FGL Operating Rules

Participant obligations documented within the Operating Rules

ASIC

RG 105 Licencing: Organisational Competence

Recommended Audience:

Compliance Managers

Legal Counsels

Chief Executives and Managing Directors

Previous Issues:

Nil

GN 49 – Supervisory Arrangements

Introduction

One of FGL's most important functions is to supervise the ongoing compliance of Trading Participants and Clearing Entities with the Operating Rules of the Exchange.

In addition to the primary obligation of a Trading Participant and Clearing Entity to meet the defined record keeping standards of the Exchange and its Clearing House, Trading Participants and Clearing Entities are required to build appropriate internal supervisory, risk and compliance frameworks and to demonstrate to FGL that they have these management frameworks in place.

This Guidance Note provides information on what FGL will look for in all supervisory frameworks during its initial, regular and ad-hoc reviews of Trading Participants and Clearing Entities.

Guidance

A Trading Participant or a Clearing Entity will need to demonstrate that it has facilities, procedures, personnel and financial resources that are adequate for the performance of its obligations as a participant of FGL prior to having its application approved by the FGL Board.

Documentation within the initial application needs to clearly articulate the supervisory structure and the escalation arrangements to the Board or its nominated committees. This is to ensure that supervisory matters relating to all perceived, actual or emerging business and operational risks are transparent to the Board.

The applicant must have identified and documented, in its management plan or equivalent, the suitably qualified responsible managers who are to supervise the implementation, functioning and review of the operational processes of the participant to achieve compliance with FGL's Operating Rules thereby clearly assigning accountability for the supervisory tasks to individuals and must have clearly articulated "how" the supervision of the participant business will be undertaken.

Furthermore, FGL expects the applicant to demonstrate over time that the supervisory processes remain effective and appropriate to its ongoing business as this business model develops over time.

Ongoing periodic onsite reviews of participants, non-routine 'spot' onsite reviews, and participant self-assessment reporting will be used by the FGL Compliance team to validate these supervisory processes. The objective of such inspections is to monitor compliance by the relevant Trading Participant or Clearing Entity with the supervisory aspects of the FGL Operating Rules and the Corporations Act (where relevant to the Trading Participant's and Clearing Entity's activities).

The Compliance Department uses an inspection program which identifies the supervisory obligations of Trading Participants and Clearing Entities (in addition to other obligations) and the procedures to test compliance with those obligations.

With respect to the Trading Participant's conduct specifically towards supervision, testing encompasses compliance with the following areas:

- monitoring and tracking of operational processes occurs;
- all security processes are followed in relation to order entry and trade management;
- the scope of operational processes encompasses all client management and trading activities of the business, particularly including the controls put in place with respect to direct market access;
- all issues reported, audited and actioned appropriately;
- resource levels for supervisory functions are maintained appropriate to the business activity levels;
- training of new representatives occurs within reasonable timeframes and the supervisory structure is updated to reflect personnel changes;
- supervision of representatives is visible and thorough; and
- changes to business strategy trigger a risk review and an adjustment of supervisory processes to cater for these changes.

The supervisory processes are regularly reviewed for ongoing appropriateness.

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