



Managing Material Conflicts:

Board Members

January 2013

1. Introduction

1.1.1. Chi-X Australia (Chi-X) has an established Conflicts Management Policy which contains Chi-X's arrangements for managing all potential material conflicts. The policy outlines the types of conflicts that Chi-X may be required to manage and the approach it will take in doing so. Where appropriate Chi-X has developed bespoke policies to deal with particular conflicts. This document outlines the bespoke policies that have been in place since the launch of Chi-X's market to manage the potential conflicts of interest raised by Mr David Trude's role as:

- (i) an independent non-executive director on the Chi-X board;
- (ii) Chair of the Chi-X Compliance Committee;
- (iii) Chair of the board of Baillieu Holst Ltd, a participant of Chi-X Australia;
- (iv) a consultant to Credit Suisse Equities (Australia) Limited, a participant of Chi-X Australia.

2. The potential conflicts of interest

2.1.1 The nature of operating a stock exchange means that the people who have the expertise and necessary experience to play a role in senior and board management may also have relationships with exchange participants that provide the potential for conflicts of interest to arise. Mr Trude is a member of the Stockbroker's Association of Australia Hall of Fame and is a substantial asset to Chi-X in his role as an independent non-executive director on the board of Chi-X and as Chairman of the Compliance Committee, a sub-committee of that Board. Mr Trude's experience with Credit Suisse Equities (Australia) Limited and more recently Baillieu Holst Ltd, mean that his involvement in matters concerning these entities has the potential to create conflicts of interest. For example:

- (i) Mr Trude is chair of the Compliance Committee, a Committee which may be required to consider participant supervision relating to Chi-X participants including Credit Suisse Equities (Australia) Limited and/or Baillieu Holst Ltd and/or competitors of those entities;
- (ii) Mr Trude may, as a member of the Board and Compliance Committee, come into possession of information that is confidential to one or more participants of Chi-X Australia and that should not be shared with someone who holds a position with other participants;
- (iii) the Chi-X Board may obtain information on proposed Chi-X products or initiatives that could enable those with knowledge of those proposals to obtain a competitive advantage.

2.1.2 In light of these circumstances, there are a number of processes, arrangements and obligations in place to identify and manage the potential conflicts that exist in respect of Mr Trude's positions at Chi-X.

3. Identifying and Managing Conflicts

3.1.1. The following matters play a role in the identification and management of the potential conflicts of interest created by Mr Trude's positions at Chi-X.

3.2 First Point of Contact

3.2.1 Mr Trude does not act as the first point of contact with respect to any information received in respect of the compliance function or the day to day operations and supervision of the Chi-X market. Therefore executive staff that receive information are able to act as a filter to ensure that information is not passed to Mr Trude in circumstances that would cause a breach of this policy. All staff in the compliance department are aware of Mr Trude's relationship with Baillieu Holst Ltd and Credit Suisse Equities (Australia) Limited and are therefore aware of the need to ensure that he does not become improperly involved in matters relating to those participants.

3.3 Treating Participants Equally

3.3.1 Chi-X runs an internal compliance regime that gives prominence to the fundamental obligation Chi-X has to treat its participants equally. This requirement is ingrained in Chi-X procedures, manuals, product development and day to day operations. All Chi-X staff are therefore conscious of the need to operate the Chi-X business on the basis of ensuring that all participants are treated equally and this ensures that regard is always had to Mr Trude's position with Credit Suisse Equities (Australia) Limited and Baillieu Holst Ltd.

3.4 Board Obligations and Governance Processes

3.4.1 Persons sitting on the Chi-X board, including Mr Trude, are subject to fiduciary obligations to the Chi-X company that are imposed pursuant to the Corporations Act. Mr Trude therefore has an obligation to bring to the attention of the Board any circumstances of which he becomes aware and that may place him in a position whereby he may face a conflict of interest (including the conflicts identified in this document).

3.4.1 Chi-X has stringent governance processes that are centered on the Chi-X board and its sub-committees. The Audit Committee, chaired by a non-executive director of the CXA Board but not the Chairman of the Compliance Committee (i.e. not Mr Trude) and including a further non-executive staff member has responsibility for reviewing the compliance function including the review of the adherence to this policy and the potential conflicts raised by Mr Trude's relationship with Credit Suisse Equities (Australia) Limited and Baillieu Holst Ltd. The Audit Committee meets on at least a bi-annual basis and must report to the Board.

3.5 Alternative Processes

3.5.1 Chi-X has established alternative processes that will be implemented in situations when the involvement of Mr Trude may create a potential conflict of interest. Those arrangements include engaging independent counsel to assist in the running of the Compliance Committee in the event that Mr Trude's presence on the committee would give rise to potential conflicts. The Board of Chi-X is aware of the potential conflicts in respect of Mr Trude and is able to manage those conflicts on a case by case basis in compliance with the statutory, licence and other obligations imposed on the board members.

3.6 Transparency

3.6.1 Documents dealing with potential conflicts of interest are published on the Chi-X Australia web site. This ensures that the potential conflicts are widely known to all stakeholders. Mr Trude is a well-regarded and well-respected individual who has followed a policy of ensuring his various interests are made public and transparent. This transparency on the part of Chi-X and Mr Trude assists in ensuring that the potential conflicts receive appropriate priority in the day to day operations of Chi-X and the interaction of the wider community with the Chi-X market.

3.7 ASIC oversight

3.7.1 The IMF has stated that market operators such as Chi-X are subject to "intensive oversight". This oversight includes an annual review conducted by ASIC in which it exercises compulsory powers to compel the production of information. All Chi-X procedures are transparent to ASIC and as such the conduct of Chi-X in identifying and managing potential conflicts is subject to a statutorily mandated independent, intensive and rigorous review.

4. Conclusion

4.1.1 Chi-X is of the view that the combination of the matters covered in section 3 ensures that it has robust procedures in place for the identification and management of conflicts concerning Mr Trude:

- (i) First Point of Contact – the first point of contact on issues that may raise potential conflicts of interest will not be Mr Trude and so it is possible to take steps to manage the conflicts prior to Mr Trude becoming involved in any matter in which a conflict of interest may be present;
- (ii) Treating Participants Equally – Chi-X places enormous priority on ensuring that participants are treated equally and all staff members are aware of this and what it means in their interaction with all persons, including Mr Trude;
- (iii) Board Obligations and Governance Processes – Mr Trude and his fellow board members are subject to statutory obligations requiring them to manage conflicts of interests– these obligations are subject to a robust penalty and disciplinary regime and combine with strong

governance processes in place at Chi-X to implement, monitor and review processes for managing potential conflicts of interest;

- (iv) Alternative Processes – Chi-X has alternative processes that enable conflicts to be managed by, if it is necessary, excluding Mr Trude from the relevant processes;
- (v) Transparency – Chi-X is transparent about the potential for conflicts of interest;
- (vi) ASIC oversight – Chi-X is subject to intensive oversight by ASIC on matters such as the potential conflict posed by Mr Trude’s relationship with Credit Suisse Equities (Australia) Limited and Baillieu Holst Ltd.