

NON-PUBLIC CROSSING SYSTEM INFORMATION DISCLOSURE – PART 4.A.3.2

This disclosure of non-public Crossing System Information is made to you by State One Stockbroking Ltd (State One), the holder of an Australian financial services licence No.247100, pursuant to the ASIC Market Competition Rules (Competition in Exchange Markets) Amendment 2013 Part 4A.3.2.

Effective 10th February 2014, State One has an obligation to provide the following non-public information to clients. We detail below the relevant non-public information pertaining to use of the State One Crossing System ("System") with regards to orders placed in the ASX and Chi-X markets, as per such obligation. Please note that this disclosure includes obligations imposed on clients by State One when they use the System.

State One is a Market Participant of ASX Limited ("ASX") and Chi-X Australia Pty Ltd ("Chi-X") and as such has obligations under the:

- Operating Rules of both ASX and Chi-X
- ASIC Market Integrity Rules relating to markets operated by ASX and Chi-X; and
- ASIC Market Integrity Rules (Competition in Exchange Markets) 2013 ("ASIC Market Competition Rules")

The disclosure should be read in conjunction with the Public Crossing System Information Disclosure that is published by State One and is available on the various State One websites including:

<https://www.amscot.com.au/download/?p=Part 4A Disclosure requirements for crossing systems.pdf&a=preview>

A hard copy of the Non-Public Crossing System Information Disclosure and the Public Crossing System Information Disclosure is available from State One on request.

User Access and Obligations

- (a) System users can access the crossing system which is integrated in the order entry process.
- (b) Users can place orders either via the online order entry process or (in the case of both advisory and non-advisory telephone clients) orders will be placed manually into the order entry process.
- (c) Controls have been implemented to ensure the efficiency and integrity of the crossing system. All orders go through vetting and filters before they reach the Best Market Router ("BMR") and before they are considered for execution on any market. The limits/filters prevent orders that do not satisfy the criteria imposed by State One from being routed to the BMR. Access to order placing and to the BMR can be controlled at the user or account level and can be switched off at a moment's notice by State One if specific users or accounts were seen to be placing orders that were seen to be causing issues with the efficiency or integrity of the crossing system. In addition to these controls, bans on trading a particular stock may be imposed at any time on a user/group level.
- (d) In the event of a failure of the BMR / crossing system, orders can be routed directly to a specified market without using the BMR. State One currently has two independent avenues for placing orders (i.e. ASX & Chi-X). Using the BMR we can access either market. On a finer grain level, the crossing system can be turned off independently of the BMR if need be, and individual markets can be disabled from the BMR if found to be problematic.
- (e) Following the event of a system outage, orders will be manually directed to the relevant market.
- (f) State One reserves the right to provide access to the Crossing System at its absolute discretion.
- (g) All orders submitted to the Crossing System are subject to such controls as determined by State One, and as amended from time to time.
- (h) Access to the Crossing System is granted subject to the State One terms of business as applicable to the client. State One reserves the right to suspend or withdraw access without notice and at its absolute discretion.
- (i) Clients must ensure that they uphold their responsibilities to comply with the Market Integrity Rules and related obligations, key aspects of which include:
 - I. ORDERLY MARKET REQUIREMENT. See MIR 5.9.1 The Client is in all respects and at all times required to be aware of the need to conduct an orderly market in securities.
 - II. REQUIREMENT NOT TO DEAL WHERE THERE IS NO CHANGE OF BENEFICIAL OWNER. The Client must not engage in any on-market trades where there is, or would be, no change in beneficial owner.
 - III. PREVENTION OF MANIPULATIVE TRADING. See MIR 5.7.2. The Client is to strictly avoid placing excess numbers of orders, or inserting and then withdrawing excessive numbers of orders; or placing any orders which may be construed as having been placed with a view to creating a false or misleading market.
 - IV. NO NAKED SHORT SELLING. Clients are to strictly avoid the short selling of any stock, unless they have first fully complied with the approved procedures for doing so.

- V. **AVOIDANCE OF INSIDER TRADING.** (Section 1043A of the Corporations Act). Insider Trading is where the Client has information that is not generally available to the market, but if it were, a reasonable person would expect that it would have a material effect on the price of the securities concerned, and with such knowledge, the Client:
- subscribes for, purchases or sells, or commits to subscribe for, purchase or sell, those securities; or
 - procures another person to subscribe for, purchase or sell, or commits to subscribe for, purchase or sell those securities; or
 - communicates the information or causes the information to be communicated to another person knowing that such other person would, or would be likely to subscribe for, purchase or sell securities or commit to do such things, or procure any other person to do such things.
- VI. **NO BEING ON BOTH SIDES OF THE MARKET.** The Client is at no stage to be both offering and bidding for the same stock at the same price, or bidding at a price above a price at which he is also offering the same stock.

Order Types

State One offers a range of Order Types:

Limit orders
 ASX Centre-point limit orders and
 Chi-X mid-point orders

- (a) The centre -point and mid-point orders are designed to optimise the execution outcome for the client.
- (b) They do so by matching the order with other orders in non-lit markets which are sitting between the buy-sell spread visible in the two visible ("lit") markets.
- (c) A State One order (including limit orders) will seek to match with the available liquidity in all markets in which State One is a Participant. (i.e. ASX and Chi-X).
- (c) All orders are prioritised and matched on a price-time basis, and are actioned through State One's Best Market Router.
- (d) State One's orders do not interact with any other crossing system.
- (e) Orders may be subject to time limitations – e.g. "day only" or "good til cancelled" ("GTC"). A GTC order will remain in place until transacted or there is a change of the basis of quotation. State One's internal setting is for GTC orders to be cancelled after 45 market days.
- (f) Orders can be placed online or manually through an advisor or DTR.

Operations

- (a) The State One crossing system operates only during market trading hours (includes both ASX and Chi-X).
- (b) Online clients can access the crossing system which is integrated in the State One order entry process.
- (c) The crossing system is anonymous and no expressions of interest are allowed.
- (d) State One has one principal prop-trading desk.
- (e) There is no difference in the treatment accorded any order placed by any user into the crossing system.
- (f) Orders are prioritised and matched in the crossing system strictly on a price-time basis to ensure no conflict of interest arises in relation to the crossing system.
- (g) Orders are processed through State One's one only Best Market Router ("BMR") prior to the crossing system and then if the orders remains untraded (or partially) then according to State One's policy at the time of writing, will rest in the "lit" market of the ASX.
- (h) Clients can place orders either directly into the online order entry process or (for both advisory and non-advisory telephone clients), manually by State One DTRs.
- (i) Clients can direct their orders directly into ASX Centre-Point. All other order types go through the BMR.
- (j) Orders entered into the crossing system can be amended by the client, including both change of price and change of quantity.
- (k) Order cancellations are managed on a per order basis either online by the client, or by a State One DTR on the instruction of the client.
- (l) Trades can only be cancelled once the request has been reviewed by State One management on a case by case basis. Cancellation will be subject to the Market Integrity Rules.
- (m) Where the client places the order into the crossing system and principal orders are prioritised and matched on a price-time basis (principal orders are not prioritised ahead of client orders) they are both routed into the crossing system through the same Best Market order router.
- (n) Order execution decisions, will typically follow the following steps,
 - The BMR will look to transact in one of the State One internal venues (i.e. with our clients or ourselves as Principal), if this can be done without prejudicing the Client;
 - The BMR will then look to external markets (Chi-X & ASX);
 - when the order is an active order (i.e. is expected to result directly in a trade), in seeking the best market for the order, factors include such as price and prevailing market depth;
 - when the order is a passive order (i.e. not expected to directly result in a trade), we will make a choice as to the best venue after taking into (at present all such orders rest in the ASX Trade Match.)

Considerations in making such a choice will include the level of activity in the stock and whether the venue will purge orders at the end of each trading day. The current expectation is that the ASX Trade Match venue is where all passive orders are rested.

Fees

Clients are not charged fees for using the crossing system. Normal brokerage applies to all orders.

10 February 2014