

## THE ASIC MARKET INTEGRITY RULES (ASX MARKETS) 2010 RESPONSIBLE EXECUTIVE EXAMINATION and the Clearing & Settlement Examination ('Combined Exam')

### PRACTICE EXAMINATION

#### The Combined Exam – Practice Exam

The Practice Exam is a single 45 question exam, drawn from the Stockbrokers And Financial Advisers Association database of questions for the Combined Exam. There are 12 Modules, with a pass-mark of 30 (65%):

1. Accounts Audit Capital Record-keeping and Surveillance (4 Questions)
2. Dealing – Part One (4 Questions)
3. Dealing – Part Two (4 Questions)
4. Client Relations – Part One (4 Questions)
5. Client Relations – Part Two (4 Questions)
6. Participants and Supervision (4 Questions)
7. Derivatives (4 Questions)
8. Settlement (4 Questions)
9. Corporations Act – Conduct of Securities Business (4 Questions)
10. Corporations Act – Conduct in relation to financial products (4 Questions)
11. Corporations Act – General (4 Questions)
12. Unprofessional Conduct (1 Question)

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Stockbrokers And Financial Advisers Association Limited  
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Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
1.	Under ASIC Market Integrity Rule 3.5 all money received by a Market Participant which the Corporations Act requires the Market Participant to deposit in a clients' segregated account or in a clients' trust account must be deposited in an account with an Australian ADI in Australia. Can this account be with any ADI?	Yes, any ADI is acceptable	Depends, only if the ADI's credit rating by an Approved Rating Agency is of short term investment grade or better	Depends, only if the ADI is an ASX Participant	No, only designated Australian Banks may be used for this account
2.	What is the minimum amount of Core Capital that a Trading Participant must hold?	\$10,000	\$100,000	\$500,000	\$1,000,000
3.	Within what timeframe must a Market Participant make a record of instructions to enter into a Market Transaction on either its own account or on behalf of a client?	By close of that Business Day	Within 15 minutes of the instruction being executed in a trade	Immediately	Within 15 minutes of the instruction being given
4.	Your Participant has received an order to purchase a material line of stock for an institutional client. Your financial controller has advised that should your Participant purchase the stock, you would not have sufficient Liquid Capital in the Participant to meet the requirements of the Risk Based Capital Liquidity Requirements. Your parent company is willing to inject the required subordinated debt to cover the situation. Under the Rules when can these injected funds be included as subordinated debt?	Immediately	Within 24 hours of transfer	Only once a subordination arrangement has been approved by ASIC or ASX Clear	Only after the stock purchase has taken place
5.	If a Trading Participant wishes to cancel a sale, and the sale was within the Qualifying Cancellation Range, what is the latest time that the transaction can be cancelled?	By the end of the Trading Day on which the transaction took place	T+1	T+2	T+3
6.	Is it necessary to establish that a Participant intended to create a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product when the Participant is trading on its own account?	Yes, it is always necessary under the Market Integrity Rules to establish intention in respect of creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product	No, the breach can be established if that Bid, Offer or dealing has the effect, or is likely to have the effect of creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product	No, a Participant when acting on its own account can only inadvertently create a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product.	Yes, a breach of the requirements of Market Integrity Rule 5.7.1 can only occur where the Participant places the order directly into a trading platform (i.e. not through an Automated Order Processing system) with the intention of creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product

Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
7.	What is the function of Designated Trading Representatives (DTRs) with respect to a Trading Platform other than those using Automated Order Processing?	DTRs are the representatives of Trading Participants who advise clients concerning their choices about buying and selling Traded Products	Only DTRs may submit Trading Messages into a Trading Platform	DTRs ensure the correct operation of trading facilities via Open Interface Devices	DTRs are organisations registered with ASIC who provide access to the market according to the requirements of ASIC Market Integrity Rules
8.	Which of the following best describes the relationship between Trading Participants and Clearing Participants?	All Trading Participants must also be Clearing Participants, but not all Clearing Participants must be Trading Participants	Each Trading Participant must have a third party clearing agreement at all times with only one Clearing Participant	Each Trading Participant which is not also a Clearing Participant must have a third party clearing arrangement in place with only one or two Clearing Participants in respect of that class of Product	All Trading Participants must have a third party clearing agreement with only one central Clearing Participant (ASX Settlement).
9.	A Participant accepts client orders via Automated Client Order Processing. Is it able to cross with orders in the Trading Platform received from clients via an Automated Client Order Processing system?	Yes, provided it has made appropriate disclosure to the client under Market Integrity Rule 5.1.8	Yes, provided that the same authorised person does not enter both sides of the crossing	Yes, provided that the Participant has not prearranged the entry of the bids or offers	Yes under all of the options
10.	Big Co. Trading Participant wishes to use its trading system for Automated Order Processing. Under ASIC Market Integrity Rule 5.6 (Automated Order Processing), which of the following is required prior to use?	Big Co. must be registered with ASIC for Automated Order Processing	Big Co. must provide ASIC with written certification from a director that the system is in compliance with Operational Requirements, and that it does not interfere with the proper functioning of any Trading Platform	Big Co. must provide ASIC with written certification from a suitably qualified person that the system has in place appropriate organisational and technical resources, trading management arrangements and security arrangements, and that it does not interfere with the efficiency, integrity or proper functioning of the Trading	None of the options are required
11.	Which of the following is NOT a condition which a Trading Participant must satisfy before it effects a Portfolio Special Crossing?	The portfolio comprises a number of purchases and/or sales of different Traded Products pursuant to a single agreement for an agreed price	The Trading Participant acts as agent for both the buyer and seller of the portfolio	There are at least 10 purchases and/or sales of different Traded Products which have a consideration of not less than \$200,000 may be included	The total consideration for all purchases and/or sales making up the portfolio is not less than \$10,000,000.
12.	Who is responsible for the accuracy of details, the integrity and bona fides of all Trading Messages entered into a Trading Platform in an Automated Order Processing environment?	ASX	The Trading Participant	The DTR	The client

Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
13.	A Participant uses a nominee company which is a directly legally and beneficially wholly owned subsidiary of a Settlement Participant. When is the Settlement Participant able to use Financial Products that are beneficially owned by the Participant or a Client of the Participant to settle a transaction for another person?	Only when acting as Principal	Only when the Participant, or the Participant's Client, has given its prior written approval	Only if the Settlement Participant has been provided with a waiver from ASX Clear	There are no restrictions on transactions in this case
14.	An adviser wishes to recommend a Traded Product to a client where the Market Participant acted as an underwriter for the Traded Product and was forced to take up a shortfall. Is the adviser required to disclose this information before recommending this Traded Product to a client?	Yes - the adviser must always disclose this information	Depends - this information need not be disclosed once 90 days has elapsed since the closing date	Depends - this information need not be disclosed where the adviser is acting as Principal	No - the adviser is not required to disclose this information under ASIC Market Integrity Rules. However, the adviser may choose to disclose this information as part of maintaining good client
15.	Is there any restriction in ASIC Market Integrity Rules on the number of transactions that a Participant may transact on a Managed Discretionary Account it manages for a client?	No, there are no restrictions on transactions on Managed Discretionary Accounts	Yes, no more than 5 transactions per week are permitted unless a waiver is provided by ASIC	Yes, no more than 5 transactions per day are permitted unless a waiver is provided by ASIC	Yes, the number of transactions should not be regarded as excessive having regard to the investment objectives, financial situation and needs of the client
16.	Under ASIC Market Integrity Rule 3.2.5 (Extended meaning of dealing as Principal) a Market Participant acts as principal if it enters into or deals in a Market Transaction on its own behalf or on behalf of certain persons. Which of the following is NOT one of these persons?	A Family Trust of an employee of the Market Participant	A spouse of a substantial shareholder of the Market Participant	A subsidiary of a holding company of a Market Participant	A body corporate where one or more of the partners singly or collectively hold a controlling interest
17.	Assume you are an employee in a stockbroking organisation and you have been asked to check the confirmations that are to go out to clients. Which of the following is an endorsement that is required to appear on a confirmation under the ASIC Market Integrity Rules?	Forward Delivery	Crossing	Margin Lending loan	Traded Products sold to the client from an underwriting shortfall
18.	Before entering into a Market Transaction in Partly Paid Securities for the first time on behalf of a Retail Client, the Market Participant must:	enter into the prescribed client agreement with the client	indemnify the client for any losses	receive all subsequent amounts payable as instalments on the securities	give the client a copy of the explanatory booklet
19.	Your client fails to pay for securities purchased. Exercising rights under the client agreement, your firm sells-out the position on market. What is the best description of what must happen to the sale proceeds?	The client is entitled to any surplus, but must account to the Clearing Participant for any deficiency on the sale	The client must ensure that there is a surplus on the sale, which is payable to the Clearing Participant	The Clearing Participant must account to the client for any loss on the sale	The clearing Participant may keep the proceeds of the sale, but only if there is a surplus
20.	Your Participant has a Client Agreement required under either ASIC Market Integrity Rule 7.1 or ASX Clear Rule 7.1. How long is a copy of this agreement required to be maintained?	For 7 years following the date on which the agreement is terminated	For 7 years from the date the agreement is entered into	For 5 years following the date on which the agreement is terminated	For 5 years from the date the agreement is entered into

Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
21.	A Market Participant holds a non-discretionary unexecuted order for a client, and then receives an order on the same terms from a director of the Market Participant. Under what circumstances can the director's order be processed before the client's order?	Only when written approval is given by another director of the Market Participant	Only when the client has been informed of the allocation policy of the Market Participant, and the client has consented to this policy	Only when the sequence of orders is not clearly established by the time the orders were received	Under no circumstances may the order of the director be processed before the order of the client in this case
22.	If a Participant receives an Enforceable Undertaking from ASIC, how soon must the Participant provide written advise to ASX/ASX Clear/?	On or before the next Business Day	No later than 7 days after receipt	Within 3 Business Days	The Participant is not required to notify ASX/ASX Clear/ in this case, but rather must respond to ASIC within 3 Business Days
23.	Is a Participant required to maintain a register of complaints, and if so, under the Rules what requirements are placed on any such register?	No - all complaints must be referred directly to ASX	No - all complaints must be referred directly to ASIC	Yes - a complaints register must be kept for all written complaints. These shall be kept for at least 5 years from the date of last correspondence	Yes - a complaints register must be kept for all written and oral complaints, including any written reply, or diary notes concerning any verbal reply. These shall be kept for at least 7 years from the date of the last correspondence or verbal contact.
24.	Which of the following is NOT a penalty that may be imposed by the Disciplinary Tribunal if a Relevant Person is found, under ASX Enforcement and Appeals Rules, to have contravened any of the ASX Operating Rules, ASX Clear Rules or ASX Settlement Rules or engaged in Unprofessional Conduct?	Censure the Relevant Person or Facility User	Require the participant to pay compensation	Require an education or compliance program to be implemented	Suspend the Relevant Person/Facility User's participation in the relevant market and/or facility
25.	Are Principal only Trading Participants able to deal for clients?	No	Only if they act as principal	Only where they do not also act as Clearing Participant	Yes
26.	Before accepting an order to enter into an Options Market Transaction for a person, a Market Participant must have entered into a written agreement with the client which sets out the terms of their relationship in relation to the relevant Options Market Transactions. Which of the following must also be provided to the client before accepting such an order?	A copy of the current explanatory booklet on the Market published by the Market Operator (together with any updates published by the Market Operator)	A derivatives disclosure declaration (which must then be signed and returned)	A written agreement which sets out the procedure for placing an order	A copy of the Participant's registration to operate Client Accounts

27.	Ralph would like to become a Market Maker, but does not work for a Trading Participant. Can Ralph as an individual meet the Registration Criteria for a Market Maker under the ASX Operating Rules?	No - only Direct Participants can be Market Makers	Depends - only if Ralph meets the criteria for registration as a Registered Independent Options Trader	Depends - only if Ralph meets the criteria for registration as a Trading Participant with Trading Permission in respect of that Derivatives Market Contract and he accepts obligations to make markets in Classes assigned by ASX	Yes - any individual who is willing to accept obligations to make markets in a minimum of two Classes assigned by ASX can be registered as a Market Maker
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Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
28.	Under ASX Clear Rule 14.7, where a Derivatives CCP Contract relates to a Client, a Participant must call Cash or Collateral from that Client which the Participant considers sufficient to ensure that the Participant is able to satisfy its obligations to ASX Clear for those Contracts. The Participant is also entitled to call additional cash or collateral from its client which it considers appropriate in connection with clearing the contracts. This additional amount and the time within which it is required is set out in the agreement between client and Participant. What is the maximum time that may be allowed to a client by the Participant for payment of the additional amount?	Up to 5pm EST on the day of the margin call	48 hours	T+1	T+2
29.	A client of your firm has purchased a line of stock but has not yet paid for it. Under ASX Settlement Rule 6.3.5 (Financial Products in a Settlement or Accumulation Holding), is this stock, which has been delivered by the selling broker, able to be held in your Settlement Account or Accumulation Account?	Yes, either of these accounts may be used for this purpose	Only the Settlement Account may be used for this purpose	Only the Accumulation Account may be used for this purpose	No, neither of these accounts may be used for this purpose
30.	If the settlement of a sale is still outstanding on T+4, the delivering Settlement Participant must:	purchase sufficient securities to deliver the shortfall	borrow sufficient securities to deliver the shortfall	sell all the relevant client's holdings	purchase or borrow sufficient securities to deliver the shortfall
31.	What is required before a Participant transmits a message to establish a Holder Record on CHESS for a person?	The person must have been provided with an appropriate introductory booklet about the Securities in which they wish to deal	The Participant holds a current Sponsorship Agreement executed by the person and the Participant.	The person must provide a HIN or SRN for the relevant Securities prior to transfer	All of the options
32.	Within one Business Day of a Controlling Participant receiving notice of the death or bankruptcy of a Sponsored Holder, the Participant must:	request ASX Settlement to impose a Holder Record lock on the relevant Holding	sell all Sponsored Holdings	transfer all Sponsored Holdings to a Participant notified by ASX Settlement	cancel the relevant Sponsorship Agreement

Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
33.	An employee of a financial services licensee has a client who, for cultural reasons, is uncomfortable with providing personal financial information. However, the adviser feels that he understands the needs of the client intuitively after conversing with the client on general topics for some time. Should the adviser provide personalised advice, and why (or why not)?	The adviser should provide personalised advice, but only in the form of a Statement of Advice	The adviser should provide personalised advice, unless this involves benefits, or potential benefits (either monetary or non-monetary) to the adviser or associates of the adviser.	The adviser should not provide personalised recommendations, unless the adviser warns the client that the advice may be based on incomplete or inaccurate information in relation to the client's relevant personal circumstances	The adviser should not provide personalised advice, as cultural barriers frequently create misunderstandings concerning the nature of personalised recommendations.
34.	Sally, an Authorised Representative of a financial services licensee, is providing advice to a client about purchasing a Security via a Statement of Advice. However, Sally is aware that her husband Jim may obtain a non-monetary benefit due to her recommendation. What is Sally required to do?	She must ensure that she acts in the client's best interests and prioritises the client's interests over her own	Depends, requirements only apply if non-monetary benefits can be converted by Jim into monetary benefits (either directly or indirectly)	Nothing only monetary benefits are banned	Nothing, there are no restrictions on this situation
35.	When providing a client with further advice for which a statement of advice is not required, what is the general rule about when you should provide any required disclosures?	When making the verbal recommendation to the client	Within 24 hours of making the recommendation, as part of a Statement of Advice	Within 3 days, as part of a Statement of Advice	Within 5 days, as part of a Statement of Advice
36.	You are a Securities adviser making a recommendation to a client who may reasonably be expected to rely on it, and as a result of this recommendation, you will receive a benefit from a third party. Which of the following best describes the requirements placed on you in this case?	Under no circumstances are you permitted to receive a benefit from a third party.	As long as the benefit is non-monetary, you may always receive a benefit from a third party.	You may only receive a benefit from a third party if it falls within one of the exclusions to the ban on conflicted remuneration.	As long as you inform the client after the relevant transaction, you may always receive the benefit



Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
37.	A client rings you placing actual bids for small parcels of shares in a stock at or near the close of trading on three consecutive days. None of the orders are executed due to the short trading time available. The client also removes the bids prior to the opening of the market the following day. Following a week of this type of behaviour the client sells a large parcel of the same stock. Under Section 1041A (Market Manipulation) of the Corporations Act, could this behaviour be a breach, and if so, what types of penalties exist for this behaviour?	No, these actions would not represent a breach as both the bid and sell offers were placed in the Trading Platform as formal entries	Depends, these actions would only represent a breach if the final sale was executed as part of a Special Crossing	Yes, as this type of trading behaviour would constitute market manipulation, and would be treated as a civil penalty, but not as an offence	Yes, as this type of trading behaviour would constitute market manipulation, and could be treated both as a civil penalty and as an offence
38.	Company ABC and one of its directors are both clients of yours. Just prior to 30 June the director rings you advising that he wishes to place an order to buy 50,000 ABC Limited shares at 22 cents and at the same time places an order on his own account to sell 50,000 shares at 22 cents. The ABC shares are currently trading at 18 cents and have not traded above this for some months. Which of the following descriptions best describes the concern with this activity?	This action could be considered fraudulently inducing a person to deal in financial products	This action could be considered as a kind of misleading statement about financial products	This action could represent a transaction in which there was no change in beneficial ownership	This action would only be of concern if the company had not authorised the sale of shares
39.	What is the time limit, if any, for action by a person who has suffered loss or damage (as described in Subsection 1 of Section 1041I - Civil action for loss or damage for contravention of Sections 1041E to 1041H - of the Corporations Act)?	2 years	5 years	6 years	No time limit
40.	You are a research manager at an ASX Participant and you have just privately met with the Managing Director of a listed company who advised you that the company will shortly be announcing an extraordinary profit for this financial year. Under Sections 1042A to 1042H of the Corporations Act, are you able to deal on your personal account in this stock and why/why not?	Yes, there are no restrictions on your dealing in this stock on your personal account so long as you disclose this information to your clients if they request a transaction in this stock	Depends, if the Managing Director makes a specific request that you not personally deal in this stock, then you are forbidden under ASX Rules to do so - otherwise you may deal in the stock on your personal account	Depends, if this information will soon (less than three days) be released to the general public, then you may deal in the stock on your personal account now	No, as you possess information that is not generally available and may reasonably be expected to have a material effect on the price of the stock

Question No.	Question Text	Choice1	Choice2	Choice3	Choice4
41.	If a licensee becomes aware that it can no longer meet, or has breached a condition of a licence issued to it by ASIC (as described under Sections 912A and 912B of the Corporations Act), when must it advise ASIC (in writing) of the breach?	Immediately, or where the breach occurs outside business hours, at the beginning of the next day	As soon as practicable, and in any case within one day of the breach occurring	As soon as practicable, and in any case within ten days of becoming aware of the breach or likely breach	As soon as practicable, and in any case within seven days of the breach occurring, or as otherwise specified by ASX
42.	Is the sale of financial products that can be covered by the exercising of an option registered with ASX Clear P/L over the same class of financial product considered a short sale?	No, this type of sale is exempted from the prohibition against short selling	Depends, only where ASX has given a waiver to permit the creation of options expressly for this purpose	Yes, this is considered short selling, and is hence subject to the prohibitions on short selling under the Corporations Act	Yes, this is considered short selling, but it is not subject to the usual prohibitions on short selling under the Corporations Act
43.	The Back office Manager comes to you as the firm's Compliance Officer seeking your advice as to the length of time she must maintain back office records which are not financial records under the Corporations Act. Based on Section 1101C (Preservation and disposal of records), you should advise her that these need to be retained	For 2 years from the date of the last entry	For 5 years from the date of the last entry	For 7 years from the date of the last entry	For 10 years from the date of the last entry
44.	Under Section 911A (Need for an Australian financial services licence) of the Corporations Act, when is an Australian financial services licence NOT required?	When a person is carrying on a financial services business	When a person is holding out that they are carrying on a financial services business	For financial services by a person regulated by a recognised overseas regulatory authority which are offered only to wholesale clients	All of the options require a financial services licence
45.	Which of the following are considered 'Unprofessional Conduct' within the meaning of the ASIC Market Integrity or ASX Clear Rules?	Conduct which amounts to impropriety affecting professional character and which is indicative of a failure either to understand or to practice the precepts of honesty or fair dealing in relation to other Market Participants, clients or the public	Unsatisfactory professional conduct involving a substantial failure to reach reasonable standards of competence and diligence	Conduct which is, or could reasonably be considered as likely to be prejudicial to the interests of the Market Operator or Market Participants	All of the options

## Correct Exam Answers

Question No.	Correct Answer
1.	2
2.	2
3.	3
4.	3
5.	1
6.	2
7.	2
8.	3
9.	4
10.	3
11.	4
12.	2
13.	2
14.	2
15.	4
16.	1
17.	2
18.	1
19.	1
20.	1
21.	4
22.	1
23.	3
24.	2

Question No.	Correct Answer
25.	1
26.	1
27.	3
28.	2
29.	3
30.	4
31.	2
32.	1
33.	3
34.	1
35.	1
36.	3
37.	4
38.	3
39.	3
40.	4
41.	3
42.	1
43.	2
44.	3
45.	4

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