

***Assessment of
implementation of
actions agreed with
ASIC***

National Stock Exchange of
Australia Limited

March 2018

Disclaimer

Our report was prepared for use by the Directors of National Stock Exchange of Australia Limited's (NSX) to assist them in addressing the actions agreed with ASIC and specified in ASIC report 538.

We disclaim any assumption of responsibility for any reliance on our report to any person other than the Directors of NSX, or for any purpose other than that for which it was prepared.

We are not obliged to provide any additional information or update anything in this report, even if matters come to our attention which are inconsistent with its contents.



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The Directors
NSX Limited
1 Bligh Street
Sydney NSW 2000

28 March 2018

The Directors

Assessment of National Stock Exchange of Australia Limited's implementation of actions agreed with ASIC in relation to listing standards as of 31 December 2017

We have assessed as at 31 December 2017 the implementation of actions agreed with the Australian Securities and Investments Commission (ASIC) in its 538 report "*Assessment of National Stock Exchange of Australia Limited's listing standards*" dated August 2017 (ASIC's report) in relation to the listing standards of National Stock Exchange of Australia Limited (NSX).

In performing this assessment, we have obtained NSX's internal action plan, conducted meetings with NSX's personnel and management, performed some walkthroughs, assessed a sample of case studies and examined a number of supporting documents such as documented procedures, practices notes and minutes of meetings.

One of our overall observations was that NSX's agreed actions have been implemented as of 15 March 2018. More details are included in our report.

Our engagement did not constitute an audit or review in accordance with Australian or any other Auditing Standards and accordingly no assurance is provided in this report.

We note that this assessment only covers the implementation of actions agreed with ASIC in relation to ASIC's report. We have not assessed subjective matters included in the agreed actions, as detailed in section 3 of this report.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Matthew Lunn', written over a horizontal line.

Matthew Lunn
Partner

A handwritten signature in blue ink, appearing to read 'Deanna Chesler', written over a horizontal line.

Deanna Chesler
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1 Background

ASIC provided to NSX a set of 12 recommendations in their report number 538 "Assessment of National Stock Exchange of Australia Limited's listing standards" dated August 2017 (ASIC's report) as a result of their assessment of NSX's listing standards under section 794C of the *Corporations Act 2001*, for the period 1 July 2013 to 8 August 2016.

The full text of agreed actions from ASIC's report is included in section 5 and on the website linked below:

<http://download.asic.gov.au/media/4424127/rep538-published-28-august-2017.pdf>

ASIC's report includes the requirement for a third party review of the implementation by NSX of the agreed actions. The report arising from this review is required to be provided to ASIC by 31 March 2018.

We have been engaged by NSX to perform procedures to assess the implementation of actions agreed with ASIC in relation to NSX's listing standards as at 31 December 2017. The results of our assessment as documented in section 5 have been extended to incorporate certain management policies and procedures implemented up to the date of this report, where practical.

2 Scope of assessment

As part of the terms of our engagement letter with NSX dated 10 January 2018, we agreed to perform the following:

- 1 Obtain and review ASIC's report 538 dated August 2017
- 2 Review NSX's proposed internal action plan in response to actions agreed with ASIC in relation to listing standards
- 3 Assess whether NSX's agreed actions have been implemented as at 31 December 2017
- 4 Assess whether NSX's proposed actions as documented in its proposed internal action plan comply with the recommendations made by ASIC in the report 538; and
- 5 Provide NSX with any additional suggestion based on our assessment of NSX internal action plan.

Our work was conducted using the following four steps:

- 1 Enquiries with management in relation to changes in procedures and processes since the period covered by ASIC's report and implementation of agreed actions
- 2 Review of practice notes, updated and previous versions of listing rules, policies and procedures
- 3 Examination of documentation supporting implementation of agreed actions, procedures and controls; and
- 4 Walkthroughs and case studies in relation to processes and controls implemented by NSX.

The results of our assessment in section 5 are presented using the numbering sequence included in ASIC's report.

3 Scope exclusions

Whilst our engagement involved some analysis of financial information and accounting records, it did not constitute an audit in accordance with Australian or any other Auditing Standards applicable to audit engagements or a review in accordance with Australian or any other Auditing Standards applicable to review engagements and accordingly no assurance is provided in this report.

This assessment did not consider the appropriateness and effectiveness of NSX's actions agreed with ASIC in relation to listing standards for any period or date other than as at 31 December 2017, except where information was provided between 31 December 2017 and the date of our report. The timing of implementation of agreed actions was staggered from September 2017 to March 2018. As a consequence, we were not able to assess the effectiveness of all agreed actions.

We note that this assessment only covers the implementation of actions agreed by NSX with ASIC in relation to ASIC's report. We have not assessed subjective matters included in NSX's internal action plan and actions agreed with ASIC, such as:

- #32: Suitability of all appointments to positions of significant influence;
- #52: Informal consultation with Board and Committee members with a presence in emerging markets jurisdictions;
- #43: NSX's verbal discussions of suitability requirements with potential listings and their advisors from the beginning of the process; and
- #54: Sufficiency of interaction with ASIC and ASX.

4 Executive summary

On 11 July 2017, ASIC provided to NSX a set of 12 recommendations in their report 538 as a result of their assessment of NSX's listing standards for the period 1 July 2013 to 8 August 2016.

NSX has requested that we perform procedures over NSX's implementation of the agreed actions included in ASIC's report.

The overall observations arising from our assessment are:

- NSX's agreed actions have been implemented as of 15 March 2018. We note that certain practice notes and procedures were finalised in the first quarter of 2018 and three practice notes were published in March 2018;
- Based on the samples we have examined as described in section 5, NSX's agreed actions are effective as of 15 March 2018 subject to scope exclusions under section 3 above;
- NSX's proposed actions as documented in its internal action plan and in its latest policies, procedures and guidance as at 15 March 2018 address the recommendations in ASIC's report; and
- As requested by NSX, we have made some recommendations and identified opportunities for further improvement. These mainly relate to the independence of external Committee members, the role of the external Committees and formalisation and documentation of certain controls and processes. The details of our recommendations and opportunities for improvement are outlined in section 5 and key themes are summarised in Appendix A.

5 Results of assessment

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
13	<p>ASIC agreed action: NSX has agreed as part of the current assessment to keep its financial resourcing under close review. NSX will continue to provide monthly updates to ASIC about its financial position as per the recommendation made in report 326 <i>Market assessment report: NSX group</i> published in February 2013.</p>		
	1. Examined November 2017 Profit and Loss Dashboard.	<p>1. The Profit and Loss Dashboard contains a summary of the financial performance of NSX, including current month, year to date, prior year and budgeted profit and loss, working capital and detailed profit and loss statement. It also includes a bank statement showing the month-end cash balance.</p> <p>The Dashboard is signed off by two Board members including the CEO to evidence their review.</p>	<p>1. NSX does not use a prescribed threshold to analyse variations against budget or prior year and accordingly judgment is applied by management to determine the variations that require a documented explanation. In the sample selected for testing, we noted that variations above 1% of total equity were reviewed, which we consider to be reasonable.</p> <p>We recommend management defines and documents the rationale for a minimum threshold above which variations are explained. Lower variations can be explained based on management's judgment.</p>
	2. Enquired with management about the governance process in relation to the monitoring of NSX's financial resourcing.	2. The Dashboard is sent to the CEO and to the Board of Directors along with commentary on performance as compared to budget.	
	3. Examined email sent by the Head of Finance to the CEO on 12 December 2017 providing commentary on NSX's financial performance.	3. Significant variances from budget were commented on in a report prepared by Finance and sent via email to the CEO. We noted that all deviations above \$40,000 have been subject to commentary. Management considers that explaining deviations from prior year is currently not relevant because of NSX's change of strategy. Management informed us that significant deviations from prior year figures are discussed during Board meetings.	
	4. Examined form MI-01 submitted to ASIC via the MECS Portal on 14 December 2017.	4. The monthly form was sent to ASIC on 14 December 2017 and includes a copy of the November 2017 Dashboard described in observation 1 above.	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
	5. Examined Board minutes dated 14 December 2017.	5. Board minutes include a summary of the review of the November 2017 performance and working capital account.	
32	<p>ASIC agreed action: NSXL and NSX have agreed to ensure that directors, secretaries, senior managers and other persons of influence are of good repute and sufficiently experienced to ensure the sound and prudent management of the market. They will review these criteria regularly, including when a person changes from one key position to another.</p>		
	1. Enquired with management about consideration of the suitability of all appointments to positions of significant influence.	1. We understand that the CEO was personally involved in assessing the suitability of all appointments that took place between June 2016 and December 2017. The CEO considered relevant education and financial market experience and sought to appoint individuals who were already performing a similar role in a peer company so that they would be aware of regulatory and legal frameworks and would be able to effectively fulfil responsibilities at NSX.	<p>1. We understand from management that there has not been a formalised performance assessment of staff in the last 18 months.</p> <p>We understand there is on-going monitoring over staff performance and regular conversations throughout the year between the CEO and all staff members. We recommend formalising this assessment through an annual performance appraisal process including KPIs linked to a remuneration reward system.</p>
	2. Examined the position description for the Head of Compliance position.	2. Management informed us that NSX has completed the appointment of a Head of Compliance role in February 2018. We obtained the position description for this role and noted that it outlines responsibilities, skills, requirements and competencies, qualifications, education and professional experience.	
	3. Examined records maintained for the appointment of the Head of Compliance, including supporting documentation on experience, application process and reference checks.	<p>3. Management has reviewed the resumes of five applicants as part of the recruitment for the Head of Compliance position and considered relevant education and financial market experience. The following supporting documents were reviewed by management as evidenced through the completed <i>Checklist for the appointment of persons of significant influence</i> as summarised below:</p> <ul style="list-style-type: none"> i. Appropriate educational and financial market experience and understanding of Australian law and market rules was assessed through review of resume, education, diplomas and certificates; ii. Financial soundness and conflicts of interest were assessed by review of statement on investment holdings and independent background check through use of Thomson Reuters World Check; iii. Good fame and character, absence of unsuitable conduct and association were evaluated using independent background check results from Thomson Reuters World Check and Police Certificates. Furthermore, to assess good fame and character, references were checked through phone calls with 	<p>We note that NSX has a team of 11 experienced staff and contractors, each member having a specialist role within the organisation.</p> <p>We recommend management implements measures to mitigate the key person risk through the formalised annual performance appraisal process and initiatives such as periodic role rotation, where appropriate, and documentation of controls and procedures performed by</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>former employers; Supporting documentation on the application process and reference checks performed in regards to the Head of Compliance as noted above were shared with ASIC prior to appointment.</p>	<p>each team member.</p>
33	<p>ASIC agreed action: NSXL and NSX have agreed that at least the following factors will be considered in determining if a person with significant influence is suitable for their role at the time of appointment and on an ongoing basis. The person's:</p>		
33	<p>1. Examined the checklist for the appointment of persons of influence positions prepared in February 2018 to address minimum selection criteria.</p>	<p>1. The checklist for the appointment of persons of influence positions (including Directors' Nominees) includes all seven criteria listed in agreed action #33 (fame, integrity, education, experience, financial soundness, conduct, etc.), must be completed by the Head of Compliance and requires signature for each criteria from the Nominee and CEO/Chairman.</p> <p>The 'Board of Directors' and 'Executive team' sections on NSX's website does not contain any information in relation to new or change in appointments of directors and executive team members after December 2016 which is consistent with management</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
33		<p>comments, having informed us that there have not been any new appointments of persons of significant influence or change in positions after the publication of the ASIC 538 report in August 2017 other than the appointment of Head of Compliance.</p> <p>We assessed the checklist prepared on appointment of the Head of Compliance as described in observation #32 section 3. The completed checklist was signed by the CEO.</p> <p>2. The listing of persons of significant influence include Board members, the company secretary, senior managers, shareholders with ownership over 15%, Compliance Committee Members, Listing and Admission Committee members and other persons of significant influence, defined as those who deal with sensitive matters.</p> <p>3. As mentioned in observation 32.2, the position description for the Head of Compliance role includes minimum requirements in term of education, professional experience and knowledge of the Australian stock exchange market and compliance with regulations.</p> <p>4. NSX Procedures for appointment of new directors or senior officers was revised in January 2018 to outline minimum selection criteria for candidates of significant influence including good fame and character, appropriate educational experience and financial market experience, understanding Australian law and market rules, financial soundness, conflict of interest handling, unsuitable conduct and involvement, and ability to effectively fulfil their responsibilities.</p>	
34	<p>ASIC agreed action:</p> <p>NSXL and NSX have agreed that, before appointing a person of influence, they will undertake appropriate checks to satisfy themselves and validate that the person meets the factors in paragraph 33 and that the appointment will not place NSX at risk of breaching its licence obligations under the Corporations Act. They will also notify ASIC of director nominations in sufficient time before an appointment, or consideration of a resolution to make an appointment at a general meeting, to allow ASIC to complete its checks. NSXL and NSX will provide reasonable assistance to inform ASIC and appointments will not be made until ASIC is comfortable that the licence can be adhered to.</p>		
	<p>1. Examined NSX's documented procedure for the appointment of new directors and senior officers as revised in January 2018 and</p>	<p>1. NSX has updated the <i>Procedure for appointment of new director or senior officer</i> as described below. In line with section 34.1, we understand from management that there were no appointments of persons of significant influence or change in positions after the publication of the ASIC 538 report in August 2017 other than the appointment of Head of Compliance.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
34	<p>compared it to the prior version of this procedure.</p> <p>2. Inspected NSX's AML variation notice dated 26 February 2018</p>	<p>As per the <i>Procedures for appointment of new director or senior officer</i> as revised in January 2018, "Persons nominated as directors to the NSXL or NSX Board cannot be appointed without ASIC being first informed of the proposed nominee, conducting its own checks and informing NSXL or NSX that it does not have concerns about the proposed person. Until ASIC is comfortable about the person nominated as a director they cannot be appointed to the NSXL or NSX Board."</p> <p>2. New license conditions, as revised in February 2018, require a 28-day notification to ASIC after NSX has completed its assessment of the candidate for appointment or reappointment of a person of significant influence. NSX's revised license conditions provide for ASIC a right to object to appointment and re-appointment on the basis of the person's competence, experience, knowledge, skills and capacity to undertake the role.</p>	
35	<p>ASIC agreed action:</p> <p>NSXL and NSX have agreed to review their conflict handling arrangements and conduct training on conflict handling expectations for all staff and board appointees by 31 December 2017.</p>		
	<p>1. Compared the current and previous versions of the conflict handling arrangements policy and procedures as listed in Appendix A.</p>	<p>1. Revised Code of Ethics And Conduct has been updated to include NSX's role to meet its statutory obligations as a market licensee and uphold the quality and integrity of the wider market, as well outlining that directors, officer and employees will act in the best interests of NSX and its shareholders. The policy's primary obligations section has been updated to include provisions that Directors and other employees will meet their legal and statutory obligations, not participate in any activities that could conflict with the interests of NSX, and ensure that they comply with all internal policies and procedures at all times.</p> <p>A new policy, <i>NSX Committees And Panels Conflicts Handling Processes And Procedures</i>, was prepared noting that the following independent NSX Committees and panels so delegated by the Board are involved in the conflicts handling processes:</p> <ul style="list-style-type: none"> • NSX Listings and Admissions Committee (LAC); • NSX Compliance Committee. Compliance Committee members form part of NSX Disciplinary Panel and NSX Appeals Panel. <p>Also as per <i>NSX Committees And Panels Conflicts Handling Processes And Procedures</i> the Committees' and Panels' members need to disclose all conflicts of</p>	<p>1. We understand from management there is currently no centralised conflicts of interest register. We did note that conflicts relating to Board members are listed in the 30 June 2017 annual report and on NSX's website.</p> <p>We recommend NSX maintains a centralised conflicts of interest register, containing conflicts of interest of Board members, Committee members, participants, other persons of significant influence and Nominated Advisers.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>interest to ensure any decision they are part of as a Committee or panel is made without any conflict of interest or apprehension of bias and furthermore such conflicts are then noted in the relevant Committee minutes.</p>	
35	<p>2. Obtain minutes from the Board related to approval of the revised versions of the conflict handling arrangements policy and procedures.</p>	<p>2. Board minutes in January 2018 noted that the Board reviewed and approved updated conflict of interest handling policies as listed in Appendix C.</p>	
	<p>3. Examined a letter from a third party training provider dated 22 December on conflicts handling training performed for all staff and Board appointees</p>	<p>3. A letter from a third party corporate advisory company dated 22 December 2017 addressed to NSX confirmed that the following two training sessions took place on 20 December 2017:</p> <ul style="list-style-type: none"> • NSX Employee Conflicts of Interest Training attended by seven out of ten NSX's employees and contractors; and • NSX's Director Conflicts of Interest Training attended by four Board members and the Company Secretary. <p>The remaining three personnel reviewed the training materials in January 2018.</p> <p>The related training presentation slides: Director Conflicts of Interest Training and Employee Conflict of Interest Training, and Market Licensee Handling Training are available on the shared drive of NSX.</p>	
	<p>4. Performed a walkthrough on the conflict of interest handling process</p>	<p>4. As per walkthrough performed, NSX has the following procedure and controls in place:</p> <p>Identification of the conflicts of interest</p> <ul style="list-style-type: none"> • Background checks are performed using Thompson Reuters (process implemented in December 2017) as part of client on boarding process; • Board and Committees members are requested to confirm by email their potential or actual conflicts of interest in relation to new listings (if any). <p>Mitigation of the conflicts of interest</p> <ul style="list-style-type: none"> • For identified conflicts, directors/members are not permitted to participate in 	<p>2. We understand from management that where a member of one of the Committees (Listing and Admissions Committee and Compliance Committee) has a conflict of interest, that member is not allowed to participate in the discussion relating to the companies for which they have an interest in, however is not required to leave the room</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>discussion and vote on matters related to the company they have an interest in.</p> <p>On-going monitoring</p> <ul style="list-style-type: none"> • Directors and members are required to disclose their conflict of interest at each Board or Committees meeting; • Directors receive on a monthly basis the minutes from the Compliance Committee and the Listings and Admission Committee, which disclose conflicts of interest pertaining to these Committees; • On a semi-annual basis, the Board of Directors receives the undue bias or influence report. The aim of this report is to disclose any conflict of interest in relation with issuers, participants, Nominated Advisers and Listing and Admission Committee members. 	<p>during the discussion.</p> <p>We recommend that where conflicts of interest are declared by a Committee member, that the member excuse themselves for that section of the meeting where the company and related entities are discussed.</p> <p>Further, we recommend management performs an assessment of the independence of the Committee members to obtain comfort over the objectivity and effectiveness of these Committees. Where significant conflicts exist, management should consider whether it is in the best interest of NSX, its shareholders and clients for the Committee member to continue in that role.</p>
35	5. Assessed documentation and disclosure on a sample of two identified conflicts of interest; and	<p>5. • A new conflict was identified after the Head of Admissions sent an email on 20 December 2017 to members of Board, Compliance Committee and Listings and Admissions Committees for them to confirm their potential or actual conflicts of interest in relation to a new listing and nominated advisor (if any). One member confirmed a potential conflict of interest.</p> <p>The December 2017 minutes of the Listings and Admissions Committee include the reported conflict of interest. As per review of the minutes, this individual has not commented about or voted in relation to the relevant application during the meeting.</p> <ul style="list-style-type: none"> • There is an ongoing disclosed conflict of interest which is included on NSX's website about one Director of NSX who also has interest and is a Director a company listed on NSX. The conflict of interest for this Director was disclosed during the last Board Meeting dated 17 January 2018 and no matters related to the listed entity were discussed during this meeting. <p>Management informed us that there were no instances where Board meeting agenda included discussion of entities where any of Directors have conflict of interest, however if a matter related to an entity with conflict of interest would be potentially included in the agenda, relevant Directors would not be invited for a meeting.</p> <p>Through discussion with management and inspection of the Committee minutes,</p>	<p>We recommend management implements a terms of reference for the Committees including the role, operating model, appointment/retirement process, and composition of the Committees. We understand this is already in management's plan for the year ahead.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>we noted another Committee member with multiples conflicts including directorships of NSX listed entities, market participants and of a Nominated Advisor to several NSX listed entities. Management have advised that the list of conflicts disclosed in the Committee minutes is not complete.</p>	
35	<p>6. Enquire with management on the process for managing conflict of interest in the various NSX Committees.</p>	<p>6. Management informed us that they intend to review the role and structure of the Committees (Listings and Admissions Committee, NSX Compliance Committee). Management also advised that they have not performed any oversight of these Committee in the past years, following a recommendation from ASIC to ensure independence of these Committees. Management however considers that it is appropriate and prudent to review the role and structure of the Committees in light of changes in the business and regulatory expectations.</p> <p>We note that the fact that NSX self-assessed the need for a change in the role and supervision of the Committees as a positive indicator of the change of culture the new management is working at implementing.</p>	
42	<p>ASIC agreed action: NSX has agreed that, by 30 September 2017, it will prepare, share with ASIC and maintain a written strategy identifying its target market (e.g. Australian companies or companies with a clear Australian connection). It will also outline the listings franchise, its growth strategies and associated risk profile.</p>		
	<p>1. Obtained the Listing Strategy and assessed whether it includes NSX's target market (e.g. Australian companies or companies with a clear Australian connection), the listings franchise, its growth strategies and associated risk profile.</p>	<p>1. The Listing Strategy outlines target issuers that "is clearly understood, and resonate with, Australian investors", potential opportunities, risks and strategy for six market sectors. Sectors are presented in sequence of significance to NSX.</p>	<p>1. We recommend management enhance the documentation in the Listing Strategy or in another supporting document around risks associated with each market segment by including risk ratings of relevant risk factors and NSX's response to mitigate those risks.</p>
	<p>2. Obtained minutes from the Board meeting where the Listing Strategy was presented prior to submission to ASIC.</p>	<p>2. The Listing Strategy was tabled for review and approved by the 26 September 2017 Board of Directors.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
	3. Obtained an email sent to ASIC to share the NSX Listing Strategy.	3. The Listing Strategy was submitted to ASIC on 28 September 2017.	
43	<p>ASIC agreed action: NSX has agreed that, by 31 December 2017, it will:</p> <p>a) issue guidance for issuers on the suitability for listing and admission expectations. This should align with the articulated strategic direction and should address matters such as shareholder spread, issuer track record, corporate governance, business structures (e.g. prohibiting variable interest entities), capital structures and any overseas legal and regulatory obligations (for offshore based issuers);</p> <p>b) review and update its internal policies and/or procedures for determining the suitability for listing to clearly outline the factors to be considered. In addition to considering compliance with the law, listing rules and the matters in paragraph a), it should include the use of appropriate sources to:</p> <p>(i) verify the legitimacy of the issuer's business (e.g. existence of a business and that the business is as described);</p> <p>(ii) make an assessment of the business' viability; and</p> <p>(iii) undertake a more robust verification of the fame, character, integrity and suitability of the management team and directors.</p> <p>c) maintain adequate records of material engagements with issuers and potential issuers (and their representatives), NSX decisions about each issuer and its review of disclosure documents (including draft revised disclosures if any). The records should identify the key issues, evidence and the basis for listing decisions; and</p> <p>d) review and update its internal policies and/or procedures for verifying shareholder spread, including verification that shareholders are not associated (e.g. no common names or addresses) and maintaining adequate records evidencing these checks. NSX should also provide guidance to the market on its expectations.</p>		
43	<p>1. Assessed the draft Suitability Practice Note dated January 2018 for the following points:</p> <p>a) NSX's listing framework, including guidance for issuers on the suitability for listing and admission expectations;</p> <p>b) Suitability for listing to clearly outline the factors to be considered and examples of where NSX may not admit an entity.</p>	<p>1. Assessed the Suitability Practice Note and noted it covers all the points listed in the agreed action #43a).</p> <p>A summary of the listing framework and the items included in the assessment of suitability for listing submission is as follows:</p> <ul style="list-style-type: none"> • ownership of assets - validity of legal title, certainty of title, validity of permits and licences and the extent to which physical assets were sighted and validated; • corporate structures - including the extent to which the structure limits or inhibits the ability of the Board to minimise the risk of fraudulent activity, properly govern and oversee the management; • it includes minimum spread requirements. <p>NSX may require supporting evidence to support the shareholder spread such as:</p> <p>i. Copies of its share register, bank statements, application forms and cheques or</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
43		<p>other evidence of payment by investors;</p> <p>ii. List of investors from whom it has procured subscriptions and copies of its KYC checks for those investors; or</p> <p>iii. A statutory declaration.</p> <ul style="list-style-type: none"> • issuer track record, ensuring that applicant has structure and operations that are appropriate and suitable for a listed entity in accordance with NSX Listing Rule 1.5, and outlining instances where an Issuer may not be admitted such as NSX having concerns about the applicant's motivation in interacting with the Australian equity market; • corporate governance, including Independence requirements, as well as compliance requirement to adopt Policies regarding Related Party Transactions, Whistle Blowing, Anti bribery/corruption and ethical business conduct, local disbursements, governance and disclosure); • Appropriate structures, NSX adopted a moratorium on initial public offerings (IPOs) of companies with variable interest entity (VIE) structures. VIE structures attempt to mimic ownership of the Chinese operating company through a series of complex contractual arrangements; • Capital Structure, requirement that working capital be at least 1.5 million; • Overseas legal and regulatory obligations (outlining requirement for at least one director having local business knowledge. <p>Further to address agreed action #43b) the Practice Note lists examples where NSX may not admit an entity that addressed issues raised by ASIC in their assessment, as follows:</p> <ul style="list-style-type: none"> • concerns about the applicant's motivation in interacting with the Australian equity market; • concerns about the qualifications and experience of the auditors or any other entity providing a report included in the applicant's disclosure document; • prior unacceptable interactions with the applicant or a director, promoter, broker or other entities involved with the application; • the applicant has not engaged legal or professional advisers to assist with the preparation of the disclosure document that raises potential concerns about the accuracy and veracity of the document and the due diligence completed to 	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
43	<p>2. Observed the China webpage on NSX's official website (link: https://www.nsx.com.au/china) and the specific suitability requirements disclosed</p>	<p>support it;</p> <ul style="list-style-type: none"> • concerns of ASIC or another corporate regulator; • concerns that admitting the entity to the official list may put at risk the reputation of the NSX market. <p>2. The China webpage on NSX website details suitability requirements for Emerging Market Issuers. The webpage was set up with the intention to provide a source of information for the market and to mitigate the risk of advisors presenting misinformation to Investors.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
43	<p>3. a) Assessed a case study for the admission and listing process.</p>	<p>3. a) Management informed us that the admission and listing process includes the following review steps:</p> <ol style="list-style-type: none"> i. Review of application and disclosure document ii. Review of issuer suitability and track record iii. Review of the transferability of instruments iv. Review of shareholder spread, initial market capitalisation and constitution. v. Receipt of restriction Agreements. <p>Based on inquiry we understand that Head of Admissions reviews application for listing, prospectus (or Information Memorandum in the past), supporting documentation (such as Certificate of Incorporation, group structure, legal opinion, directors interest notices and declarations and audited financial statements for the last three years) and other information gained to perform an independent background check.</p> <p>NSX uses a variety of ways to perform independent background check which includes the use of Thomson Reuters World Check, National Enterprise Credit Information Publicity System (for Chinese Companies - to allow corroboration with Thomson Reuters), internet searches, company websites and the informal networks of the NSX's Directors (in particular for Chinese companies). As part of this assessment, NSX intends to:</p> <ul style="list-style-type: none"> • verify the legitimacy of the issuer's business; • make an assessment of the business' viability; • verify the character and suitability of the management team and directors. <p>Any concern identified as a result of these procedures that are not explained by publicly available information is subject to further investigation through enquiry of the listing applicants until resolution.</p> <p>The results of the listing application review are documented in the Listing Analysis, which is then discussed and reviewed by the Listings and Admissions Committee (LAC) during the next scheduled meeting. Once an application is approved, a notification confirmation is sent to the issuer and the listing is processed in NSX's system.</p>	<p>1. For the sample of case studies selected for testing in relation to the admissions and listing processes, we noted that NSX's Listing Analysis does not include documentation of the background check performed for the applicant, its management and directors.</p> <p>We recommend that documentation in the Listing Analysis be enhanced to include an assessment of the background checks performed over the legitimacy of the issuer's business, the business' viability and the character and suitability of the management team and directors.</p> <p>We further recommend that a risk review separate to the initial assessment be performed on admissions using a risk-based approach. The final admission decision should be made by an independent party with no conflicts of interest.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
43	b) Examined records maintained on a sample of two engagements with issuers, including supporting documentation for the verification of the shareholder spread.	<p>3. b1) Performed a walkthrough/case study based on an application for admission to official list and quotation of depositary interests dated July 2017. The application letter, Information Memorandum and supporting documentation was reviewed by the Head of Admissions as evidenced through the Listing Analysis that was presented to the LAC. The Listing Analysis is summarised below:</p> <p>i. Review of application and disclosure document</p> <p>The procedure included an assessment of the securities to be issued and consideration of listing of underlying security in case the security is convertible into another security.</p> <p>The application was in respect of all fully paid ordinary shares. The company's shares are issued in the form of depositary Interests, which are a form of beneficial interest in shares held by a depositary nominee.</p> <p>The Thomson Reuters World check has been completed for all directors on 10 October 2017 and one of the directors had been flagged as a politically exposed person. Based on enquiry with management we understand that this matter was resolved based on additional research performed by NSX using media, confirming that the director and the politically exposed person are not the same person.</p> <p>ii. Review of issuer suitability and track record</p> <p>The registration status of the issuer has been reviewed against both the ASIC listing as well as the foreign country's register of companies. NSX obtained an understanding of the structure of the issuer and obtained a legal opinion that the structure of this issuer did not meet the definition of a variable interest entity. The issuer's financial performance was reviewed using the last three years' annual reports and the latest audited financial statements which have been prepared less than 12 months before listing.</p> <p>The conclusion documented in the <i>Listing Analysis</i> presented to the LAC was consistent with the examination of ASIC's website, ASIC's Certificate of Registration, the initial and revised application letter, legal opinion and audited financial statements received.</p> <p>iii. Transferability of instruments</p> <p>The responses provided in the checklist to assess any applicable restrictions on transfer such as capital structure, i.e. number of classes of listed securities, voting rights, consideration for partly paid shares, preference</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
43		<p>securities, preservation of rights, divestment of securities, restrictions on transfer were consistent with application and disclosure document.</p> <p>iv. Review of shareholder spread, initial market capitalisation and constitution.</p> <p>NSX calculated based on the shareholders register received that more than 25% of shareholders are non-directors. Based on estimated initial market capitalisation the company was meeting criteria on minimum initial market capitalisation of \$500,000. It was concluded in the <i>Listing Analysis</i> that no exceptions were noted from the review of the compliance of constitutions with NSX listing rules.</p> <p>v. Restriction Agreements</p> <p>Based on Practice Note #12 - Restricted Securities dated February 2013 NSX requires to sign restriction agreements with directors and promoters that disallow them to transact in shares for a 24-month and a 12-month period respectively after quotation date.</p> <p>Restriction agreements for all four directors provided for two years of escrow period from the date of quotation.</p> <p>The LAC minutes reviewed and approved the listing application of the issuer in December 2017.</p> <p>3. b2) Performed a walkthrough/case study based on application for admission to official list and quotation of depositary interests in June 2017.</p> <p>Application letter, <i>Information Memorandum</i> and supporting documentation was reviewed by the Head of Admissions as evidenced through the <i>Listing Analysis</i> that was presented to the LAC.</p> <p>The <i>Listing Analysis</i> was consistent with b1) above. We only documented below the areas which are specific to that company.</p> <ul style="list-style-type: none"> • the Thomson Reuters World Check completed for all directors dated in June 2017 did not identify any exception; • based on the shareholders register, more than 25% of shareholding was represented by non-directors; • restriction agreements for all three directors provided for two years of escrow period from the date of quotation; • the LAC reviewed and approved the listing application of the issuer in August 	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		2017.	
43	4. Examined a sample of two applications for listing that were either withdrawn or not approved.	<p>4. Sample 1</p> <p>An email was sent by NSX to an applicant as a result of a meeting between operations, market surveillance and admissions teams to encourage the issuer to reconsider its current application on the basis of following:</p> <ul style="list-style-type: none"> • The lack of existing joint-ventures and manufacturing partners or contract manufacturing arrangements; • The absence of approval by the China Food Drug Administration and any necessary registration number; • Presently none of the Group's patents are being used in the production of any commercially available products; and • The absence of revenue or other items of income from 1 January 2015 to 30 June 2017. <p>Sample 2</p> <p>The Listing and Admissions Committee discussed in November 2016 corporate governance arrangements and an escrow proposal for one applicant and resolved that the following matters should be advised to the applicant in order for it to be reconsidered for listing:</p> <ul style="list-style-type: none"> • Ensure its corporate governance standards comply with the standards documented by the Australian Stock Exchange; • Board of directors should include an independent director resident in Australia; • Directors of the issuer are required to sign restriction agreements. <p>The above matters were communicated in November 2016 to the applicant. Additional queries were also raised about several inconsistencies noted between the financial statements and the Information Memorandum.</p> <p>In the absence of response to these points, a formal letter was sent to the applicant confirming that application cannot be processed on the basis of insufficient evidence on suitability and track record.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
43	5. Assessed the Suitability Practice Note in relation to requirements applied to issuers that are seeking re-quotation following long-term suspension.	5. Practice Note - Monitoring of Suspended Companies dated January 2018 noted that long-term suspended issuers may need to fulfil additional requirements imposed by NSX in order to be reinstated to official quotation. The requirements for an issuer to be reinstated to official quotation will depend on the circumstances relevant to a particular company. Actions taken by the issuer to address these additional requirements are reviewed by the Compliance Committee and where deemed appropriate the Compliance Committee may escalate the issuer's case to the Listing and Admissions Committee to ensure that the entity remains suitable for listing.	
44	ASIC agreed action: NSX has agreed to limit the circumstances when an issuer may not produce a regulated disclosure document in accordance with our good practice listing standards: see paragraph 68 of the Appendix for the current good practice listing standards.		
	1. Enquired with management and examined NSX's website about circumstances where an issuer may not produce a regulated disclosure document on admission.	1. We understand from management that going forward, the provision of a disclosure document is a mandatory requirement for new issuers to be able to be listed on NSX, where they are not already listed in an equivalent market and/or not issuing new capital, NSX's website (https://www.nsx.com.au/listing/how-to-list/) has been updated to include the requirement for a disclosure document (prospectus) to be lodged with ASIC for all listings. We were not able to test a sample of listings as the latest one approved by NSX was based on an application file provided to NSX prior to the release of ASIC's 538 report in July 2017.	
52	ASIC agreed action: NSX has agreed that, by 31 December 2017, it will: a) review and strengthen its current systems, methodologies and procedures for, and frequency of, monitoring to uphold issuers' compliance with continuous disclosure requirements and other obligations. Particular focus should be paid to the growing prevalence of listings from emerging markets; b) ensure it has access to appropriate expertise to effectively monitor and enforce compliance for matters under the JORC Code (e.g. relevant NSX staff to undertake JORC training, or NSX to procure access to external JORC experts); c) review its internal policies and procedures for earnings announcements to manage its approach to those that may be materially different to the previous corresponding period. This includes policies and/or procedures for undertaking further enquiries to ascertain the reasons for such a change, reviewing whether an announcement should have been made before the reporting date, issuing queries to an issuer, and escalation of a matter in the event an issuer's response is		

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>inadequate;</p> <p>d) strengthen its controls for the administration of announcements to ensure trading halts are applied for price sensitive announcements; and</p> <p>e) update its guidance to provide clarity concerning its expectations for the currency of information to be included by issuers in their annual reports regarding the top 10 shareholder list. This is to include NSX introducing an operating rule requiring issuers to provide a distribution of shareholders in their annual reports. Our expectation would be that NSX then uses this information to periodically check issuer compliance with ongoing spread requirement.</p>	
52	<p>1. Enquired with management and assessed a) the Surveillance file note and b) the Market Monitoring, Market Surveillance and Periodic Disclosure procedures outlining the key changes made to enhance monitoring and enforcing disclosure in the market.</p> <p>2. Enquired with management about the appointment of Market Surveillance and Market Operations team members and examined NSX's organisational chart.</p>	<p>1. a) NSX has prepared in December 2017 a Surveillance file note which describes a number of the enhancements made to improve systems, methodologies and procedures on the monitoring of issuers' compliance with continuous disclosure requirements and other obligations. The changes listed in this file note include, amongst others, use of SMARTS, more frequent communication with ASIC, in particular as it relates to suspicious matters, JORC training and implementation of IRESS implementation.</p> <p>The number of queries raised by NSX with issuers has increased from 5 in 2016 to 44 in 2017 and the number of enforced delistings from 0 to 6 for the same period as a result of these enhanced procedures.</p> <p>b) NSX has created in November 2017 new procedures, including Market Monitoring Procedure, Market Surveillance Procedure and Periodic Disclosure Query Procedure. These documents include detailed instructions on the procedures performed by NSX to address the monitoring of issuer's compliance with continuous disclosure requirements and other obligations:</p> <ul style="list-style-type: none"> • Trade monitoring through SMARTS system; • Announcement monitoring; • Periodic Financial Reports Monitoring; • Company website / media check; • Monthly suspended companies check. <p>2. We understand from management that NSX has undergone a significant strategic change in the last 18 months. Strengthening the team has been a key focus for NSX which is why three skilled experienced team members have been recruited into the Market Surveillance and Market Operations teams to work on the monitoring and enforcement of listing and operating rules. This process was previously monitored by only one team member. The new structure allows for additional segregations of duties</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52		<p>between the Admission team and the Market Monitoring team.</p> <p>In addition, NSX has hired a Chinese-speaking market surveillance resource to help cater for the growth in emerging market listings and perform monitoring over the Chinese media.</p>	
	<p>3. a) Examined December 2017 monitoring database spreadsheet;</p> <p>b) Enquired about the monitoring procedure over Chinese media (including social media);</p> <p>c) Examined a sample of emails summarising the results of monitoring of two issuers.</p>	<p>3. a) NSX has developed a spreadsheet, which is used as a monitoring tool where the results of market surveillance procedures (including internet and media search) are documented. The spreadsheet is updated on a monthly basis and included 68 issuers in December 2017. For each issuer, there is a description of the principal activities, relevant industry and company website. Team members can include comments and supporting information obtained by the team is usually saved in a shared folder for future reference.</p> <p>b) As part of this procedure, NSX performs additional regular monitoring (at least once a month) for emerging markets issuers through a review of information available on some of the most popular Chinese social media websites (such as WeChat and Weibo). This is done in addition to internet searches and monitoring over Australian social media (such as HotCopper) as well as daily review of Google and SMARTs alerts for all issuers.</p> <p>c) We obtained emails summarising information noted through the review of Chinese media review performed by NSX in relation to two issuers. The review highlighted strategic information such as a planned acquisition and a strategic agreement with new business partners.</p>	<p>2. The following observations were noted in relation to the monitoring database spreadsheet:</p> <ul style="list-style-type: none"> • market monitoring is not consistently documented by the various team members in the monitoring database spreadsheet, for example we noted some fields such as internet search, review of company and review of website were not completed for some issuers; • supporting documentation on research matters were not always saved in the folders on the shared drive; and • the Compliance Committee review update is not systemically included in the spreadsheet while this is a requirement from the Market Monitoring procedure. <p>We recommend that documentation of the monitoring database spreadsheet is enhanced to ensure consistency and to allow</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52			for an efficient review process.
	4. Enquired with management about the informal consultation process with the Board and Committee members with a presence in China addressing background checks of applicants and monitoring of issuers and examined a sample of email correspondence summarising results of the discussions.	4. We understand from management that one of the Directors has access to an informal network who provides him with information on companies operating in emerging markets through both online (email, WeChat) and offline conversations. An example of the monitoring performed was information collected by a Director in relation to one NSX issuer who had an intention to acquire NSX to help Chinese companies to list in Australia. This information triggered an investigation from NSX, communication with ASIC and a subsequent delisting of the issuer.	
	5. Enquired with management on the current use of Thomson Reuters World Check and examined a sample of background check information used in the admission process.	5. Thomson Reuters World Check is consistently used by NSX since August 2017 to perform background checks of directors of applicants and responsible officers of Nominated Advisors as well as to review announcements of newly appointed directors. These checks are performed to ensure suitability of listings and completeness of conflicts of interest disclosure. We obtained an example of a flag raised by Thomson Reuters World Check for one director of a listing applicant. Subsequent investigation done through the relevant nominated advisor confirmed that the individual flagged is not the same person as the director of the applicant.	
	6. Enquired with management on their working relationship with ASIC's market surveillance team and observed email correspondence for a sample of two issues raised with ASIC.	6. Management informed us that NSX regularly communicates with the ASIC Market Surveillance team in relation to unusual price movements and information noted as the result of media monitoring activities. We observed email correspondence with ASIC in relation to the investigation of two issuers (detailed in section 9 of agreed action #52) and noted that actions taken in relation to those listed entities were consistent with the communication with ASIC's market surveillance team.	
	7. Enquire about management's process to implement a change in culture.	7. We understand from management that NSX has undergone a cultural change in terms of both people and procedures. Greater focus was given to appointing candidates with relevant experience and repute, as addressed in agreed action #32 and in agreed	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
	Observed variations in the number of queries raised as per NSX website between 2017 and 2016.	<p>action #52, section 2. Further, procedures were updated as noted in agreed action #52, section 1.</p> <p>This was supported by the increased number of queries raised to issuers since July 2017 (21 queries between July 2017 and January 2018, compared to 13 queries between July 2016 and June 2017).</p>	
52	<p>8. a) Enquired with management about the current approach to test price movements.</p> <p>b) Examined for a sample of issues identified and queries raised by NSX, the documentation of investigation performed, SMARTS system notes (for price movements), responses to queries received and communication with ASIC on the matter if applicable.</p> <p>c) Examined a sample of supporting documents saved on the shared folder and examined SMARTs system alerts log for 28 and 29 December 2017.</p>	<p>8. a) We understand from management that all trades are being reviewed by NSX as all trades trigger alerts in the SMARTS system that require follow up. As part of management's review, queries are raised in relation to price movements that are not supported by announcements and media search results that would indicate undisclosed announcements. Responses received from listed entities are reviewed for reasonableness by the market monitoring team.</p> <p>b) Examined examples of queries (tickets) raised by NSX in relation to an investigation performed for one listed entity and for a price query raised for another issuer as follows:</p> <p>i. Investigation performed for one listed entity</p> <p>As noted in observation #52, section 4, one Director of NSX became aware of an issuer who had the intention to acquire NSX to help Chinese companies list in Australia. This information triggered an investigation from NSX, which entailed:</p> <ul style="list-style-type: none"> • further research through media and internet search; • collection and review of additional documents; • queries being raised to the issuer; • communication with ASIC about NSX's concerns for this particular issuer; • Compliance Committee review and resolution to delist the entity. Through examination of the meeting minutes, we noted that one of the Compliance Committee members has timely declared a conflict of interest and refrained from voting; • Announcement was published to confirm the removal of the entity from the official list. <p>ii. Price query raised</p>	<p>3. For one price query raised by the market monitoring team in relation to an issuer in December 2017, we noted that the assessment of the reasonableness of the response received was not documented. We understand from management that there is currently no central register that captures past and ongoing investigations in relation to issuers, participants or Nominated Advisers.</p> <p>We recommend NSX creates an incident register to capture all incidents identified across the business including those raised in relation to the supervision of issuers, participants and Nominated Advisers. We understand that management is intending to create such a register.</p> <p>4. From inspection of the Surveillance file note and through inquiry we understand that every trade on NSX is currently triggering an alert which is then reviewed by management. We also understand that NSX expects an increase in business going</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52		<ul style="list-style-type: none"> • This was raised in response to the SMARTS system log for 29 November 2017 which flagged unusual trade volume inter-day. NSX commented in the system log on 30 November 2017 that it is a "newly listed security with price moving 41% at the close, high volume bid order entered and price query to be sent tomorrow" and stating that NSX discussed the query with ASIC; • Examined price query sent on 30 November 2017 to and response letter received from the listed entity on 4 December 2017 confirming that the listed entity is not aware of any unannounced news that could have resulted in a decrease in trading price, however there were a number of shareholders that were 'locked-in' for some years that could have resulted in the trade of securities at a lower price; • Based on enquiry, we understand that Management considered the response as reasonable taking into consideration that it is common for a company to have its shares in escrow which could result in a lower trading price and given that the value of shares is denominated in cents, a high percentage movement (40-50%) is not unusual based on NSX experience. <p>c) On the sample of SMARTS log we examined for these two dates, there were commentary added for each alerts raised.</p>	<p>forward. If the volume of trades increases significantly, we recommend management develop a trade exception report in SMARTS to flag exceptions such as, for example, unusual trade volume based on historical trade volume and frequency.</p> <p>We understand from management that they are currently considering the process for implementation of automated trade order entry controls and reporting.</p>
	<p>9. a) Examined the NSX <i>Company Announcement for trading halt procedure</i> dated November 2017, enquired with management on the process of applying and monitoring trading halts for price sensitive announcements.</p> <p>b) Observed a sample of trading halts applied in the system.</p>	<p>9. a) Management informed us that trading halts are applied manually in the system in relation to all price sensitive announcements and application of trading halts is subject to ongoing monitoring by Head of Operations as follows:</p> <ul style="list-style-type: none"> • All announcements are lodged by issuers via NSX's web-based portal. NSX receives an automated notification email; • The analyst responsible for announcements reviews classification as being price sensitive or non-price sensitive, by comparing the company's assessment to an independently developed assessment. If an announcement has not been marked as sensitive by the company and is deemed price sensitive by NSX, NSX will communicate with the company until an agreement is reached on the classification; • Once classification is ascertained to be price sensitive, NSX manually applies trading halt for 30 minutes after the release of the announcement to the market; 	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52		<ul style="list-style-type: none"> • Announcements released to the market trigger alerts several NSX staff members including the Head of Operations, who performs desktop review of the trading halt applied to the price sensitive announcements; • Completeness of trading halts applied is assessed through the market monitoring procedure: each trade is reviewed to ensure that significant price movements are in line with announcements. In the case where the market surveillance and monitoring teams were to observe trading within 30 minutes of an announcement released to market, they would cancel such trades. <p>b) We examined email notifications received about a price announcement dated 29 December 2017. We also obtained a screenshot from the system on application of trading halt on the same date following announcement release time and subsequent release of the announcement to the market as per the email notification.</p> <p>We examined the email correspondence for another listed entity dated 8 November 2017 where the Head of Operations reached out to the issuer to confirm whether a particular announcement should be marked as price sensitive when the company initially had deemed it to be non-price sensitive. The listed entity confirmed that classification of the announcement should be amended to be price sensitive on the same date.</p>	
	<p>10. Enquired with management about the procedure to check ongoing spread qualification of issuers.</p>	<p>10. Management informed us that on-going spread qualification review is addressed by the initial shareholder spread review as part of the admission process (as documented in observation #54.3), including review of shareholders register, review of directors' interest notices and background check performed via Thomson Reuters World Check. This procedure is performed to ensure that at least 25% of shareholding is represented by non-directors.</p> <p>Management also explained that the ongoing monitoring of the shareholder spread is performed on an ad hoc basis rather than on a periodic basis with reference to financial reports. The trigger for this review includes ongoing investigation of a market participant, a change of directors or a substantial change in the number of shares.</p> <p><i>Recommendation #52.5 was raised in relation to ongoing monitoring of the shareholder spread rule.</i></p>	<p>5. In relation to observation 10, we understand the shareholder spread is assessed on an ad-hoc basis however the check is not evidenced in the annual/semi-annual report checklist.</p> <p>We recommend that the documentation in the periodic disclosure checklist is enhanced to include evidence of the ongoing monitoring of shareholder spread.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52	<p>11. a) Enquired with management about the procedure for removing Nominated Advisers.</p> <p>b) Examined a complaint letter received by NSX about a Nominated Adviser, documents supporting investigation and letter on censure and suspension of the Nominated Advisers.</p> <p>c) Examined the template Nominated Advisers' application form and the Eligibility Criteria and Framework, attached in appendix to all application forms, and which details NSX's expectations on suitability.</p>	<p>11. a) The Nominated Adviser Practice Note dated January 2018 outlines process for removal from nominated advisor lists as follows:</p> <p>"If at any time the Exchange considers that the integrity or reputation of the market may be or may have been impaired as a result of the conduct or judgment of a nominated adviser the Exchange may remove the nominated adviser. The Exchange reviews the register of nominated advisers annually. This review will consider the conduct of each Nominated Adviser during the past year. The Nominated Adviser will be given written notice of the intention to remove it stating the reasons for removal and advising it of the right of appeal via the Exchange Appeals Committee."</p> <p>b) Management informed us that it has removed one of the Nominated Advisers following an investigation performed which was triggered by a complaint from a listing applicant.</p> <p>i. Examined a complaint from one applicant dated 5 January 2017 about its Nominated Adviser noting that no assistance was provided by the Nominated Adviser from April 2016 (fee payment date) until 14 October 2016 and information provided by advisor during this period was not clear.</p> <p>ii. Examined documents supporting the investigation performed:</p> <ul style="list-style-type: none"> • email correspondence of Company Secretary with the Nominated Adviser following-up on progress of the listing application triggering complaint; • email sent by Market Monitoring and Surveillance team on 11 January 2017 as evidence of research and investigation work performed by the team; • email sent by translator of one of Directors on 13 January 2017 summarising investigation performed by the Director that supported details listed in the complaint and compliance team investigation; <p>iii. Examined letter on censure and suspension of the Nominated Adviser dated 21 February 2017 and confirmed that the basis for the decision was consistent with evidence of investigation. Further, we noted a letter confirming that NSX did not renew the status of the nominated advisor dated 4 July 2017. We understand that the Nominated Adviser was on boarded prior to changes made by NSX to the Nominated Adviser on boarding process.</p>	<p>6. We note the complaints register includes a succinct description of complaints received by NSX. We recommend management enhances the documentation of complaints in the register and these be tabled at the monthly Board meeting.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52		<p>c) Examined the template application form for recognition as Nominated Advisor and Eligibility Criteria and Framework as referred in the application form and noted the following eligibility criteria:</p> <ul style="list-style-type: none"> • Eligible organisations are stockbrokers, banker, lawyers, accountants, other professionals experienced in corporate finance, responsible entity or as determined by NSX; • Applicant should have been operating in a corporate finance advisory role for three years; • Applicant should have at least two qualified and experienced responsible officers; • Applicant should have procedures and controls in place to ensure that personnel do not act beyond their proper authority; • Nominated advisor is required to provide an annual declaration concerning the listed issuers under their advice. <p>We noted that the Eligibility Criteria and Framework has been removed from NSX's website and understand based on enquiry with management that the intention is to reduce applications being submitted by Nominated Advisers with no prior engagement with NSX.</p>	
	<p>12. a) Enquired with management about JORC training and Practice Note.</p> <p>b) Examined JORC presentation slides and the invoice for the related training.</p> <p>Note on the JORC code: The JORC Code is a professional code of practice that sets minimum standards for public reporting of minerals exploration results, mineral resources and ore reserves.</p>	<p>12. a) A JORC Compliance Workshop was organised for NSX by a third party advisory firm on 30 Nov 2017.</p> <p>We understand management engages a JORC specialist on an ad-hoc basis to support the team to assist NSW in maintaining compliance with The JORC code.</p> <p>b) The related workshop slides dated 14 November 2017 "JORC 2012 - Complying with the Code in the reporting environment" and other documents related to JORC which were presented during the training are available on the shared drive of NSX.</p> <p><i>A recommendation has been raised in relation to assessment of training needs going forward and evidence of training attendance.</i></p>	<p>7. In relation to observation 12, we understand there is currently no formal training plan or documentation of training performed. We recommend that NSX enhances formalisation of training needs and training attendance, by for example introducing a training plan and attendance sheets.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
52	<p>Public reports prepared in accordance with the JORC Code are reports prepared for the purpose of informing investors or potential investors and their advisors. They include, but are not limited to, annual and quarterly company reports, press releases, information memoranda, technical papers, website postings and public presentations of exploration results, mineral resources and ore reserves estimates.</p>	<p>13. We noted that period disclosure processes and checklists have been reviewed, updated and applied to half year and full year disclosures, and this activity is documented. This role is completed by someone with accounting qualifications.</p> <p>The periodic disclosure checklist was updated in October 2017 to include the following checks:</p> <ul style="list-style-type: none"> • Assessment of auditors qualification or ongoing concerns if any; • Profitability of the listed entity; • Current ratio (current assets / current liabilities), to ensure that it exceeds 1; • Assessment of subsequent events if any; • Assessment of material changes in the financial statements compared to prior financial statements; • Shareholders distribution note review and top 10 shareholders; • Notes on queries raised if any and responses. <p>We examined periodic disclosure checklists (annual reports checklists) of two issuers and noted that the above mentioned items were included in the assessment. In the sample inspected, there were no material change noted.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>The periodic disclosure procedure was updated on 17 November 2017 and includes relevant listing rules, frequency of monitoring and process map of the periodic disclosure procedure.</p>	
52	<p>14. Examined an email confirming submission of revised operating rules to ASIC by NSX.</p>	<p>14. Examined an email sent by NSX to ASIC on 13 December 2017 with updated operating rules attached for informal lodgement. Listing rule 6.7 was amended to include a requirement to provide a distribution of shareholders in their annual reports (Section 13 of the rule).</p>	
53	<p>ASIC agreed action: NSX has agreed that, by 31 December 2017, it will:</p> <p>a) formalise its processes for monitoring long-term suspended securities, including clearly outlining the re-quotations process and the roles and timing of engagement of relevant NSX committees; and</p> <p>b) enhance its guidance on how it will handle long-term suspensions and the possible removal from, and re-quotations to, the NSX official list. It should include an indicative period beyond which continued suspension will typically lead to de-listing (e.g. two years).</p>		
	<p>1. Assessed Practice Note - Monitoring of Suspended Companies dated January 2018.</p>	<p>1. The Practice Note - <i>Monitoring of Suspended Companies</i> defines listings that have been suspended for a period greater than 6 months as long term suspensions.</p> <p>Long term suspended securities are monitored by the Compliance Committee on a monthly basis.</p> <p>The Practice Note provides that if an issuer has been suspended for an indicative period greater than 18 months, NSX will notify them that they have six months to fulfil additional requirements (re-quotations process) in order to be reinstated. If the issuer fails to meet this deadline or fulfil additional requirements it may be delisted.</p> <p>The re-quotations process is dependent upon the issuer satisfying the requirements for reinstatement within a period of 6 months after the notification has been provided by NSX.</p> <p>If an issuer is deemed unsuitable by the Compliance Committee under Listing Rule 2.22 then it may be required to undergo the readmission process through the Listings and Admission Committee.</p> <p>Management informed us that the Practice Note will be published on NSX's website shortly.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
	<p>2. Observed announcements relating to a sample of two suspended securities.</p> <p>3. Enquired with management and examined Compliance Committee meeting minutes dated 26 October 2017 to assess oversight performed over long term suspended securities.</p>	<p>2. For both samples selected for testing, an announcement was published on NSX's website at the moment of the suspension (due to failure to release audited annual report) and the suspension was subsequently removed after the lodgement of the audited annual report.</p> <p>3. Management informed us that there were no recent re-quoted securities and there is only one long term suspended security. The suspension of this listing is being monitored by the Compliance Committee. The Compliance Committee formed a view (as documented in the minutes) that this company must ensure that all its disclosure obligations are met by 31 December 2017 to allow the Compliance Committee to analyse its financial situation. NSX sent a letter in October 2017 to the company detailing the outstanding requirements for re-quotations. We were not able to check the resolution of the re-quotations process for this company as it has obtained an extension of the deadline to meet the outstanding requirements.</p>	
54	<p>ASIC agreed action:</p> <p>NSX has agreed that, by 31 December 2017, it will review and enhance the monitoring of trading on its market, including reviewing the effectiveness of its alerts and its response to suspicious activity.</p>		
	<p>1. Enquired with management about the use of SMARTS to monitor market trades and examined SMARTS system alerts log for a sample of two dates.</p>	<p>1. Management informed us that SMARTS system was in place at the time of ASIC's review however it was not used to the full extent of its possibilities. NSX engaged an external third party to deliver training for staff members on the use of the system in August 2017. The SMARTS system is now also used to evidence the review of price movements, price queries raised and follow-up as applicable in addition to the review of SMARTS alerts.</p> <p>We understand from management that all suspicious transactions are raised by NSX on a timely basis with the ASIC market surveillance team.</p> <p>We have sighted an internal list maintained since May 2017 by NSX which includes records and notes of suspicious trading activity flagged to ASIC</p> <p>SMARTS system alerts in relation to trades on 28 and 29 December 2017 were reviewed by the Market Surveillance and Monitoring team as part of the unusual trading activity monitoring. Procedures performed to review the trade include review of the announcements of the company, media search and documentation of a conclusion in relation with the price movement of the security. No price query was raised in the sample we looked at, which was consistent with the documented</p>	<p>1. We noted through our testing that each trade is flagged as requiring investigation by the SMARTS system and is assessed by a team member at NSX. Where unusual trade activity is noted by NSX, this is raised with ASIC. The conclusion was not documented in some instances and in other instances there was no documentation of how the conclusion was reached.</p> <p>From May 2017, NSX has maintained a list of consultations made with ASIC in relation to trade monitoring.</p>

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
54		conclusion.	<p>We recommend that management:</p> <ul style="list-style-type: none"> enhance the documentation to include clear rationale for the conclusions reached on unusual trading activity; implement a periodic secondary review of a sample of alerts to provide management with additional comfort over the level of investigation performed for these alerts.
	<p>2. Enquired with management and observed invitations received for a Stockbrokers course and training slides for relevant sessions.</p>	<p>2. A stockbroker training was attended by three market surveillance and monitoring team members and facilitated by a third party service provider. This course included following sessions:</p> <ul style="list-style-type: none"> Market manipulation and other prohibited conduct - held on 26 October 2017; Conduct risk - held on 5 April 2017; Cyber resilience - held on 8 March 2017. <p>The related training presentation slides are available on the shared drive of NSX.</p>	
	<p>3. Examined system alerts log for 28 and 29 December 2017 to assess whether every trade has been reviewed in the SMARTS system for these dates.</p>	<p>3. One trade has been investigated as per SMARTS system during 28 and 29 December 2017 and as per trading statistics noted on the website there was one trade that took place during this period.</p>	
	<p>4. Enquired with management about the procedure to monitor outstanding orders and examined a sample of two confirmations issued to market participants and one query raised as the result of ad hoc confirmation of outstanding orders.</p>	<p>4. We understand from management that all outstanding orders with market participants at the end of the calendar year are confirmed with counterparties via email. Similarly confirmations are sought in instances where a security is traded at significantly different prices during the same day and there has been a recent corporate action for this security (such as share consolidation, stock split, etc.).</p> <p>Confirmation requests were sent in relation to the two orders outstanding at year end in our sample. In addition, a letter was issued to one market participant querying a security trade price that was assessed as inappropriate in light of a recent corporate action.</p>	
	<p>5. Enquired with management about implementation of IRESS and examined email dated 13 November 2017 in relation with the IRESS training provided to NSX.</p>	<p>5. Management informed us that NSX has agreed with IRESS to allow market participants to trade in NSX securities using the IRESS platform in addition to the NETS platform. IRESS held a training session for NSX's market monitoring team to explain commonly used commands in IRESS to monitor Australian market and securities. NSX's market monitoring team uses IRESS to consider general market movements (both for ASX and NSX listings) by industry and price movements of related entities of NSX's issuers.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
54	6. Enquired with management about relationship with ASIC and ASX and examined a sample of email correspondence supporting closer relationship with ASIC and ASX.	<p>6. Management informed us that as part of their culture change, they have established more regular formal and informal communication practices with ASIC. Communications are typically phone calls and informal meetings. Additionally we understand that management is open to communication with other regulators and engages in discussions as necessary.</p> <p>For example:</p> <ul style="list-style-type: none"> • NSX has communicated with the Federal Financial Supervisory Authority (BaFin, German regulator) in September and October 2017 to enquire about a warning issued by BaFin in relation to related party of a NSX listed entity; • NSX conducted a joint investigation with ASIC and ASX during the period August to November 2017; • Management met with the Hong Kong Securities and Futures Commission (SFC) in December 2017 to discuss common challenges; <p>NSX attended a meeting with ASIC's market surveillance team to observe ASIC's market monitoring procedures in order to enhance NSX's current process. Also refer to agreed action #52, section 6 for other examples of interactions with ASIC.</p>	
55	<p>ASIC agreed action:</p> <p>NSX has agreed that, by 31 December 2017, it will clearly communicate to all existing and prospective nominated advisers and issuers about the potential conflicts of interest that arise when a nominated adviser trades in the securities of issuers it represents, and NSX's expectations about avoiding or managing such conflicts.</p>		
	1. Assessed the Nominated Advisers Practice Note dated January 2018.	<p>1. NSX has prepared a Nominated Adviser Practice Note which it intends to communicate to all Nominated Advisers by end of March 2018. This Practice Note outlines roles and responsibilities of the Nominated Advisers with regards to issuers as follows:</p> <ul style="list-style-type: none"> • provide advice and guidance to the directors of the issuer; • confirm to the best of their knowledge and belief that all relevant NSX requirements have been complied with by the issuer; • when it ceases to be the issuer's Nominated Adviser, to provide NSX with information as requested by NSX; • advise and guide the directors of the issuer as to their responsibilities and obligations to ensure ongoing compliance by the issuer with the NSX listing rules. 	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
		<p>Additionally the Practice Note outlines the responsibilities of Nominated Advisers in relation to conflicts of interest and trading in listed entities, as follows:</p> <ul style="list-style-type: none"> • "Nominated Advisers should avoid instances where they are involved in trading of NSX listed entities while they are the appointed Nominated Adviser; • Nominated Advisers should consider that they potentially have access to privileged information and the consequences of actions related to the acquisition or disposal (or facilitating such actions) of the securities of the listed entity; • If circumstances present that necessitate such activity the Nominated Adviser must advise NSX prior to any activities occurring and it should be disclosed by the listed entity and the trading policies of the entity must be adhered to; • The consequences of not adhering to the above may include potential contraventions of the Corporations Act and disciplinary action imposed by NSX; • Nominated Advisers must give an undertaking not to act as Nominated Adviser for any organisation from which it is not independent." 	
55	2. Examined a sample of two Nominated Advisers' annual statements.	<p>2. NSX obtains annual statements from Nominated Advisers confirming the following:</p> <ul style="list-style-type: none"> • The firm and responsible officers registered as Nominated Adviser continue to meet the eligibility criteria to be a Nominated Adviser for NSX (these criteria are summarised in our observations #52, section 12b); • In respect to entities listed on NSX for whom they act as Nominated Advisers, they are acting independently, responsibly, and in a professional manner in ensuring the compliance with NSX's applicable rules and practice notes. Nominated Advisers are required to provide a current conflict of interest handling overview (such as relevant policies); • Confirmation that they are not aware of breaches of NSX's applicable rules in relation to the relevant entity that has not been previously advised to NSX. <p>The two annual statements we examined contained a confirmation in relation to all the above points.</p>	

#	Procedures performed	Observations	Recommendations / Opportunities for improvement
55	<p>3. Examined application forms for a sample of two Nominated Advisers along with supporting documentation on their qualification and experience and evidence that this reviewed by NSX prior to approval of the Nominated Advisers.</p>	<p>3. For the sample of new Nominated Advisers we selected, NSX performed a range of procedures to assess their experience and qualification prior to approving them as Nominated Advisers of NSX. Such procedures included the review of</p> <ul style="list-style-type: none"> • Company background information (AFSL license, ASIC website); • Qualifications and relevant experience of responsible officials (reference letters). <p>The review of the experience and qualifications of the Nominated Advisers' responsible officials is documented in a memorandum which was reviewed by the Listing and Admissions Committee.</p> <p>As noted in observation 52.11.b) NSX has removed one offshore Nominated Adviser following an investigation performed which was triggered by a complaint from a listing applicant.</p> <p>Management informed that they are not currently on boarding new offshore Nominated Advisers, to reduce the risk associated with qualification, relevant experience and conflicts of interest handling process of Nominated Advisers.</p>	
56	<p>ASIC agreed action: NSX has agreed to update ASIC by 31 October 2017 on its progress in addressing each of the agreed actions. Importantly, NSX will also engage an independent third party to review NSX's implementation of the agreed actions and prepare a report on their findings for provision to ASIC by 31 March 2018.</p>		
	<p>1. Obtained internal action plan prepared by NSX in response to agreed actions with ASIC.</p>	<p>1. NSX provided a status update to ASIC via its proposed internal action plan which includes a response and status for all agreed actions as at the end of October 2017.</p>	
	<p>2. Obtain an email sent by NSX to ASIC including NSX internal action plan.</p>	<p>2. An email was sent to ASIC on 30 October 2017 to share NSX's internal action plan with ASIC.</p>	
	<p>3. Obtained the signed engagement letter between PwC and NSX.</p>	<p>3. PwC has been engaged by NSX to perform an assessment of the compliance with agreed actions. PwC's report is expected to be issued to NSX and shared with ASIC prior to 31 March 2018.</p>	

Appendix A – Summary of themes identified

Through our assessment of the implementation of the agreed actions included in ASIC's report, we observed the following examples of improvement made by NSX in the last 18 months:

Area	Good practice / improvements by NSX
Size, suitability and experience of staff members	<p>As part of NSX's organisational transformation, a key focus has been placed on the recruitment of an experienced team. As part of the suitability assessment of new recruits, management considered relevant education and financial markets' experience and sought to appoint individuals who were already performing the required role at a peer company.</p> <p>As a result of the new hires and organisational changes, the following improvements were noted:</p> <ul style="list-style-type: none"> - Segregation of duties between admissions, business development and new products and markets functions - Additional segregation of duties between management and the compliance function as a result of the appointment of a Head of Compliance in February 2018 - market monitoring and surveillance team increases from two to four team members; - two of NSX's offices were closed and the team is now in a single location in Sydney to allow for better communication between staff members and closer proximity with market stakeholders.
Enhancement and update to policies and procedures	Seven policies and procedures were updated and three new procedures were prepared between the publication of ASIC's report in August 2017 and the end of January 2018.
Change in culture	<p>Through our engagement we noted all NSX team members consistently referenced an improvement to controls and procedures.</p> <p>We noted that 65 instances of unusual trading activity were flagged to ASIC by NSX between May 2017 and December 2017.</p> <p>We understand that management is proactively looking for opportunities to further improve their processes and procedures, and has appointed someone into the newly created role of Head of Compliance in February 2018. In addition, NSX intends to review the role, independence and the structure of its Committees.</p>
Improved guidance for issuers around suitability	Three new practice notes were prepared to improve guidance for issuers on the suitability for listing and admission expectations.
Enhancement of issuers monitoring procedures	Management has reviewed and strengthened its current systems, methodologies and procedures for monitoring over issuers' compliance with continuous disclosure requirements and other obligations. This is supported by 31 queries raised in 2017 with issuers as compared to five in 2016.

The following is a summary of recommendations and opportunities for improvement noted.

#	Recommendation / Opportunity for improvement	Ref	H	M ¹	L
1	Strengthening of the mitigation of conflicts of interest of the Committees ² and implementation of a centralised conflicts of interest register.	#35.1, #35.2	✓		
2	Implementation of terms of reference for the Committees including the role, operating model, appointment/retirement process, and composition of the Committees.	#35.2		✓	
3	Enhancement of the documentation of aspects of controls and procedures performed in relation to market monitoring and admission, including evidence of independent review and consideration of relevant risks in relation to admissions.	#13.1, #43.1, #52.2 to #52.5, #54.1		✓	
4	Implementation of a formal annual performance appraisal process including KPIs, core values and remuneration reward system. Rotation of roles and documentation of controls and procedures to mitigate key person risk.	#32.1		✓	
5	Implementation and periodic review of incidents and training registers.	#52.3, #52.7		✓	
6	Enhancement of the documentation and periodic review of the complaints register.	#52.6			✓
7	Enhancement of documentation of management's risk appetite and risk mitigation procedures.	#42.1			✓
8	Opportunity for efficiency through the implementation of automated trade order entry controls and reporting	#52.4			✓

The detail of these observations can be found under section 5 above.

¹The recommendations and opportunities for improvement contained in the report are classified as being high, medium or low. A detailed explanation of these classifications is provided in Appendix B.

² The Committees referred to in this table are the Listings and Admissions Committee and the Compliance Committee.

Appendix B – Risk rating matrix

The recommendations and opportunities for improvement contained in Appendix A of this report are broadly classified as being high, medium or low risk. A detailed explanation of these classifications is provided below:

<i>Risk rating</i>	<i>Observation</i>
High	<p>Recommendation is rated as 'high', if issue noted would result in one of the following:</p> <ul style="list-style-type: none"> • Internal action plan did not address actions agreed with ASIC • Proposed actions as documented in NSX's internal action plan have not been implemented as of 15 March 2018 • Immediate rectification of the issue is required to allow market operator to monitor and enforce listing rules; • Although not a direct non-compliance with ASIC's agreed actions, the issue identified is significant enough that it requires immediate attention.
Medium	<p>Recommendation rated medium risk exposure, issue or breakdown in the control design or operation of actions proposed in the internal action plan, which can undermine the implementation of the action plan and should therefore, be addressed.</p> <p>A 'medium' risk recommendation is characterised by:</p> <ul style="list-style-type: none"> • Potentially internal action plan did not address fully actions agreed with ASIC • Due to insufficient formalization potentially internal action plan actions have not been fully implemented as of 15 March 2018; • Recurrence of a 'low' rated issue in relation the same process. <p>Rectification of the recommendation to be put in place as soon as practicable.</p>
Low	<p>Low risk recommendations represent opportunities for improvement that do not impact operational effectiveness/efficiency of internal action plan and are housekeeping in nature. These recommendations should nevertheless be addressed by management.</p>

Appendix C – Conflict handling arrangements policy and procedures

Current policy	Date	Former policy	Date
Code of Ethics And Conduct	January 2018	Code of Ethics and Conduct	March 2013
Conflict Handling Policy and Procedures	January 2018	Managing Conflict of Interest Procedures	March 2013
Policy and Procedures for appointment of Directors and Senior Officers to NSXL and NSX	January 2018	Procedures for appointment of new directors or senior officers to NSX	June 2008
Provision of Services by Directors and Related Parties Procedures	January 2018	NSX Provision of Services by Directors and Related Parties Procedures	June 2008
Review Parties Policy and Procedure	January 2018	Disclosures of Conflicts of Interest and Review Parties	April 2017
NSX Committees and Panels Conflicts Handling Processes and Procedures	January 2018	N/A new policy	
N/A - amalgamated above		Procedures for the maintenance of the conflicts of interest register	March 2013

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