

PROPOSED REVISIONS: PROHIBITED CONDUCT SUBJECT TO SURVEILLANCE

PROPOSED AMENDMENT TO : Rule 5.1 - Segregation and Limitation of Functions of Trading Participants
Rule 6.2 - Prohibited Conduct under Securities Laws

Reference No. : Proposal No. 004-2014

Rationale for the Proposal : To provide specific scenarios and examples of conduct prohibited under the Securities Regulation Code (SRC) and the Implementing Rules and Regulations of the SRC

Action : **FOR SEC APPROVAL**

<i>CURRENT RULE</i>	<i>PROPOSED AMENDMENT</i> <i>(as approved by the Market Governance Board on 25 March 2014)</i>
<p><i>Rule 5.1 Segregation and Limitation of Functions of Trading Participants</i></p> <p>Any Trading Participant that assumes the functions of both Dealing Participant and Brokering Participant shall maintain proper segregation of those functions within the firm to prevent any conflict of interest or flow of information that will enable front-running or insider trading, or any other practice that will redound to the disadvantage of the customer, by complying with the following minimum requirements:</p> <p>1. xxx</p> <p>9. xxx.</p>	<p><i>5.1 Segregation and Limitation of Functions of Trading Participants</i></p> <p>Any Trading Participant that assumes the functions of both Dealing Participant and Brokering Participant shall maintain proper segregation of those functions within the firm to prevent any conflict of interest or flow of information that will enable front-running or insider trading, or any other practice that will redound to the disadvantage of the customer, by complying with the following minimum requirements:</p> <p>1. xxx</p> <p>9. xxx</p> <p>10. <u>Trading Participants shall not engage in conduct violative of segregation requirements set out in items 6 and 7 above, whereby the Dealing Participant, acting on information regarding the customer order of a specific Security of its related Brokering Participant, buys/sells such specific Security from the PDEX market and turns around and sells/buys the same to the Brokering Participant. Under this scenario, the Dealing Participant earns income from the sale and the Brokering Participant earns a commission from its client.</u></p>

6. The Trading Participant shall institute policies and sanctions that will ensure that material non-public information that may affect the buying and selling prices of the Securities will not be used by its personnel for himself or for the Trading Participant.
7. The Trading Participant shall institute policies and sanctions that will ensure that customer orders and positions are kept with utmost confidentiality by its personnel who receive such information in the exercise of their functions.

<p style="text-align: center;">CURRENT RULE</p>	<p style="text-align: center;">PROPOSED AMENDMENT (as approved by the Market Governance Board on 25 March 2014)</p>
<p>Rule 6.2 Prohibited Conduct under Securities Laws</p> <p>No Issuer, Trading Participant or its personnel shall commit any act or engage in any conduct likely to bring PDEX into disrepute, and in particular, shall not:</p> <ol style="list-style-type: none"> 1. Engage in any conduct prohibited under Securities Laws and these Rules, including but not limited to the following conduct: <ol style="list-style-type: none"> a. xxx b. By means of any fictitious or artificial transaction or device, maintaining, inflating, depressing, or causing fluctuations in, the price for trading in listed Securities; c. xxx 	<p>Rule 6.2 Prohibited Conduct under Securities Laws</p> <p>No Issuer, Trading Participant or its personnel shall commit any act or engage in any conduct likely to bring PDEX into disrepute, and in particular, shall not:</p> <ol style="list-style-type: none"> 1. Engage in any conduct prohibited under Securities Laws and these Rules, including but not limited to the following conduct: <ol style="list-style-type: none"> a. xxx b. By means of any manipulative, fictitious or artificial transaction or device, maintaining, inflating, depressing, or causing fluctuations in, the price for trading in listed Securities in PDEX, alone or with others. <p><u>Examples of prohibited acts under a and b above include, but are not limited to the following:</u></p> <ol style="list-style-type: none"> <u>i. Engaging in a series of transactions in securities that are reported publicly to give the impression of activity or price movement in a Security in PDEX [e.g. painting the tape];</u> <u>ii. Buying and selling Securities in PDEX at the close of the market in an effort to alter the closing price of the Security, or posting bids and offers with the intent to influence the closing price or the reference rates [marking the close];</u> <u>iii. Engaging in buying activity at increasingly higher prices and then selling securities in the PDEX market at the higher prices [hype and dump] or vice versa (i.e. selling activity at lower prices and then buying at such lower prices);</u> <u>iv. Generating a large amount of turnover with other participants which largely nets out to a zero sum change in beneficial ownership, where the transactions represent a large proportion of trading in a Security in PDEX for the day [collusion];</u> <u>v. Entering a series of large bid (ask) orders into the order book at the same time as they are actually trying to sell</u>

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	<p><u>(buy) in order to influence the best buying (selling) price of other participants. This gives an appearance of high demand or supply for a particular security. [spoofing - bait and switch]; and</u></p> <p><u>vi. Entering multiple buy (sell) orders at multiple price steps and executing sell (buy) transactions with participants that enter buy (sell) orders ahead of them in the queue [spoofing - layering].</u></p> <p>C. xxx</p> <p>xxx</p>