ASIC
Australian Securities & Investments Commission

REGULATORY GUIDE 223

Guidance on ASIC market integrity rules for competition in exchange markets

June 2012

About this guide

This guide is for operators and participants of markets that are subject to the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 (competition market integrity rules).

It gives guidance on how market operators and market participants can comply with their obligations under the competition market integrity rules.

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Deleted: Australian Securities

Deleted: (ASX)—that is, shares, interests in managed investment schemes (including exchange-traded funds), rights to acquire shares or interests in managed investment schemes under a rights issue, and CHESS Depository Interests (CDIs) admitted to quotation on ASX.

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About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This draft version was issued on 28 June 2012 and is based on legislation and regulations as at the date of issue.

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Disclaimer

This guide does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this guide are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

This guidance is based on ASIC market integrity rules that were made by ASIC on 29 April 2011 and draft market integrity rules in Attachment 1 to Consultation Paper 179 *Australian market structure: Draft market integrity rules and guidance* (CP 179), released on 28 June 2012.

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A   Overview

> **Key points**
>
> Market operators and market participants must comply with their obligations under the competition market integrity rules. These rules address issues raised by competition between exchange markets.
>
> The competition market integrity rules apply to all trading in equity market products. Chapter 2 of the competition market integrity rules also applies to the ASX SPI 200 Index Future (ASX SPI 200 Future) and Chapter 5A applies to all ASX quoted products other than options and warrants.
>
> This guide should be read with our other relevant guidance on market integrity rules and other obligations on market operators and market participants.

What are the competition market integrity rules?

RG 223.1   We have made ASIC market integrity rules that are common to markets trading in equity market products admitted to quotation on the Australian Securities Exchange (ASX) to deal with issues relating to the introduction of competition between exchange markets: see ASIC Market Integrity Rules (Competition in Exchange Markets) 2011. In this regulatory guide, we refer to these rules as the 'competition market integrity rules'.

Note: The competition market integrity rules can be downloaded at www.asic.gov.au/markets. For the definition of 'equity market products', see 'Key terms'.

RG 223.2   The competition market integrity rules aim to mitigate issues that arise as a result of multiple exchange markets and the consequential fragmentation of trading and information.

RG 223.3   The competition market integrity rules include:

(a)   requirements for market operator level order entry controls and a harmonised trade cancellation policy in the event of an extreme price movement;

(b)   rules on achieving best execution for clients;

(c)   pre-trade and post-trade transparency rules to promote the fairness and efficiency of our market and in particular to promote its liquidity and quality of price formation;

(d)   reporting requirements for crossing systems;

(e)   rules on making market data available and promoting accessibility of consolidated market data;

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(f) rules on the provision of data to assist ASIC's surveillance function;

(g) information sharing requirements between market operators;

(h) rules on the coordination of time, identifiers and tick sizes across markets;

(i) a requirement that all transactions in equity market products are entered into under the rules of a licensed market, unless the transaction is a redemption or primary market action;

Note: See Rule 7.1.1 of the competition market integrity rules and RG 223.390–RG 223.394. In this guide, 'Rule 7.1.1' (for example) refers to a rule and 'Part 4.3' (for example) refers to a part of the competition market integrity rules, unless otherwise specified.

(j) rules prohibiting trading during a trading halt; and

(k) rules to allow market participants to aggregate transactions into a single confirmation.

RG 223.4 This regulatory guide covers the competition market integrity rules only. These rules supplement ASIC Market Integrity Rules (ASX Market) 2010 and ASIC Market Integrity Rules (Chi-X Australia Market) 2011.

Note: This guide also incorporates the frequently asked questions on ASIC's website that were issued after RG 223 was first published. In this guide, 'ASIC Market Integrity Rules (ASX)' refers to the ASIC Market Integrity Rules (ASX Market) 2010 and 'ASIC Market Integrity Rules (Chi-X)' refers to the ASIC Market Integrity Rules (Chi-X Australian Market) 2011.

RG 223.5 Some competition market integrity rules have transitional arrangements. For example, market participants can comply with best execution rules by accessing only ASX TradeMatch for a defined period of time: see RG 223.112–RG 223.114 and RG 223.121–RG 223.122.

RG 223.6 A table with implementation dates may be inserted once rules are made. Details of proposed implementation dates are in Appendix 2 in Report 290 *Response to submissions on CP 168 Australian market equity structure: Further proposals* (REP 290).

Scope and application of the rules

Products

RG 223.7 The competition market integrity rules apply to all trading in shares, interests in managed investment schemes (including exchange-traded funds), rights to acquire shares or interests in managed investment schemes under a rights issue, and CHESS Depository Interests (CDIs) admitted to quotation on ASX. These products are referred to in this regulatory guide as 'equity market products'. Section B of this guide on extreme price movements also applies to the ASX SPI 200 Future contract. Section H on data for market supervision applies to all products quoted on ASX other than options and warrants.

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RG 223.8 The competition market integrity rules do not apply to trading that occurs on an overseas market where a company is listed on both an Australian and overseas market and the trading occurs on the overseas market. Trading in dual-listed companies in the jurisdiction where the company is dual-listed is subject to local regulation. For example, if BHP Billiton has listings on both ASX and the London Stock Exchange, the competition market integrity rules will apply to trading in BHP Billiton in Australia, but not to trading in BHP Billiton on the London Stock Exchange.

Persons

RG 223.9 The competition market integrity rules apply to one or more of:

(a) market operators that offer trading services in relevant products admitted to quotation on ASX;

(b) market participants that deal in relevant products on their own behalf or for clients, whether or not the participant transacts on an order book or off-order book in relevant products; and

(c) market participants who provide a service to clients that enables the electronic matching of orders in equity market products with orders of the participant or of clients of the participant.

RG 223.10 Section G of this guide explains the best practice standards that we expect of parties who provide data consolidation services for pre-trade and post-trade information provided by market operators.

Other relevant guidance

RG 223.11 ASIC is responsible for supervising compliance by market participants, market operators and other relevant entities with all market integrity rules. This is in addition to our role in supervising compliance by market participants and market operators with other provisions of the *Corporations Act 2001* (Corporations Act), including the Australian financial services (AFS) licensing provisions.

RG 223.12 This regulatory guide does not address topics that are already addressed in other regulatory guides on market integrity rules and other obligations on market operators and market participants. Table 1 identifies other regulatory guides that may be relevant.

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Table 1:   Related guidance

Topic	ASIC regulatory guide
The disciplinary process for breaches of all market integrity rules (including the competition market integrity rules)	Regulatory Guide 216 *Markets Disciplinary Panel* (RG 216)
Notifying ASIC of significant breaches (or likely breaches) by AFS licensees under s912D	Regulatory Guide 78 *Breach reporting by AFS licensees* (RG 78)
Our rule-making regime and approach to supervising compliance with market integrity rules (including our approach to waivers)	Regulatory Guide 214 *Guidance on ASIC market integrity rules for ASX and ASX 24 markets* (RG 214)
How to communicate with ASIC about market integrity rules (including when to contact ASIC and where to find further information)	RG 214
Our approach to supervising market operators	Regulatory Guide 172 *Australian market licences: Australian operators* (RG 172)
Our approach to supervising compliance with the AFS licensing obligations	Regulatory Guide 104 *Licensing: Meeting the general obligations* (RG 104) and Regulatory Guide 105 *Licensing: Organisational competence* (RG 105)
Guidance on ASIC Market Integrity Rules (ASX)	RG 214
Guidance on ASIC Market Integrity Rules (Chi-X)	Regulatory Guide 224 *Guidance on ASIC market integrity rules for the Chi-X market* (RG 224)
Information on electronic forms of disclosure	Regulatory Guide 221 *Facilitating online financial services disclosures* (RG 221)
Guidance on automated order processing	Draft guidance to be issued in early third quarter 2012

Deleted: Ongoing review and further consultation¶

<#>We intend to keep the competition market integrity rules and related guidance under review. We will consult with industry before making any future amendments to these rules or related guidance.¶

<#>In CP 145, we consulted on a number of proposed rules relating to broader market structure developments. We intend to use the feedback on CP 145 to refine some of our proposals that respond to wider market developments (e.g. relating to growth in non-pre-trade transparent pools of liquidity ('dark pools') and the impact they are having on the public price formation process, automated electronic trading and volatility controls). We intend as a matter of priority to consult further on these important issues and, subject to the outcomes of this consultation, to settle these additional rules in early 2012 (with sufficient lead time for transition and implementation). ¶

Note: For detailed information about the responses to CP 145 and our response to the feedback, see REP 237.¶

<#>The additional proposed rules relate to the following issues:¶

<#>enhanced controls for automated electronic trading, including for algorithms to be appropriately tested and a mechanism to immediately disable them if necessary;¶

<#>enhanced controls for direct electronic access, including minimum client standards, a legally binding contract with clients and pre-trade controls;¶

<#>volatility controls to automatically limit market activity during extreme market movements;¶

<#>imposing requirements on market participants to demonstrate compliance with their best execution arrangements, including by publishing reports on order transmitting and imposing requirements on market operators to publish reports on execution quality; ¶

<#>enhanced data requirements for ASIC's surveillance capability, such as the identification of categories of clients, origin of order and off-order book matching mechanisms; and¶

<#>exceptions to pre-trade transparency and mechanisms for promoting pre-trade transparency, particularly after further analysis of the impact of dark pools on price formation in the Australian marketplace. We also intend to review the post-trade transparency deferred publication regime. ¶

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B   Extreme price movements

> **Key points**
>
> Market operators must have in place execution risk controls that will, at a minimum:
>
> - effectively minimise the incidence of a single order executing at an anomalous price;
> - effectively minimise the incidence of a transaction executing in the extreme trade range; and
> - provide a mechanism for detecting and addressing any such transactions which may occur, including the cancellation of certain transactions.
>
> These execution risk controls shall apply throughout the continuous trading hours of the relevant market. This includes the night session for the ASX SPI 200 Future. It does not include auction periods or any other periods where there is not continuous matching of orders (e.g. for equity market products, pre-trading hours, post-trading hours and out of hours trading periods).

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Scope and application

RG 223.13   Chapter 2 of the competition market integrity rules on extreme price movements and Section B of this guide apply to market operators that offer trading services in equity market products or the ASX SPI 200 Future, and to market participants that trade in these products.

RG 223.14   Unexpected and extreme price movements may undermine confidence in the market and discourage investor participation. We consider there are four levels of controls to minimise the risk of such events occurring and to manage and mitigate the liquidity and volatility effects should an extreme price movement event occur: see Figure 1.

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Figure 1: Controls for extreme price movements

Participant-level controls
(e.g. testing, price, filters, kill switch)

Market-level order entry controls
(e.g. price)

**Market-level controls for
preventing extreme price movements**

Trade cancellation as a last resort
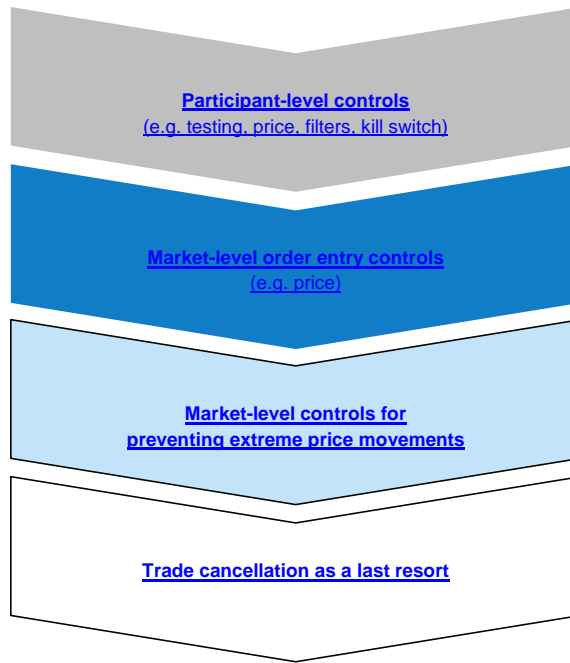
Market participant controls

RG 223.15   Market participants must have and maintain the necessary resources to ensure that orders that they enter into the market do not interfere with the efficiency and integrity of the market, and to act in a manner which maintains a fair and orderly market: see Rule 5.5.2 and Parts 5.6 and 5.9 of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X). Market participants cannot rely solely on the market operator's order entry controls or controls for preventing extreme price movements.

Note: See also RG 214 (for ASX) and RG 224 (for Chi-X). In this guide, 'Part 5.6 (ASX) and (Chi-X)' (for example) refers to a part of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X).

RG 223.16   This means market participants must have in place filters when submitting orders into the market that minimise the risk the participant will not comply with its obligations under the ASIC market integrity rules for the relevant market. The type of filters will depend on the participant's system capabilities, the nature, scale and complexity of its business and the particular risks that the participant has assessed as relevant to that business.

RG 223.17   Market operators may determine the order types available to participants on their markets. Market participants should assess which order types are appropriate for their client base, risk appetite and security classes traded, particularly when transacting in volatile markets.

RG 223.18   We intend to issue draft market integrity rules and consolidated guidance on automated trading controls early in the third of quarter 2012.

> Note: For our draft guidance on systems and controls for domestic market licensees (i.e. holders of an Australian market licence under s795B(1) of the Corporations Act), see the addendum to RG 172 in Attachment 3 to Consultation Paper 179 *ASIC market structure: Draft market integrity rules and guidance* (CP 179).

Order entry controls: Anomalous order thresholds

RG 223.19   Anomalous orders interrupt the price formation process for the products involved. This disruption may then trigger a sequence of market-moving transactions, mis-pricing other products and impacting other markets. Market-level order entry controls can filter out orders with anomalous prices, such as offers at prices well below the current market price.

RG 223.20   A market operator must have adequate controls to prevent anomalous orders from entering its market: Rule 2.1.3. It must set anomalous order thresholds and should prevent a buy order for which the price is above the maximum or a sell order for which the price is below the minimum threshold for the relevant product from being executed. In complying with this rule, market operators are required to have an anomalous order threshold for each equity market product and ASX SPI 200 Future quoted on their market: Rule 2.1.1(1).

Determining thresholds

RG 223.21   A market operator must have in place adequate arrangements for determining anomalous order thresholds: Rule 2.1.4(1)(a).

RG 223.22   We expect that the thresholds are likely to vary by the nature and liquidity of the relevant product. In determining an anomalous order threshold, Rule 2.1.1(5) requires a market operator to at least take into account the following factors:

(a)   the price at which a single order deviates substantially from:

   (i)   prevailing market conditions for the relevant product—for example, the current best available bid and offer prices for the relevant product and the available liquidity;

   (ii)   historical trading patterns—in this case, the liquidity and volatility of a product may be relevant in assessing appropriate thresholds. For example, the most liquid products that are not considered volatile may have a lower threshold (e.g. 5% from the current best bid or offer), whereas less liquid products may have a higher threshold to reflect that their price is likely to be more volatile; and

(b)   the tick size for the relevant equity market product or the relevant index multiplier for the ASX SPI 200 Future.

RG 223.23   In addition to these factors, when developing or reviewing their order entry controls, we encourage market operators to consider other relevant factors to minimise the possibility of anomalous orders entering the market (e.g. to prevent an order with such a large volume that it is likely to be incorrect).

RG 223.24   We expect market operators to have arrangements for determining how orders identified by the anomalous order entry filters are managed. For example, market operators may simply wish to reject anomalous orders after they are identified, or they may wish to seek additional verification from the relevant market participant that the order is legitimate. These arrangements for managing identified anomalous orders should be made clear to market participants.

Notifying ASIC of thresholds

RG 223.25   A market operator must notify ASIC in writing of:

(a)   its arrangements for determining anomalous order thresholds, before first adopting a threshold in accordance with those arrangements, and each time it revises those arrangements (Rule 2.1.4(2)); and

(b)   the anomalous order thresholds, the first time it sets the thresholds for each relevant product quoted on its market before adopting them for the purposes of order entry controls (Rule 2.1.1(2)).

RG 223.26   The notifications to ASIC must be made at least 21 days before first adopting the thresholds and must be in writing in either printed or electronic form. Ideally, notification to ASIC of the arrangements under Rule 2.1.4(2) should be made before notification of the proposed anomalous order thresholds under Rule 2.1.1(2).

> **Notification to ASIC**
>
> The notification should be directed to the Senior Executive Leader of Financial Markets Infrastructure (formerly Exchange Market Operators), ASIC, at Level 5, 100 Market Street Sydney NSW 2000, or emailed to marketsregulation@asic.gov.au.

RG 223.27   Where ASIC considers that the thresholds notified to ASIC or adopted by the market operator are not appropriate to promote market integrity or a fair, orderly and transparent market, we may notify the market operator to revise the thresholds: Rule 2.1.1(3).

RG 223.28   A market operator that has received a notice under Rule 2.1.1(3) must revise the thresholds as soon as practicable and notify ASIC in writing of the new thresholds: Rule 2.1.1(4).

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RG 223.29   Rule 2.1.4(3) also enables ASIC on an ongoing basis to notify a market operator that its arrangements for determining anomalous order thresholds under Rule 2.1.4(1) are not appropriate to promote market integrity or a fair, orderly or transparent market, including after the thresholds are in place. In these circumstances, Rule 2.1.4(4) requires the market operator to revise the arrangements as soon as practicable and notify ASIC of the new arrangements. The notification should be in writing in either printed or electronic form not less than 2 business days before adopting the revised arrangements.

Monitoring and reviewing thresholds

RG 223.30   A market operator must regularly review and amend the thresholds where necessary, and monitor and adjust them to ensure that they are adequate to prevent anomalous orders from entering its market: Rule 2.1.4(1)(b) and (c).

RG 223.31   We do not intend to prescribe the frequency or nature of the review. However, we would expect market operators to at least review the thresholds to take into account the experience of a recent market event or when there has been a material change to a product that may impact the threshold—for example, a corporate action or other event that substantially changes the price (and possibly tick size) or the liquidity of the product. It may also be appropriate to undertake a review when the number of orders exceeding the threshold significantly alters.

RG 223.32   A review may include looking at the orders that the thresholds identify as being anomalous and assessing whether the orders were actually anomalous or a result of acceptable price volatility. If the threshold is exceeded consistently for a particular product, it may be an indication that the product is naturally volatile and a slightly higher threshold may be appropriate.

Making thresholds publicly available

RG 223.33   A market operator must make their anomalous order thresholds publicly available before they are adopted: Rule 2.1.2. This includes each time the thresholds change. We consider that typically the thresholds, or changes to the thresholds, should be made publicly available at least one week before they are adopted to enable sufficient time for market participants to absorb the thresholds, or the change. We recognise that market conditions may in some circumstances require an immediate change.

RG 223.34   The mechanism for making the thresholds public is at the discretion of the market operator. We consider that the market operator's website is an appropriate mechanism.

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Controls for preventing extreme price movements

RG 223.35 While a market operator's order entry controls will minimise the risk of an anomalous order entry, they may not fully remove the risk of an extreme price movement. It is therefore important that market operators have automated arrangements in place to effectively minimise the incidence of a transaction executing at an unexpected and extreme price.

RG 223.36 Under Rule 2.2.2A, a market operator must have in place adequate controls to prevent a transaction in a relevant product from executing on its market in the extreme trade range for the product. The extreme trade range is determined by ASIC and reviewed from time to time as required. The extreme trade range for a product is all prices greater than an absolute value (in cents) or percentage away from the reference price for the product: see Table 2. These are prices at which ASIC considers a transaction is likely to impact on market integrity.

RG 223.37 The reference price for a product is determined in most circumstances by the responsible market operator for the product: see Table 3 and Table 4. For equity market products, the responsible market operator is ASX, and for the ASX SPI 200 Future, the responsible market operator is the operator of ASX 24.

Table 2: Extreme trade range

Product type	Reference price range	Tick	Extreme trade range (variance from reference price)
Equity market products	0.1–9.9 cents	0.1 cent	>5 cents
	10–99.5 cents	0.5 cent	>30 cents
	100–199.5 cents	0.5 cent	>50 cents
	200–499 cents	1 cent	>50.0%
	500–699 cents	1 cent	>40.0%
	700–999 cents	1 cent	>35.0%
	1000–1999 cents	1 cent	>30.0%
	2000–4999 cents	1 cent	>25.0%
	≥5000 cents	1 cent	>20.0%
ASX SPI 200 Future	Not applicable	1 index point	>250 price steps

Deleted: Market participant controls¶
<#>Market participants are not to rely solely on the order entry controls of market operators. Market participants continue to have obligations under the ASIC market integrity rules for their market to have and maintain the necessary resources to ensure that orders that they enter into the market do not interfere with the efficiency and integrity of the market, and to act in a manner which maintains a fair and orderly market. We expect market participants to continue to have in place risk filters when submitting orders into the market, based on their system capabilities and their regulatory risk profile.¶
Note: See Rules 5.5.2 and 5.6 and Pt 5.9 of ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X). For guidance on how market participants can comply with these rules, see RG 214 (ASX) and RG 224 (Chi-X).¶
<#>Market operators may determine the order types available to participants on their markets. Market participants should assess which order types are appropriate for their client base, risk appetite and security classes traded, particularly when transacting in volatile markets.¶
Trade cancellations¶

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RG 223.38 Where there are multiple markets offering trading services in the same product, we consider it important that market operators have consistent arrangements for coordinating the reporting of certain events that indicate an unexpected and extreme price movement has occurred, and subsequently pausing and resuming trading. Those events (referred to in the competition market integrity rules and this guide as 'ETR events') are where the following occurs:

(a) a buy order for which the price is within the upper extreme trade range; or

(b) a sell order for which the price is within the lower extreme trade range,

is rejected by the market operator's extreme trade range controls or, in the event of a failure of those controls, is executed on a market in the extreme trade range.

Determining reference price for extreme trade range

RG 223.39 Under Rule 2.2.2(1), the responsible market operator must determine a new reference price for each product:

(a) after each 'trading reset' (i.e. after an intraday trading pause or suspension, or at the end of a trading day or session); and

(b) before trading next resumes (i.e. when the market re-opens after an intraday trading pause or suspension, or at the start of the next trading day or session).

RG 223.40 Table 3 outlines the process for determining the reference price for equity market products under Rule 2.2.2. Table 4 sets out the process for the ASX SPI 200 Future.

RG 223.41 We expect that, in most cases, the reference price will be based on an auction (i.e. in the case of an equity market product, an auction on ASX TradeMatch, or in the case of the ASX SPI 200 Future, an auction on ASX 24). However, under Rule 2.2.2(1), the responsible market operator has a discretion to determine the reference price by an alternative means in certain circumstances.

RG 223.42 Under Rules 2.2.2(2) and (3), all market operators, including the responsible market operator, must use the reference price for a product determined under Rule 2.2.2(1), to determine the extreme trade range for that product. However, under Rule 2.2.2(4), other market operators (and ASX, in relation to any of its order books other than ASX TradeMatch), must determine and use an alternative reference price on an interim basis in certain circumstances.

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Deleted: put in place adequate policies and procedures for the cancellation of transactions on its market. This includes transactions cancelled as a result of an extreme price movement and cancellations resulting from some other reason.

Deleted: Trade cancellation for extreme price movements ¶
<#>A market operator must have in place adequate arrangements for identifying when a transaction has been executed on its market in the extreme cancellation range: Rule 2.2.4(2)(a). The extreme cancellation range will be determined by ASIC and reviewed from time to time as required. The extreme cancellation range for equity market products is outlined in Rule 2.2.1 and is a two-band multi-price brackets model: see

Deleted: <#>. A consistent cancellation range across all markets will maximise certainty for market participants.¶
<#>Under Rule 2.2.1, price movements are measured: ¶
<#>for products priced under $2—by tick increments away from the reference price; and¶
<#>for products priced over $2—by percentage movements away from the reference price. ¶
<#>This approach takes into account the low prices at which some quoted products trade, where a single tick price movement may amount to a 100% price increase.¶
Extreme cancellation range for equity market products¶

Table 3:   Process for determining the reference price: Equity market products

Time	Source of reference price
Start of each trading day	1 When ASX TradeMatch opens for trading, ASX must determine the reference price for each equity market product, as: (a) the price established by the opening auction on ASX TradeMatch for that product for that trading day; or (b) if there is no opening auction or no resultant auction price on ASX TradeMatch for that product, or the price established by the opening auction is invalid (i.e. resulted from an error, is materially and unexpectedly different from the last traded price, or is otherwise required to be amended or cancelled), the price of the first transaction in that product on ASX TradeMatch for that trading day; or (c) if the transaction referred to in paragraph (b) is invalid, a price determined by ASX, acting reasonably, to be valid. 2 If an order book other than ASX TradeMatch (including PureMatch) opens for trading in an equity market product before the reference price for that product is determined by ASX under Step 1, the market operator of that order book must determine an interim reference price for that product for that order book, as: (a) the price of the first transaction in that product on that order book for that trading day; or (b) if the transaction referred to in paragraph (a) is invalid, a price determined by that market operator, acting reasonably, to be valid. 3 After ASX determines the reference price for an equity market product under Step 1, all market operators must use that reference price until there is a trading reset: see Step 4.
Intraday	4 If, during the trading day, there is a trading reset (i.e. a trading pause after an ETR event, a trading suspension, or technical outage) in an equity market product on ASX TradeMatch, ASX must determine a new reference price for that product, as: (a) the price established by the auction on ASX TradeMatch following the trading reset for that product; (b) if there is no auction or no resultant auction price on ASX TradeMatch following the trading reset for that product, or the price established by the auction is invalid, the price of the first transaction in that product on ASX TradeMatch following the trading reset; or (c) if the transaction referred to in paragraph (b) is invalid, a price determined by ASX, acting reasonably, to be valid. 5 If an order book other than ASX TradeMatch (including PureMatch) re-opens for trading in an equity market product after an intraday trading reset and before the new reference price for the product is determined by ASX under Step 4, the market operator of that order book must determine a reference price for that product for that order book, as: (a) the price of the first transaction in that product on that order book following the trading reset; or (b) if the transaction referred to in paragraph (a) is invalid, a price determined by that market operator, acting reasonably, to be valid. 6 After ASX determines the reference price for an equity market product under Step 4, all market operators must use that reference price until there is another trading reset: see Step 4 or Step 7.
End of trading day	7 At the end of the trading day (and after any closing auction on ASX TradeMatch), there is a trading reset and the reference price for each equity market product ceases to apply until trading next resumes, usually on the following trading day: see Step 1.

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Table 4: Process for determining the reference price: ASX SPI 200 Future

Time	Source of reference price
Start of each trading session	1 At the start of each trading session (i.e. daytime or evening), the operator of ASX 24 must determine the reference price for each ASX SPI 200 Future as: (a) the price established by the opening auction on ASX 24 for that ASX SPI 200 Future for that trading session; (b) if there is no opening auction or no resultant auction price on ASX 24 for that ASX SPI 200 Future, or the price established by the opening auction is invalid, the price of the first transaction in that ASX SPI 200 Future on ASX 24 for that trading session; or (c) if the transaction referred to in paragraph (b) is invalid, a price determined by the market operator of ASX 24, acting reasonably, to be valid.
During a session	2 If, during the trading session, there is a trading reset (i.e. a trading pause after an ETR event, a trading suspension, or technical outage) in the ASX SPI 200 Future, the market operator of ASX 24 must determine a new reference price for that ASX SPI 200 Future, as: (a) the price established by the auction on ASX 24 following the trading reset for that ASX SPI 200 Future; (b) if there is no auction or no resultant auction price on ASX 24 following the trading reset for that product, or the price established by the auction is invalid, the price of the first transaction in that ASX SPI 200 Future on ASX 24 following the trading reset; or (c) if the transaction referred to in paragraph (b) is invalid, a price determined by the market operator of ASX 24, acting reasonably, to be valid.
End of trading session	3 At the end of the trading session, there is a trading reset and the reference price for each ASX SPI 200 Future ceases to apply until trading next resumes, usually at the start of the next trading session: see Step 1.

Notifying other market operators of reference price

RG 223.43   Under Rules 2.2.2(2) and 6.2.1, the responsible market operator must notify each other market operator of the reference price for each equity market product or ASX SPI 200 Future that is also quoted on the other market and notify ASIC of the reference price for all relevant products. This notification must be made:

(a)   as soon as practicable after first determining the reference price for the trading day or session (usually after completion of the opening auction); and

(b)   as soon as practicable after any change to the reference price for that trading day, in the event that there is a trading reset during the trading day.

RG 223.44   The responsible market operator must have in place adequate arrangements for notifying other market operators and ASIC of the reference prices: Rule 2.2.4(1).

> Note: For more information about how this information should be provided, see Section H of this guide.

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RG 223.45   We expect a responsible market operator to keep a record of its notification arrangements in writing.

Identifying an ETR event

RG 223.46   A market operator (including the responsible market operator) must identify when an ETR event has occurred on its market, and must have in place adequate arrangements for identifying when an ETR event occurs on its market: Rules 2.2.2B(1) and 2.2.4(2)(a). We expect that a market operator's arrangements for identifying ETR events will include automated mechanisms (e.g. systems alerts).

Notifying of ETR events

RG 223.47   A market operator (other than the responsible market operator) that identifies an ETR event on its market must immediately notify the responsible market operator for the product (i.e. ASX for equity market products and the operator of ASX 24 for ASX SPI 200 Futures): Rule 2.2.2B(2). Market operators must have in place adequate arrangements for making these notifications: Rule 2.2.4(2)(ab).

RG 223.48   In addition, as soon as practicable after becoming aware of an ETR event that is a transaction executed in the extreme trade range (in the event of a failure in the market operator's controls under Rule 2.2.2A), the market operator(s) of the markets on which transaction in the extreme trade range occurred must:

(a)   notify ASIC and all other market operators of the prices and times at which the transaction was executed (Rule 2.2.3(a));

(b)   notify each market participant whose transactions were executed within the extreme trade range (Rule 2.2.3(b)); and

(c)   make publicly available the price, times and number of transactions that were executed in the extreme trade range each time they occurred (Rule 2.2.3(c)). We consider it appropriate for market operators to publish a range for the price, volume and time where more than one transaction occurred in the extreme trade range.

RG 223.49   Market operators must have in place adequate arrangements for making the notifications referred to in RG 223.47: Rule 2.2.4(2)(b) and (c). Adequate arrangements may include a real-time data feed, publication on a website or email.

> **Notification to ASIC**
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> The notification to ASIC should be emailed to market.surveillance@asic.gov.au.

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Notification of transactions in extreme cancellation range¶
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Imposing a trading pause

RG 223.50   Where the responsible market operator identifies an ETR event in a relevant product on its own market (Rule 2.2.2C(1)(a)), or receives notification from another market operator of an ETR event in a relevant product (Rule 2.2.2C(1)(b)), it must:

(a)   immediately and for a minimum period of 10 minutes (to align with continuous disclosure obligation procedures), impose a trading pause in that product, being a period during which the market operator must prevent orders for the relevant product from being matched or executed on its market, but during which bids and offers may be displayed, entered, amended and cancelled (Rule 2.2.2C(1)(c));

(b)   immediately notify ASIC and the market operators of all other markets on which that product is quoted that a trading pause has been imposed on the product (Rule 2.2.2C(1)(d)); and

(c)   immediately notify ASIC and the other market operators when the trading pause on the product is removed or lifted (Rule 2.2.2C(4)).

RG 223.51   Each market operator that receives a notification from a responsible market operator that a product has been placed in a trading pause must immediately place the product in a trading pause on its own market(s): Rule 2.2.2C(2). It must not remove or lift the trading pause until after it receives a notification from the responsible market operator that the trading pause has been removed or lifted: Rule 2.2.2C(3).

RG 223.52   We interpret 'immediately' to be as close to instantaneously as is technically and reasonably possible, consistent with our expectations for trading suspensions under Rule 6.1.1.

RG 223.53   The responsible market operator must have a transparent policy describing the circumstances in which a trading pause may result from an ETR event, the period of the trading pause, and how the responsible market operator will resume trading on its market after the pause (e.g. by way of an auction or straight into continuous trading): Rule 2.2.2C(6). We consider that typically the policy, and any changes to the policy, should be made publicly available at least one week before being adopted, to enable sufficient time for market participants and other market operators to absorb the policy or the changes.

Mechanism for making notifications

RG 223.54   Under Rule 6.2.1(1), the notifications of ETR events and trading pauses must be made through one or more electronic data feeds and in a machine-readable format (i.e. where no human intervention is required to receive or interpret the data). This will ensure speedy provision and processing of this information. This will in turn enable market operators to quickly respond to

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the substance of the information (e.g. to put the relevant product into a trading pause).

RG 223.55   Where a technical problem prevents a market operator from immediately making these notifications, the notification must be made available by another appropriate means and without delay: Rules 2.2.2B(3) and 2.2.2C(5). We expect market operators to have appropriate backup procedures and arrangements in place if a data feed fails. This could include communication via telephone. We expect these procedures to be agreed between market operators and with ASIC.

Transparent policies for trade cancellations

RG 223.56   Under Rule 2.3.1(1), a market operator must have in place adequate policies and procedures for cancelling transactions in equity market products or the ASX SPI 200 Future on its market. This includes transactions cancelled because they were executed in the extreme trade range (although we expect this will be very infrequent due to the market operator's controls for preventing extreme price movements), and cancellations resulting from some other reason.

RG 223.57   In addition to controls for preventing extreme price movements, under Part 2.3 market operators must:

(a)   have in place adequate policies and procedures for cancelling transactions in equity market products and the ASX SPI 200 Future;

(b)   comply with these policies and procedures; and

(c)   make these policies and procedures available to market participants before they take effect (including any changes to the policies and procedures).

RG 223.58   We consider that typically these policies and procedures, or any changes to those policies and procedures, should be made available at least one week before they are adopted. The mechanism for making the policies and procedures available is at the discretion of the market operator. We consider that the market operator's website is an appropriate mechanism.

RG 223.59   The market operator's policies and procedures for cancelling transactions must address the matters outlined in Table 5.

Table 5: Policies and procedures for cancellations to be made available to market participants

Matter	Details
Cancellation of transactions in extreme trade range	All transactions which are executed in the extreme trade range will be cancelled.
Cancellation of transactions other than in extreme trade range	The circumstances in which transactions other than in the extreme trade range (i.e. during normal trading): • will be cancelled; • may be cancelled subject to a discretion; or • will not be cancelled. We expect that a market operator's policy will include some ability for market participants to cancel or amend a transaction where mutual agreement from both parties is obtained. We may review our expectations on such policies after future consultation.
Timing	How the market operator will provide for the timely cancellation of transactions either in the extreme trade range or as permitted for some other reason.
Communication about cancellations	How the market operator will communicate to affected market participants about the cancellation of their transactions.

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C Best execution

> **Key points**
>
> Market participants must take reasonable steps to obtain the best outcome for their clients. Best outcome means different things for different clients:
>
> - for retail clients, it means best total consideration, which in turn market participants may interpret as best price while there are not material differences in transaction costs between licensed markets (see RG 223.68–RG 223.77); and
>
> - for wholesale clients, a range of factors may be relevant (see RG 223.82–RG 223.85).
>
> Market participants may meet their best execution obligation solely on ASX for a transition period; see RG 223.112–RG 223.114 and RG 223.121–RG 223.122.
>
> A market participant must:
>
> - have adequate policies and procedures for complying with its best execution obligation (see RG 223.115–RG 223.120);
>
> - disclose certain information about its execution arrangements to clients (see RG 223.123–RG 223.137);
>
> - regularly review and monitor the effectiveness of its execution arrangements (see RG 223.138–RG 223.150); and
>
> - be able to demonstrate compliance with its arrangements (see RG 223.151–RG 223.158).
>
> Market participants have a range of options for accessing markets: see RG 223.159–RG 223.165.

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Scope and application

RG 223.60   Chapter 3 of the competition market integrity rules on best execution and Section C of this guide apply to market participants that trade in equity market products

RG 223.61   Best execution promotes investor protection by ensuring market participants do not place their own interests ahead of those of their clients. It facilitates market efficiency by creating a regulatory incentive for market participants to direct client orders to the market that offers the best outcome.

RG 223.62   The best execution obligation, which builds on a market participant's existing obligations to its clients, outlines our specific expectations of market participants when handling and executing client orders in equity market products.

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Interaction between best execution and pre-trade transparency

Market participants currently transact on the pre-trade transparent order book of a licensed market or as permitted by the limited exceptions to pre-trade transparency under the rules of the licensed market.

In most circumstances, a market participant can discharge its best execution obligation by trading only on a pre-trade transparent order book of a licensed market. There may be circumstances where it is appropriate to consider non- pre-trade transparent liquidity (if permitted under a pre-trade transparency exception). For example, in some cases, the volume on the pre-trade transparent order books may not be adequate to fully execute a client order on favourable terms for the client. These circumstances should be set out clearly in the participant's policies and procedures.

Best execution obligation

RG 223.63   Under Rule 3.1.1, a market participant must take reasonable steps when handling and executing an order in equity market products to obtain the best outcome for the client. For a retail client, the best outcome means the best total consideration (which market participants may interpret as best price: see RG 223.73), taking into account client instructions. For wholesale clients other outcomes may be relevant, including speed, likelihood of execution and any other relevant considerations (or any combination of these outcomes).

RG 223.64   If a client provides a specific instruction about how an order should be handled and/or executed, we expect the market participant to take reasonable steps to satisfy the instruction.

RG 223.65   The obligation to take reasonable steps to obtain the best outcome for clients applies equally to trading on a pre-trade transparent order book of a licensed market and to trading off an order book under an exception to pre-trade transparency: see Section D.

Complying with the best execution obligation

RG 223.66   Best outcome will mean different things to different clients. Under Rule 3.1.1(2), market participants must at a minimum distinguish between wholesale and retail clients. For this purpose, these terms have the same meaning as in Ch 7 of the Corporations Act: see the summary in Table 6.

Table 6:   Meaning of wholesale and retail client

Type of client	Meaning
Retail client	Clients other than wholesale clients

Wholesale client	Where s761G(7) or s761GA applies, the client is a wholesale client where any of the following apply:
	
	(a) the price or value of the transaction is $500,000 or more (as specified in regs 7.1.18(2) and 7.1.19(2) of the Corporations Regulations 2001 (Corporations Regulations));
	
	(b) the financial product or service is provided for use in connection with a business that is not a small business (as defined in s761G(12));
	
	(c) when not provided for use in connection with a business, a qualified accountant certifies that the client has:
	
	   (i) net assets of at least $2.5 million (as specified in reg 7.1.28(1)); or
	
	   (ii) a gross income for each of the last two financial years of at least $250,000 a year (as specified in reg 7.1.28(1));
	
	(d) the client is a professional investor (as defined in s9); or
	
	(e) the client is a sophisticated investor (as defined in s761GA) with demonstrated experience in using financial services and investing in financial products.

RG 223.67   We consider that the best execution obligation applies to a market participant when dealing in equity market products on the following basis:

(a)   on behalf of a client on one side of a transaction;

(b)   on behalf of clients on both sides of a transaction. The requirements of both clients must be taken into account and they are both owed a duty of best execution; and

(c)   with a client on the participant's own behalf. We consider this to be execution of the client's order, and therefore subject to the best execution obligation.

What is the best outcome for a retail client?

Total consideration

RG 223.68   For a retail client, the best outcome means the best total consideration: Rule 3.1.1(2)(a). Total consideration is defined as:

(a)   the purchase price paid by the client (for a buy order) (i.e. unit price multiplied by volume) plus transaction costs; or

(b)   the sale price received (for a sell order) (i.e. unit price multiplied by volume) minus transaction costs.

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RG 223.69   Transaction costs are defined to be all costs paid by a client that are directly related to a particular transaction and include:

(a)   any execution costs imposed by the licensed market and market participant (e.g. including any charges by a market participant for use of its crossing system);

(b)   clearing and settlement costs; and

(c)   commissions paid to the market participant by the client.

This would include any other costs paid by the client to third parties involved in the execution.

RG 223.70   In assessing total consideration, a market participant may take into account implicit transaction costs such as market impact or other costs resulting from differences in speed, likelihood of execution or liquidity (see Table 7 for descriptions of these factors, typically more applicable to institutional investors), and give them precedence over the immediate price factors if they are instrumental in delivering the best total consideration. For example, this may be relevant for an order in a relatively illiquid product. However, we expect that implicit costs are unlikely to be a factor for most retail client transactions because they typically deal in order sizes that can be filled at the best displayed prices.

RG 223.71   These cost factors must be reflected in a market participant's policies and procedures (where relevant to delivering the best total consideration) and disclosed to clients: see RG 223.115–RG 223.136.

RG 223.72   Where material differences occur in transaction costs, we consider retail clients will expect, and should expect, a best total consideration result. Compared to taking into account more complex parameters that may be considered for wholesale clients, this will also be simpler to:

(a)   *implement*—details on costs are more readily available and comparable between markets, simplifying the selection of possible markets;

(b)   *execute*—order transmitting capabilities need only take into account cost factors, rather than more complex parameters; and

(c)   *evidence*—cost benchmarks are typically more available to assess execution performance against than other benchmarks.

Best price

RG 223.73   Market participants may interpret total consideration solely as the best purchase or sale price of an equity market product while there are not material differences in transaction costs between licensed markets. We expect taking reasonable steps to obtain the best price will be simpler for market participants to fulfil and simpler for retail clients to monitor. Market participants choosing to interpret total consideration as best price should reflect this in their policies and procedures and disclose it to clients: see RG 223.115–RG 223.136.

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RG 223.74   For transactions done on an order book, we consider best price to be the best available price across all the order books of licensed markets. Where the best price (for the volume of the client order) is spread across multiple order books, the market participant should take reasonable steps to obtain the best overall price. This may include accessing each of the best prices on each order book (either directly or using an intermediary or service offered by a market operator). Or it may be that the best price is achieved by transacting against one or a number of price points on a single order book.

RG 223.75   We acknowledge that there may be occasions when the best price on an order book is in an insignificant volume (e.g. one share). In these circumstances, we do not expect a market participant to access the price. We expect the market participant, however, to disclose to clients how it will manage these kinds of situations: see Table 9.

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RG 223.76   For transactions matched or executed off an order book under an exception to pre-trade transparency, market participants should consider the benefits to clients of trying to improve on the best displayed price across all order books to the extent this is possible for a particular equity market product. Where a market participant acts on behalf of both clients to a transaction and where a duty of best execution is owed to both clients, the market participant should consider whether it is possible to improve on the price for both clients. Participants relying on the exception under Rule 4.1.1(2)(c) must provide meaningful price improvement from the date that rule applies. For example, if the best displayed bid and offer are $5.04 and $5.08, it would be possible to improve on the prices by trading at $5.05, $5.06 or $5.07.

RG 223.77   If or when material differences occur in transaction costs (e.g. if a competitor clearing house emerges with materially different prices), we would expect market participants to take into account those differences. We will be clear about whether we take a different interpretation of price and total consideration where market circumstances have changed and will update this guidance accordingly. We will provide sufficient notice and lead time for market participants to prepare for any change.

Retail client instructions

RG 223.78   Where a retail client provides an instruction about how an order should be handled and/or executed that is inconsistent with the obligation in Rule 3.1.1(1) to obtain the best outcome for the client, the market participant must take reasonable steps to satisfy the client's instruction: Rule 3.1.1(3). Examples of instructions that a market participant may receive from a retail client include:

(a)   choice of market (e.g. Market X or Market Y);

(b)   fast execution;

(c)   minimising market impact; and

(d)   obtaining greatest execution certainty.

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RG 223.79   Under Rule 3.1.1(3), the instructions must be:

(a)   clear and unambiguous;

(b)   in writing or provided verbally (a record of the instruction must be kept for seven years). 'In writing' includes both printed and electronic form, including via email with hyperlinks or references to a website; and

(c)   specific to an order and not contained in the terms and conditions of a client agreement or any other standard form agreement provided by the market participant to the client.

RG 223.80   A market participant must not encourage or induce a client to provide specific instructions: Rule 3.1.2. That is, the instruction should be at the client's own initiative. For example, a market participant must not include a standard clause within its client agreement to the effect that the participant only deals on the basis of specific client instructions.

RG 223.81   Where the instruction is inconsistent with the best outcome for the client, we consider that a market participant has complied with its obligation to the extent that it has complied with the client's instructions and provided the client's instructions meet the requirements in RG 223.79. However, client instructions are likely to address only some aspects of order handling and/or execution. We consider the best execution obligation applies to those aspects of the handling and execution process not governed by the instruction. For example, if a retail client provides an instruction to execute an order on Market X, the market participant must still take reasonable steps to obtain the best outcome on Market X.

What is the best outcome for a wholesale client?

RG 223.82   In assessing the best outcome for a wholesale client, under Rule 3.1.1(2)(b), market participants should take into account all outcomes that may be relevant for the client, which may include the outcomes outlined in Table 7. The relevance of these outcomes may vary based on matters such as the nature of the client, the client's instructions (e.g. whether an order is buy, sell, limit order, market order or generated by an algorithm), the order type, the product and liquidity at the time.

RG 223.83   A market participant must:

(a)   reflect the outcomes that are relevant to its clients in its policies and procedures (see Rule 3.2 and RG 223.115–RG 223.122); and

(b)   disclose to clients the circumstances in which the market participant considers the outcomes are relevant to clients (see Rule 3.3 and RG 223.123–RG 223.137).

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Table 7: Outcomes that may be relevant for wholesale clients

Factors	Description
Price of the equity market product	Price is an important outcome and one that we expect most market participants will consider relevant. However, it may not represent the best outcome at a given point in time. For example, the order book of a licensed market that is displaying the best price may not have much volume, or the costs of executing on that market may be considerably more than for other markets.
Costs	Costs can be both explicit (e.g. connection fees, transaction fees or clearing and settlement fees) and implicit (e.g. market impact). A transaction may appear to have a higher cost when considering the explicit costs but may in fact be lower when implicit costs are considered. For example, a large order if executed in one lot may be subject to lower overall transaction fees than if the order was broken into many smaller parts. However, smaller transactions executed throughout the course of a day may achieve lower prices, resulting in lower overall costs.
Speed	Speed is becoming an increasingly important outcome for some wholesale clients. It is important where a client needs to exit a position quickly or is concerned that the price may move in an adverse direction when it is trying to hedge a position. Speed may, however, be less relevant for clients that are taking a longer-term view of the equity market product.
Execution certainty	Where a wholesale client seeks certainty that a large order will be executed, likelihood of execution may be an important outcome. The volumes available at each price point on each order book of a licensed market may be relevant. For example, it may be possible to execute smaller orders at the best price on a single order book, but larger orders may involve taking out orders across multiple price points. Executing part of a larger order on a single order book may mean subsequent executions become less favourable. Market participants should consider these issues when selecting destinations for order transmitting.

RG 223.84   We consider that permitting wholesale clients to take into account a range of outcomes in general reflect the existing environment in Australia, where wholesale clients seek to achieve a range of outcomes other than best price.

RG 223.85   A market participant may nominate best price or best total consideration as the best outcome for its wholesale clients rather than other outcomes where it considers price or total consideration is the best outcome for its clients.

Wholesale client instructions

RG 223.86   As with retail clients, wholesale clients may provide instruction on an order-by-order basis about how an order should be handled and/or executed. Where the instruction is inconsistent with the obligation in Rule 3.1.1(1) to obtain the best outcome for the client the market participant must take reasonable steps to satisfy the client's instructions: Rule 3.1.1(4).

RG 223.87   In addition, Rule 3.1.1(4) permits wholesale clients to provide standing instructions. For example, a wholesale client may have a standing instruction that market impact is the most important factor in assessing the best outcome if they typically deal in large size.

RG 223.88 A wholesale client instruction must be:

(a) clear and unambiguous;

(b) in writing or provided verbally (a record of the instruction must be kept for seven years). 'In writing' includes both printed and electronic form, including via email with hyperlinks or references to a website; and

(c) not contained in the standard terms and conditions of a client agreement provided by the market participant to the client.

RG 223.89 Rule 3.1.1(5) requires that a market participant should periodically review a standing instruction from a client to ensure it remains possible for the market participant to satisfactorily perform the instructions. The frequency of review may vary depending on the client and whether there have been material changes to the market participant's best execution arrangements (e.g. 6–12 months may be appropriate for certain instructions while a longer period may be appropriate for others).

RG 223.90 As with retail clients, a market participant must not encourage or induce a wholesale client to provide specific instructions: Rule 3.1.2. That is, the instruction should be at the client's own initiative. For example, a market participant must not include a standard clause within its client agreement to the effect that the participant only deals on the basis of specific client instructions.

RG 223.91 Where a wholesale client instruction relates to only part of the market participant's handling and execution process, it does not absolve the market participant from its best execution obligation for the remainder of the order. For example, if a wholesale client provides an instruction to execute the order on Market X, the market participant must still take reasonable steps to obtain the best outcome on Market X.

Wholesale client election for best execution protection not to apply

RG 223.92 Under Rules 3.1.1(4) and (5), a wholesale client can provide an instruction to opt-out of the best execution protection by providing a standing instruction to this effect for up to 12 months.

RG 223.93 As with other client instructions, Rule 3.1.2 requires that a market participant must not encourage or induce a client to opt-out of its best execution protection. We would consider any such action by a market participant as a serious breach of the market participant's obligations.

RG 223.94 The instruction to opt-out of best execution protection applies for up to 12 months from the date the instruction was received by the market participant. The instruction must be renewed by the client. The market participant may notify the client that a renewal is required. We do not consider a notification of this type to be a breach of Rule 3.1.2.

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RG 223.95   Situations where a wholesale client may elect to opt-out include:

(a)   a client that directly accesses a market with its own high speed execution algorithm through the infrastructure of a market participant (i.e. direct electronic access); or

(b)   a client that is another market participant.

RG 223.96   The client may make this election so the market participant is not involved in the execution decision. We note that this opt-out does not alter a market participant's obligation to have appropriate controls and filters in place for direct electronic access clients (e.g. as required under Part 5.6 of ASIC Market Integrity Rules (ASX)).

Transactions resulting from quotes or negotiation

RG 223.97   The act of negotiating or providing a quote is not necessarily subject to the best execution obligations. However, if a client chooses to proceed with the quote, we consider this to be an instruction under Rule 3.1.1 and subject to best execution. Market participants must also consider the best execution obligation for any aspect of order handling and execution that may not be governed by the instruction(s).

Taking reasonable steps to obtain the best outcome

RG 223.98   The best execution obligation applies from the moment an order is received from a client right through to settlement of the transaction. Throughout the process, market participants must take reasonable steps to obtain the best outcome for the client under Rule 3.1.1. We expect market participants to take reasonable steps to:

(a)   fully understand the client's instructions and nature of the order (e.g. whether there are time, price or size constraints);

(b)   consider all relevant information about prevailing market conditions. We recognise that there will be differences in latency in the delivery of information between licensed markets, data vendors and the systems of the market participant;

(c)   ensure appropriate timing of order entry onto an order book or other matching mechanism (if permitted under a pre-trade transparency exception). For example, it may be necessary to delay the entry of an order in a less liquid stock until there is sufficient liquidity to execute against; and

(d)   choose an order book or other matching mechanism (if permitted under a pre-trade transparency exception) that will achieve the best outcome for the client. Choice of market should be considered in light of the relevant outcomes being sought (see Table 7 for outcomes that may be relevant), as well as the associated clearing and settlement arrangements and costs.

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RG 223.99   We consider that a market participant will have taken reasonable steps to obtain the best outcome for its clients if it has complied with its best execution arrangements (where those arrangements have demonstrated that they consistently deliver the best outcome), and it executes client orders based on the best information at the time.

RG 223.100   In addition to taking the above reasonable steps that we consider essential to delivering the best outcome to clients, a market participant must:

(a)   have adequate policies and procedures reflecting their best execution arrangements (see Part 3.2 and RG 223.115–RG 223.122);

(b)   disclose details of the arrangements to clients (see Part 3.3 and RG 223.123–RG 223.137);

(c)   monitor and review their best execution arrangements (see Part 3.2 and RG 223.138–RG 223.150); and

(d)   evidence compliance with the arrangements to clients on request (see Part 3.4 and RG 223.151–RG 223.158).

Chain of execution

RG 223.101   Where a market participant seeks to execute a client order by placing it with an intermediary, the duty of best execution for the client under Rule 3.1.1 remains the obligation of the original market participant.

RG 223.102   Market participants should only pass client orders to an intermediary whose arrangements will enable the market participant to comply with their own best execution obligation. We expect the market participant to take into account the results that the intermediary can achieve (e.g. by monitoring the quality of the intermediary's execution).

RG 223.103   Where a client places an order with an AFS licensee that is not a market participant, the AFS licensee is subject to the obligations in the Corporations Act but not the competition market integrity rules.

RG 223.104   We consider that where a market participant is an intermediary, the market participant owes a duty of best execution to a client where the client deals with an agent, and that agent executes the client order by placing it with the :market participant and the market participant:

(a)   also has a relationship with the client (and the terms of business have been agreed); and

(b)   is aware that the first participant is acting as an agent (e.g. in an advisory capacity only) for the client.

This is illustrated in Figure 2

Deleted: If the intermediary that is acting as agent is also a market participant, it owes a duty of best execution to the market participant that passed the order to it, rather than to the underlying client.

Deleted: This means that the best execution obligation does not apply to the licensee. Where the licensee passes the order to a market participant, the market participant owes a duty of best execution to the licensee that passes the order.

Deleted: <#>Figure 2 illustrates three scenarios:¶
<#>a client order to a non-participant that is subsequently passed to a market participant;¶
<#>the passing of client orders to a single intermediary for execution; and ¶
<#>the passing of an order that results in a longer chain of execution. ¶
<#>In scenarios (b) and (c) above, Participant A remains responsible for obtaining the best outcome for its client. ¶

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Figure 2: **Duty of best execution**
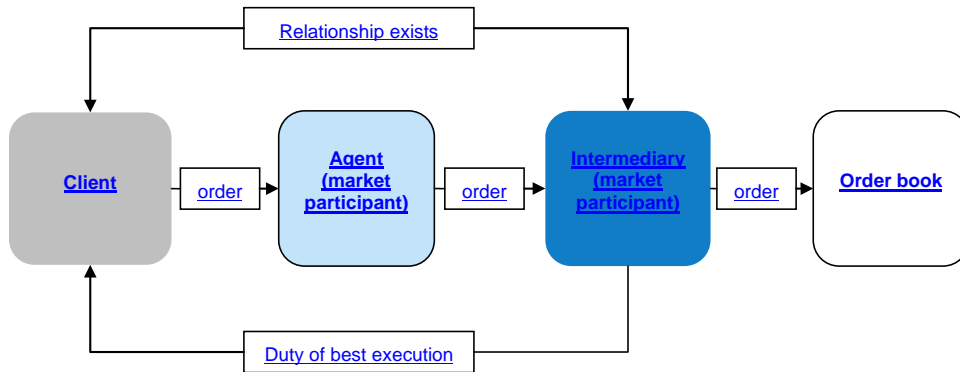
RG 223.105   When passing client orders, the market participant should provide sufficient instruction to ensure the client receives the best outcome. We understand that the level of instructions may vary. For example, there may be circumstances where the market participant chooses to retain considerable control over the order execution (e.g. by nominating the order book that the order should be executed on), or it may give substantial control to the intermediary to determine where to execute the order.

RG 223.106   An example of circumstance where we would consider it inappropriate to pass a client order to an intermediary is where the intermediary would transmit the order to an order book that has no liquidity in the particular equity market product. It may also be inappropriate to pass the order to an entity that is not a market participant (given the entity will not be subject to the best execution obligation) unless the market participant is satisfied the use of the intermediary will enable the market participant to deliver the best outcome.

Market participant commissions should not discriminate between licensed markets

RG 223.107   A market participant may not structure or charge commissions in such a way as to discriminate between licensed markets unless the difference reflects differences in the market fees: Rule 3.1.3. Commissions or spreads charged to clients should ideally reflect the differences in the cost of executing on each market.

RG 223.108   For example, where Market X's fees are $10 for a particular transaction and Market Y's fees are lower (e.g. $5 or may even pay a rebate) for the same transaction, the commission paid by a client to a market participant should as far as possible reflect that Market Y is the cheaper market to transact on. We encourage market participants that have fixed rate commissions to consider whether clients could benefit from having the market fees and rebates passed on.

Order flow incentives and bundled services

RG 223.109   The best execution obligation means that market participants must ensure the primary focus when executing client orders is to obtain best execution.

RG 223.110   Order flow incentives, such as volume rebates or rebates for certain types of orders, can influence how and where market participants direct client orders for execution. Directing orders in return for some benefit would represent a conflict of interest if the market participant was placing its own interests ahead of its client's interests and therefore not achieving best execution. Such activity may result in a breach of Rule 3.1.1.

RG 223.111   Bundling is the practice of providing other services, such as advice, research, data and analytical tools, in conjunction with trade execution. We consider that transmitting a client order to a licensed market, market participant or other service provider which offers bundled services does not in itself meet the best execution obligation as it may not result in the best outcome being obtained for a client. Such activity may breach Rule 3.1.1. We consider that the best execution obligation requires client orders to be transmitted based on best execution for the client independently of any bundled services.

Transitional arrangement: Best execution on ASX

RG 223.112   When Rule 3.1.1(6) was made, for 12 months from the date of commencement, a market participant could meet its obligations under Rule 3.1.1 solely on the central limit order book of ASX (i.e. ASX TradeMatch) without being obliged to consider whether it should have access to other markets. In March 2012, this transition period was extended until 1 March 2013.

RG 223.113   Under Rule 3.1.1, market participants must still take reasonable steps to achieve the best outcome on ASX and reflect the arrangements in their policies and procedures: see RG 223.115–RG 223.122. Before the end of the transition period, market participants need to review their best execution approach and determine whether they could achieve a better outcome for their clients by connecting to additional markets. If, as a result, the market participant makes material changes to its best execution arrangements, it must disclose the changes to clients: see RG 223.127.

RG 223.114   The purpose of the transitional arrangement was to initially reduce the burden on market participants of considering whether to connect to multiple markets. It also enabled new competing market operators to commence operation sooner than if they had to wait for all market participants to assess whether to connect to their market.

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Policies and procedures

RG 223.115   A market participant that deals with client orders must establish, document and implement adequate policies and procedures to ensure it complies with the best execution obligation and complies with its policies and procedures: Rules 3.2.1 and 3.2.2. We consider that the policies and procedures should reflect a market participant's strategy for obtaining the best outcome for the handling and execution of client orders.

RG 223.116   Under Rule 3.2.1(2), the policies and procedures must set out at least:

(a)   the order books or other matching mechanism to which client orders may be transmitted;

(b)   how client orders will be handled and executed, including the circumstances in which orders will be transmitted to each listed order book or other matching mechanism. It must also include the circumstances in which the transmitting will be automated or manual; and

(c)   arrangements to monitor the policies, procedures and implementation.

RG 223.117   To comply with this requirement, we consider that market participants should consider the matters outlined in Table 8 and address them where relevant.

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Table 8:   What should policies and procedures address?

Matters	Information that market participants should consider including
1. Identification of order books or other mechanism (if permitted under a pre-trade transparency exception) where orders may be matched or executed	A market participant should list the order books of licensed markets and other mechanisms (permitted under a pre-trade transparency exception) on which client orders may be matched or executed: Rule 3.2.1(2)(a). Examples of matching or execution arrangements other than an order book include third party crossing systems, a market participant's own internalisation arrangements or crossing system and over-the-counter trading arrangements.
2. Handling of client orders and circumstances in which client orders will be transmitted	A market participant should outline its approach to handling orders from the time an order is received to the time that it is settled. It should be clear from the description why the market participant's approach will deliver the best outcome for clients. It should also outline the circumstances in which client orders may be transmitted to each order book or other matching mechanism (if permitted under a pre-trade transparency exception): Rule 3.2.1(2)(b). For a retail client, this should reflect how to obtain the best total consideration (or price). For wholesale clients, this should be based on the outcomes the market participant considers relevant to its clients. See Table 7 for some outcomes that may be relevant (more typically for institutional investors). The policies and procedures should allocate the relative importance, or the process for determining the relative importance, the market participant places on the possible outcomes for wholesale clients. It should also include information on how these outcomes affect the market participant's choice of order books or other matching mechanism permitted under a pre-trade transparency exception.

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Matters	Information that market participants should consider including
	In developing policies and procedures for assessing relative importance, a market participant should consider the characteristics of: • the client (including whether retail or wholesale); • the client order (e.g. market, limit, fill or kill); • the relevant equity market product; and • the order books of licensed markets to which the order can be directed and any matching mechanisms outside of an order book that may be used subject to a pre-trade transparency exception. *Differing trading hours:* Where trading hours vary across order books of licensed markets and a market participant is able to access more than one market, we expect market participants' policies and procedures to address the handling of orders when not all licensed markets are open and available for trading. This includes before the opening and after the close of the traditional trading hours of the listing market, or when certain licensed markets may be unavailable for trading for systems or technical reasons. Specifically, policies and procedures should address the handling of immediately executable orders (e.g. market orders) received before the opening of the listing market or when not all licensed markets are open. Market participants can adopt whatever policy they consider most appropriate to deliver the best outcome to their clients. For example, the policy may state that the participant will hold orders received outside trading hours until all markets open or the listing market opens (where considered to consistently deliver the best outcome). *Differing opening and closing mechanisms:* Market participants should also consider the opening mechanism adopted by each licensed market and the impact of that mechanism on the probability of execution and the quality of that execution, (e.g. an opening auction compared to opening straight into continuous trading). The auction is likely to receive considerably more buying and selling interest. We consider that a market participant should regularly monitor the quality of the executions obtained for opening orders to be able to determine that the licensed market chosen as the location for entering opening orders generally offers best execution for that particular equity market product: Rule 3.2.1(c). The same considerations will apply to the handling of orders at the market close where licensed markets have differing closing mechanisms. *Price movement after order transmitted:* Prices may vary after a market participant transmits an order. For example, a better price may become available on the order book of Market X after transmitting an order to Market Y. The policies and procedures should outline how a market participant intends to handle this situation. We consider that for immediately executable orders that have been transmitted to an order book taking into account the available information at the time, there is no requirement to re-transmit the order. However, if a market participant chooses to re-transmit the order to another market, before doing so, the market participant should consider certainty of execution (i.e. risk that the price will no longer be available after the order is re-transmitted and the risk of losing priority in the queue of the first market). Equally, if there is considerable volume at the new price and reasonable certainty that the order will execute at the better price, it may be appropriate to re-transmit the order. *Market outages:* Market participants should consider how their order handling and execution arrangements will adapt to trading halts and suspensions on a single market (e.g. system failure on the listing market) or all licensed markets. To the extent possible, market participants should also consider their default arrangements in the event of unforeseen circumstances.

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Matters	Information that market participants should consider including
	Limit orders: A market participant should outline how it handles limit orders, particularly those that are away from the current market price. Among other relevant factors, we consider the policy and procedures should take into account liquidity and certainty of execution. These factors would apply equally to wholesale and retail clients as they will contribute to the ability of the retail client to ultimately get the best total consideration (or price as the case may be).
3. How client orders will be transmitted to the order books of licensed markets or other matching mechanisms (if permitted under a pre-trade transparency exception)	Market participants should outline the mechanisms used for transmitting client orders to the order books of licensed markets and other matching mechanisms (if permitted under a pre-trade transparency exception), including documenting any manual and automated processes (Rule 3.2.1(2)(b)), and the circumstances in which the mechanisms will be used.
	Where a market participant that has fully, or in part, automated its order-handling processes, it should ensure that the technologies employed are designed to comply with its best execution obligation. Market participants should document the logic of how the automated order-handling process operates, including dependencies and parameters. Any changes to such systems should be documented, including the rationale for the change.
4. Monitoring of policies and procedures	Market participants should ensure there are appropriate arrangements in place to monitor the quality of execution received for clients and whether their policies and procedures are obtaining the best outcome for clients: Rule 3.2.1(2)(c). Our expectations about monitoring are outlined in RG 223.138–RG 223.150.

RG 223.118   We encourage market participants to ensure that their policies and procedures are designed or tailored according to the nature, scale and complexity of their business and the client orders received. We expect that, in most cases, market participants will need to differentiate policies and procedures by client characteristics. A market participant may choose to also differentiate by liquidity of equity market product, order type, licensed market, or make an assessment on a case-by-case basis.

RG 223.119   Some of these choices are illustrated in Figure 3. For example, small orders in liquid products may be suited to an automated, high-volume process (e.g. line 1 in Figure 3). In contrast, closer attention may be necessary for large orders in the same product, including in some instances a case-by-case assessment (e.g. line 2 in Figure 3).

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Figure 3: Examples of order transmitting in best execution policies
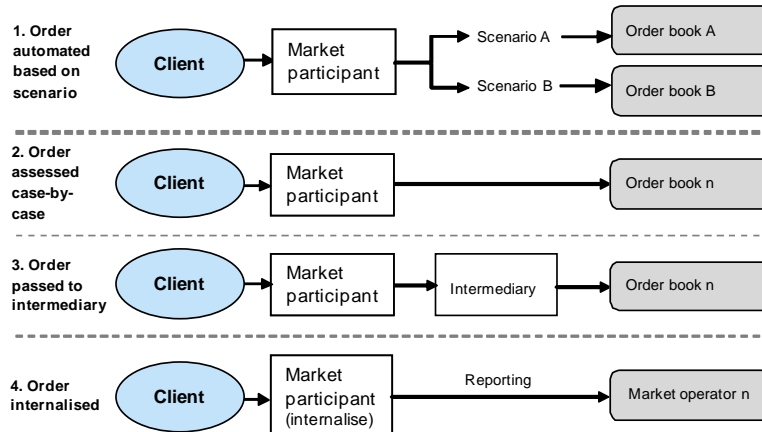
RG 223.120   Comprehensive and robust internal policies and procedures relating to best execution, and ongoing monitoring and review of these policies and procedures, will help to ensure market participants are successful in delivering the best outcome to their clients.

Transitional arrangements: Best execution on ASX

RG 223.121   If a market participant is relying on the transition period in RG 223.112–RG 223.114, its policies and procedures should reflect that it will access only ASX. We expect the market participant to review its policies and procedures before the end of the transition period and amend the arrangements if required: see also RG 223.113.

RG 223.122   For market participants that execute client orders only on ASX's central limit order book, the policies and procedures can be very simple (e.g. reflecting that execution is subject to price-time priority on ASX). However, if a market participant uses other order types on ASX (i.e. under exceptions to pre-trade transparency), the details should be appropriately reflected in the policies and procedures (and the corresponding disclosure to clients should be made).

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Disclosure to clients of best execution arrangements

Information to be disclosed

RG 223.123 Under Rule 3.3.1(1), a market participant must disclose the following matters to clients about its best execution arrangements:

(a) that the market participant is required to handle and execute client orders in accordance with the best execution obligation in Rule 3.1.1 (i.e. to take reasonable steps to obtain the best outcome for clients);

(b) how the best execution obligation affects the handling and execution of the client's orders;

(c) the order books of licensed markets and other matching mechanisms (if permitted under a pre-trade transparency exception) to transmit client orders;

(d) the circumstances in which client orders will be transmitted to each of these destinations; and

(e) that the market participant must take reasonable steps to handle and execute the client's orders in a way which satisfies any instructions that are inconsistent with the market participant obtaining the best outcome for the client, and as a result, may not achieve the best outcome for the client.

RG 223.124 This is a one way communication to clients. It is not necessary for clients to acknowledge or consent to the disclosure. Our expectations about how market participants should comply with this disclosure obligation are described in Table 9.

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Table 9: Matters to disclose to clients

Matters	Information to be disclosed
Best execution obligation	That the market participant has an obligation to obtain the best outcome for clients when handling and executing client orders.
How the best execution obligation affects the handling and execution of client orders	Disclosure to clients should include the appropriate level of detail of information about a market participant's handling and execution arrangements that a client would reasonably require to enable them to make an informed decision about whether to use the services of the market participant.
	Disclosure should be clear about what the best execution obligation means for how a client order will be handled and executed. For retail clients, this should include what best total consideration or best price means in practice. For wholesale clients, this should include the outcomes the market participant considers relevant, as well as any trade-offs among these outcomes. For example, if likelihood of execution is considered the most important outcome, the trade-off may be price.
	Market participants may also provide additional information to clients about their order handling practices to help them understand how their orders may be handled. For example statistics about the equity market products and volume and size of orders transmitted to the various order books of licensed markets and other matching mechanisms (if permitted under a pre-trade transparency exception).

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Matters	Information to be disclosed
	Client instructions: The circumstances in which client instructions can be accepted and acted upon (e.g. where instructions are inconsistent with the best outcome, only order-by-order instructions can be accepted for retail clients, whereas for wholesale clients, standing instructions can be made subject to the requirements in RG 223.78 and RG 223.87). Market participants should provide a warning upfront that the use of specific instructions may result in a client not obtaining the best outcome.
	Reliance on transitional arrangement on ASX: Market participants that choose to rely on the transitional arrangement on ASX to meet the best execution obligation should disclose this fact to their clients. The extent of the disclosure will vary based on the order types used by the market participant. If all client orders are executed on ASX's central limit order book, disclosure should relate to ASX's price-time priority approach to execution. However, if a market participant uses other ASX order types (e.g. if permitted under a pre-trade transparency exception), the details should be appropriately reflected in the disclosure to clients: see Part 3.3, including when the order types may be used and how a matching order is found.
Identification of order books and other matching mechanisms (if permitted under a pre-trade transparency exception)	The mechanisms by which client orders may be matched and executed. This should identify the order books of licensed markets where transactions are executed or reported as well as any other matching mechanism permitted under a pre-trade transparency exception (e.g. crossing system) that the market participant places significant reliance on.
Circumstances in which orders are transmitted	The circumstances in which orders may be transmitted to the order books of licensed markets and/or other matching mechanisms.
	If a market participant's policies and procedures for retail clients mean that client orders will not be transmitted to a market that has a very small volume at the best price (e.g. one share), we expect the market participant to disclose to clients the minimum volume it will transmit. This should reflect the value of an equity market product. For example a minimum volume of 100 may be appropriate for a $2 share but may not be appropriate for a $100 share.
	If a market participant's best execution arrangements allow for a client order to be executed under a pre-trade transparency exception, the market participant should disclose on what basis this will occur (e.g. price improvement, volume improvement or managing market impact). Where it is on the basis of price improvement, the parameters should be disclosed (e.g. how this would apply where the market participant is acting on behalf of both clients to a transaction.
	Differing trading hours: Where a market participant includes more than one licensed market in its policies and procedures and the trading hours of the licensed markets differ, we expect the market participant to disclose to the client how orders received outside of traditional trading hours will be handled under its policies and procedures. For example, will a market order received outside these hours be transmitted to a licensed market that is open, or wait for the listing market to open and on what basis?

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RG 223.125 Under Rules 3.1.1(3) and (4), market participants must not attempt to limit the best execution obligation through disclosure (e.g. through the terms and conditions of a client agreement by a market participant to the client). This can undermine the intention of the best execution obligation.

RG 223.126 Disclosure of certain execution arrangements to clients will enable those clients to better assess whether they are likely to receive best execution. It should include the most important and/or relevant aspects of the market participant's best execution arrangements.

When to make the disclosure

RG 223.127 Under Rules 3.3.1. and 3.3.2, the best execution disclosure should be made:

(a) to existing clients by 31 October 2011. A market participant may choose to create an addendum to existing client agreements;

(b) before accepting a client order for the first time;

(c) on the request of a client; and

(d) when there is a material change to the market participant's best execution arrangements.

RG 223.128 For the purposes of paragraph (c), a material change is where disclosure is necessary to enable a client to make a properly informed decision about whether to continue using the services of the market participant. For example, a market participant may no longer include in its policy a licensed market that had consistently achieved the best outcome for clients, or it may materially alter the circumstances in which client orders are transmitted to order books of licensed markets and other matching mechanisms (if permitted under a pre-trade transparency exception). It also includes any changes resulting from the review of best execution before the end of the transition period outlined in RG 223.112–RG 223.114 and RG 223.147 and as required by Rule 3.2.3(2). We do not expect minor changes to be disclosed.

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RG 223.129 There is no requirement for clients to acknowledge or consent to the disclosure.

RG 223.130 We understand that there may be some practical issues in meeting this obligation in full for existing clients in the first few months after commencement of the best execution obligation. We expect market participants to make all reasonable efforts to comply with this obligation. When considering their existing clients, market participants may have a combination of active clients (that trade regularly) and clients that are considered inactive (that have not traded for a significant period of time), but still have an open account. If a market participant takes the view that a client is inactive, and is unlikely to place an order with the market participant in the foreseeable future, we will not take action in relation to compliance with Rule 3.3.1 if the disclosure required by Rule 3.3.1 is given before accepting the next order from the client.

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RG 223.131   Market participants should have appropriate arrangements in place to identify when disclosure is required under Rule 3.3.1 and to make that disclosure before acting on an order from the client.

Wholesale client election to not receive best execution disclosure

RG 223.132   Under Rule 3.3.1(6), a market participant need not make a disclosure to a wholesale client if the market participant and wholesale client agree it is not required and the terms of the agreement are:

(a)   clear and unambiguous;

(b)   in writing (a record of the instruction must be kept for seven years). 'In writing' includes both printed and electronic form, including via email with hyperlinks or references to a website; and

(c)   not contained in the standard terms and conditions of a client agreement or other standard form agreement provided by the market participant to the client.

How to make the disclosure

RG 223.133   A market participant must make its best execution disclosure to clients in writing and keep this disclosure for seven years: Rule 3.3.1(4). We consider that the disclosure may be made in printed or electronic form, including via email with hyperlinks or references to a website. This is the same approach as for Financial Services Guides (FSGs) in RG 221.

RG 223.134   Where a client asks for the disclosure to be made in print form (e.g. if they do not have access to electronic communications), we expect the market participant to provide it in print form. Ultimately, market participants needs to be able to demonstrate that the disclosure has been made to the client.

RG 223.135   While we do not intend to prescribe the mechanism for disclosure, market participants may choose to:

(a)   include the disclosure in their FSG (where a market participant is already required to provide an FSG);

(b)   incorporate the disclosure into their terms and conditions; or

(c)   make the disclosure independently.

RG 223.136   A market participant cannot comply with Rule 3.3.1(2) solely by updating its website each time there is a material change. Where a participant uses its website to provide the summary of material changes for the purposes of Rule 3.3.1(2), we expect that steps would be taken to ensure that clients are aware of the new information on the website. This may be done through an email with a hyperlink to the website, or through another form of written (paper or electronic) notice that the summary of changes is available on the website. This should occur each time there is a material change.

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RG 223.137 A market participant must not encourage or induce a wholesale client to agree that it is not required to disclose the matters outlined in Table 9: Rule 3.1.2(2). That is, the request should be at the client's own initiative. For example, a market participant must not include a standard clause within its client agreement to the effect that it will not make the disclosures required under Rule 3.3.1, or that in any way limits its obligations under Rule 3.3.1.

Monitoring and reviewing best execution arrangements

Monitoring best execution arrangements

RG 223.138 We do not intend to approve market participants' best execution policies and procedures, nor do we intend to test that every individual transaction achieves the best outcome. However, we do expect market participants to be able to demonstrate that their best execution policies and procedures enable them to consistently deliver the best outcome for clients and that client orders have been handled and executed in accordance with their policies and procedures or with client instructions (as required by Part 3.4).

RG 223.139 How a market participant demonstrates that its policies and procedures are reasonably designed to comply with its best execution obligation and that it has complied with its policies and procedures and client instructions is in large part dependent on the nature of its clients and the complexity of the client orders it handles and executes.

RG 223.140 In any event, Rule 3.2.1(2)(c) requires market participants to have arrangements to monitor their policies, procedures and implementation of the best execution obligation. To comply with this rule, we expect a market participant to monitor on a regular basis:

(a) whether it has complied with its best execution arrangements; and

(b) the effectiveness of the arrangements in meeting its best execution obligation (i.e. whether it is obtaining the best outcome for clients).

RG 223.141 Market participants could monitor transactions they have done on behalf of clients with similar transactions done by other market participants on the same markets.

RG 223.142 We encourage market participants to consider setting measures to assess the effectiveness of the policies and procedures in obtaining the best outcome for clients. Examples of possible measures are outlined in Table 10. These measures may assist market participants in selecting venues to match and execute client orders, determining appropriate outcomes and assessing the trade-offs associated with the different outcomes.

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Table 10: Possible measures of best execution performance

Factors	Possible measures
Price of the equity market product	A comparison of the prices achieved or achievable on each order book or other matching mechanism (if permitted under a pre-trade transparency exception) against the best available bid and offer at the time.
Costs	*Explicit costs:* A comparison of the explicit costs involved in matching or executing orders on each order book or other matching mechanism (if permitted under a pre-trade transparency exception). This could take into account the fees and rebates for various order sizes and types, costs for software and connectivity, participant membership costs and clearing and settlement costs.
	Implicit costs: This is harder to measure. For market impact costs, a comparison of the market movement in response to similar size order entry for a particular equity market product on each market may be relevant.
Speed	Statistics that show the time taken for orders to match or execute on each order book or other matching mechanism (if permitted under a pre-trade transparency exception). This could be broken down by equity market product and size of order.
Execution certainty	Statistics on fill rates on each order book or other matching mechanism (if permitted under a pre-trade transparency exception) for each equity market product, taking into account order size.
	An assessment of volumes available at each price point on each order book or other matching mechanism (if permitted under a pre-trade transparency exception) may also be relevant.
Other measures	Statistics on the volume and speed of execution on each order book or other matching mechanism (if permitted under a pre-trade transparency exception) for specific order characteristics (e.g. buy order, sell order, limit order, market order, and orders generated by an algorithm).

RG 223.143   A range of data on equity market products is available to market participants. Market specific and consolidated pre-trade and post-trade transparency data is likely to be the primary source of data. Market operators may also choose to make data available to market participants to assist with this exercise. We will continue our consultation with industry on whether market operators and participants should make available statistics on execution quality and order transmitting.

RG 223.144   We expect market participants to keep records of the monitoring they undertake, including the results and any consequential modifications to policies and procedures.

Reviewing best execution arrangements

RG 223.145   Under Rule 3.2.3(1), market participants must review their best execution policies, procedures and implementation:

(a)   each time there is a material change in circumstances that affects where the market participant may transmit client orders; and

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(b)   when the results of monitoring their best execution arrangements suggest their policies and procedures are not obtaining the best outcome for clients.

RG 223.146   For example, a market participant using only one order book of a licensed market might have to review its approach if a new market operator enters the market, or if an order book of an existing market operator obtains substantial liquidity in equity market products in which the participant transacts on behalf of clients. Market participants may have to reconsider their best execution arrangements if there is a significant change to trading functionality on an existing market.

RG 223.147   Under Rule 3.2.3(2), market participants relying on the transition period outlined in RG 223.112–RG 223.114 must review their best execution policies, procedures and implementation to ensure they will continue to be adequate to comply with the best execution obligation in Rule 3.1.1. We expect this review to be undertaken before the end of the transition period.

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RG 223.148   In reviewing their policies and procedures, market participants should consider whether they should make changes to improve overall performance. They should also consider whether the relative importance they have assigned to the order books of licensed markets and other matching mechanisms (if permitted under a pre-trade transparency exception) has led them to consistently deliver the best outcome for their clients.

RG 223.149   We encourage market participants to consider whether they can consistently obtain better outcomes if they were to transmit orders to an order book of another licensed market or if changes were made to any other aspect of the policy.

RG 223.150   We expect market participants to monitor the various licensed markets to determine which equity market products are available on each order book for the purposes of monitoring and reviewing their best execution arrangements.

Evidencing how client orders are executed

At client's request

RG 223.151   On receipt of a reasonable request by a client, a market participant must demonstrate, that the client's order or orders have been executed in accordance with the market participant's policies and procedures: Rule 3.4.1(1).

RG 223.152   What is a 'reasonable request' may vary. We consider a request to evidence the basis on which an order was executed is reasonable where it is made shortly after the client receives confirmation of the transaction. An example of a scenario where a market participant may determine that a request is not reasonable is where it relates to every order executed on behalf of the client over a long period of time (e.g. several years).

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RG 223.153 The nature of evidence required may also vary based on the client request and the market participant's record keeping arrangements. We do not intend to prescribe the nature of the evidence. However, any evidence provided to a client should address the client's request and be clear to the client how their order was handled in the context of the market participant's best execution arrangements.

Timing of provision of information

RG 223.154 Rule 3.4.1(2) requires that a market participant must demonstrate compliance to the client within a reasonable time after receiving the request. The time will vary based on the nature of the request. For a straightforward request (e.g. relating to a single recent client transaction), we expect it should take no more than a matter of days. For requests requiring considerable time and effort (e.g. relating to many transactions or to historical transactions), the market participant may require more time. We expect the market participant to notify the client when more time than usual is required to prepare the request and to give an indicative timeframe for fulfilling the request.

RG 223.155 Provision of information to clients about how their orders are handled and executed will enable clients to assess what happens to their information and to assess the quality of execution they receive.

Records

RG 223.156 A market participant must keep information so it can evidence that each client order has been executed in accordance with the policies and procedures that the participant has in place: Rule 3.4.2. This information must be kept for seven years.

RG 223.157 The type of information that a market participant should keep will vary based on the nature and size of the market participant and the mechanisms for handling client orders. Records relating to a manual process may include notes made by the relevant trader, whereas records relating to an automated process are likely to be retained as part of an electronic audit trail. We expect that in most cases there should be records relating to:

(a) the client instruction;

(b) the steps taken in handling the order; and

(c) the basis for selection of an order book or other matching mechanism (if permitted under a pre-trade transparency exception), which will often include the details of the prevailing market conditions such as the current best bid and offer and associated volumes.

RG 223.158 Maintaining accurate and complete records of order handling and execution decisions will enable market participants to more effectively monitor and review their execution arrangements and help ASIC in assessing compliance.

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Access to markets

RG 223.159   The best execution obligation requires market participants to transmit orders to the markets offering the best outcome. We are establishing a regulatory environment to promote a competitive market environment between licensed markets offering trading services in equity market products. Therefore, market participants should consider the respective merits of all order books of licensed markets.

How many order books of licensed markets to access?

RG 223.160   It is not our expectation that every market participant must connect to every order book offering equity market products. It may be reasonable in some circumstances to decide against connecting to all order books. For example, a market participant might minimise execution costs significantly by transmitting orders to one or a few order books of licensed markets (with these cost savings passed on to the client), or the equity market products that a market participant deals in might not be available on other order books.

RG 223.161   We expect all market participants to consider their best execution obligation under the market integrity rules and to review their execution strategy to ensure it is possible to deliver the best outcome for their clients. The test for a market participant that is considering having access to only one or a limited number of order books is whether it can demonstrate that it has taken reasonable steps to deliver the best outcome and whether in practice it can consistently obtain the best outcome for its clients.

RG 223.162   If a market participant chooses not to connect to a market directly, it should consider the advantages of indirect access (i.e. transmitting its client orders to another execution intermediary, rather than executing those orders itself).

Smart order routing

RG 223.163   Market participants may use tools to connect to multiple order books of licensed markets to scan the various markets to determine which one delivers the best outcome on the basis of predetermined parameters and to transmit orders to the selected order books and other matching mechanisms (if relevant). Smart order routers (SORs) provide these linkages: see Figure 4. We expect that in Australia a number of vendors will offer SORs and some market participants will build their own.

> **Deleted: Accessing non-pre-trade transparent liquidity¶**
> <#>We consider that in most circumstances a market participant can discharge its best execution obligation by considering trading opportunities on pre-trade transparent order books of licensed markets only. However, there may be circumstances where it is appropriate to consider non-pre-trade transparent liquidity of licensed markets (if permitted under a pre-trade transparency exception). For example, in some cases, the volume on the order books may not be adequate to fully execute the client order on favourable terms for the client.¶

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Figure 4: Smart order routers
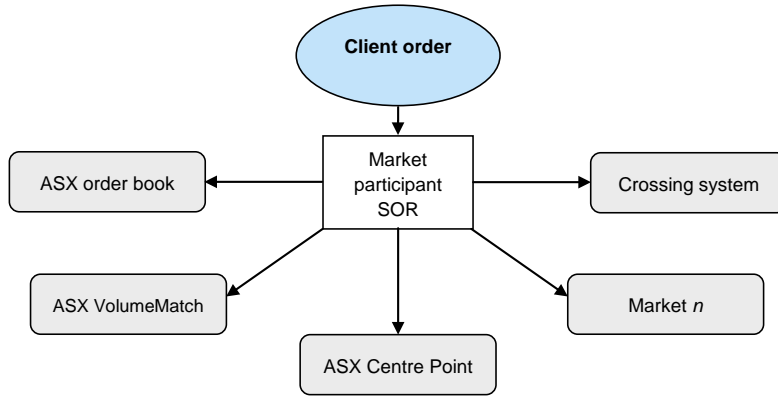
RG 223.164 We expect market participants, in accordance with their obligation under Rule 3.2.3 to review policies, procedures and implementation of their SOR or other automated processes to verify that they remain compatible with the market participant's best execution policies and procedures. This applies irrespective of whether the SOR or automated processes have been developed by the market participant or provided by a third party. The results of all tests should be kept by the market participant for seven years and be available for ASIC to review on request.

Direct electronic access to markets

RG 223.165 Where a market participant provides clients with direct electronic access to an order book, we consider that the best execution obligation still applies to the extent that the participant must take into account the client's instructions (Rule 3.1.1) (e.g. to have fast access). Market participants must outline any parameters for the client's SOR or manual processes to select the order books to transmit an order or orders to. Market participants must also consider the best execution obligation for any aspect of order handling and execution that may not be governed by the instruction(s).

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D Pre-trade transparency

Key points

Market participants must not enter into a transaction unless the order is first pre-trade transparent. Market operators must make information about the order available immediately, subject to exceptions.

Table 20 in Appendix 1 prescribes the minimum information a market operator must make available.

Market operators must make available pre-trade information on reasonable commercial terms and on a non-discriminatory basis.

Pre-trade transparent orders must take priority over fully hidden orders in an order book.

Scope and application

RG 223.166   Chapter 4 of the competition market integrity rules on pre-trade transparency and Section D of this guide apply to market operators that offer trading services in equity market products and to participants that trade in these products.

RG 223.167   Chapter 4 of the competition market integrity rules and Section D of this guide do not apply to transactions arising from:

(a)   the terms embedded in an equity market product, such as a redemption;

(b)   primary market actions (including issuance or allotment, subscription or off-market takeover bid); and

(c)   stock lending or stock borrowing: Rule 4.1.9.

RG 223.168   Pre-trade transparency refers to information on bids and offers being made available before transactions occur. Together with post-trade information, it is generally regarded as central to both the fairness and efficiency of a market, and in particular to its liquidity and quality of price formation. This is also the view of the International Organisation of Securities Commissions (IOSCO).

> Note: See IOSCO Report, *Transparency and market fragmentation* (IOSCOPD124), Technical Committee of IOSCO, November 2001 and IOSCO *Principles for dark liquidity final report* (FR06/11), Technical Committee of IOSCO, May 2011.

RG 223.169   Pre-trade transparency enables investors to identify trading opportunities, contributing to investor confidence that they will be able to execute a transaction. Investor confidence in a market can give other investors an

incentive to participate, contributing to liquidity and stimulating more competitive pricing. It also plays an important role for listed companies in valuing their assets and their ability to raise further funds, and it contributes to market participants' ability to achieve and evidence best execution. The competition market integrity rules require a high level of trading interest to be immediately pre-trade transparent.

RG 223.170 There have always been rules in the Australian market requiring market participants to transact on-market (or on the central limit order book since the move to electronic trading). This is based on the notion that price formation is most efficient when full supply and demand is allowed to interact. Pre-trade transparent orders on an order book are important because they:

(a) establish a reference price, which in addition to their role in trading is important for capital allocation decisions and capital raising; and

(b) create a deeper pool of 'accessible' liquidity than would otherwise be available, which keeps spreads tight and costs down for investors.

RG 223.171 However, there are limited circumstances where pre-trade transparency can adversely impact a market and investors in terms of price volatility and higher execution costs. Pre-trade transparency exceptions for large orders reduce the possibility of information leakage of these orders.

Orders and quotes to be pre-trade transparent

Market participant's obligation to be pre-trade transparent

RG 223.172 Subject to the exceptions in RG 223.180, a market participant must not enter into a transaction in an equity market product unless the order is first pre-trade transparent on an order book of a licensed market: Rule 4.1.1.

Market operator's obligation to make data available

RG 223.173 Under Rule 4.1.2, a market operator offering trading in equity market products must make available pre-trade information immediately after it receives it to all persons it has arrangements with to make the information available, subject to the exceptions in Rule 4.1.2(2): see RG 223.181.

RG 223.174 Pre-trade information must be made available about all orders received, subject to the pre-trade transparency exceptions described below. For orders received outside trading hours, the market operator must make pre-trade information available no later than the time trading hours next resume: Rule 4.1.2(1).

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RG 223.175   Under Rule 4.1.2(3), market operators must take reasonable steps to ensure the pre-trade information is and remains complete, accurate and up-to-date. We expect market operators to ensure that pre-trade information is continuously updated without undue delay as new orders are received and existing orders are amended, matched, executed or cancelled.

RG 223.176   We do not expect a market operator to verify the validity of an order entered into its order book. However, we note that:

(a)   we expect market operators to take reasonable steps to ensure that all data fields required under Rule 4.1.4 are complete;

(b)   under Rule 5.1.4A and RG 223.265–RG 223.266, a market operator must validate trades reported to it against the criteria for the pre-trade transparency exception relied upon in Rule 4.1.1(1); and

(c)   under Rule 2.1.3, market operators must have adequate controls to prevent anomalous orders from entering their market.

RG 223.177   We also note that the market operator's obligation under Rule 4.1.2(3) is complemented by obligations on market participants under the ASIC market integrity rules for their market to have and maintain the necessary resources to ensure that orders that they enter into the market do not interfere with the efficiency and integrity of the market, and to act in a manner which maintains a fair and orderly market. Market participants are also expected to have in place risk filters at the level of submitting orders into the market.

> Note: See Rule 5.5.2 and Parts 5.6 and 5.9 of ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X). For guidance on how market participants can comply with these rules, see RG 214 (ASX) and RG 224 (Chi-X). In this guide, 'Rule 5.5.2 (ASX) and (Chi-X)' (for example) refers to a rule of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X).

RG 223.178   Market operators must also make available pre-trade information on reasonable commercial terms and on a non-discriminatory basis to all users: Rule 4.1.3. This rule applies from the day after the competition market integrity rules are registered to enable users to enter into arrangements with market operators to access pre-trade information. We consider this an important part of the framework for delivering consolidated market data: see Section G.

RG 223.179   The pre-trade information should be made available in a format that is machine-readable—for example, using the Financial Information eXchange (FIX) protocol or the trading system's Application Programming Interface (API).

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Exceptions

RG 223.180   There are a number of exceptions to the obligation on market participants to submit orders to a pre-trade transparent order book: see Rule 4.1.1(2) and Part 4.2. They are for:

(a)   block trades;

(b)   large portfolio trades;

(c)   trades with price improvement;

(d)   permitted trades during the post-trading hours period;

(e)   permitted trades during the pre-trading hours period; and

(f)   out of hours trades.

RG 223.181   There are also exceptions to market operators making pre-trade information available about orders on their order book immediately: Rule 4.1.2(2). They are orders that result in:

(a)   block trades;

(b)   large portfolio trades; and

(c)   trades with price improvement.

RG 223.182   These exceptions are described below.

RG 223.183   Under Rule 4.1.6, where an order is executed in part, the exception ceases to apply unless the remainder of the order would have been entitled to the exception if it were a separate order.

Block trades (Rule 4.2.1)

RG 223.184   This exception applies in certain circumstance where the transaction is a crossing—that is, the market participant matches two orders off an order book of a licensed marker either:

(a)   on behalf of both buying and selling clients to the transaction; or

(b)   on behalf of a buying or selling client on one side of the transaction and as principal on the other side.

RG 223.185   The exception only applies where the resulting transaction would result in a purchase or sale for a total consideration of:

(a) $1 million or more for Tier 1 equity market products;

(b) $500,000 or more for Tier 2 equity market products; or

(c) $200,000 or more for Tier 3 equity market products.

RG 223.186   The products that fall within each tier are published on ASIC's website at www.asic.gov.au/markets. We review the tiers at least quarterly and they take effect 20 business days following their publication on the website.

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RG 223.187   In order to meet the threshold for each tier, one side of the transaction may include a number of orders from one or more clients, provided the other side of the transaction is the participant as principal or as agent on behalf of one client.

RG 223.188   The equity market product that is the subject of the transaction must be issued by the same issuer, in the same class, with the same paid-up value.

Large portfolio trades (Rule 4.2.2)

RG 223.189   This exception applies where the transaction is a crossing and there is a purchase or sale of at least 10 different equity market products under a single agreement between the buyer and seller where:

(a)   the aggregated consideration is not less than $5,000,000; and

(b)   the consideration for each different equity market product or class of product forming part of the transaction is not less than $200,000, although additional purchases and/or sales of less than this amount may be included.

Trades with price improvement (Rule 4.2.3)

RG 223.190   This exception applies in certain circumstances where the transaction is entered into:

(a)   by matching of orders on an order book of a licensed market; or

(b)   off-order book as a crossing.

RG 223.191   The exception only applies where the transaction is entered into at a price (at the time of execution) that is:

(a)   at a price step which is both above the best available bid and below the best available offer; or

(b)   at the midpoint of the best available bid and best available offer (where midpoint = (best available bid + best available offer) ÷ 2).

RG 223.192   The best available bid and best available offer are the highest pre-trade transparent bid and lowest pre-trade transparent offer available across all pre-trade transparent order books of licensed markets (also known as the national best bid and offer, or NBBO), whether or not the market participant has access to all of the order books. In the example below, the best available bid is 5.03 and the best available offer is 5.06.

Table 11: Example of best available bid and offer

	Best bid	Best offer
Market A	5.03	5.07
Market B	5.02	5.06
Market C	5.02	5.07

RG 223.193   This exception also means, for example, that where the spread (i.e. the difference between the best available bid and best available offer) is a single price step (e.g. $5.01 and $5.02), the transaction must only be done at the midpoint price (i.e. $5.015).

RG 223.194   We note that the midpoint is not limited to the standard tick sizes for the equity market product in Rule 6.4.1.

RG 223.195   The value of the resulting transaction must be greater than the threshold prescribed in Rule 4.2.3. The threshold is currently set at zero. The purpose of the threshold is to enable us to quickly respond if there is, or we expect there to be, a shift of liquidity away from order books of licensed markets in the short-term. Market participants should anticipate that a threshold greater than zero may apply in the future and should factor this into their business plans and system development.

Consolidated tape of best available bids and offers for the purposes of this exception

RG 223.196   In compiling best available bid and best available offer data, we expect market participants and market operators, or their service provider for this purpose, to:

(a)   consider all orders from pre-trade transparent order books irrespective of the size and nature of the order (this includes small volume orders and orders that may result in a locked or crossed market);

(b)   compile the data in real-time; and

(c)   have appropriate systems and controls in place to ensure data is collected and processed in a timely, accurate and reliable way.

RG 223.197   There will be circumstances when the bids and offers on a pre-trade transparent order book are not available for execution (e.g. during an auction period or during a technical failure). Where a pre-trade transparent order book is open, and any other pre-trade transparent order book does not have bids and offers available for execution, the NBBO should be determined by compilation of the bids and offers on those pre-trade transparent order books that are available for execution.

How this exception applies during a takeover or buyback

RG 223.198   A transaction relying on the 'trade with price improvement' exception that is effected other than on an order book is:

(a)   not an 'on-market' transaction within the meaning of s9 of the Corporations Act. Therefore, this transaction does not fall within the takeover exceptions permitted by Ch 6 of the Corporations Act for an on-market transaction; and

Deleted: Figure 5 illustrates the circumstances in which pre-trade transparency exceptions may be used and the interaction between pre-trade transparency and post-trade transparency disclosure.

(b)   not 'in the ordinary course of trading'. Therefore, this transaction does not fall within s257B(6) of the Corporations Act for a listed corporation conducting an on-market buy-back. Neither does it fall under the terms of ASIC relief for buy-backs by responsible entities of registered managed investment schemes under ASIC Class Order [CO 07/422] *On-market buy-backs by ASX-limited schemes*.

RG 223.199   We consider that a transaction effected as an ASX Priority crossing or Centre Point crossing by, or on behalf of, a bidder during a takeover bid or by, or on behalf of, a listed corporation conducting an on-market buy back is not 'on-market' or 'in the ordinary course of trading'.

RG 223.200   Special crossings (including block trades and large portfolio trades) also do not fall within these exceptions and are prohibited during a takeover or a buy back under Rules 6.5.1 and 6.6.1 (ASX) and (Chi-X) and Rule 6.5.4 (ASX).

How this exception applies in a locked market

RG 223.201   We consider that where there is no spread because the best bid and offer are the same (e.g. if the best bid is 5.05 and the best offer is 5.05), a transaction relying on this exception can only be done at the locked price (i.e. 5.05, also the mid-point).

How this exception applies in a crossed market

RG 223.202   A crossed market occurs when the best bid (e.g. 5.05) exceeds the best offer (e.g. 5.04). We do not expect this to occur often. It is likely to occur more often with volatile products, when orders are being entered pre-open and as a result of increasing messaging traffic or latency. We expect that where it does occur, the arbitrage opportunity it creates means it will be very short-lived.

RG 223.203   The 'trade with price improvement' exception was intended to apply when there is a positive spread (i.e. the bid is lower than the offer). It was not intended to apply when there is a negative spread. We consider that if it is imperative to trade during a crossed market, trades must be priced at the mid-point (i.e. in this example, 5.045 where the bid is 5.05 and offer is 5.04).

How this exception applies when there is no spread

RG 223.204   We consider that where there is no spread because there is only one of a best bid or offer (e.g. the offer is 5.05 and there is no bid), the 'trade with price improvement' exception cannot be used.

Ensuring compliance with the exception

RG 223.205   Under Rule 5.1.1(4A), market participants must have procedures and processes in place to ensure that trade reporting systems and associated filters enable trades that are actually done with price improvement to be reported to a relevant market operator under the appropriate exception code. This will help market participants comply with Rule 5.1.1(4), requiring them

Deleted: Figure 5: Pre-trade transparency flow¶
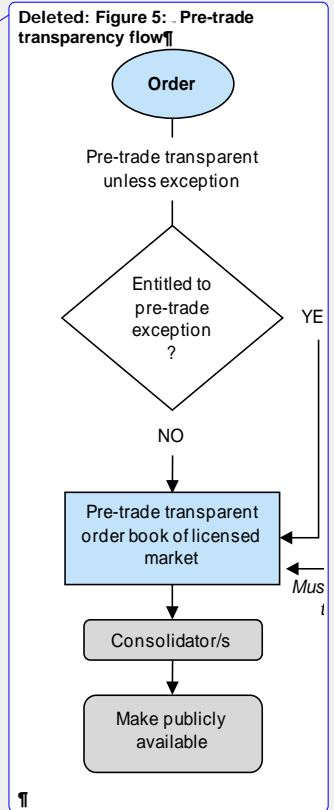
to take reasonable steps to ensure that post-trade information they report is and remains complete, accurate and up-to-date. We consider that there should be regular review of the arrangements and verification by a sufficiently senior executive.

RG 223.206 In considering a market participant's compliance with the 'trade with price improvement' exception and Rule 5.1.1(4) on the reporting of off-order book trades, we have zero tolerance for error. We will not tolerate any variation away from the best available bid and offer used by the market participant. Market participants cannot rely on a market operator's acceptance of a trade as evidence that a trade complies with the exception.

RG 223.207 Market operators are expected to validate transactions reported to them for accuracy: see RG 223.263–RG 223.266.

RG 223.208 Market participants need to be prepared to manage transactions that are not accepted by market operators. Where a trade report is not accepted (i.e. are rejected) by a market operator (and therefore not published), we will not consider market participants to have met their obligation under Rule 5.1.1 until the trade is resubmitted and published and complies with the criteria for the relevant exception.

RG 223.209 Market participants must understand and adapt to any contingency arrangements the relevant market operator may have in place if they cannot report as required by Rule 5.1.4 because of an outage in the market operator's systems. This may include a manual process.

Permitted trades during post-trading hours period (Rule 4.2.4)

RG 223.210 This exception applies where the transaction occurs in the period from the earliest time that trading hours end on any market until 30 minutes after the latest time that trading hours end on any market and it:

(a) completes an order received before the end of continuous trading (or if there is an auction at the end of trading hours, prior to that auction) on the market;

(b) comprises a bona fide hedge;

(c) completes an order that narrowly missed execution during an auction at the end of trading hours for a market;

(d) rectifies an error; or

(e) results in the transaction being sold by a nominee that holds the equity market products on behalf of a fund manager to another nominee that holds the products on behalf of the same funds manager and the market participant acts for both clients.

RG 223.211   This exception limits trading to that which is essential to settle a market participant's books for the day. We consider it important to limit the type of trading that can occur during this period to minimise opportunities for regulatory arbitrage between transactions done on a licensed market and outside trading hours without constraint on price and size.

Permitted trades during pre-trading hours period (Rule 4.2.5)

RG 223.212   This exception applies where the transaction is a crossing that occurs in the period three hours before the start of trading hours on the listing market until 15 minutes before the start of trading hours on that market:

(a)   which involves overseas resident clients on each side of the transaction, or an overseas resident client on one side with the market participant as principal on the other; and

(b)   where a market maintained by a recognised stock exchange in the overseas client's (or one of the overseas client's) country of residence is open for trading at the time. The list of recognised stock exchanges is maintained by the ASX and is available on its website.

RG 223.213   This exception is intended to prevent all trading for domestic clients and between market participants before the opening of markets to ensure maximum demand and supply in the opening auction and to minimise opportunities for regulatory arbitrage between transactions done on a licensed market and outside trading hours.

Out of hours trading (Rule 4.2.6)

RG 223.214   *Market operator*: For orders received or amended outside trading hours, the market operator must make pre-trade information available no later than the time trading hours next resume.

RG 223.215   *Market participant*: A transaction that is executed after the end of the post-trading hours period and before the start of the pre-trading hours period on the next trading day. If the transaction is on behalf of a client, the transaction must be a crossing and the order must be received from the client during this period.

RG 223.216   During this period, transactions can occur between any parties without constraint on price and size.

Record keeping

RG 223.217   A market participant that relies on an exception in Rule 4.1.1 (see RG 223.180) must keep, for a period of 7 years from the date of the transaction, records that enable the participant to demonstrate that the transaction met the criteria for the exception: Rule 4.1.1(3).

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RG 223.218   For transactions relying on the 'trade with price improvement' exception, a market participant must record the best available bid and best available offer at the time the transaction was executed: Rule 4.1.1(2)(c).

RG 223.219   We do not necessarily expect market participants to store this information in their own systems. For example, a participant may rely on its supplier of consolidated bid and offer information to store the information. However, the participant must have a process for accurately and efficiently accessing the information. We expect market participants to make the information available to ASIC for inspection on request.

Content of pre-trade disclosures

RG 223.220   Table 19 in Appendix 1 outlines the minimum information market participants must make available to market operators and the minimum information market operators must make available as required by Rule 4.1.4. This table also outlines the format that we expect to be used for information to facilitate the data consolidation process.

RG 223.221   We will keep this information under review. We intend to monitor industry developments to determine whether additional information should be made available and will consult if any changes are considered necessary.

Partly disclosed orders

RG 223.222   A partly disclosed order is an order on an order book that is pre-trade transparent under Rule 4.1.4 with the exception of 'volume' if 'price' is transparent, or with the exception of 'price' if 'volume' is transparent on the order.

RG 223.223   The value of the resulting transaction must be greater than the threshold prescribed in Rule 4.1.5. The threshold is currently set at zero. The purpose of the threshold is to enable us to quickly respond if there is, or we expect there to be, a shift of liquidity away from pre-trade transparent orders on an order book to non-pre-trade transparent orders on an order book of licensed markets in the short-term. Market participants should anticipate that a threshold greater than zero may apply in the future and should factor this into their business plans and system development.

Iceberg order

RG 223.224   Rule 4.1.5(2) clarifies that certain types of orders are partly disclosed orders for the purposes of the competition market integrity rules. An iceberg order is where the order is of a size specified by the market operator. The order is divided into separate parts and only a single part is pre-trade transparent with the remainder fully hidden until such time as the pre-trade transparent part has been executed and another part is made pre-trade transparent. This continues until the entire order is executed.

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Deleted: As noted in RG 223.17, we expect to consult during 2011 on enhancing client information on orders and transactions (e.g. category of client as wholesale or retail and distinguishing direct electronic access clients).

Deleted: We consider that ASX's existing exception for undisclosed orders falls within our definition of a partly disclosed order under Rule 4.1.5.

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RG 223.225　　In accordance with RG 223.226–RG 223.229, the hidden portion of the transaction does not have time priority. Therefore, as new portions of the hidden order become pre-trade transparent, they must go to the back of the queue on the order book.

Deleted: <#>We consider that ASX's existing iceberg order falls within our definition of partly disclosed order under Rule 4.1.5.¶

Priority for pre-trade transparent orders

RG 223.226　　Some order types on an order book may be undisclosed (either fully or partly). A fully hidden order is one where there is no pre-trade transparency about the order. A partly disclosed order is where either the price, or more commonly the volume, is undisclosed: see RG 223.222–RG 223.223.

RG 223.227　　A market operator must ensure that a fully hidden order on an order book does not have time priority over an order for the same equity market product on the same order book that is either fully or partly pre-trade transparent: Rule 4.1.7. Time priority means that if there are two limit orders in an order book at the same price, the order that was entered first gets filled first.

RG 223.228　　Fully hidden orders may, however, have price priority. Price priority means that if there are two orders in an order book at different prices, the order with the best price gets filled first. An order that is better priced than others (in the case of a sell order, the order with lowest price, and in the case of a buy order, the order with the highest price) is queued to match before orders at worse prices.

RG 223.229　　We consider it important that fully and partly pre-trade transparent orders have priority over fully hidden orders at the same price in an order book, as transparent orders should be rewarded for supporting the price formation process on public markets. This is consistent with the IOSCO Principles for dark liquidity:

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> ...regulators should take steps to support the use of transparent orders rather than dark orders executed on transparent markets or orders submitted into dark pools. Transparent orders should have priority over dark orders at the same price within a trading venue. (IOSCO *Principles for dark liquidity final report* (FR06/11), Technical Committee of IOSCO, May 2011).

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E Reporting requirements for crossing systems

Key points

Market participants that operate crossing systems under an exception to pre-trade transparency on a licensed market must:

- notify ASIC about details of the crossing system before it begins operating; and

- provide monthly reports to ASIC on activity on the crossing system.

Deleted: This obligation commences from the date the competition market integrity rules are registered.¶

Scope and application

RG 223.230   Chapter 4 of the competition market integrity rules on pre-trade transparency and Section E of this guide apply to market operators that offer trading services in equity market products and to participants that trade in these products.

RG 223.231   A crossing system is an electronically accessible pool of non-pre-trade transparent liquidity relying on one or more of the pre-trade transparency exceptions in Section D. In the competition market integrity rules, a crossing system is defined as an automated service provided by a market participant to its clients which matches or executes client orders with orders of the market participant or other clients of the market participant other than on an order book of a licensed market.

RG 223.232   Crossing systems include:

  (a)   internalisation systems where client orders are automatically matched with orders of the market participant (i.e. against the participant's own account) or with orders of other clients; and

  (b)   other systems, including those operated on an agency basis, that match user flow.

RG 223.233   Crossing systems may operate on technology built and operated exclusively by a participant or they may be developed by a third party vendor. Examples of crossing systems currently operating in Australia are ITG POSIT, Liquidnet, UBS's Price Improvement Network (PIN) and a number of broker internalisation systems.

RG 223.234   New technologies and trading strategies, together with the exceptions to pre-trade transparency, have resulted in significant growth in the number of crossing systems domestically and globally and the volume of transactions away from order books. We are concerned about the shift away from transacting on public pre-trade transparent markets into non-pre-trade transparent matching mechanisms and the impact this is having on the price formation process.

RG 223.235   The following reporting requirements enable ASIC to monitor developments with crossing systems and to continue our analysis of the impact of non-pre-trade transparent matching mechanisms on the price formation process on public markets.

Deleted: It will also inform our further consultation on exceptions to pre-trade transparency: see RG 223.178.

Notifying ASIC of crossing system

RG 223.236   Under Rule 4.3.1, a market participant that intends to operate a crossing system in this jurisdiction (relying on one or more of the pre-trade transparency exceptions) must notify ASIC about the nature of this system 20 business days before the crossing system begins operating: see the matters in Table 12.

Deleted: A market participant that operates a crossing system before Rule 4.3.1 applies must notify ASIC about these matters 20 business days after this rule takes effect, which is the day after the competition market integrity rules are registered.¶

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RG 223.237   We will publish on our website a list of crossing systems operating in Australia.

Table 12: Nature of crossing system

Matters	Details to be provided
Date of commencement	The date the crossing system began operating or will begin operating in Australia
Clients	The criteria for determining persons who are eligible to use the crossing system (e.g. retail clients, wholesale clients and buy-side only)
	Whether the crossing system transmits orders to other crossing systems
Matching process	How orders are prioritised and matched on the crossing system, and where relevant, how transactions are executed on the crossing system
	For example, is the crossing of orders done on price-time priority, size priority or some other basis?
Price determination	How the price for transactions matched or executed on the crossing system are determined, for example, at the midpoint of the best available bid and offer on the order books of licensed markets
Fee structure	The fees, commissions, rebates or other charges or incentives paid or received by or to the market participant and users of the crossing system
Principal trades	Whether the market participant that operates the crossing system deals as principal with clients on the crossing system (facilitation and/or house desk)
	If so, the arrangements the market participant has in place for managing conflicts of interest that may arise between the market participant and those clients
Reporting to a licensed market	The licensed market or markets to which matched orders or executed transactions are reported
	Under Rule 7.1.1, all trading by market participants on their own account or on behalf of clients must be done under the rules of a licensed market. This means that all transactions matched or executed on a crossing system must be reported to a market operator.
	Where more than one licensed market is used, the circumstances in which each is used (e.g. Market X for the top 200 stocks and Market Y for the remainder).

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Matters	Details to be provided
Life of an order	Whether orders on the crossing system are purged at the end of the trading day or remain on the crossing system until matching or execution next resumes
	If orders are not purged, the period of time they remain on the crossing system

Where to notify

Notification to ASIC

The notification to ASIC should be emailed to marketsregulation@asic.gov.au.

Monthly reporting to ASIC

RG 223.238   A market participant that operates one or more crossing systems relying on one or more of the pre-trade transparency exceptions must submit a monthly report to ASIC: Rules 4.3.2(b) and 4.3.3. The report must be provided to ASIC within 20 business days of the end of the calendar month.

RG 223.239   For each calendar month, the report must contain the information outlined in Rule 4.3.3 and set out in Table 21 in Appendix 2 about orders, transactions and cancellations in equity market products on the crossing system on a daily aggregated basis for each equity market product. Appendix 2 includes a description of the fields and some further guidance on how to complete the report.

RG 223.240   The monthly report must also describe any changes to the information provided in the initial notification of the crossing system: Rule 4.3.2(a). We do not expect the description of any changes to be included in the same document as the data on orders, transactions and cancellations referred to in RG 223.239. However, it should be provided at the same time.

RG 223.241   We expect the report to be in comma-separated values (CSV) file format using the table format in Appendix 2 of this guide. We ask that the file name be in the following format:
[3 digit participant code][indication if 1st, 2nd, 3rd crossing system operated by the participant][crossing system name]CrossingSystemReport [YYYYMM].

RG 223.242   The date is the month and year the data in the report relates to. For example, for a crossing system called XYZ operated by a market participant with code 100, which is the second crossing system the participant operates, for a report on March 2011, the name should be *1002XYZCrossingSystemReport201103*.

Where to notify

Notification to ASIC

The notification to ASIC should be emailed to marketsregulation@asic.gov.au.

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F Post-trade transparency

> ### Key points
>
> Details of executed transactions must be made public by market operators immediately, with the exception of certain transactions.
>
> Market participants that transact off-order book should continue to report details of the executed transaction to a market operator, and that information should be included in the market operator's feed of information. These transactions can be reported to any market operator that provides facilities for trading equity market products. Table 20 in Appendix 1 outlines the minimum information that a market participant must report to a market operator.
>
> Market participants must only avail themselves of the publication delay while they are at risk as principal in connection with the transaction, and must otherwise report to a market operator immediately.
>
> Market operators must make available post-trade information on reasonable commercial terms and on a non-discriminatory basis. Certain trading information must be publicly available at no cost after 20 minutes.

Scope and application

RG 223.243   Chapter 5 of the competition market integrity rules on post-trade transparency and Chapter F of this guide apply to market operators that offer trading services in equity market products and to participants that trade in these products.

RG 223.244   Like pre-trade transparency, disclosure of volumes and prices about completed transactions (post-trade transparency) contributes to price formation. It also allows investors to assess execution quality and is an important component for transaction cost analysis.

Market participants' obligations to report data

RG 223.245   All transactions by market participants must be entered into under the rules of a licensed market: Rule 7.1.1. Rule 5.1.1(1) requires market participants to report post-trade information for a transaction entered into off-order book to a market operator. This means that market participants that transact off-order book should continue to report details of the matched or executed transaction to a market operator, and that information should be included in the market operator's feed of information. The information that market participants must report to market operators is outlined in Rule 5.1.7: see Table 20 in Appendix 1. This table also outlines the format that we expect to be used for each field to facilitate the data consolidation process.

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RG 223.246   A market participants is required under Rule 5.1.1(4) to take reasonable steps to ensure that all post-trade information it reports is and remains complete, accurate and up-to-date.

RG 223.247   Market participants have a choice about which market operator to report to when transacting off-order book. These transactions can be reported to any market operator that provides facilities for trading equity market products.

Reporting off-order book transactions

RG 223.248   Under Rule 5.1.1, a market participant that transacts off-order book in accordance with the permitted pre-trade transparency exceptions (see Section D) must:

(a)   *during normal trading hours*—report post-trade information immediately to a market operator; and

(b)   *outside normal trading hours*—irrespective of where it is matched or executed, report post-trade information to a relevant market operator at least by 15 minutes before the commencement of normal trading hours of the next trading day.

> Note: The competition market integrity rules allow for deferred publication of information in certain circumstances: see RG 223.252–RG 223.257.

RG 223.249   If a transaction is executed outside normal trading hours and outside the period in which there is an auction on the market, post-trade information must be reported to a market operator at least by 15 minutes before the commencement of normal trading hours of the next trading day, or at an earlier time as required by the operating rules of the market operator under which the market participant determines the transaction has taken place.

RG 223.250   Where operating hours vary between markets, we deem 'normal trading hours' to be the earliest opening time and latest closing time (including auction periods) of all licensed markets dealing in equity market products that the market participant can access. For this purpose, a market is considered open for trading when there is continuous trading and during any auction period.

RG 223.251   Under Rules 5.1.1 and 7.1.1, transactions by market participants in equity market products that take place off-order book must be reported to a market operator—irrespective of where the counterparty is located (i.e. including if the counterparty is overseas).

Deferred publication

RG 223.252   There are some circumstances where immediate disclosure of executed trades can have negative market impacts.

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RG 223.253 Under Rules 5.1.1(2) and 5.2.1, publication of large principal transactions in which the market participant acts as either buyer or seller may be deferred, if the transaction is at least:

(a) $15 million for equity market products in Category A;

(b) $10 million for equity market products in Category B;

(c) $5 million for equity market products in Category C; and

(d) $2 million for all other equity market products (Category D).

Note: The list of equity market products that fall within each category is published by ASX on a weekly basis (taking effect the following day).

RG 223.254 Where a market participant buys or sells more than one class of equity market product under a single agreement, each constituent transaction should be assessed separately for the purpose of determining whether it is entitled to deferred publication.

RG 223.255 Under Rule 5.1.1(2), publication of large portfolio trades in which the market participant acts as principal as either buyer or seller may also be deferred. Large portfolio trades are included in the list of exceptions to pre-trade transparency in Section D.

RG 223.256 The maximum period for deferred publication is set out in Rule 5.1.1: see Table 13.

Table 13: Maximum period for deferred publication

Time transaction is effected	Maximum period for deferred publication
Before 1 pm on trading day	15 mins before the commencement of normal trading hours on the next trading day
After 1 pm on trading day	No later than 1pm on the next trading day

RG 223.257 Under Rule 5.1.1(2), market participants must only avail themselves of the delay while they are at risk as principal in connection with the transaction. When they are no longer at risk, they should publish the information.

Who should report off-order book transactions?

RG 223.258 It is important that transactions are only reported once to ensure data quality and to assist the data consolidation process. Only one party to a transaction should report the information to a market operator: Rule 5.1.2. This party should be:

(a) where only one party is subject to the competition market integrity rules, the party subject to the rules (e.g. if the counterparty is an overseas party, the party who is a market participant and subject to the competition market integrity rules must report); or

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Deleted: <#>We consider that ASX's existing deferred publication arrangements for facilitated specified size block special crossings and portfolio special crossings are consistent with the deferred publication arrangements in the competition market integrity rules. ¶
Review of deferred publication ¶
<#>During 2011, we intend to review the rule on deferred publication in conjunction with our review of all pre-trade transparency exceptions. As part of this review, we will consult on the categories of equity market products for these purposes.¶

(b) where more than one party is subject to the competition market integrity rules, the executing party, which is:

   (i) the market participant that receives the order and executes the transaction without transmitting the order to another market participant (e.g. a market participant that executes an order through its own crossing system);

   (ii) if both parties receive the order and execute the transaction, the seller or the party acting on behalf of the seller (e.g. for manually-negotiated trades); or

   (iii) determined by agreement between the parties. In this case, the party representing the seller must document the agreement reached with the buyer that the buyer will report. This can be done on a case-by-case basis or as a standing agreement between the parties (Rule 5.1.2(3)).

RG 223.259 All parties to a transaction must take reasonable steps to determine, before the transaction is executed, who will report the transaction: Rule 5.1.2(4). However, we acknowledge the non-reporting party is not responsible for publication irrespective of whether the reporting party complies with its reporting obligation.

RG 223.260 The following examples indicate which party should report the transaction in various circumstances.

> **Examples of reporting obligations**
>
> **Market**: A market participant receives a buy order from Client B for 5000 products. The market participant, on the basis of its best execution policy, transmits the order to Market X for execution. Market X must publish a transaction of 5000 products.
>
> **Agency**: A market participant receives a buy order from Client B and a sell order from Client C—both for 5000 products. The market participant, as agent, matches the orders of Client B and Client C. As the executing party, it must report a transaction of 5000 products.
>
> **Principal**: A market participant receives a buy order from Client B for 5000 products. The market participant executes the transaction against its own account. As the executing party, it must report a transaction of 5000 products.
>
> **Riskless principal**: A market participant receives a buy order from Client B and a sell order from Client C for 5000 products. The market participant simultaneously acts as the seller to Client B and buyer to Client C. As the executing party, it must report a single transaction of 5000 products.
>
> **Multi-fill (agency)**: A market participant receives a buy order from Client B for 5000 products and a sell order from Client C for 8000 products. The market participant, as agent, matches the order of Client B with 5000 of

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Client C's order. The remaining 3000 products from Client C are sold on Market X. The market participant, as the executing party for the agency component, must report a transaction of 5000 products. Market X must publish a transaction of 3000 products.

Negotiated: Market Participant A wants to buy 5000 products and Market participant B wants to sell 5000 products. They manually negotiate a price. Market Participant B, as the seller, must report a transaction of 5000 products.

Principal hedge: A market participant receives a buy order from Client B for 5000 products. The market participant executes the transaction against its own account, and then hedges its position on Market X. The market participant, as the executing party for the client transaction, must report a transaction of 5000 products. Market X must publish a transaction of 5000 products.

RG 223.261   We note that Rule 5.1.1(4) requires a market participant to take reasonable steps to ensure that all post-trade information it reports to a market operator is and remains complete, accurate and up-to-date.

RG 223.262   Under Rule 5.1.1(4B), where a market participant reports an off-order book transaction to a market operator and the market operator notifies the participant that the transaction does not meet the criteria for an off-order book trade or the criteria for delayed reporting, the market participant must immediately amend or cancel the transaction or take other appropriate measures in relation to the transaction (taking into account the reporting participant's obligations under Rules 4.1.1 and 5.1.1).

Market operator's obligations to validate post-trade information

RG 223.263   A market operator must take reasonable steps to ensure the post-trade information is and remains complete, accurate and up-to-date: Rule 5.1.4(2). We expect market operators to ensure that post-trade information is continuously updated without undue delay as transactions are executed, reported or cancelled.

RG 223.264   We do not expect a market operator to verify the validity of transactions reported to it by a market participant by looking behind the reported data to the actual transaction. However, we do expect, for example, market operators to have systems in place to identify if data fields required under Rule 5.1.7 are incomplete.

RG 223.265   A market operator that receives a post-trade report from a participant must also have in place systems and controls to determine whether the transaction as reported meets the criteria for the pre-trade transparency exception that was relied upon or any entitlement to delayed reporting: Rule 5.1.4A. The required validation is outlined in Rule 5.1.4A and reproduced in Table 14.

Table 14: Validation against pre-trade transparency exceptions

Item	Exception participant relied on	Market operator must verify the following
1	Block trades (Rule 4.1.1(2)(a))	The consideration for the transaction meets the criteria in Rule 4.2.1.
2	Large portfolio trades (Rule 4.1.1(2)(b))	The consideration for each transaction and the total consideration for the series of transactions meet the criteria in Rule 4.2.2. The timeframe the transaction was reported in meets the criteria in Rule 5.1.1. The stock was not suspended at the time of execution.
3	Trade with price improvement (Rule 4.1.1(2)(c))	The price per equity market product for the transaction meets the criteria in Rule 4.2.3 based on the market operator's calculation of the best available bid and best available offer at the time of the transaction.
4	Permitted trades during post-trading hours period (Rule 4.1.1(2)(d))	The transaction was entered into during the post-trading hours period as set out in Rule 4.2.4.
5	Permitted trades during pre-trading hours period (Rule 4.1.1(2)(e))	The transaction was entered into during the pre-trading hours period as set out in Rule 4.2.5.
6	Out–of-hours trades (Rule 4.1.1(2)(f))	The transaction was entered into outside of trading hours as set out in Rule 4.2.6.
7	Large principal transactions (Rule 5.1.1(2)(b)(i))	The consideration for the transaction meets the criteria in Rule 5.2.1. The timeframe the transaction was reported in meets the criteria in Rule 5.1.1. The stock was not suspended at the time of execution.

RG 223.266 Where a market operator determines that a transaction reported to it does not meet any or all of the criteria in Table 14, the market operator must:

(a) not accept the report;

(b) notify the reporting participant that the report has not been accepted; and

(c) not make publicly available the information in relation to the transaction: Rule 5.1.4A(4).

Market operator's obligations to make data available

RG 223.267 Under Rule 5.1.4(1), a market operator offering trading in equity market products must make available post-trade information about transactions executed under its rules to all persons who have entered into an arrangement

with it to access that information. The market operator must make post-trade information available:

(a) for transactions executed or reported during normal trading hours—continuously and in real-time; and

(b) for transactions executed or reporting outside normal trading hours—before trading resumes on its market.

RG 223.268 Market operators must also make available post-trade information on reasonable commercial terms and on a non-discriminatory basis to all users: Rule 5.1.5. This rule applies from the day after the competition market integrity rules are registered to enable users to enter into arrangements with market operators to access post-trade information. We consider this an important part of the framework for delivering consolidated market data: see Section G.

RG 223.269 The post-trade information should be made available in a format that is machine-readable (e.g. using the FIX protocol or the trading system's API).

RG 223.270 Market operators must also make available certain trading information free of charge on a website that is publicly accessible and on a delayed basis of no more than 20 minutes: Rule 5.1.6. This information includes the code that uniquely identifies the equity market product, last traded price, bid, offer, highest price, lowest price, volume, trading status and if the information is made available on a delayed basis, the delay time. We do not require this information to contain off-market transactions reported to the market operator.

Content and format of post-trade disclosure

RG 223.271 Market participants must report post-trade information to market operators as specified under Rule 5.1.7: see Table 20 in Appendix 1. Market operators must make that information available.

RG 223.272 Market operators must also make available execution details for transactions executed on the market, including trading time and volume. If some or all pre-trade information for the transaction is not available, and to the extent it cannot be determined by reference to trading time and volume, the market operator must also make available all of the information as specified under Rule 5.1.7: see Table 20 in Appendix 1. All relevant information in this table should be made available for partly disclosed orders.

RG 223.273 Table 20 in Appendix 1 also outlines the format that we expect to be used for this information to facilitate the data consolidation process.

RG 223.274 We will keep under review the post-trade information that must be reported to market operators by participants and the information that must made available by market operators. We intend to monitor industry developments to determine whether additional information should be made public and will consult if any changes to the table are considered necessary.

Deleted: <#>Market operators must take reasonable steps to ensure the post-trade information is and remains complete, accurate and up-to-date: Rule 5.1.4 (2). We expect market operators to ensure that post-trade information is continuously updated without undue delay as transactions are executed, reported or cancelled. ¶
<#>We note that Rule 5.1.1(4) requires a market participant to take reasonable steps to ensure that all post-trade information it reports to a market operator is and remains complete, accurate and up-to-date. We do not expect a market operator to verify the validity of transactions reported to it by a market participant by looking behind the reported data to the actual transaction. However, for example, we do expect market operators to have systems in place to identify if data fields required under Rule 5.1.7 are incomplete. We also expect market operators to take reasonable steps to check that the post-trade information in the report is consistent with the pre-trade transparency exception relied upon by the market participant. ¶

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Deleted: As noted in RG 223.17, we expect to consult during 2011 on enhancing client information on orders and trades (e.g. category of client as wholesale or retail and distinguishing direct electronic access clients).

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Which activities do not need to be reported

RG 223.275　Only those activities that constitute a transaction should be reported and transactions should not be reported more than once. This is necessary to avoid duplication and misleading the wider market about the volume of trading.

Single transaction

RG 223.276　Two matching trades entered at the same time and price with a single party interposed (i.e. riskless principal) is a single transaction for the purpose of the post-trade transparency obligations and should be reported as a single transaction to avoid duplication. Parties to the transaction must ensure that the transaction is made public as a single transaction and only reported once: Rule 5.1.1(5).

Activities that should not be reported

RG 223.277　Under Rule 5.2.2, the following activities should not be reported:

(a) passing of an order—an order only becomes a transaction at the point there is an execution. For example, when an order passes from one investor to another via a chain of firms, and when the movement is economically unchanged, only the final execution constitutes a transaction;

(b) primary market transactions (such as issuance allotment, subscription or takeover bid);

(c) stock lending or stock borrowing; and

(d) ETF special trades.

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G Consolidation of pre-trade and post-trade information

> **Key points**
>
> Parties who wish to provide a trade information consolidation service can access pre-trade and post-trade information directly from market operators on reasonable commercial terms and on a non-discriminatory basis.
>
> We expect data consolidators to adhere to minimum operating standards.

Scope and application

RG 223.278 Section G of this guide applies to market operators that offer trading services in equity market products and to participants that trade in these products. It also provides guidance on our expectations for data consolidators.

RG 223.279 There is a risk that fragmentation of trading data across markets may hinder price formation if a consolidated view of pricing is not easily available. This is because investors may not see all of the information that is relevant to make an informed investment decision, and price discrepancies between markets may last longer than they otherwise would. This may result in some investors trading at a less advantageous price because they do not have access to full price information. Fragmented information may also affect the ability of companies to keep track of trading activity in their stock.

RG 223.280 We consider that a consolidated source of trade information that is available for a reasonable price to all users is a fundamental element of a fair, orderly and transparent market. We have established a framework which enables multiple providers of trade information consolidation services. We expect that more than one data consolidator will emerge in Australia.

Obligations on market operators and market participants

RG 223.281 Parties who wish to provide a trade information consolidation service can access pre-trade and post-trade information directly from market operators. To promote market data that is accurate, accessible and easily consolidated, the competition market integrity rules require:

(a) market operators to have adequate controls to prevent anomalous orders from entering their markets (Rule 2.1.3);

(b)   market participants that transact off-order book in accordance with the permitted pre-trade transparency exceptions (see Section D) to report post-trade information to a market operator (Rule 5.1.1);

(c)   market participants to take reasonable steps to ensure the post-trade information they report to a market operator is and remains complete, accurate and up-to-date (Rule 5.1.1(4));

(d)   market participants to take reasonable steps to determine, before a transaction is executed, which party will report the transaction to a market operator (Rule 5.1.2(4));

(e)   market operators to take reasonable steps to ensure the pre-trade and post-trade information is and remains complete, accurate and up-to-date (Rules 4.1.2(3) and 5.1.4(2)); and

(f)   market operators to make all pre-trade and post-trade information available on reasonable commercial terms and on a non-discriminatory basis to anyone who wants access to it (Rules 4.1.3 and 5.1.5).

RG 223.282   For more information about these obligations, see Sections D and F.

Minimum standards for data consolidators

RG 223.283   Given that the competition market integrity rules support the provision of trade information to enable data consolidators to provide a consolidation service, we expect all data consolidators to adhere to minimum operating standards which govern the consolidator's function and operation in the market: see Table 15. These standards aim to ensure, among other things, completeness and quality of information and robustness and reliance of service.

RG 223.284   We expect data consolidators to be transparent about their operations and to report on their performance. ASIC will maintain an informal relationship with consolidators to promote quality data consolidation.

RG 223.285   We will keep our approach to regulating data consolidation and the content and status of these standards under review. We intend to monitor industry developments to determine whether regulatory intervention is necessary, additional standards should be put in place or existing standards should be modified. We will consult on any proposed changes to our approach to regulating the consolidation of pre-trade and post-trade information or the content of these standards, as required.

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Table 15: Minimum standards for data consolidators

Area	Minimum standard
Service offering	Data consolidators should, at a minimum, offer a whole-of-market consolidated view of the top five bids and offers and all post-trade information for equity market products. They should ensure that this data is made publicly available in a non-discriminatory manner and at a reasonable price.
Data quality	Data consolidators should ensure that data is collected and processed in a timely, accurate and reliable way. They should, for example, validate data in real-time.
Fees and charges	Data consolidators should ensure that pre-trade information and post-trade information for each data product can be made available separately to those users who only wish to purchase specific components. Data should be made available at a reasonable cost to investors. They should also ensure that their fee schedules are transparent and easily available. Data should be available at no charge after a short delay.
System and technology requirements	Data consolidators should ensure that they: • have appropriate systems and controls to perform their functions; • use common data formats, permitting commercially viable usage; • offer appropriate support to their users, including a testing environment; • have procedures to control aberrant data entry; and • adequately provide for operational disruptions by having business continuity plans and frequently reviewing those plans.
Organisational requirements	Data consolidators should have sufficient resources (including financial and technical resources) for the proper performance of their functions. They should also have appropriate governance arrangements and systems and controls in place to manage any conflicts of interest.
Security	Data consolidators should have appropriate measures in place to ensure the integrity and security of data.

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H   Data for market supervision

Key points

Market participants must provide specified regulatory data on orders and trade reports to market operators. This obligation commences on 10 March 2014.

A market participant may choose to start providing regulatory data to a market operator from 7 October 2013.

Market operators must record and provide to ASIC all regulatory data they receive. These obligations commence on 7 October 2013.

Scope and application

RG 223.286   Chapter 5A of the competition market integrity rules on data for market supervision and Section H of this guide apply to market participants that trade in products quoted on ASX (excluding futures and options), and to market operators that offer trading services in those products: Rule 5A.1.1.

RG 223.287   Under Chapter 5A, specified regulatory data on orders and trades must be provided by the relevant market participants to the relevant market operators: Rules 5A.1.2 and 5A.1.4. This obligation commences on 10 March 2014. Market participants who wish to start implementing their regulatory data reporting systems before 10 March 2014 may choose to provide some or all of the regulatory data required by Rule 5A.1.4 in their orders and trade reports to market operators from 7 October 2013.

RG 223.288   Market operators offering trading services in these products must record the regulatory data they receive: Rule 5A.1.3(1). Market operators must also provide this regulatory data to ASIC: Chapter 7 of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X). These obligations commence on 7 October 2013.

RG 223.289   The data provided by market participants to market operators and then to ASIC will assist us in carrying out our function of supervising and ensuring the integrity of Australia's licensed financial markets, including:

(a)   detecting market abuse;

(b)   monitoring market orderliness and integrity; and

(c)   analysing market structure, trends and quality.

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RG 223.290   Market participants must provide the information specified in Chapter 5A:

(a)   in an order transmitted to an order book (Rule 5A.1.2(1)); and

(b)   in a trade report (i.e. an off order-book transaction) for each side of the transaction (buy and/or sell) for which the market participant acted as agent or as principal (Rule 5A.1.2(2)).

RG 223.291   Where an off-order book transaction involving two market participants is reported to a market operator, a participant is not required to provide regulatory data relating to the other participant's side of the transaction.

RG 223.292   The information to be provided in trade reports under Chapter 5A is different to the post-trade information that must be provided by a reporting participant under Chapter 5 of the competition market integrity rules for off-order book transactions in equity market products: Rule 5A.1.4.

Confidentiality

RG 223.293   Unlike the post-trade information that must be given to market operators under Chapter 5 of the competition market integrity rules, the regulatory data under Chapter 5A is for ASIC's use only, and must be treated confidentially.

RG 223.294   The data provided on orders and trade reports by market participants under Chapter 5A must be treated by market operators as confidential and must not be used or disclosed for any purpose other than providing the regulatory data to ASIC and the market participant that provided the information or their agent, or a purpose that is otherwise required or permitted by law: Rule 5A.1.3(2).

RG 223.295   Subject to exceptions related to a requirement of law, the seeking of legal advice, or the provision of the data to a person acting as agent on behalf of the participant (to the extent there is a legitimate business reason for that person to have access to the regulatory data), this data must not be made available by the market participant in its raw or summarised form to any other person in connection with the order or trade report: Rule 5A.1.2(3). The market participant must also take reasonable steps to ensure that its agent does not disclose the regulatory data to any other person, subject to the same exceptions.

RG 223.296   We expect that market participants may wish to restrict access to this data internally, and specify to their system providers certain restrictions in that regard. In particular, we recognise that indiscriminate display of origin of order information may concern some clients and we expect market participants will elect to limit the visibility of this information within their systems.

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Data to be provided and recorded

RG 223.297 Table 16 summarises the information market participants must provide to a market operator: Rule 5A.1.4. A detailed description for each component of information follows the table.

Table 16: Summary of data to be provided by market operator

Data	Description	Content/format	Required for: Order	Required for: Trade report

Execution venue	The venue (licensed market, crossing system or other facility), if any, on which the transaction occurred	One of the following:
		• the ISO 10383 market identifier code (ISO 10383 MIC) where one exists for the venue; or
		• where the venue does not have an ISO 10383 MIC:
		  – if the venue is a crossing system for the purposes of Part 4.3, the crossing system ID described in Appendix 2: Reporting by market participants: Crossing systems; or
		  – if the venue is not a crossing system for the purposes of Part 4.3, a code allocated to the venue by ASIC on request.
		See RG 223.298–RG 223.301
			✗	✓

Capacity of participant	Describes the capacity in which a participant has submitted an order or entered into a transaction	Principal, agent or both See RG 223.302–RG 223.305	✓	✓
Origin of order information for agency orders and transactions	Information that assists identification of the person who provided instructions to place an order or enter into a transaction	One of the following (generally, in order of preference) used consistently: • a client's ACN, ARBN or ARSN (or an equivalent form of identification in an overseas jurisdiction), global LEI; • an internal client identifier; • user login identifier; • CHESS HIN; • internal account identifier; or • adviser reference. If there is no single source, 'VWAP', 'TWAP', 'TPAV' or another identifier, used consistently. See RG 223.306–RG 223.317	✓	✓

Data	Description	Content/format	Required for:	
			Order	Trade report
		Note: ACN=Australian Company Number; ARBN=Australian Registered Business Number; ARSN=Australian Registered Scheme Number; LEI=Legal Entity Identifier; and CHESS HIN =CHESS Holder Identification Number.		
Intermediary identifier for agency orders and transactions	Information that enables identification of an AFS licensee intermediary (i.e. an AFS licensee with which the market participant has a specific type of market access arrangement) that provided instructions to place an order or enter into a transaction	AFS licence number See RG 223.318–RG 223.321	✓	✓
Directed wholesale indicator for agency orders and transactions	Information that indicates whether the order or transaction was submitted by a wholesale AOP client (i.e. an AOP client with which the market participant has a specific type of market access arrangement) with non-discretionary routing and execution instructions	Yes or No flag. Default = No See RG 223.322–RG 223.324	✓	✓

Execution venue

RG 223.298   To stay abreast of developments in market structure, including off-order book liquidity (or liquidity in 'dark pools') we require unique identification of the execution venue for transactions executed other than on an order book of a licensed market (off-order book). This information enhances the efficiency of our surveillance function across execution venues and provides accurate data for analysing market developments.

RG 223.299   Market participants must identify the venue (i.e. licensed market, crossing system or other facility) on which off-order book transactions reported to a market operator are matched or executed: see item 1 of the table in Rule 5A.1.4. The following identification codes must be used:

(a)   For venues operating under an Australian market licence, the ISO 10383 market identifier code (ISO 10383 MIC).

Note: For a list of valid codes, go to www.iso15022.org/MIC/homepageMIC.htm.

(b)   For venues not operating under an Australian market licence:

    (i)   the ISO 10383 MIC where one exists for the venue; or

    (ii)   where there is no ISO 10383 MIC for the venue:

        (A)   if the venue is a crossing system for the purposes of Part 4.3, the *Crossing system ID* allocated to the system and set out in Appendix 2: Reporting by market participants: Crossing systems; or

        (B)   if the venue is not a crossing system for the purposes of Part 4.3, a code allocated to the venue by ASIC on request.

RG 223.300   For manually negotiated transactions, there is no requirement to provide a code for the execution venue.

RG 223.301   We will review whether the execution venue information provided under Rule 5A.1.4 means that all or some of the crossing system reporting obligations under Part 4.3 of the competition market integrity rules are no longer required.

Capacity of participant

RG 223.302   For orders submitted to an order book of a licensed market, market participants must indicate whether they are acting as principal, or as agent for a client, or both, in relation to the order: see item 2 of the table in Rule 5A.1.4.

RG 223.303   For transactions done other than on an order book of a licensed market and reported to a market operator, the market participant reporting the transaction must indicate, for each side (buy and/or sell) of the transaction on which they are required to provide regulatory data, whether they were acting as principal or as agent for a client, or both.

RG 223.304   In Rule 5A.1.4, 'principal' has the meaning given by Rule 1.4.3 and includes a market participant acting on behalf of a related body corporate in relation to the order or transaction.

RG 223.305   This information will enhance our ability to detect certain forms of market abuse and our understanding of the basis upon which transactions occur in the Australian market.

Origin of order

RG 223.306   Where a market participant is acting as agent for a client, it must provide a reference to identify the source of the original client instructions that resulted in an order or a transaction, to the extent the market participant is able to determine the source of those instructions, taking all reasonable steps: see item 3 of the table in Rule 5A.1.4.

    Note: For an explanation of what are 'reasonable steps' for the purposes of this rule, see RG 223.325–RG 223.330.

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RG 223.307　Origin of order information allows us to identify transactions that may have originated from the same person or client. It allows us to detect and investigate market manipulation and insider trading with greater efficiency and may assist market participants' risk management. On that basis, this information will enhance our ability to perform market surveillance.

RG 223.308　We recognise that for certain forms of order flow, providing this information may not be practicable. Accordingly, the information must be provided to the extent that it is able to be determined by the market participant, taking all reasonable steps.

RG 223.309　We expect this information will be provided where it is:

(a)　provided on the original client order;

(b)　entered by the market participant; or

(c)　available by reference to information held in the order management system used by the participant.

RG 223.310　We expect that systems will be enhanced to ensure that from 10 March 2014, this information will be provided on all orders or transaction that can be attributed to a single source.

RG 223.311　As noted in Table 16, a market participant may identify the origin of an order by using:

(a)　a client's Australian Company Number (ACN);

(b)　Australian Registered Business Number (ARBN);

(c)　Australian Registered Scheme Number (ARSN);

(d)　global Legal Entity Identifier (LEI);

(e)　an equivalent form of identification to ACN, ARBN, ARSN, in a foreign jurisdiction;

(f)　an internal client identifier;

(g)　user login identifier;

(h)　CHESS Holder Identification Number (CHESS HIN);

(i)　internal account identifier; or

(j)　adviser reference.

RG 223.312　Our preference generally is to receive origin of order information that is not unique to the market participant providing it (i.e. the references referred to in RG 223.311(a)–RG 223.311(e)).

RG 223.313　Where the market participant uses a notation, code or number to identify the origin of an order, the market participant must take all reasonable steps to use the same notation, code or number on an order or trade report to identify the same person or account in different orders or trade reports (i.e. where

multiple orders or transactions originate from the same source, that source should be identified consistently): Rule 5A.1.4(5). Where a market participant's internal client, account or user login identifier is used, that identifier may be encrypted so long as the encrypted identifier does not change with date and, or time.

RG 223.314   Rule 5A.1.4 recognises that where an order or transaction relates to a number of unrelated instructions, it may not be possible to provide information that identifies the origin of the order or transaction. For example, where multiple investment managers provide instructions to achieve VWAP, a market participant may place 'basket' orders representing similar instructions received from multiple sources. In this case, market participants must provide an identifier that indicates the origin of the order is not a single source. Acceptable identifiers include 'VWAP', 'TWAP', 'TPAV', or any other identifier used consistently.

RG 223.315   Origin of order information must be provided on orders submitted to an order book of a licensed market, and where relevant, for each of the buy side and sell side of transactions done other than on an order book of a market when reporting that transaction in accordance with Rule 5.1.1 (for equity market products) or the market operating rules (for other products).

RG 223.316   Market participants and broker trade and order management system providers should note the requirement to identify the source of a client order from 10 March 2014, and take steps to enhance their systems to provide the information so they are able to comply by that date. This may involve providing capacity for clients to provide additional information on orders submitted electronically to the market participant and starting to provide regulatory data to market operators from as early as 7 October 2013.

Examples

RG 223.317   Table 17 sets out examples and guidance on the origin of order information associated with common types of order flow that we would expect market participants to provide. The examples are not exhaustive and each example should be considered in isolation—that is, the circumstances in one example should not be applied to circumstances in the others.

Table 17: Examples of origin of order information

Example	Guidance
Example 1: Online retail broking A person logs on to a market participant's online retail broking web-site and places orders for three accounts.	In this example, the person is authorised to place orders for the three accounts, and is the origin of the three orders. On all three orders, the market participant should provide the same unique reference for the person that placed the order. This may be the person's customer number or system login username.

Example	Guidance
	If the market participant is not able to provide a unique customer number or system login username for the person that placed the order, the market participant should provide the relevant account identifier for each order.
	Market participants already using a unique account reference to propagate a market operator's 'Xref' or 'bookings reference' field may, as long as the information does not change with time, use the same reference for ASIC's origin of order reference.
Example 2: 'White label' online retail broking	In this example, the person is authorised to place orders for the three accounts, and is the origin of the three orders.
A person logs on to the online trading website of an intermediary AFS licensee that is not a market participant.	As the market participant provides and manages the systems used by the intermediary and the person, information relating to the origin of the three orders is known to the market participant. On all three orders, the market participant should provide a unique reference for the person that placed the order. This may be the person's customer number or system login username.
The website, order management systems and access to markets is provided and managed by a market participant to the intermediary AFS licensee.	
The person places orders for three retail accounts using the systems provided to the AFS intermediary by the market participant.	If the market participant is not able to provide a unique reference for the person that placed the order, the market participant should provide the relevant account identifier on each order.
	Market participants already using a unique account reference to propagate a market operator's 'Xref' or 'bookings reference' field may, as long as the information does not change with time, use the same reference for ASIC's origin of order reference.
	Note: In addition to providing a reference for the origin of order, market participants must also provide the AFS licence number of the intermediary: see RG 223.318–RG 223.321.
Example 3: Full service retail broking	In this example a market participant should provide on the order a reference that identifies the person that provided instructions to place the order.
A person contacts their adviser and provides instructions to place an order.	
The adviser places the order.	If the market participant is not able to identify the person that provided the instruction to place the order, and the accounts to which resultant trades will be allocated are known, the market participant should provide on the order, a reference for one of those accounts.
	If the market participant is not able to identify the person that provided the instruction to place the order and the accounts to which resultant trades will be allocated are unknown, the market participant should provide a reference for the adviser who placed the order.

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Example	Guidance
Example 4: Full service retail broking— Managed discretionary account An adviser places an order on behalf of a client (or several clients) without receiving explicit instructions from those clients.	In this example, the market participant should provide an identifier for the adviser that placed the order. If the market participant is not able to identify the adviser that placed the order, the market participant should provide on the order, a reference for one of the accounts for which the order was placed.
Example 5: Institutional broking—Wholesale client An investment manager places an order on behalf of a client (or several clients). The trader places the order.	In this example, a market participant should provide a reference that identifies the investment manager that placed the order. If the market participant is not able to identify the investment manager that placed the order, the market participant should provide on the order, a reference for one of the accounts to which the resultant trades will be allocated. If the market participant is not able to identify the person that provided the instruction to place the order or identify the accounts to which resultant trades will be allocated, the market participant should provide a reference for the trader who placed the order.
Example 6: Institutional broking—Overseas client An overseas investor instructs their overseas broker to submit an order to an Australian market operator. Through one or more intermediaries the overseas investor's instruction is received by the London office of a global investment bank and transferred electronically to the Australian office of the investment bank. The Australian office of the global investment bank is a market participant.	The market participant must provide a reference that best identifies the origin of the order. If the market participant, taking all reasonable steps, can determine the ultimate originator of the order (the overseas investor), then an identifier for that ultimate originator should be provided. We recognise that, in this example, even if the market participant takes all reasonable steps, it may not be able to ascertain the ultimate originator of the order. In that case, it must provide an identifier for the party closest to the originator as possible. In this example, the London office should provide the Australian market participant with a reference to identify where the order originated. If the London office does not provide the Australian market participant with a reference to identify where the order originated, the market participant should provide a reference to identify the London office.
Example 7: Institutional broking—Overseas client An overseas investor instructs their overseas broker to submit an order to an Australian market operator. Through one or more unrelated intermediaries, the instruction is received by a market participant.	The market participant must provide a reference that best identifies the origin of the order. If a reference for the ultimate originator of the order is known, it must be provided. We recognise that order information received from the intermediary may not include a reference for the ultimate originator of the order. The market participant should provide a reference for the party closest to the originator as possible. If details of the originator are not provided by the intermediary, the market participant must provide a reference for the intermediary from which it received instructions for the order.

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Example	Guidance
Example 8: Institutional broking—VWAP A number of unrelated clients contact a market participant asking them to buy a quantity of shares and achieve volume weighted average price (VWAP) over the trading day. The market participant aggregates all similar orders and executes an algorithm, which submits a number of orders to the market to achieve VWAP for the total quantity of shares over the trading day.	The market participant must provide a reference that best describes the origin of the order, but in this case there is no single client or person associated with the origin of each order submitted to the market by the algorithm. The market participant should modify the algorithm to provide a consistently used identifier for origin of order. In this case, 'VWAP' would be an appropriate identifier to use. We recognise that the process of updating algorithms to provide origin of order reference information may take significant time. Market participants must aim to complete their development projects by the implementation date of this obligation (i.e. 10 March 2014).

Intermediary identifier

RG 223.318   Where an order originates from the client of an AFS licensee that acts as an intermediary for its own clients and that has a specific arrangement with the market participant for access to the market (typically known as an online 'white-label' broking arrangement), the market participant must take all reasonable steps to identify the AFS licence number of the intermediary on orders and the relevant buy and/or sell side of trade reports: see item 4 of the table in Rule 5A.1.4.

RG 223.319   Over recent years, the number of indirect market participants has grown significantly and order and trade information for orders originating from this segment of the market is difficult to identify. Providing AFS licence numbers on orders and trade reports originating from indirect market participants will allow ASIC to map this important market segment and provide efficiencies for our trading inquiries. Under this rule, active indirect market participants will be identified, and the information obtained under it will be used to assist us to assess compliance with AFS obligations by indirect market participants.

RG 223.320   Where an order is placed directly by an indirect market participant using systems provided by the market participant, we expect market participants will be able to provide the AFS licence number of the intermediary. This means that we expect a participant, taking all reasonable steps, will be able to determine and provide this information.

RG 223.321   Where a number of intermediaries exist between the market participant and the client, the AFS licence number of the intermediary with access to the trading system of a market participant must be provided.

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Directed wholesale indicator

RG 223.322　A market participant must take all reasonable steps to identify orders and transactions:

(a)　with non-discretionary routing and execution instructions; and

(b)　received electronically from a wholesale client: see item 5 of the table in Rule 5A.1.4.

RG 223.323　For the purposes of this rule, 'wholesale' has the same meaning as outlined in Table 6 in Section C of this guide.

RG 223.324　Technology, in particular direct electronic access to markets by wholesale clients, plays an ever increasing role in our markets. The information that must be reported will enable ASIC to assess the impact on the market of clients with direct access to markets. These clients have sophisticated technology platforms and, with the exception of market access, often do not rely on the execution services provided by the market participant.

What are 'reasonable steps' to determine data?

RG 223.325　The obligation to provide origin of order information, intermediary identifiers and directed wholesale indicators commences on 10 March 2014, and is a qualified obligation. That data must be provided to the extent it is able to be determined by a participant, taking all reasonable steps: Rule 5A.1.4(2).

RG 223.326　We expect market participants to enhance their systems and processes, to enable them to capture and report the required data by 10 March 2014.

RG 223.327　Market participants should consider whether they need to:

(a)　add new fields on screens, messages and databases;

(b)　implement systems upgrades to record and make accessible specific regulatory data;

(c)　amend client agreements to require clients to provide further specified information; and/or

(d)　engage with their third party contractors and vendors to initiate appropriate changes to those parties' systems.

RG 223.328　If a market participant does not take steps to enhance systems and processes to enable the regulatory data required by Chapter 5A to be reported by 10 March 2014, we consider it will not be able to demonstrate it has taken reasonable steps to determine that data, and it will be in breach of the Chapter 5A reporting requirements if the data is not reported.

RG 223.329   A market participant that has enhanced its systems and processes by 10 March 2014 may, in the particular circumstances of an order or transaction or client, still be unable to determine the data required to be reported. This may be because the enhanced systems and processes developed do not cater for unique circumstances. In those cases, which we expect to be rare, a market participant need not provide the required data.

RG 223.330   When a specific, unique set of circumstances for an order or transaction starts to recur, market participants should consider whether to further enhance their systems and processes to enable the capture of the data required for those circumstances.

Providing data to ASIC

RG 223.331   A market operator must provide ASIC with data for market supervision in the format specified in the Australian Market Regulation Feed (AMRF) FIX specification, as published on the ASIC website: Part 7.1 (ASX) and (Chi-X).

RG 223.332   Apart from technical validation to ensure information received from market participants is in a form consistent with the AMRF specification, market operators are not required to verify the accuracy of the content of the information.

RG 223.333   The AMRF specification, which defines the format of transaction information provided by market operators to ASIC for surveillance purposes will be updated during the second quarter of 2013 to reflect the market operator's obligations to provide this information to ASIC. Apart from ensuring that information provided to us complies with the AMRF specification, there are no additional requirements for market operators to perform validation of information provided by market participants.

RG 223.334   A market operator may make the information received from participants under Rule 5A.1.4 available to the market participant that provided it, or to their nominated agent, but must not otherwise disseminate that information: see RG 223.298–RG 223.301.

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I Market operator cooperation and operational requirements

> ### Key points
>
> Market operators must cooperate to coordinate trading suspensions to ensure business continuity and market integrity.
>
> We expect that when one market operator suspends trading for a market integrity-related purpose, all other market operators will also suspend trading.
>
> Market operators must share information necessary to maintain fair, orderly and transparent markets.
>
> Market operators must have procedures to allocate unique participant identifiers for participants and the listing market must allocate unique symbols for equity market products.
>
> Market operators must synchronise their clocks to the time maintained by the National Measurement Institute (NMI). Arrangements should be in place to monitor, maintain and verify synchronisation.
>
> Tick sizes have been harmonised across all exchange markets.
>
> Market operators must notify material changes to their written procedures made under their operating rules to ASIC within a reasonable time before adopting the change.

Scope and application

RG 223.335   Chapter 6 of the competition market integrity rules on other obligations for market operators and Section I of this guide apply to market operators that offer trading services in equity market products.

Trading suspensions and system outages

RG 223.336   In a multimarket environment, market operators need to cooperate and share information with each other to coordinate certain market-wide events. Cooperation will minimise arbitrage opportunities between markets, contribute to market integrity and assist market operators in their obligation to operate a fair, orderly and transparent market.

RG 223.337   We expect market operators to coordinate their actions in relation to market integrity-related trading suspensions. For the purposes of this section and Part 6 of the competition market integrity rules, trading suspension means a halt or suspension in trading where orders may not be matched or executed. This does not include where the trading halt or suspension is triggered by a technical problem.

RG 223.338   We expect that when one market operator suspends trading for a market integrity-related purpose, all other market operators will also suspend trading.

Market integrity-related trading suspensions

RG 223.339   The most common market integrity reason for suspending trading in an equity market product is the release of price-sensitive information about a listed company (under the continuous disclosure obligations) or as a result of a suspicion that such information exists but has not been disclosed.

RG 223.340   Section 674 of the Corporation Act requires listed companies to disclose to the listing market any information that may have a material effect on the price or value of a listed security, in accordance with the listing rules of the listing market. Part 7.2 of the Corporations Act, through the fair, orderly and transparent obligation, infers that listing market operators should make this information available.

RG 223.341   A market operator may also place a product into a trading suspension for a range of other market integrity-related reasons that may affect the fair, orderly and transparent operation of a market. Examples include responding to:

(a)   an extreme price movement (e.g. from an anomalous order, aberrant algorithm or external event such as a natural disaster: see Section B);

(b)   a suspected market manipulation; or

(c)   any other event that may undermine the price formation process.

Timing of communication about trading suspensions

RG 223.342   A market operator must notify other market operators that offer trading in the relevant equity market product immediately each time it places the equity market product into a trading suspension and when the trading suspension is lifted or removed: Rule 6.1.1(1). We interpret 'immediately' to be as close to instantaneously as is technically and reasonably possible.

RG 223.343   In addition, other market operators must place the product into a trading suspension immediately on receipt of the information and may only lift or remove the trading suspension once notified to do so by the first market operator: Rule 6.1.2. If it is determined that the trading suspension is not a result of a market integrity purpose (e.g. if it becomes clear it is a result of a system outage limited to a single market), we consider that other markets may continue to commence trading.

RG 223.344   Under Rule 6.2.1(1), this information must be made available through an electronic data feed: see RG 223.357. Market operators other than the listing market operator may for a period of time rely on other means, such as an instant message, email or phone call. This is because we do not expect market operators other than the listing market operator to trigger trading suspensions initially.

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RG 223.345 Where a technical problem prevents a market operator from immediately making the notification required under Rule 6.1.1(1), the notification must be made available by another appropriate means and without delay: Rule 6.1.1(2). We expect market operators to have appropriate backup procedures and arrangements in place if a data feed fails. This could include communication via telephone. We expect these procedures to be agreed between market operators and with ASIC.

Resumption of trading

RG 223.346 Market operators have a range of options for resuming trading once a trading suspension is removed. For example, a market operator may resume continuous trading immediately. Alternatively, it may hold an auction, as ASX often does after a suspension stemming from a price-sensitive announcement.

Differences in trading hours

RG 223.347 Where the trading hours of market operators vary, there will need to be arrangements between market operators for managing trading suspensions during the hours when one or some markets are closed. These arrangements will need to operate in a way that operators meet their respective licence obligations (e.g. the obligation to operate a fair, orderly and transparent market). This is particularly important when the listing market, which is responsible for triggering trading suspensions relating to price-sensitive information, opens later or closes before other markets.

Market operator to notify system outages

RG 223.348 Under Rule 6.1.3, a market operator must inform ASIC, other market operators and market participants immediately upon becoming aware of a technical problem (including a power outage) affecting its trading system, compliance monitoring system or reporting system. We consider a technical problem to be significant where, even if the market operator's disaster recovery arrangements are deployed, the technical problem may interfere with the fair, orderly and transparent operation of any other market. This includes problems with accepting orders, executing transactions, undertaking necessary monitoring or disseminating pre-trade, post-trade or trading status information.

RG 223.349 Where the problem does not impact the fair, orderly and transparent operation of the other market, the other market may continue to operate as normal. However, where a market relies on information shared by another market for any aspect of its own trading (e.g. orders priced by reference to another market) and can no longer receive that information due to a technical issue, transacting in the reliant order type should cease immediately and should only recommence once the required information is received again.

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Information sharing between market operators

RG 223.350 We expect market operators to cooperate in the provision of information to one another, including testing the dissemination and receipt of the information.

RG 223.351 All market operators must access a data feed made available by other market operators relating to trading suspensions and reference prices for extreme cancellation ranges. This may be a feed provided under Part 6.2 for regulatory purposes, or it may be part of a commercially-provided feed.

Information to be made available between market operators

RG 223.352 Under Rules 6.2.1(1) and 6.2.1(3), each market operator must make available the following information (including access to the information) to other market operators:

(a) notifications of reference prices for identifying transactions in the extreme cancellation range (as required by Rule 2.2.2(2)). This notification obligation applies to the listing market only;

(b) the pre-trade and post-trade information referred to in Rule 4.1.2(1) and 5.1.4(1) to assist with compliance with the competition market integrity rules and Pt 7.2 of the Corporations Act. For example, the listing market operator may require this information to fulfil its obligations under Pt 7.2 of the Corporations Act to monitor continuous disclosure. Other market operators may require the information to inform their order entry controls required under Part 2.1 (see Section B);

(c) notifications about trading suspensions (as required by Rule 6.1.1) for the purpose of placing or removing an equity market product into or from a trading suspension; and

(d) information about the status of trading in each equity market product (to the extend not covered by paragraph (c)) to assist with compliance with the competition market integrity rules and/or Pt 7.2 of the Corporations Act.

RG 223.353 The market operator may limit the terms of access to the data to regulatory purposes only—that is, for a purpose directly related to compliance with the market operator's obligations under Pt 7.2 of the Corporations Act to maintain a fair, orderly and transparent market and the competition market integrity rules.

RG 223.354 To facilitate efficiencies in this process, market operators should give other market operators notice that they require this information to be made available: Rule 6.2.1(5). We expect the notice to be provided in a reasonable time before the information is required. What is considered 'reasonable time' may vary based on the circumstances. We will work with market operators to determine what 'reasonable time' is. We consider that this notification should be provided in writing—either in printed or electronic form.

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RG 223.355　Under Rule 6.2.1(4), a market operator that receives a notice must make the information available in a reasonable time. There needs to be a balance in ensuring operators that are required to make information available to other market operators have time to adapt their systems and processes to reflect the scope of products, while ensuring the information is made available in good time to requesting market operators to enable them to commence trading. What is considered 'reasonable time' may vary based on the circumstances. We will work with market operators to determine what 'reasonable time' is.

RG 223.356　Rule 6.2.1(6) and (7) require market operators to notify the listing market operator of products they intend to quote and the listing market operator must make the information available in a reasonable time after receiving the notice. This will ensure the listing market operator is aware of the scope of products on which it is required to make reference price and trading suspension information available and will enable the listing market operator to prepare its systems and processes accordingly, while balancing the needs of the requesting market operator to access the information in good time. As noted above, what is considered 'reasonable time' may vary based on the circumstances. We will work with market operators to determine what 'reasonable time' is in this context.

Mechanism for making the information available

RG 223.357　The information referred to in RG 223.352 must be made available through one or more electronic data feeds and in a machine-readable format (i.e. where no human intervention is required to receive or interpret the data): Rule 6.2.1(1). This type of data feed will ensure speedy provision and processing of this information. This will in turn enable market operators to quickly respond to the substance of the information (e.g. to put an equity market product into a trading suspension).

Information to be made available at no cost or minimal cost

RG 223.358　We consider it important to market integrity that the information referred to in RG 223.350 is shared between market operators for regulatory purposes. This is an important regulatory obligation for all market operators in a multimarket environment. On this basis, we consider it is appropriate that this information is made available at no or minimal cost. We recognise that there may be incremental market access costs in making the information available to other market operators in some circumstances. Under Rule 6.2.1(2), the information must be made available to other market operators at no cost or for an amount which is no greater than the direct, efficient, incremental costs of making the data feed/s available for regulatory purposes—for example, to cover the direct market access costs of providing the information that would not otherwise have been incurred without this obligation.

RG 223.359   We do not consider costs incurred from the collection or aggregation of data
              that is already available for other purposes to be incremental, nor are
              royalties or licence fees for the data provided. Therefore, these costs should
              not be passed on where the information is for regulatory purposes.

RG 223.360   We consider that such costs should be capable of being independently
              verified. Where they are not able to be independently verified, the
              information is to be provided at no cost. ASIC may ask for such verification
              to be provided.

Assignment of common identifiers and symbols

RG 223.361   To facilitate the consolidation of market data, ease of trading across markets
              and cross-market supervision, it is important that there are common
              identifiers in place for market participants and equity market products. This
              will minimise duplication and costs associated with users having to carry and
              map differing codes. A shared language of identifiers is a vital element of a
              fair, orderly and transparent market.

Market participant identifiers

RG 223.362   Under Rule 6.2.2 (1), a market operator must assign each of its participants a
              unique identifier for the purposes of identifying the participant in records of
              orders, transactions and other trading messages relating to equity market
              products.

RG 223.363   Where a participant is a participant on more than one market, each market
              operator must assign the same identifier to the participant: Rule 6.2.2(2). For
              existing ASX market participants that become participants of other markets,
              we expect all markets to use the existing identifiers developed and allocated
              by ASX. For entities that are not participants of any market and are
              considering joining multiple markets, an identifier should be allocated by the
              market which the entity joins first. This identifier should be in a format that
              is acceptable to all market operators. Market operators will need to cooperate
              on procedures for on-boarding new clients.

RG 223.364   We expect that when allocating an identifier for a participant, the allocating
              market operator should use a format that supports market-wide usage. We
              expect the identifiers to be shared between market operators at no cost and
              without limitation on the use of the identifiers in either the operation of a
              licensed market or the provision of services by a market operator.

Symbols for equity market products

RG 223.365   Under Rule 6.2.3(1), the listing market operator must assign each equity
              market product a unique symbol. All other market operators must use the

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same unique symbol: Rule 6.2.3(2). Market operators must use this symbol for identifying the product in records of orders, transactions and other trading messages on their markets. We do not expect temporary allocation of codes (e.g. trade-use only codes such as for deferred settlement) to apply to all markets.

RG 223.366 We expect the listing market operator to make the symbols available at no cost and without limitation on their use by:

(a) all market operators when used in either the operation of a licensed market or the provision of services by a market operator; and

(b) market participants and other users when used in their dealings in equity market products.

This will promote market surveillance and consolidated market data efficiencies: see Section G.

Synchronised clocks

RG 223.367 Under Rule 6.3.1(1), a market operator must synchronise the clocks for recording the time and date in its trading, compliance monitoring and reporting systems to the Australian realisation of Coordinated Universal Time, denoted UTC(AUS), as maintained by the National Measurement Institute (NMI). The synchronisation must be in place for all aspects of the systems that record, or should record, time. This includes time stamping the receipt, creation and transmission of data items and for audit trails.

RG 223.368 In today's market, orders are being entered, modified, cancelled and executed at extraordinary speed. This applies pressure on the clocks of market operators and market participants to be more granular in their measurement of time.

RG 223.369 In a multimarket environment, investors, market participants and ASIC will require access to consolidated trading information from the various markets. It will be important that the consolidated view is (as far as possible) in the sequence in which orders are entered and transactions executed to ensure accurate data analysis. Market operators will also need to coordinate their activities (e.g. trading suspensions) based on consistent and accurate time.

RG 223.370 Rule 6.3.2(1) requires a market operator to ensure that its clocks remain synchronised to the specified time standard and to ensure that its clocks are resynchronised before they fall outside a specified allowable tolerance. Under Rules 6.3.1(2) and 6.3.2(2), a market operator must also ensure that third party providers of trading, compliance monitoring and reporting systems also comply with the rules for synchronisation.

Note: Trading, compliance monitoring and reporting systems include the gateways housed within a data facility used by a market operator that are used to make this information available to others, including to ASIC's surveillance system.

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Synchronisation source

RG 223.371   NMI maintains the primary standard of measurement for time in Australia. It maintains UTC(AUS) using atomic clocks, and disseminates this timescale through a range of methods. These currently include a Network Time Protocol (NTP) service, which provides:

(a)   correction for network delays;

(b)   server authentication;

(c)   server health information;

(d)   server accuracy information; and

(e)   leap second notification.

RG 223.372   We consider that NMI provides the most reliable time standard in Australia. We also consider that other providers who use NMI as their time source may also provide a reliable time standard. In this case, any latency between the provider and NMI would contribute to the maximum allowable tolerance, and therefore require a tighter tolerance between the provider and the market operator.

Accuracy

RG 223.373   Accuracy refers to the maximum time offset between a market operator's clock and UTC(AUS) maintained at NMI (the time standard). Rule 6.3.1 requires that a market operator's clocks must be synchronised to within +/- 20 milliseconds of the time standard. We refer to this accuracy as the 'allowable tolerance'.

RG 223.374   UTC(AUS) contains 'leap seconds' (a positive or negative one-second adjustment to the UTC time scale to compensate for variation in the rate of the earth's rotation). Since a 'leap second' may occur during a trading day, we expect market operators' trading timestamps to accurately incorporate 'leap second' processing.

Latency, monitoring and resynchronisation

RG 223.375   Latency is the amount of time taken to communicate information between two systems. Latency in a computer network depends on network configuration, available bandwidth, transmitting and traffic levels.

RG 223.376   There will always be latency between market operators' systems and NMI's systems. However, we expect that market operators can quantify this latency to offset and correct for it.

RG 223.377   Under Rule 6.3.2, a market operator must regularly monitor the clock it uses for recording the time and data in its trading, compliance monitoring and reporting systems to ensure it remains synchronised to within the allowable tolerance. To do this, we consider that market operators should have a

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regular checking and monitoring mechanism, which automatically adjusts the time if a variance with NMI's clock is detected, to always maintain accuracy within the allowable tolerance. When required, market operators must re-set the clocks they use. We expect monitoring records to be kept and made available to ASIC on request, to verify the state of synchronisation at any time in the past.

RG 223.378   NMI offers a range of timing services including reference timing synchronised to UTC(AUS) and independent monitoring of the accuracy of synchronisation. These services are operated on a cost recovery basis. Further details can be obtained from NMI at www.measurement.gov.au.

Future standards

RG 223.379   While we believe that the above precision and accuracy requirements are appropriate for today's trading conditions, we recognise that the speed of trading is increasing, which will continually apply pressure on market operators' clocks to be more precise and accurate in their measurement of time. Accordingly, we intend to monitor and review these arrangements on an ongoing basis, as tighter requirements around the precision and accuracy of synchronisation may be needed in the future. We may also consider extending these requirements to market participants at that time. We will consult on any proposed changes before implementation.

Tick sizes

RG 223.380   Tick sizes play an important role in transaction costs and in order transmitting decisions. In a competitive market environment, there are strong incentives for market operators to undercut the tick sizes on competing markets, to offer execution priority. We are harmonising tick sizes across markets to ensure they are sufficiently wide to encourage investors to post limit orders while narrow enough to minimise transaction costs:

   (a)   narrow tick sizes enable price improvement on order books, reducing the need for orders to move off-order book for price improvement—but this may discourage investors from placing limit orders because their order is offered little protection from others stepping ahead of them; and

   (b)   wider tick sizes place greater importance on time priority, which means stepping ahead is more expensive—but this can lead to higher transaction costs and may encourage trading to move off-order book for price improvement.

RG 223.381   Under Rule 6.4.1(1), a market operator must not accept, display or queue orders in its order book in tick sizes less than those outlined in Table 18, based on the price of the equity market product.

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Table 18: Tick size

Price of equity market product	Tick size
Greater or equal to $2	$0.01
Priced between $0.10 and $2	$0.005
Priced at less than $0.10	$0.001

RG 223.382   Rule 6.4.1 (2) provides an exception for transactions that are rely on the pre-trade transparency exceptions for block trades, large portfolio trades and trades at or within the spread: see Section D. We expect a market operator's systems and processes to apply the tick sizes to all transactions, including those executed off-order book that are reported to the market operator, other than transactions relying on these exceptions.

RG 223.383   As a matter of good practice, market operators should disclose to their participants (e.g. in their operating rules or procedures) that transactions executed away from an order book (with the exception of those outlined in RG 223.380) need to adhere to the prescribed tick sizes in order to be reported to a market operator. This is relevant for a market participant's compliance with Rule 7.1.1, which requires all transactions to be executed under the operating rules of a market operator. This applies equally to manual transactions and participant automated matching systems.

Review of tick sizes

RG 223.384   We intend to keep the tick sizes under review. We will consult with the industry before making any change.

Notifying ASIC of material changes to procedures

RG 223.385   A market operator must notify ASIC of material changes to written procedures made under its operating rules within a reasonable time before adopting the change: Rule 6.5.1(1). This complements processes in Pt 7.2 of the Corporations Act where proposed changes to a market operator's licence or its operating rules are subject to notification and the Minister's approval or disallowance, respectively. This is important as notifications enable ASIC to consider the possible impact of the proposed changes on the fair, orderly and transparent operation of the market, to be satisfied that any necessary cooperation arrangements are in place between market operators and to consider our ability to effectively undertake our market surveillance function.

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RG 223.386   We consider that a material change includes a change that results in system or process changes for market participants and/or changes that may impact ASIC's surveillance processes, systems or operating hours. For example, we expect to be notified about material changes to the following:

(a)   *Fees or incentives for market participants or other users of a service offered by a market operator*. This is important as there has been some concern within the industry that certain fee and incentive schemes create pricing inefficiencies and distortions within the market. Notification of changes to pricing models will enable us to monitor fee structures, including any incentives such as rebates or fee waivers, and consider their impact on market integrity. It will enable us to work with market operators more effectively to manage any potential impacts arising from proposed fee and incentive schemes.

(b)   *Operating hours and trading status (e.g. changes to continuous trading hours, pre-open state, post trading period state, auctions)*. Changes to the operating hours of a market are likely to impact ASIC's surveillance, the monitoring of company continuous disclosure obligations and the opening and closing market prices.

(c)   *Order types*. Such changes may impact ASIC's surveillance and market participant's system and processes and may impact the level of pre-trade and post-trade transparency in the market, which may in turn impact the price formation process.

RG 223.387   We expect that what is a 'reasonable time' for making a notification to ASIC may vary based on the nature of the change. For example, changes that result in changes to our surveillance system may require notification in sufficient time for ASIC to properly consider and make any necessary system changes, whereas, other types of changes may require a much shorter time period. Where we expect we will need considerable time to assess the impact of proposed changes to procedures, we will inform the relevant market operator of the time we expect to take.

RG 223.388   We recognise there may be circumstances where market operators need to amend their procedures quickly—for example, to respond to a market event or natural disaster. In such circumstances, Rule 6.5.1(2) requires that we be notified as soon as practicable after the change is made.

Where to notify

Notification to ASIC

The notification to ASIC should be in writing in either printed or electronic form. The notification should be directed to the Senior Executive Leader of Financial Market Infrastructure (formerly Exchange Market Operators), ASIC, at Level 5, 100 Market Street, Sydney NSW 2000, or emailed to marketsregulation@asic.gov.au.

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J Trading under the operating rules of a market operator, trade confirmations and client agreements

Key points

Transactions in equity market products must be done under the operating rules of a market operator.

Market participants must not transact during a market integrity-related trading suspension.

With written authorisation from a client, market participants may provide a single confirmation for an order executed across multiple markets.

We expect as a matter of good practice that market participants will review their existing client agreements and templates as soon as possible to check that they remain effective in light of the competition market integrity rules.

Scope and application

RG 223.389   Chapter 7 of the competition market integrity rules on participants–other obligations and Section J of this guide apply to market operators that offer trading services in equity market products and to participants that trade in these products.

Trading under the operating rules of a market operator

RG 223.390   Under Rule 7.1.1, a market participant must not enter into a transaction other than under the rules of a market operator (either on an order book or off-order book), unless the transaction is entered into under:

(a)   the terms of an equity market product, including a redemption; or

(b)   a primary market auction, including an off-market bid for equity market products or an issue, allotment or subscription of new equity market products.

RG 223.391   This means that a market participant must execute a transaction in an equity market product either on an order book of a market or report it to a market operator in accordance with the competition market integrity rules and the operating rules (including written procedures made under the operating rules) of the relevant market.

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RG 223.392   Market participants have a choice about which market operator's operating rules to enter into a transaction under. They can enter into transactions under the rules of any market operator that provides facilities for trading equity market products.

RG 223.393   Market participants should ensure that, on an ongoing basis, they meet all obligations under the operating rules and written procedures made under the operating rules of the market operator they are transacting under. For example, market participants should ensure any orders and transactions comply with the market operator's pre-trade transparency exceptions and post-trade transparency reporting requirements.

RG 223.394   This rule is intended to ensure that clients have certainty about the rules and protections they are transacting under and can access the relevant compensation entitlements on a market, and to limit the sources of pre-trade and post-trade data, which will facilitate data consolidation in the market.

Trading suspensions and off-order book trading

RG 223.395   Under Rule 7.2.1, a market participant must not match or execute a transaction where there is a trading suspension in the relevant equity market product on all licensed markets.

RG 223.396   We acknowledge that market participants should be able to continue trading where there is a technical failure on one market and this rule does not prohibit that. However, we expect that when trading is suspended for a market integrity purpose all trading should cease. We consider that when trading is suspended on all licensed markets, it will typically be a result of a market integrity-related issue.

RG 223.397   The purpose of constraining trading during market integrity-related events is to limit the impact of information asymmetries between market participants, provide time for all participants to consider the implications of the event and to minimise opportunities for regulatory arbitrage between trading on order books of licensed markets and off-order book.

Accumulation of trade confirmations

RG 223.398   In a multimarket environment, it is possible that a single client order may be executed through a series of transactions across more than one market (e.g. divided between Market X and Market Y). In these circumstances, there needs to be clear and consistent arrangements in place for disclosing individual transaction details to clients who are required to be given a confirmation under s1017F(1)(a) of the Corporations Act (see also reg 7.9.63A–C of the Corporations Regulations) and Rule 3.4.1 of the ASIC Market Integrity Rules (ASX) or ASIC Market Integrity Rules (Chi-X).

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RG 223.399 Market participants are permitted to accumulate confirmations for orders executed through multiple transactions on one market into a single trade confirmation, and to specify the volume-weighted average price (VWAP) for the transactions: see Rule 3.4.2 of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X).

RG 223.400 Rule 7.3.1 of the competition market integrity rules builds on the existing requirements in the Corporations Act and ASIC's market-specific market integrity rules. It sets out the circumstances in which a market participant may accumulate multiple transactions into a single confirmation for a single client order executed across multiple markets. As with the market-specific market integrity rules, it enables a market participant to specify the VWAP rather than the price per unit, subject to the client providing written authorisation to accumulate trade confirmations before the time the order is placed.

RG 223.401 Rule 7.3.1(b) requires a market participant, on request from a client, to provide a statement of the individual prices for each transaction. We expect market participants to also disclose the markets where each price was achieved if requested. Depending on the specific request from the client, we consider that the statement may be provided in writing or verbally. Where it is provided in writing, this may be in print or electronic form.

RG 223.402 Regulation 7.9.63B(7) of the Corporations Regulations requires a confirmation to include the name of the market where the transaction was executed. One way a market participant could fulfil this obligation is to list the markets that the market participant is a member of on its confirmation and to note that the trade may have been executed on one or more of those markets.

Client authorisation by existing clients

RG 223.403 Where a market participant has already obtained written authorisation from a client to accumulate transactions on ASX into a single confirmation (under Rule 3.4.2 of the ASIC Market Integrity Rules (ASX)), we consider that this authorisation is sufficient to satisfy the requirement under Rule 7.3.1 of the competition market integrity rules. That is, there is no need to obtain another written authorisation.

RG 223.404 Where a wholesale client has elected not to receive trade confirmations in accordance with Rule 3.4.2(ASX), we consider this election will also apply in the context of Rule 7.3.1 of the competition market integrity rules.

RG 223.405 Where a client has not already provided written authorisation to accumulate confirmations on ASX, the market participant will need to obtain the client's written authorisation before accumulating transactions under Rule 7.3.1 of the competition market integrity rules.

RG 223.406 In all cases, we expect market participants to notify their clients of how they intend to accumulate transactions in a multimarket environment. They may choose to make this notification in the client agreement.

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Deleted: <#>We recognise that there may be some practical difficulties in obtaining an existing client's written authorisation in a timely fashion before the commencement of the competition market integrity rules. Accordingly, ASIC will look to market participants to make reasonable efforts to obtain these authorisations where necessary (at least until early 2012).¶

Client authorisation by new clients

RG 223.407   Under Rule 7.3.1 of the competition market integrity rules, market participants that are required under s1017F(1)(a) of the Corporations Act and Rule 3.4.1(ASX) to provide trade confirmations to a client should obtain the written authorisation of all new clients before the time an order is placed which may result in the accumulation of transactions into a single confirmation.

Client agreements

RG 223.408   We expect as a matter of good practice that market participants will review their existing client agreements and templates as soon as possible to check that they remain effective in light of the competition market integrity rules. If necessary, market participants should amend their existing client agreements and templates to ensure they are effective. We consider it good practice for market participants to update their client agreement templates during 2011. For any new clients, we expect client agreements to reflect the relevant requirements of the competition market integrity rules from the commencement of these rules.

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Appendix 1: Pre-trade and post-trade transparency data fields

Table 19: Pre-trade disclosure: Data requirements (market detail)

Note: Market operators should, at a minimum, timestamp all pre-trade information (orders, order amendments and cancellations) to the millisecond level. The timestamp should occur at the point that the pre-trade information is received by the trading, reporting or compliance monitoring system.

Ref	Data requirement	Description
1	Order date	The date on which the order was received by a market operator
		ISO 8601 – YYYYMMDD
2	Order time	The time at which the order was received by a market operator
		ISO 8601 – UTC – HHMMSSsss
3	Product identification	A code that uniquely identifies the product
		Ticker symbol
		The 'human understood' product identification code of the listing market (e.g. ASX Security Code)
4	Volume	The quantity of the order displayed on the order book
		An integer
		Partly disclosed orders can either not have volume or price displayed
5	Order side	Buy, sell
6	Price	The display price of the order
		Not required for market orders
		Currency units (usually AUD to the appropriate number of decimal places)
7	Currency	The currency of the order price
		Required only where the currency is not AUD
		ISO 4217 – currency codes

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Table 20: Post-trade transparency: Data requirements

Note: Market operators should, at a minimum, timestamp all post-trade information to the millisecond level. The timestamp should occur at the point of matching in the trading system, or the time that the trade report is received by the reporting system.

The specified data requirements may be explicitly derived from other data elements provided by a market operator.

Ref	Data requirement	Description
1	Trade execution date	The date on which the transaction was executed ISO 8601 – YYYYMMDD
2	Trading time	The time at which the transaction was executed ISO 8601 – UTC – HHMMSSsss
3	Product identification	A code that uniquely identifies the product Ticker symbol The 'human understood' product identification code of the listing market (e.g. ASX Security Code)
4	Volume	The quantity of the trade An integer
5	Price	The display price of the trade Currency units (usually AUD to the appropriate number of decimal places)
6	Currency	The currency of the trade price Required only where the currency is not AUD ISO 4217 – currency codes
7	Trade cancellation indicator	If the Transaction is cancelled, a notation or code to identify that the Transaction is cancelled
8	Original trade date	Trade date of trade to be cancelled Required only for trade cancellations ISO 8601 – YYYYMMDD
9	Exception code	Identifies the reason the order for an executed trade was not displayed on a pre-trade transparent order book Required only for trades executed from orders not displayed on a 'pre-trade transparent' order book. Exception code is not required for partly disclosed orders. Permitted exceptions are: • block trades • large portfolio trades • trades at or within the spread • trades during post-trading hours period • trades during pre-trading hours period • out of hours trading

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Appendix 2: Reporting by market participants: Crossing systems

The following table outlines the fields that must be populated and reported to ASIC under Part 4.3 of the competition market integrity rules. It also includes examples of how the report should be populated. This table is for illustrative purposes only. Actual reports provided to ASIC must be in CSV format, with no additional formatting. ASIC can supply a CSV template on request.

Table 21: Sample report by market participant under Part 4.3

System ID	Date (YYYY MMDD)	Product identifi-cation	Orders received						Trades executed			Orders cancelled			Principal trades			Median trade value ($)
			Buy orders—Volume (units)	Sell orders—Volume (units)	Buy orders—Dollar value ($)	Sell orders—Dollar value ($)	No. of buy orders	No. of sell orders	Volume (units)	Dollar value ($)	No. of trades	Volume (units)	Dollar value ($)	No. of orders	Volume (units)	Dollar value ($)	No. of trades	
1001	20110302	BHP	200000	200000	9250000.000	9250000.000	30	30	200000	9250000.000	30	0	0	0	0	0	0	231500.000
1001	20110302	TLS	5000	5000	13900.000	13900.000	2	2	2500	13900.000	2	0	0	0	0	0	0	6950.000
1001	20110302	RIO	50000	50000	4162000.000	4162000.000	4	4	50000	4162000.000	4	0	0	0	10000	833000.000	1	833000.000
1001	20110303	BHP	250000	250000	11585000.000	11585000.000	40	40	245000	11353500.000	39	10000	463000.000	2	0	0	0	231500.000
1001	20110303	TLS	6000	6000	16240.000	16240.000	6	6	6000	16240.000	6	0	0	0	0	0	0	2700.000
1001	20110303	RIO	240000	240000	19808000.000	19808000.000	21	21	240000	19808000.000	21	0	0	0	0	0	0	826000.000
1001	20110303	AAD	536754	565033	0	0	224	334	53478	68320.220	86	794608	0	234	0	0	0	351.846

Description of data fields for crossing system reporting

Crossing system ID: A code identifying the market participant crossing system. The code should be the market participant's three digit broker code followed by '1' for the first crossing system, '2' for the second crossing system, and so on.

Date: A six digit code identifying the date of trading in the following convention 'YYYYMMDD'.

Product identification: The three-digit ASX ticker code assigned to an individual equity market product (e.g. BHP).

Orders received:

- *Buy orders—Volume (units):* The total number of units in all orders to buy the specified equity market product received by the crossing system on the day.

- *Sell orders—Volume (units):* The total number of units in all orders to sell the specified equity market product received by the crossing system on the day.

- *Buy orders—Dollar value ($):* The total dollar value of units in all orders to buy the specified equity market product received by the crossing system on the day.

- *Sell orders—Dollar value ($):* The total dollar value of products in all orders to sell the specified equity market product received by the crossing system on the day.

- *Number of buy orders:* The total number of orders to buy the specified equity market product received by the crossing system on the day.

- *Number of sell orders:* The total number of orders to sell the specified equity market product received by the crossing system on the day.

Trades executed:

- *Volume (units):* The total number of units of the specified equity market product in all trades matched by or executed through the crossing system on the day.

- *Dollar value ($):* The total dollar value of units of the specified equity market product in all trades matched or executed through the crossing system on the day.

- *Number of trades:* The total number of trades in the specified equity market product matched or executed through the crossing system on the day.

Orders cancelled:

- *Volume (units):* The total number of units of the specified equity market product in all orders cancelled at the request of the client on the day.

- *Dollar value ($):* The total dollar value of all orders for the specified equity market product cancelled at the request of the client on the day.

- *Number of orders:* The total number of orders for the specified equity market product cancelled at the request of the client on the day.

*Principal trades***:**

- *Volume (units):* The total number of units in all trades in the specified equity market product on the day, where the crossing system operator was either the buyer or seller.

- *Dollar value ($):* The total dollar value of trades in the specified equity market product on the day, where the crossing system operator was either buyer or seller.

- *Number of trades:* The total number of trades in the specified equity market product on the day, where the crossing system operator was either buyer or seller.

Median trade size ($): The median dollar value of all trades in the specified equity market product executed through the crossing system on the day.

How to populate certain fields

*Volume (units) fields***:** These fields should never contain a negative number.

Dollar value ($) fields: These fields should be populated to three decimal places. If rounding is required to achieve three decimal places, the value should be rounded down where the forth digit is less than 5 and rounded up where it is 5 or more. These fields should never contain a negative value.

*Orders received—Dollar value ($)***:** Where orders entered into crossing systems are priced at the midpoint or are 'market' orders, the two columns for dollar value of orders received (columns 6 and 7) should be left blank. The columns must still be included in the report to ensure that the report format is the same as reports provided by other crossing systems. The initial notification to ASIC described in RG 223.236 should note that prices are determined by the midpoint.

*Parent and child orders***:** The 'Orders received' fields (columns 4–9) should reflect the orders received into the system. For example, where a large parent order is entered into the system but subsequently divided into smaller child orders by the system, the original larger order should be reflected in the 'Orders received' fields. Where the market participant or its systems divides

a larger order into smaller child orders before entering the child orders into the system, the smaller child orders (as they enter the system) should be reflected in these fields (e.g. columns 8 and 9, which capture the number of orders received, should count each of the child orders separately and not aggregate them).

Trades executed: We consider that a matched buy and sell order equals one transaction and a single transaction value. This should be counted as one rather than two trades.

Cancellations: Where an order in a crossing system is amended, it should be treated as a cancellation and a new order entry. Therefore, both the original order and the amendment order should be included in the 'Orders received' fields and the amendment should be included in the 'Orders cancelled' fields. Any subsequent executions or cancellations should be treated as normal.

Where the crossing system cancels an order (i.e. the system is essentially delegated the task of making the decision for the client), this should be captured. For example, if the system cancels an order because market conditions have changed this should be captured in the 'Orders cancelled' fields. Where the system is simply purging orders at the end of the day, this should not be captured.

Where a matched trade is subsequently cancelled (i.e. the trade is cancelled rather than an order), we ask that the details of the trade not be included in the report.

Principal trades: This should include all forms of principal trades, including any directional proprietary trades as well as facilitation activity.

Non-crossing activity: Where a crossing system has functionality beyond crossing orders (e.g. where there are orders that are not able to be crossed), this activity should not be included in the report.

Products other than equity market products: The report should reflect activity in equity market products only, and not other products that may be traded in the crossing system.

Key terms

Term	Meaning in this document
ACN	Australian Company Number
(ACOP) automated client order processing	See 'DEA'
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
agency	Where a market participant acts on behalf of a client
aggregate consideration	The combined price of a basket (or portfolio) of products acquired and/or sold in a transaction
algorithmic program	Automated strategies using programmable logic/system-generated orders (rather than human-generated orders) based on a set of predetermined parameters, logic rules and conditions. These include algorithmic trading, automated order generation, high-frequency trading and automated market making
algorithm/algorithmic trading	Electronic trading activity where specific execution outcomes are delivered by predetermined parameters, rules and conditions
allowable tolerance	A permitted margin of difference between the time on an entity's clock and the time on the Universal Time Clock
AOP (automated order processing)	The process by which orders are registered in a market participant's system, which connects it to a market. Client or principal orders are submitted to an order book without being manually keyed in by an individual (referred to in the rules as a DTR). It is through AOP systems that algorithmic programs access our markets
arbitrage	The process of seeking to capture pricing inefficiencies between related products or markets
ARBN	Australian Registered Business Number
ARSN	Australian Registered Scheme Number
ASIC	Australian Securities and Investments Commission

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Deleted: Competition and Consumer Commission

Deleted: licensee

Deleted: A person who holds an

Deleted: whose parameters

Deleted: set

Deleted: aimed at delivering specific execution outcomes

Deleted: Orders generated by an electronic system

Term	Meaning in this document
ASIC Market Integrity Rules (ASX)	ASIC Market Integrity Rules (ASX Market) 2010—rules made by ASIC under s798G of the Corporations Act for trading on ASX
ASIC Market Integrity Rules (Chi-X)	ASIC Market Integrity Rules (Chi-X Australia Market) 2011—rules made by ASIC under s798G of the Corporations Act for trading on Chi-X
ASX	ASX Limited (ACN 008 624 691) or the exchange market operated by ASX Limited
ASX 24	The exchange market formerly known as Sydney Futures Exchange (SFE), operated by Australian Securities Exchange Limited
ASX Limited	The market licensee that operates the exchange market known as 'ASX'
ASX SPI 200 Index Future (ASX SPI 200 Future)	The ASX 24 futures contract listed with the S&P/ASX 200 Index as the underlying product
ASX TradeMatch	The order book operated by ASX, known as 'TradeMatch', that is ASX's central order book for equity market products
Australian market licence	Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
best available bid and offer	See 'NBBO'
best bid or offer	The best available buying price or selling price
best execution	Where a market participant achieves the best trading outcome for its client
bid–ask spread	The difference between the best bid and the best offer
block crossing/trade	A crossing where the consideration for the transaction is not less than $1 million (pre-trade transparency exception in competition market integrity rules)
block special crossing	An off-order book crossing which may be agreed at any price, where the consideration is at least $1 million
bps	Basis points
bundling	The practice of market participants and other service providers providing other services, such as advice, research and analytical tools, in conjunction with trade execution

Deleted: The highest bid (best buying price) and the lowest offer (best selling price) for an equity market product that is available across all pre-trade transparent order books at the time of the transaction. The best bid and best offer may not necessarily be on the same order book. It may be that the best bid is on the order book of Market X and the best offer is on the order book of Market Y

Deleted: special

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Deleted: which may be agreed at any price,

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Term	Meaning in this document
buy-side	Advising institutions typically concerned with buying, rather than selling, assets or products. Private equity funds, mutual funds, unit trusts, hedge funds, pension funds and proprietary trading desks are the most common types of buy-side entities
capital formation	A method for increasing the amount of capital owned or under one's control, or any method in utilising or mobilising capital resources for investment purposes
CDI (CHESS Depository Interest)	An instrument used by non-Australian companies to support electronic registration, transfer and settlement of their products listed on ASX
Centre Point	An ASX-operated execution venue that references the midpoint of the bid–ask spread on ASX's CLOB
Centre Point priority crossing	A type of crossing that allows an ASX market participant to match orders at the midpoint of the prevailing best bid and offer on the ASX CLOB
Chapter 2 (for example)	A chapter of the competition market integrity rules (in this example numbered 2), unless otherwise specified
CHESS	Clearing House Electronic Subregister System
CHESS HIN	CHESS Holder Identification Number
Chi-X	Chi-X Australia Pty Limited or the exchange market operated by Chi-X
circuit breaker	A mechanism that pauses trading in a product if it exhibits extreme price movement in a defined period of time. Circuit breakers can either apply to individual products or can be market-wide, based on an index's movement
clearly erroneous trade	A transaction that deviates so substantially from current market prices that it is considered to be executed in error
CLOB (central limit order book)	A central system of limit orders, where bids and offers are typically matched on price–time priority
compensation scheme	Compensation arrangements in place under the Corporations Act to meet certain claims arising from dealings between investors and market participants
competition market integrity rules	ASIC Market Integrity Rules (Competition in Exchange Markets) 2011—rules made by ASIC under s798G of the Corporations Act that are common to markets dealing in equity market products quoted on ASX
conflict of interest	A direct or indirect pecuniary interest, or a direct or indirect interest of any other kind, that could conflict with the proper performance of the functions of a person in relation to determining a matter Note: See s124(1)(b) of the ASIC Act.

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Term	Meaning in this document
consolidator	See 'data consolidator'
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
CP 179	ASIC consultation paper *Australian market structure: Draft market integrity rules and guidance*, released 28 June 2012
crossed market	Occurs when the best bid price of an equity market product exceeds the best offer price, resulting in a negative spread
crossing	A type of transaction where the market participant is the same for both the buyer and seller. The market participant may be acting on behalf of the buying client and the selling client, or acting on behalf of a client on one side of the transaction and as principal on the other side of the transaction
crossing system	An automated service provided by a market participant to its clients which matches or executes client orders with orders of the market participant (i.e. against the participant's own account) or with other clients of the market participants. These orders are not matched on a pre-trade transparent order book
dark liquidity	Non-pre-trade transparent orders
dark liquidity/trading below block size	Trades using the 'at or within the spread' exception to pre-trade transparency. These include priority crossings, Centre Point priority crossings, and Centre Point trades
dark pool/venue	Non-pre-trade transparent electronically accessible pools of liquidity
dark trades/trading	See 'off-order book trading/transactions'
data consolidator	An entity that combines data from various execution venues to produce a consolidated view of order and/or transaction information for use by investors
DEA (direct electronic access)	Electronic access to markets via the electronic infrastructure of a market participant Also known as ACOP in Australia, DEA is the process by which an order is submitted by a client, agent or participant representative into a market participant's AOP system directly without human intervention. DEA enables a client to access a market without being a direct market participant and without being directly bound by the operating rules of the market they are accessing

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Term	Meaning in this document
DTR	Representative of the market participant that has been authorised by the participant to submit trading messages to the execution venue on behalf of the participant
ELP (electronic liquidity provider)	Typically, high-frequency traders or algorithmic traders who attempt to profit by providing continuous two-sided quotes for liquid securities on an unofficial basis to capture the bid–ask spread of a product
equity market	The market in which shares are issued and traded, either through exchange markets or OTC markets
equity market products	Shares, managed investment schemes, the right to acquire by way of issue shares and managed investment schemes, and CDIs admitted to quotation on ASX
ETFs	Exchange-traded funds
ETF special trade (exchange-traded fund special trade)	Has the meaning given to the term 'ETF Special Trade' by the ASX Operating Rules
ETR event	This occurs when: • a buy order enters a market that, if executed, would result in a transaction at a price that is within the upper extreme trade range; • a sell order enters a market that, if executed, would result in a transaction at a price that is within the lower extreme trade range; or • a transaction is executed on a market at a price that is within the extreme trade range
exchange market	A market that enables trading in listed products, including via a CLOB Note: Not all exchange markets offer primary listings services.
execution venue	An execution venue is a facility, service or location on or through which transactions in equity market products are executed and includes: • each individual order book maintained by a market operator; • a crossing system; and • a participant executing a client order against its own inventory otherwise than on or through an order book or crossing system. This includes an order book and other matching mechanisms
facilitated specified size block special crossing	An existing ASX exception from post-trade reporting permitting a delay for transactions above $15 million, $10 million, $5 million or $2 million, depending on the product

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Note: Not all exchange markets offer primary listings services.

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Term	Meaning in this document
financial market	As defined in s767A of the Corporations Act. It encompasses facilities through which offers to acquire or dispose of financial products are regularly made or accepted
financial product	Generally a facility through which, or through the acquisition of which, a person does one or more of the following: • makes a financial investment (see s763B); • manages financial risk (see s763C); and • makes non-cash payments (see s763D) Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.
FIX protocol	Financial Information eXchange protocol. A messaging standard for communication of financial information
fragmentation	The spread of trading and liquidity across multiple execution venues
FSG	Financial Services Guide
fully hidden order	An order on an order book that is not pre-trade transparent
high-frequency traders	Traders that adopt a specialised form of algorithmic trading characterised by the use of high-speed computer programs
high-frequency trading	While there is not a commonly agreed definition of high-frequency trading, we characterise it as: • the use of high-speed computer programs to generate, transmit and execute orders; • the generation of large numbers of orders, many of which are cancelled rapidly; and • typically holding positions for very short time horizons and ending the day with a zero position
indirect market participant	A broker that is not itself a market participant, but that accesses the market through a market participant
institutional investor	Advising institutions typically concerned with buying, rather than selling, assets or products. The most common types of institutional investors include private equity funds, mutual funds, unit trusts, hedge funds, pension funds and proprietary trading desks
internalisation	Where a client order is transacted against a market participant's own account
IOSCO	International Organization of Securities Commissions
IRESS	IRESS Market Technology Limited

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Term	Meaning in this document
ISO 10383 MIC	A market identifier code under ISO 10383 *Market identifier codes* Note: For a list of valid codes, go to www.iso15022.org/MIC/homepageMIC.htm.
issuer	A company that has issued shares
large portfolio trade	A transaction that includes at least 10 purchases or sales, the market participant acts as agent for both the buyer and seller of the portfolio or as principal buys from or sells to the client, and the consideration of each is not less than $200,000 and the aggregate consideration is not less than $5 million. This has the same definition as 'portfolio crossing'
latency	An expression of how much time it takes for data to get from one point to another
LEI	Legal Entity Identifier
limit order	An order for a specified quantity of a product at a specified price or better
liquidity	The ability to enter and exit positions with a limited impact on price
locked market/price	Occurs when there is no spread because the best available bid price and best available offer price are the same (also the mid-point)
managed investment scheme	As defined in s9 of the Corporations Act
market impact	The effect on the formation of price, volume and market depth created by order flow or trading activity. This includes the associated cost incurred when the execution price differs from the target price, or when the liquidity required by the execution is different from the liquidity available
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
market licence	An Australian market licence
market maker	An entity that provides liquidity to a market when it is generally absent or weak, and manages short-term buy and sell imbalances in customer orders by taking the other side of transactions. Market makers often take on this role in return for rebates and/or various information and execution advantages
market manipulation	As defined in Pt 7.10 of the Corporations Act

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Term	Meaning in this document
market operator	A holder of an Australian market licence that is the operator of a financial market on which equity market products are quoted
market order	An order at the best price currently available
market participant	An entity that is a participant of a financial market on which equity market products are quoted
meaningful price improvement	Where the trade is for a volume less than or equal to the volume displayed at the best available price, we consider 'meaningful' price improvement to be a one tick size price improvement or the midpoint of the best available bid and best available offer. Where the trade is for a volume greater than the volume available at the best bid and offer across the pre-trade transparent order books, price improvement may take into account the volume-weighted average price of the available orders rather than best prices only
NBBO (national best bid and offer)	The highest bid (best buying price) and the lowest offer (best selling price) for a product that is available across all pre-trade transparent order books at the time of the transaction. The best bid and best offer may not necessarily be on the same order book. It may be that the best bid is on the order book of Market X and the best offer is on the order book of Market Y
NMI	The National Measurement Institute division of the Commonwealth Department of Innovation, Industry, Science and Research.
non-professional client	A person who is not a professional investor
NTP	Network Time Protocol
off-order book trading/transactions	Transactions that take place away from a CLOB and that are not pre-trade transparent. It is often referred to as 'dark liquidity' or 'upstairs trading'. It includes bilateral OTC transactions and transactions resulting from a market participant matching client orders or matching a client order against the participant's own account as principal. When this type of trading is done in an automated way and is part of a pool of liquidity, it is referred to as a 'dark pool'
operating rules	As defined in s761A of the Corporations Act
order book	An electronic list of buy orders and sell orders, maintained by or on behalf of a market operator, on which those orders are matched with other orders in the same list.
origin of order	A type of order category that identifies trading capacity and, if relevant, the type of client
OTC	Over-the-counter

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Term	Meaning in this document
Part 4.3 (for example)	A part of the ASIC Market Integrity Rules (Competition) (in this example numbered 4.3), unless otherwise specified
Part 7.1 (ASX) and (Chi-X) (for example)	A part of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X) (in this example numbered 7.1)
partly disclosed order	An order on an order book that is pre-trade transparent with the exception of either price or volume
pegged order	A specified quantity of a product set to track the best bid or offer on the primary market
portfolio crossing	See 'large portfolio trade'
post-trade transparency	Information on executed transactions made publicly available after transactions occur
pre-trade transparency	Information on bids and offers being made publicly available before transactions occur (i.e. displayed liquidity)
price formation	The process determining price for a listed product through the bid and offer trading process of a market
price sensitive information	Information about a company that will have, or can be expected to have, an impact on the price of that company's products
price step	The difference in price of one tick size
price–time priority	A method for determining how orders are prioritised for execution. Orders are first ranked according to their price; orders of the same price are then ranked depending on when they were entered
priority crossing	A type of crossing on ASX's CLOB that is transacted at or within the spread with time priority
professional client	A professional investor as defined in s9 of the Corporations Act
professional investor	As defined in s9 of the Corporations Act
PureMatch	An ASX-operated low latency order book that provides trading in a subset of ASX-listed securities (intended for commencement in the Australian market in the fourth quarter of 2011)
reg 7.1.28(1) (for example)	A regulation under the Corporations Regulations (in this example numbered 7.1.28(1))
Reg ATS (Regulation Alternative Trading System)	Section 242.3 of US 17 Code of Federal Regulation. It governs the operation of alternative trading systems in the US

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Term	Meaning in this document
Reg NMS (Regulation National Market System)	New substantive rules designed to modernise and strengthen the regulatory structure of the US equities markets
REP 290	ASIC report *Response to submissions on CP 168 Australian equity market structure: Further proposals*, released 28 June 2012
responsible market operator	For equity market products, the responsible market operator is ASX Limited, and for ASX SPI 200 Futures, the responsible market operator is Australian Securities Exchange Limited
RG 214 (for example)	An ASIC regulatory guide (in this example numbered 214)
Rule 2.1.2 (for example)	A rule of the competition market integrity rules (in this example numbered 2.1.2), unless otherwise specified
Rule 2.1.2 (ASX) (for example)	A rule of the ASIC Market Integrity Rules (ASX) (in this example, numbered 2.1.2)
Rule 2.1.2 (Chi-X) (for example)	A rule of the ASIC Market Integrity Rules (Chi-X) (in this example, numbered 2.1.2)
Rule 5.6.3 (ASX) and (Chi-X) (for example)	A rule of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X) (in this example, numbered 5.6.3)
S&P/ASX 200 Index	An index of the largest 200 shares listed on ASX by market capitalisation
s912 (for example)	A section of the Corporations Act (in this example numbered 912), unless otherwise specified
sell-side	Firms that sell investment services to the buy-side, or corporate entities, including broking–dealing, investment banking, advisory functions and investment research
settlement	The exchange of payment and delivery for purchased securities
SFE	The market formerly known as Sydney Futures Exchange (now ASX 24)
short selling	The practice of selling financial products that are not owned by the seller, with a view to repurchasing them later at a lower price. Short sales can be naked or covered
SOR (smart order router)	An automated process of scanning various execution venues to determine which venue will deliver the best outcome on the basis of predetermined parameters
spread	The difference between the best bid and offer prices
stub	The residual volume from a partly filled order
synchronised clock	A system time clock that matches a reference source clock

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Term	Meaning in this document
tick size	The minimum increment by which the price for an equity market product may increase or decrease
total consideration	For a buy order, the purchase price paid by a client in respect of performance of a client order, plus transaction costs; or for a sell order, the sale price received by a client in respect of performance of a client order less transaction costs.
trade confirmation	A legal document provided to clients which sets out the terms of an executed transaction
trade report	An electronic message created when a transaction is executed, detailing the terms of the transaction
trade-through	A model and rule that embeds price–time priority across multiple pre-trade transparent venues to protect displayed bids and offers from being bypassed
trading halt or suspension	A temporary pause in the trading of a product for a reason related to market integrity, such as when an announcement of price sensitive information is pending (does not include a halt or suspension caused by a technical problem, including a power outage, affecting a market operator's trading system)
trading pause	A period during which the responsible market operator must prevent orders from being matched or executed on its market, but during which bids and offers may be displayed, entered, amended and cancelled
trading reset	Either a trading pause, trading suspension, or the end of trading hours
transition period	A defined period where a market participant can meet its obligations under Rule 3.1.1 solely on the central limit order book of ASX (i.e. ASX TradeMatch) without being obliged to consider whether it should have access to other markets: see RG 223.111–RG 223.113
two-sided quote	A quote to buy and sell
undisclosed order	A non-pre-trade transparent order
Universal Time Clock	A clock that is referenced to UTC(AUS)
UTC(AUS)	The output of the caesium atomic clock designated by the NMI as UTC(AUS)
Volatility	Fluctuation in a product's price
volatility control	A post-order control that prevents certain orders from being matched beyond set price limits. These controls can limit the disruptive effect of anomalous trades
VolumeMatch	An ASX-operated execution venue that facilitates the matching of anonymous large orders with reference to the last price on ASX's CLOB

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Related information

Headnotes

financial markets, licensed financial markets, market integrity rules, market operators, market participants, supervision, transitional arrangements, competition

Class orders

[CO 07/422] *On-market buy-backs by ASX-limited schemes*

Regulatory guides

RG 51 *Applications for relief*

RG 78 *Breach reporting by AFS licensees*

RG 104 *Licensing: Meeting the general obligations*

RG 105 *Licensing: Organisational competence*

RG 172 *Australian market licences: Australian operators*

RG 214 *Guidance on ASIC market integrity rules for ASX and ASX 24 markets*

RG 216 *Markets Disciplinary Panel*

RG 221 *Facilitating online financial services disclosures*

RG 224 *Guidance on ASIC market integrity rules for the Chi-X market*

Legislation

ASIC Act

Corporations Act, Pt 7.2A, Pt 9.4B, s5, 791A, 793B, 795B(1), 795B(2), 798G, 912D, 913B

Corporations Regulations, regs 7.2.07, 7.2A.02, 7.2A.05, 10.14.02

Market integrity rules

ASIC Market Integrity Rules (ASX Market) 2010

ASIC Market Integrity Rules (Chi-X Australia Market) 2011

ASIC Market Integrity Rules (Competition in Exchange Markets) 2011

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Consultation papers and reports

CP 131 *Proposed ASIC market integrity rules: ASX and SFE markets*

CP 136 *Markets Disciplinary Panel*

CP 145 *Australian equity market structure: Proposals*

CP 148 *Proposed market integrity rules: Chi-X market*

REP 204 *Response to submissions on CP 131 Proposed ASIC market integrity rules: ASX and SFE markets*

REP 215 *Australian equity market structure*

REP 237 *Response to submissions on CP 145 Australian equity market structure: Proposals*

Media and other releases

10-227MR *ASIC consults on equity market structure regulatory framework*

11-38MR *ASIC announces timetable for the introduction of market competition*

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