



ASIC

Australian Securities & Investments Commission

CONSULTATION PAPER 184

Australian market structure: Draft market integrity rules and guidance on automated trading

August 2012

About this paper

This paper seeks comments on draft market integrity rules and guidance on automated trading following on from Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168).

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 paper was issued on 13 August 2012 and is based on the Corporations Act as at that date.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

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The consultation process

You are invited to comment on the proposals in this paper, which are only an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information. We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on Australian market structure. In particular, any information about compliance costs, impacts on competition and other impacts, costs and benefits will be taken into account if we prepare a Regulation Impact Statement: see Section C, 'Regulatory and financial impact'.

Making a submission

We will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any financial information) as confidential.

Comments should be sent by **14 September 2012** to:

Scott Tilden/Tim Sutton
 Market and Participant Supervision
 Australian Securities and Investments Commission
 Level 5, 100 Market Street
 Sydney NSW 2000
 facsimile: 02 9911 2414
 email: marketstructure@asic.gov.au

What will happen next?

Stage 1	13 August 2012	ASIC consultation paper released
Stage 2	14 September 2012	Comments due on the consultation paper
Stage 3	October 2012	Market integrity rules and regulatory guide released

A Overview

Key points

As a result of feedback we received on Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168), we have further refined our proposals on draft market integrity rules and guidance relating to wider market structure issues.

We intend to make new or amended market integrity rules for some of the automated trading issues we consulted on in CP 168: see Attachment 1 to this paper.

We intend to issue new regulatory guidance on some of the issues relating to automated order processing (AOP) that we consulted on in CP 168, and consolidate it with updated guidance currently contained in ASX guidance notes: see Attachment 2 to this paper.

We are also seeking feedback on a consequential amendment to the ASIC Market Integrity Rules (Chi-X Australia Market) 2011 for the certification of AOP systems.

Background

- 1 In November 2010, we released Consultation Paper 145 *Australian equity market structure: Proposals* (CP 145) to consult on market integrity rules we considered necessary to address regulatory issues arising from recent developments in Australian equity markets, and to facilitate the introduction of competition in trading services in equity market products.
- 2 In April 2011, we made the ASIC Market Integrity Rules (Competition) 2011, providing a regulatory framework for competition between public exchanges in equity market products. At that time, we also made market integrity rules dealing with the activities on and conduct of the licensed market operated by Chi-X Australia Pty Ltd (Chi-X): see ASIC Market Integrity Rules (Chi-X Australia Market) 2011. We deferred rule making on the wider market structure proposals we consulted on in CP 145 to facilitate the early introduction of competition and to provide more time to consider some of the proposals.

Note: In this document 'ASIC Market Integrity Rules (Chi-X)' refers to the ASIC Market Integrity Rules (Chi-X Australia Market) 2011 and 'ASIC Market Integrity Rules (ASX)' refers to the ASIC Market Integrity Rules (ASX Market) 2010. 'Rule 5.6.3' (for example) refers to a rule of the ASIC Market Integrity Rules (ASX Market) 2010 and ASIC Market Integrity Rules (Chi-X) (in this example numbered 5.6.3), unless otherwise specified.

- 3 In October 2011, we released Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168) with our refined proposals on wider market structure issues. Consultation on CP 168 closed on 10 February 2012.
- 4 On 3 April 2012, we issued Media Release (12-61MR) *ASIC provides direction on market structure reforms*, setting out a general overview of the feedback received on CP 168, and our proposed direction and timetable for implementing those proposals.
- 5 On 28 June 2012, we released the feedback report on CP 168, Report 290 *Response to submissions on CP 168 Australian equity market structure: Further proposals* (REP 290). We also released Consultation Paper 179 *Australian market structure: Draft market integrity rules and guidance* (CP 179) to consult on the refined draft market integrity rules and guidance on market structure reforms. We indicated that we were consolidating and updating the guidance on automated trading, currently contained in ASX guidance notes, and intended to publish draft market integrity rules and guidance early in the third quarter of 2012. This consultation paper is the result of that process.
- 6 The other purpose of this consultation paper is to seek feedback on a consequential amendment to the ASIC Market Integrity Rules (Chi-X) related to the certification of automated order processing (AOP) systems, resulting from the proposed new rules.

Feedback received on CP 168

- 7 REP 290 highlights the key issues that arose out of the submissions received to CP 168 and details our responses to these issues.
- 8 In summary, respondents were generally appreciative of our holistic approach to consulting on the market structure framework. The following general views were expressed:
- (a) there is a preference for guidance rather than making new rules where possible;
 - (b) the proposed timeframes for the introduction of new rules were too tight when the entire suite of proposals was taken into account;
 - (c) competition between exchange markets should be allowed to develop further before introducing further regulatory change;
 - (d) the proposals would impose a significant cost burden in an environment where there is already considerable financial pressure on industry; and
 - (e) there should be greater consideration of the impact of the proposals on the competitiveness of the Australian market internationally and further analysis demonstrating that the benefits of the proposals outweigh the costs.

- 9 We have taken these comments into account in the draft market integrity rules and guidance on automated trading attached to this paper: see Section B of REP 290 for the feedback received on automated trading and our response.

Our intended approach

- 10 We are proceeding as foreshadowed in our media release of 3 April 2012: see 12-61MR. For a comparison of all the key proposals in CP 168 and our intended approach, see Appendix 2 of REP 290.
- 11 For ease of reference, we have replicated in the appendix to this paper the relevant section of the table in Appendix 2 of REP 290, which compares the automated trading proposals in CP 168 and our intended approach. This table sets out the relevant draft market integrity rules and guidance, the proposed implementation timeframes, and the products the rules would apply to.
- 12 We have not restated our intended approach as proposals in this consultation paper. This paper focuses only on the draft market integrity rules and guidance on automated trading stemming from CP 168, and an additional consequential amendment to the ASIC Market Integrity Rules (Chi-X): see Section B of this paper.

B Our proposals

Key points

We propose to:

- make a number of new or amended market integrity rules on automated trading (see proposal B1);
- issue new guidance that reflects our proposed policy position on automated trading and consolidates existing ASIC and ASX guidance on this topic (see proposal B2);
- update our existing regulatory guides to remove any guidance on and references to AOP, as this will be integrated into our new guidance (see proposal B3); and
- make an additional consequential amendment to the ASIC Market Integrity Rules (Chi-X) on the certification of AOP systems (see proposal B4).

We seek your feedback on these proposals.

Proposed draft market integrity rules on automated trading

Proposal

- B1** We propose to make a number of new or amended market integrity rules on automated trading. These rules reflect our policy position after the CP 168 consultation process (i.e. our intended approach as summarised in the appendix to this paper and the proposed consequential amendment in proposal B4). The draft new and amended market integrity rules are in Attachment 1 to this paper. Amendments to existing rules are marked to help identify the changes.

See proposal B4 and the draft market integrity rules in Attachment 1 to this paper.

Your feedback

- B1Q1** Do you have any comments on the draft new and amended market integrity rules on automated trading in Attachment 1? See also proposal B4 of this paper for specific questions on the proposed consequential amendment.
- B1Q2** Do you have any comments on the proposed penalties for these rules?

Proposed draft guidance on automated trading

Proposal

- B2** We propose to issue new guidance that reflects our proposed policy position on automated trading after the CP 168 consultation process (i.e. our intended approach as summarised in the appendix to this paper).

This guidance will be set out in a new regulatory guide on electronic trading. We propose to integrate and update into a single guide the existing guidance on ASIC market integrity rules for the ASX and Chi-X markets (previously ASX Guidance Notes 19, 21 and 22), together with our proposed guidance on the new market integrity rules for AOP.

Where relevant, we have incorporated into this guide the substance of existing frequently asked questions (FAQs) on market competition from our website that apply to AOP.

See the draft regulatory guide in Attachment 2 to this paper.

Note: In the draft regulatory guide, we have used the term 'electronic trading' rather than automated trading. Electronic trading includes algorithmic programs, AOP, automated client order processing (ACOP) and direct electronic access (DEA). For a discussion of these concepts, see draft RG 000.10–RG 000.23 in Attachment 2.

Your feedback

- B2Q1** Do you have any comments on our guidance in the draft regulatory guide?
- B2Q2** We have tried to strike the right balance between having clear principles and, where required, sufficient detail to assist market participants to comply with the ASIC market integrity rules that apply to the use of AOP. Do you think the principles in our guidance are sufficiently clear and detailed to enable a market participant to comply with its obligations for AOP? Please provide details.

Proposed update to existing regulatory guides

Proposal

- B3** Regulatory Guide 214 *Guidance on ASIC market integrity rules for ASX and ASX 24 markets* (RG 214) and Regulatory Guide 224 *Guidance on ASIC market integrity rules for the Chi-X market* (RG 224) currently contain guidance on AOP. We propose to remove from RG 214 and RG 224 any guidance on and references to AOP when we issue the proposed new regulatory guide.

Rationale

- 13 As described in proposal B2 and in the appendix to this paper, we propose to consolidate and update into a single regulatory guide the existing guidance on ASIC market integrity rules for the ASX and Chi-X markets (previously

ASX Guidance Notes 19, 21 and 22), together with our proposed guidance on our new and amended rules for AOP: see the draft regulatory guide in Attachment 2 to this paper. Consequently, we intend to remove any references to AOP from RG 214 and RG 224.

Proposed consequential amendment to ASIC Market Integrity Rules (Chi-X)

Proposal

- B4** We propose to remove Rule 5.6.6A (Chi-X), which currently exempts a Chi-X market participant that is also an ASX market participant from Rules 5.6.4, 5.6.5 and 5.6.6 (Chi-X) in relation to the certification of AOP systems, provided that the requirements set out in Rule 5.6.6A (Chi-X) are satisfied.

This proposal means that before using AOP systems on Chi-X, market participants must certify their AOP systems. This proposal would not apply to AOP systems that were already connected to Chi-X and had met the requirements in Rule 5.6.6A (Chi-X) before the rule was removed.

We propose that the amendment to remove Rule 5.6.6A (Chi-X) would come into effect 18 months from the date that it and the new and amended rules for AOP are made.

See existing Rule 5.6.6A (Chi-X) and Chapter 5 of the draft market integrity rules in Attachment 1 to this paper.

Your feedback

B4Q1 Do you have any comments on this proposal?

B4Q2 What do you consider to be:

- (a) the likely compliance costs;
- (b) the likely effect on competition; and
- (c) other impacts, costs and benefits of this change?

Rationale

- 14 Rule 5.6.6A (Chi-X) was a transitional arrangement for the introduction of competition between exchange markets. It was intended to minimise the burden on a market participant of needing to obtain ASIC acknowledgement for all of its existing AOP systems already in use on ASX, and that the market participant intended to use on Chi-X. It was not intended to be a longer-term approach.

C Regulatory and financial impact

- 15 In developing the draft market integrity rules and guidance attached to this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us, we think they will strike an appropriate balance between:
- (a) maximising market efficiency and opportunities for innovation; and
 - (b) mitigating risks to price formation and protecting the interests of market participants, investors and financial consumers.
- 16 Before settling on a final policy, we will comply with the requirements of the Office of Best Practice Regulation (OBPR) by:
- (a) considering all feasible options;
 - (b) if regulatory options are under consideration, undertaking a preliminary assessment of the impacts of the options on business and individuals or the economy;
 - (c) if our proposed option has more than low impact on business and individuals or the economy, consulting with OBPR to determine the appropriate level of regulatory analysis; and
 - (d) conducting the appropriate level of regulatory analysis—that is, complete a Regulation Impact Statement (RIS).
- 17 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.
- 18 To ensure that we are in a position to properly complete the required RIS, we ask you to provide us with as much information as you can about the impact of the draft market integrity rules and guidance, including:
- (a) the likely compliance costs;
 - (b) the likely effect on competition; and
 - (c) other impacts, costs and benefits.
- 19 For a high-level summary of what we understand will be the potential impacts of the proposed new and amended market integrity rules and guidance on automated trading, see paragraphs 20–27. The discussion relates to the proposed market integrity rules that are likely to affect stakeholders’ systems and/or business models. We would appreciate your comments on these issues, as well as the points raised in paragraph 18.

Summary of the impact of our proposals on automated trading

- 20 This section considers the high-level impact of our key proposals on automated trading—that is:
- (a) the requirement for direct control over pre-trade filters, and appropriate controls to suspend, limit or prohibit AOP for one or more authorised persons or a series of related messages (see draft Rules 5.6.3(1)(d), 5.6.3(1)(e) and 5.6.3(2) in Attachment 1 to this paper and Section B of the draft regulatory guide in Attachment 2);
 - (b) our guidance on minimum standards for use of AOP where market participants permit clients and other authorised persons to submit orders into their AOP system (see Section C of the draft regulatory guide in Attachment 2); and
 - (c) the requirement for an annual review of AOP systems and notification of market participants’ compliance with the market integrity rules for AOP (see draft Rules 5.6.8A and 5.6.8B in Attachment 1 to this paper and Section D of the draft regulatory guide in Attachment 2).
- 21 We expect investors, issuers, market participants and market operators to benefit from greater protection against the risk of aberrant automated trading disrupting Australia’s equity markets by raising expectations for testing of AOP systems, filters and controls. The proposals will provide the investing public with greater confidence, and encourage investment and participation in Australia’s equity markets.
- 22 The proposed rules will require market participants to have direct control over pre-trade filters, and to suspend, limit or prohibit an order or series of orders from AOP that would interfere with the efficiency and integrity of the market in relation to one or more authorised persons. This will ensure that market participants have the ability, in real time, to control and prevent aberrant order flow before it disrupts the market. An aberrant algorithm generates not only costs that are borne by the firms using the algorithms, but also negative impacts for all market participants by impairing the fairness and orderliness of the market.
- 23 We believe the benefits of the proposals are significant, with mandatory and direct controls helping to mitigate erroneous order entry and aberrant programs, and also helping to protect the market against the risk of automated trading systems exacerbating disruptive price movements. We expect market participants that do not already have this technology to incur some cost in building the capability. All market participants may need to review existing policies and introduce new procedures.
- 24 We understand that the systems and controls of many market participants already comply with our proposed changes, which seek to raise the standards across the market. All market participants will need to review their existing policies and

- put in place new procedures where necessary. For those market participants that will need to make system and process changes, the cost may be material.
- 25 The proposed requirement that AOP systems be reviewed annually will generate greater accountability, improve governance, and protect the orderly operation of the market without relieving market participants of their internal responsibilities to continuously review systems, policies and procedures.
- 26 The consolidated and revised guidance on minimum standards for use of AOP will reinforce existing expectations and practice, and contribute to the fair and orderly operation of the market (e.g. by limiting trading that is significantly beyond the means of clients or trade in a size that disrupts the market). The guidance reinforcing our expectations for market participants to know and understand their clients' business will also help market participants to identify unusual activity and minimise market misconduct.
- 27 We expect the revised guidance will involve a one-off cost to all market participants, as they review existing policies and introduce new procedures. While we expect that there may be an impact on staff numbers, initially, to set market participants up to comply with these proposals, we do not expect that the proposals will result in an ongoing impact on headcount costs.

Appendix: Comparison of proposals on automated trading in CP 168 with our intended approach

Proposal in CP 168	Our intended approach
<p>C3: Algorithmic programs and automated order processing</p> <p>We proposed new market integrity rules to require a market participant to:</p> <ul style="list-style-type: none"> • test algorithms before use and before implementing material changes; • have direct and immediate control over all its trading messages, including pre-trade controls (e.g. the ability to prevent trading messages), real-time monitoring and post-trade analysis; • have in place adequate business continuity arrangements; and • annually review systems and connectivity, and provide a notification to ASIC that it has done so. <p>This proposal applied to activities or conduct of persons in relation to products quoted on ASX.</p> <p>For feedback on this proposal and our response, see Section B of REP 290.</p>	<p>We intend to:</p> <ul style="list-style-type: none"> • supplement existing guidance to clarify our expectations of testing of systems and filters/controls rather than individual algorithms. This includes the ability to manage highly automated trading, and stress testing of order flow. We expect that authorised persons' systems' order flow should also be tested against market participant AOP filters. • proceed with a market integrity rule requiring direct control over filters. We will also require appropriate automated controls to suspend or prohibit AOP for one or more authorised persons, or to suspend a series of related messages, that, once identified, may interfere with the efficiency and integrity of the market. We will issue guidance to clarify expectations for monitoring and post-trade analysis and review to ensure ongoing compliance with AOP rules. • supplement existing guidance to emphasise system capacity. We expect business continuity arrangements to reflect the nature of the market participant's business. • proceed as proposed to remove the requirement for review and notification of material changes to ASIC and add annual internal review and notification to ASIC. <p>We will continue to work with the industry to develop the draft guidance with the aim of publishing draft rules and guidance early in the third quarter of 2012.</p> <p>We propose the guidance and rules would apply 18 months from the date the rules are made.</p>
<p>C4: Direct electronic access</p> <p>We proposed new rules to require a market participant, before permitting an AOP client to submit trading messages into the market participant's system, to ensure that:</p> <ul style="list-style-type: none"> • it understands the nature of its AOP client's business and the nature of any proposed delegation of this access before granting the client access; • the AOP client has the required adequate financial resources to meet its obligations to the market participant; 	<p>We intend to:</p> <ul style="list-style-type: none"> • supplement existing guidance—for example: <ul style="list-style-type: none"> – market participants should have adequate understanding of clients' business; and – filters and controls should take into account any credit limits set by the market participant; • update existing guidance to clarify that authorised persons should have an understanding of the order management system of the market participant and the market integrity rules of the market;

Proposal in CP 168	Our intended approach
<ul style="list-style-type: none"> • all persons who use AOP understand the order management system and the requirements of the dealing rules and the market operator; • the AOP client has adequate procedures to monitor all trading through its order management system; • the AOP client's order management system is tested before use and before implementing material changes; and • any algorithms used through the AOP are tested before use and before implementing material changes. <p>We also proposed that a market participant must have a legally binding agreement with each AOP client that is an AFS licensee.</p> <p>This proposal applied to activities or conduct of persons in relation to products quoted on ASX.</p> <p>For feedback on this proposal and our response, see Section B of REP 290.</p>	<ul style="list-style-type: none"> • rely on the market participant's filters and controls rather than requiring the AOP client to monitor its trading; and • rely on testing done by a market participant of its systems and controls rather than require an AOP client to test order management systems and algorithms. <p>We are not proceeding with a rule to require an agreement between a market participant and its AOP AFS licensee clients.</p> <p>We note that under Rule 5.5.1, a market participant remains ultimately responsible for a trading message submitted with its unique identifier.</p> <p>We will continue to work with the industry to develop the draft guidance with the aim of publishing draft rules and guidance early in the third quarter of 2012.</p> <p>We propose the guidance will apply 18 months from the date of its release.</p>
<p>C5: Market operator systems and controls</p> <p>We proposed to clarify through guidance our expectations for market operators in relation to their systems and controls.</p> <p>This proposal applied to all products traded on markets operated in Australia by Australian market licensees.</p> <p>For feedback on this proposal and our response, see Section B of REP 290.</p>	<p>We intend to proceed with updating our guidance as proposed. In assessing compliance with the guidance, our expectations will reflect the nature, size and complexity of the relevant market operator. The updated guidance would apply from the date of its release.</p> <p>See the draft addendum to Regulatory Guide 172 <i>Australian market licences: Australian operators</i> (RG 172), published on 28 June 2012 in Attachment 3 to CP 179.</p>
<p>C6: Market making in the cash equity market</p> <p>We sought feedback on market making in the cash equity market and licensing for electronic liquidity providers.</p> <p>For feedback on this issue and our response, see Section B of REP 290.</p>	<p>We have decided not to change our current position (e.g. short selling relief, licensing requirements). This issue will remain a focus for our continuing review. We intend to re-consult as appropriate.</p>



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Australian Securities & Investments Commission

Attachment 1 to CP 184: Australian market structure: Draft market integrity rules and guidance on automated trading

August 2012

These draft market integrity rules reflect the proposals in Consultation Paper 184 *Australian market structure: Draft market integrity rules and guidance on automated trading* (CP 184).

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A Proposed amendments to ASIC Market Integrity Rules (ASX)

This attachment presents ASIC's proposed amendments to the ASIC Market Integrity Rules (ASX) as a marked-up version of the relevant sections of the existing ASIC Market Integrity Rules (ASX). We have reproduced in this attachment only those market integrity rules to which changes are proposed and associated rules.

For more information, including the related ASIC advisory, go to www.asic.gov.au/markets.

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Chapter 1: Introduction

Part 1.4 Interpretation

1.4.3 Definitions

“**AFSL**” means an Australian financial services licence granted under section 913B of the Corporations Act.

“**AOP Annual Notification**” has the meaning given by subrule 5.6.8B(1).

“**AOP Annual Review**” has the meaning given by Rule 5.6.8A.

“**AOP Annual Review Date**” means 1 November each calendar year.

“**AOP Initial Certification**” has the meaning given by Rule 5.6.6.

“**AOP Material Change Review**” has the meaning given by subrule 5.6.8(1).

“**Authorised Person**” means a person who:

- (a) is either:
 - (i) a client of a Trading Participant; ~~or~~
 - (ii) an agent of a client of a Trading Participant; or
 - ~~(iii)~~ (iii) a Representative of a Trading Participant, other than a DTR; and
- (b) is permitted by a Trading Participant to submit orders into the Trading Participant’s system.

“**Automated Client Order Processing**” is the Automated Order Processing of an order submitted by an Authorised Person into a Trading Participant’s system.

“**Automated Order Processing**” means the process by which orders are registered in a Trading Participant’s system and, if accepted for submission into a Trading Platform by the Trading Participant, submitted as corresponding Trading Messages without being keyed or rekeyed by a DTR.

“**Business Day**” means a day other than a Saturday, Sunday, New Year’s Day, Good Friday, Easter Monday, Christmas Day or Boxing Day.

“**Competition Market Integrity Rules**” means the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 as amended from time to time.

“**Corporations Act**” means the *Corporations Act 2001* (Cth).

“**Dealing Rules**” means the Rules and the Market Operating Rules that govern the submission of orders and the execution and reporting of Market Transactions on a Trading Platform.

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“**DTR**” means a Representative of the Trading Participant who has been authorised by the Trading Participant to submit Trading Messages to the Trading Platform on behalf of the Trading Participant.

“**Financial Product**” has the meaning given by Division 3 of Part 7.1 of the Corporations Act.

“**Listing Rules**” has the meaning given by section 761A of the Corporations Act.

“**Market**” means the market operated by the Market Operator under Australian Market Licence (Australian Stock Exchange Limited) 2002.

“**Market Bid**” means a market bid within the meaning of the Corporations Act and, in respect of an Issuer incorporated or established outside Australia, any similar form of bid.

“**Market Listing Rules**” means the Listing Rules of the Market.

“**Market Operating Rules**” means the Operating Rules of the Market, other than the Market Listing Rules.

“**Market Operator**” means ASX.

“**Market Participant**” means a participant in the Market admitted under the Market Operating Rules.

“**Market Transaction**” means a transaction for one or more Products, entered into on a Trading Platform or reported to the Market Operator under the Market Operating Rules.

“**Off-Market Bid**” means an off-market bid within the meaning of the Corporations Act and in respect of an Issuer incorporated or established outside Australia, any similar form of bid.

“**Operating Rules**” has the meaning given by section 761A of the Corporations Act.

“**Order**” means:

- (a) in relation to Cash Market Products, an instruction to purchase or sell Cash Market Products, or an instruction to amend or cancel a prior instruction to purchase or sell Cash Market Products; and
- (b) in relation to Derivatives Market Contracts, an instruction to enter into a Derivatives Market Transaction, or an instruction to amend or cancel a prior instruction to enter into a Derivatives Market Transaction.

“**Representative**” has the meaning given by section 910A of the Corporations Act.

“**Retail Client**” has the meaning given by section 761G of the Corporations Act.

“**Rules**” means these market integrity rules.

“**Takeover Bid**” means an Off-Market Bid or Market Bid.

“**Trading Hours**”, in relation to the Market, means the times during which:

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- (a) Orders may be entered, amended or cancelled on the Order Books of the Market; and
- (b) Orders are matched and transactions are executed on a continuous basis on the Market, and includes a time during which an auction is conducted on the Market.

“**Trading Messages**” means those messages submitted into a Trading Platform relating to trading functions, such as Orders, amendment or cancellation of Orders and the reporting or cancellation of Market Transactions on the Trading Platform.

“**Trading Participant**” means a Market Participant which has Trading Permission in respect of one or more Products.

“**Trading Platform**” means a facility made available by the Market Operator to Trading Participants for the entry of Trading Messages, the matching of Orders, the advertisement of invitations to trade and the reporting of transactions.

Note: There is no penalty for this Rule.

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Chapter 5: Trading

Part 5.5 Participant's trading infrastructure

5.5.1 Knowledge of Trading Participant

If a Trading Message embedded with a Trading Participant's unique identifier is submitted, the Trading Message is taken for all purposes under these Rules to have been submitted in a Trading Platform by or with the knowledge of the Trading Participant.

Note: There is no penalty for this Rule.

5.5.2 Organisational and technical resources

A Trading Participant must have and maintain the necessary organisational and technical resources to ensure that:

- (a) Trading Messages submitted by the Trading Participant do not interfere with:
 - (i) the efficiency and integrity of the Market; or
 - (ii) the proper functioning of a Trading Platform; and
- (b) the Trading Participant complies at all times with these Rules and the Market Operating Rules.

Maximum penalty: \$1,000,000

5.5.3 Trading management arrangements

A Trading Participant must have arrangements in place so that at all times the Trading Participant can determine the origin of all orders and Trading Messages, including:

- (a) the different stages of processing each order (regardless of whether a Trading Message is generated) and the time at which each stage of processing occurred;
- (b) the order that corresponds to a Trading Message;
- (c) the identity and capacity of the person placing the order that corresponds to the Trading Message;
- (d) whether the Trading Message was the result of Automated Order Processing;
- (e) the Open Interface Device and the computer or other device of the Trading Participant connected to an Open Interface Device of the Trading Participant through which the Trading Message was submitted;
- (f) the DTR with responsibility for that Open Interface Device or computer or other device connected to the Open Interface Device (unless the Trading Message was the result of Automated Order Processing); and
- (g) whether the Trading Message was submitted on the Trading Participant's Own Account or for a client.

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Maximum penalty: \$1,000,000

5.5.4 Trading management arrangements—Records

A Trading Participant must maintain records of the matters referred to in Rule 5.5.3, for a period of 7 years from the date of the Trading Message to which the matters relate.

Maximum penalty: \$100,000

Part 5.6 Automated Order Processing—Filters, conduct, and infrastructure

5.6.1 Responsible use of system for Automated Order Processing

A Trading Participant which uses its system for Automated Order Processing must at all times:

- (a) have appropriate automated filters, in relation to Automated Order Processing; and
- (b) ensure that such use does not interfere with:
 - (i) the efficiency and integrity of the Market; or
 - (ii) the proper functioning of any Trading Platform.

Maximum penalty: \$1,000,000

5.6.2 Authorised Persons for Automated Client Order Processing

A Trading Participant which uses its system for Automated Client Order Processing must also have procedures in place to ensure that each Authorised Person has demonstrated to the Trading Participant knowledge of the order entry system of the Trading Participant and of the Dealing Rules, directions, decisions and requirements of the Market Operator relevant to the type of order submission facilities given to the Authorised Person by the Trading Participant.

Maximum penalty: \$1,000,000

5.6.3 Automated Order Processing system requirements

(1) A Trading Participant which uses its system for Automated Order Processing must ensure that the system has in place:

- (a) organisational and technical resources, including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters, to enable Trading Messages to be submitted into the Trading Platform without interfering with the efficiency and integrity of the Market or the proper functioning of the Trading Platform;

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- (b) trading management arrangements, including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters to enable the ready determination of the origin of all orders and trading messages; ~~and~~
- (c) security arrangements to monitor for and prevent unauthorised persons having access to a gateway or an Open Interface Device or to a computer or other device connected to an Open Interface Device, and to ensure that the Automated Order Processing system does not interfere with the efficiency and integrity of ~~markets provided by the Market Participant~~the Market or the proper functioning of the Trading Platform;-
- (d) controls, including automated controls, that enable immediate suspension, limitation or prohibition of the conduct of all Automated Order Processing or Automated Order Processing in respect of:
- (i) one or more Authorised Persons or clients;
- (ii) Automated Client Order Processing; or
- (iii) one or more Products; and
- (e) controls that enable immediate:
- (i) suspension of, limitation of, or prohibition on, the entry into the Market of Trading Messages in a series of related Trading Messages where the Trading Participant has identified that Trading Messages in the series have entered the Market and have interfered with or are likely to interfere with the efficiency or integrity of the Market; and
- (ii) cancellation of Trading Messages in a series that have already entered the Market where the entry of further messages in the series have been suspended, limited or prohibited under subparagraph (i).
- (2) A Trading Participant that uses its system for Automated Order Processing must have direct control over all automated filters and the filter parameters for those filters.

Maximum penalty: \$1,000,000

5.6.4 Review of documentation and systems prior to use of Automated Order Processing system

Before using their system for Automated Order Processing, a Trading Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, perform a review of the Trading Participant's policies, procedures, system design documentation, including the Trading Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters, and other relevant documentation concerning the Trading Participant's compliance with Part 5.6 of these Rules.

Maximum penalty: \$1,000,000

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5.6.5 Representations as to organisational and technical resources, trading management arrangements and security arrangements, prior to use of Automated Order Processing system

(1) Before using their system for Automated Order Processing, the Trading Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, obtain written representations that ~~their Automated Order Processing system meets the requirements of each of paragraphs 5.6.3(a), (b) and (c)~~ the Trading Participant has in place organisational and technical resources, arrangements and controls in relation to the system for Automated Order Processing that meet the requirements of Rule 5.6.3.

(2) The representations referred to in subrule (1) must:

- (a) ~~must~~ be provided by persons who are suitably qualified and experienced in relation to the organisational and technical resources, arrangements and controls for which they are making the representation;
- (b) include the name of the person making the representation;
- (c) be signed and dated by the person making the representation; and
- (d) set out the methodology used by the person to enable them to make the representation.

Maximum penalty: \$1,000,000

5.6.6 Certification of Automated Order Processing system

(1) Before using their system for Automated Order Processing, a Trading Participant must give a written certification (“AOP Initial Certification”) to ASIC that includes the matters set out in subrule (2).;

- ~~(a) give a written certification to ASIC that includes the matters set out in subrule (2); and~~
- ~~(b) receive a written confirmation from ASIC that the certification complies with subrule (2).~~

(2) The ~~written certification~~ AOP Initial Certification given by the Trading Participant to ASIC must include:

- (a) the name of the Trading Participant;
- (b) the version number and name of the Trading Participant’s Automated Order Processing system;
- (c) copies of the representations required by Rule 5.6.5 in relation to the system referred to in paragraph (b);
- (d) a confirmation by the Trading Participant that:
 - (i) the Trading Participant has performed the review required by Rule 5.6.4 and that nothing came to the attention of the Trading Participant during the course of that review which would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules;

- (ii) based on the review required by Rule 5.6.4 and the representations required by Rule 5.6.5, the Trading Participant's Automated Order Processing system:
 - (A) does, or does not, permit Automated Client Order Processing, as the case may be; and
 - (B) meets the requirements of Rule 5.6.3; and
 - (iii) the representations required by Rule 5.6.5 have been made by persons whom the Trading Participant considers to be suitably qualified and experienced in relation to the organisational and technical resources, arrangements and controls for which they are making those representations;
- (e) the name of the directors of the Trading Participant referred to in subrule (3).
- (3) At least two directors of the Trading Participant must sign and date the written certification referred to in subrule (2).

Maximum penalty: \$1,000,000

5.6.7 — Material changes

- ~~(1) If a Trading Participant who uses its system for Automated Order Processing under the Rules proposes to make a material change to any of the organisational or technical resources employed to comply with Rule 5.6.3, the Trading Participant must immediately notify ASIC of the proposed change.~~
- ~~(2) The Trading Participant must, before implementing the change:~~
- ~~(a) undertake the review required by Rule 5.6.8 and provide either of the following at the option of ASIC:~~
 - ~~(i) a confirmation as required by Rule 5.6.9; or~~
 - ~~(ii) a further certification as required by Rule 5.6.10;~~
 - ~~(b) receive a written confirmation from ASIC that the confirmation or certification complies with Rule 5.6.9 or 5.6.10, as applicable.~~

Maximum penalty: \$100,000

5.6.8 AOP Material eChange rReview

~~(1) Before making a material change to any of the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3, the Trading Participant must, for the purposes of providing the confirmation referred to in Rule 5.6.9 or the further certification referred to in Rule 5.6.10, ensure that an appropriately qualified person performs a review ("AOP Material Change Review") of the material changes to the Automated Order Processing system, the Trading Participant's policies, procedures, system design documentation, including the Trading Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters~~

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and other relevant documentation concerning the Trading Participant's compliance with Part 5.6 of these Rules.

(2) Before implementing a material change the subject of an AOP Material Change Review the Trading Participant must, for the purposes of providing the AOP Annual Notification referred to in Rule 5.6.8B, obtain written representations from the person who performed the AOP Material Change Review that nothing came to the attention of the person during the course of the AOP Material Change Review that would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules.

(3) The representations referred to in subrule (2) must:

- (a) include the name of the person making the representation; and
- (b) be signed and dated by the person making the representation.

Maximum penalty: \$100,000

5.6.8A AOP Annual Review

(1) Where a Trading Participant has not performed an AOP Material Change Review in the 12 months before the AOP Annual Review Date, the Trading Participant must, for the purposes of providing the AOP Annual Notification, ensure that an appropriately qualified person performs a review ("AOP Annual Review") of the Automated Order Processing system, the Trading Participant's policies, procedures, system design documentation, including the Trading Participant's procedures for implementation of changes to the Automated Order Processing software, filters and filter parameters and other relevant documentation concerning the Trading Participant's compliance with Part 5.6 of these Rules.

(2) The Trading Participant must, for the purposes of providing the AOP Annual Notification referred to in Rule 5.6.8B, obtain written representations from the person who performed the AOP Annual Review that nothing came to the attention of the person during the course of the AOP Annual Review that would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules.

(3) The representations referred to in subrule (2) must:

- (a) include the name of the person making the representation; and
- (b) be signed and dated by the person making the representation.

Maximum penalty: \$100,000

5.6.8B AOP Annual Notification

(1) A Trading Participant must, within 10 Business Days of each AOP Annual Review Date, given a written notice ("AOP Annual Notification") to ASIC that includes:

- (a) the name of the Trading Participant; and

- (b) the version number and name of the Trading Participant's Automated Order Processing system; and
- (c) a confirmation by the Trading Participant that nothing came to the attention of the Trading Participant during the 12 months before the AOP Annual Review date that would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules; and
- (d) the name of the directors of the Trading Participant referred to in subrule (2).

(2) At least two directors of the Trading Participant must sign and date the AOP Annual Notification.

Maximum penalty: \$100,000

5.6.9 — ~~Material change confirmation~~

- ~~(1) A confirmation provided under subparagraph 5.6.7(2)(a)(i) must include:~~
- ~~(a) the name of the Trading Participant;~~
 - ~~(b) the version number and name of the Trading Participant's Automated Order Processing system;~~
 - ~~(c) a description of the material changes to the system that are the subject of the confirmation;~~
 - ~~(d) a confirmation from the appropriately qualified person who performed a review in accordance Rule 5.6.8 that:

 - ~~(i) the person has performed the review and that nothing came to the attention of the person during the course of the review which would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules;~~
 - ~~(ii) the material changes set out in the confirmation do not detract from the certification of the Automated Order Processing system previously provided to the Market Operator or ASIC.~~
 - ~~(iii) (2) The confirmation referred to in paragraph (1)(d) must include the name of the person making the confirmation and be signed and dated by that person.~~~~

~~Maximum penalty: \$100,000~~

5.6.10 — ~~Material change further certification~~

- ~~(1) A further certification provided under subparagraph 5.6.7(2)(a)(ii) must include:~~
- ~~(a) the name of the Trading Participant;~~
 - ~~(b) the version number and name of the Trading Participant's Automated Order Processing system;~~
 - ~~(c) a description of the material changes to the system that are the subject of the confirmation;~~

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- ~~(d) a confirmation from the appropriately qualified person who performed a review in accordance with Rule 5.6.8 that:~~
- ~~(i) the person has performed the review and that nothing came to the attention of the person during the course of the review which would indicate that the Trading Participant is unable to comply with Part 5.6 of these Rules;~~
 - ~~(ii) the elements of the system which have not been the subject of the material changes do not detract from the certification for the system previously provided to the Market Operator or ASIC;~~
 - ~~(iii) the Trading Participant has in place, in relation to the material changes the subject of the certification, organisational and technical resources, trading management arrangements and security arrangements that meet the requirements of Rule 5.6.3.~~
- ~~(2) The confirmation referred to in paragraph (1)(d) must include the name of the person making the confirmation and be signed and dated by that person.~~

~~Maximum penalty: \$100,000~~

5.6.11 Further certification

- (1) A Trading Participant must, if directed by ASIC in writing to do so, provide a further certification in a form acceptable to ASIC from an appropriately qualified person acceptable to ASIC as to compliance by the Trading Participant with the Automated Order Processing Requirements.
- (2) A Trading Participant must comply with a direction under subrule (1) within the time specified in the direction.

Maximum penalty: \$100,000

5.6.12 Limitations on Automated Order Processing

- (1) This Rule applies where ASIC reasonably considers that:
- (a) a Trading Participant is not complying with the Automated Order Processing Requirements; or
 - (b) it is otherwise appropriate to direct a Trading Participant to take the actions referred to in subrule (2).
- (2) A Trading Participant must, if directed to do so by ASIC:
- (a) cease conducting Automated Order Processing until ASIC is satisfied that the Trading Participant complies with the Automated Order Processing Requirements; or
 - (b) immediately suspend, limit or prohibit the conduct of Automated Order Processing in respect of:
 - (i) one or more Authorised Persons or clients;

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- (ii) Automated Client Order Processing;
 - (iii) Automated Order Processing; or
 - (iv) one or more Products,
- as required by the direction.

Maximum penalty: \$1,000,000

Part 5.7 Manipulative trading

5.7.1 False or misleading appearance

A Market Participant must not make a Bid or Offer for, or deal in, any Products:

- (a) as Principal:
 - (i) with the intention; or
 - (ii) if that Bid, Offer or dealing has the effect, or is likely to have the effect, of creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product; or
- (b) on account of any other person where:
 - (i) the Market Participant intends to create;
 - (ii) the Market Participant is aware that the person intends to create; or
 - (iii) taking into account the circumstances of the Order, a Market Participant ought reasonably suspect that the person has placed the Order with the intention of creating,

a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product.

Maximum penalty: \$1,000,000

5.7.2 Circumstances of Order

In considering the circumstances of the Order, the Market Participant must have regard to the following matters:

- (a) whether the Order or execution of the Order would be inconsistent with the history of or recent trading in that Product;
- (b) whether the Order or execution of the Order would materially alter the market for, or the price of, the Product;
- (c) the time the Order is entered or any instructions concerning the time of entry of the Order;

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- (d) whether the person on whose behalf the Order is placed, or another person who the Market Participant knows to be a Related Party of that person, may have an interest in creating a false or misleading appearance of active trading in any Product or with respect to the market for, or the price of, any Product;
- (e) whether the Order is accompanied by settlement, delivery or security arrangements which are unusual;
- (f) where the Order appears to be part of a series of Orders, whether when put together with other Orders which appear to make up the series, the Order or the series is unusual having regard to the matters referred to in this Rule 5.7.2;
- (g) whether there appears to be a legitimate commercial reason for that person placing the Order, unrelated to an intention to create a false or misleading appearance of active trading in or with respect to the market for, or price of, any Product; and
- (h) whether the transaction, bid or offer the execution of which is proposed will involve no change of beneficial ownership.

Maximum penalty: \$1,000,000

5.7.3 Obligations apply to Automated Order Processing

A Market Participant must also comply with this Part 5.7 in respect of Orders the subject of Automated Order Processing.

Note: There is no penalty for this Rule.

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B Proposed amendments to ASIC Market Integrity Rules (Chi-X)

This attachment presents ASIC's proposed amendments to the ASIC Market Integrity Rules (Chi-X) as a marked-up version of the relevant sections of the existing ASIC Market Integrity Rules (Chi-X). We have reproduced in this attachment only those market integrity rules to which changes are proposed and associated rules.

For more information, including the related ASIC advisory, go to www.asic.gov.au/markets.

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Chapter 1: Introduction

Part 1.4 Interpretation

1.4.3 Definitions

“**AFSL**” means an Australian financial services licence granted under section 913B of the Corporations Act

“**AOP Annual Notification**” has the meaning given by subrule 5.6.8B(1).

“**AOP Annual Review**” has the meaning given by Rule 5.6.8A.

“**AOP Annual Review Date**” means 1 November each calendar year.

“**AOP Initial Certification**” has the meaning given by Rule 5.6.6.

“**AOP Material Change Review**” has the meaning given by subrule 5.6.8(1).

“**ASX**” means ASX Limited (ACN 008 624 691).

“**ASX Market**” means the market for Financial Products operated by ASX.

“**ASX Market Integrity Rules**” means the ASIC Market Integrity Rules (ASX Market) 2010, as amended from time to time.

“**ASX Participant**” means a participant in the ASX Market admitted under the Operating Rules of the ASX Market.

“**Authorised Person**” means a person who:

- (a) is either:
 - (i) a client of a Market Participant;
 - (ii) an agent of a client of a Market Participant; or
 - (iii) a Representative of the Market Participant, other than a DTR; and
- (b) is permitted by a Market Participant to submit orders into the Market Participant’s system.

“**Automated Client Order Processing**” is the Automated Order Processing of an order submitted by an Authorised Person into a Market Participant’s system.

“**Automated Order Processing**” means the process by which orders are registered in a Market Participant’s system and, if accepted for submission into a Trading Platform by the Market Participant, submitted as corresponding Trading Messages without being keyed or rekeyed by a DTR.

“**Business Day**” means a day other than a Saturday, Sunday, New Year’s Day, Good Friday, Easter Monday, Christmas Day or Boxing Day.

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“**CHESSE Depository Interest**” has the meaning given to the term “CDI” by rule 2.13.1 of the operating rules of ASX Settlement Pty Limited (ACN 008 504 532).

“**Chi-X Australia**” means Chi-X Australia Pty Ltd (ACN 129 584 667).

“**Chi-X Market**” means the market operated by the Market Operator under Australian Market Licence (Chi-X Australia Pty Ltd) 2011.

“**Competition Market Integrity Rules**” means the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 as amended from time to time.

“**Corporations Act**” means the *Corporations Act 2001* (Cth).

“**Dealing Rules**” means the Rules and the Market Operating Rules that govern the submission of orders and the execution and reporting of Market Transactions on a Trading Platform.

“**DTR**” means a Representative of the Market Participant who has been authorised by the Market Participant to submit Trading Messages to the Trading Platform on behalf of the Market Participant and who meets the criteria set out in Rule 2.5.5.

“**Equity Market Product**” means:

- (a) a share in a body;
- (b) a financial product referred to in subparagraph 764A(1)(b)(i) or subparagraph 764A(1)(ba)(i) of the Act; or
- (c) a right (whether existing or future and whether contingent or not) to acquire, by way of issue, the following under a rights issue:
 - (i) a share covered by paragraph (a); a financial product covered by paragraph (b); or
 - (ii) a CHESSE Depository Interest,

admitted to quotation on ASX and able to be traded on the Chi-X Market.

“**Market Bid**” means a market bid within the meaning of the Corporations Act and, in respect of an Issuer incorporated or established outside Australia, any similar form of bid.

“**Market Operating Rules**” means the Operating Rules of the Chi-X Market.

“**Market Operator**” means Chi-X Australia.

“**Market Participant**” means a participant in the Chi-X Market admitted under the Market Operating Rules.

“**Off-Market Bid**” means an off-market bid within the meaning of the Corporations Act and in respect of an Issuer incorporated or established outside Australia, any similar form of bid.

“**Operating Rules**” has the meaning given by section 761A of the Corporations Act.

“**Order**” means, in relation to Equity Market Products, an instruction to purchase or sell Equity Market Products, or an instruction to amend or cancel a prior instruction to purchase or sell Equity Market Products.

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“**Representative**” has the meaning given by section 910A of the Corporations Act.

“**Retail Client**” has the meaning given by section 761G of the Corporations Act.

“**Rules**” means these market integrity rules.

“**Takeover Bid**” means an Off-Market Bid or Market Bid.

“**Trading Hours**”, in relation to the Chi-X Market, means the times during which:

- (a) Orders may be entered, amended or cancelled on the Order Books of the Chi-X Market;
and
- (b) Orders are matched and transactions are executed on a continuous basis on the Chi-X Market,

“**Trading Messages**” means those messages submitted into a Trading Platform relating to trading functions, such as Orders, amendment or cancellation of Orders and the reporting or cancellation of Market Transactions on the Trading Platform.

“**Trading Platform**” means a facility made available by the Market Operator to Market Participants for the entry of Trading Messages, the matching of Orders and the reporting of transactions.

Note: There is no penalty for this Rule.

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Chapter 5: Trading

Part 5.5 Participant's trading infrastructure

5.5.1 Knowledge of Market Participant

If a Trading Message embedded with a Market Participant's unique identifier is submitted, the Trading Message is taken for all purposes under these Rules to have been submitted in a Trading Platform by or with the knowledge of the Market Participant.

Note: There is no penalty for this Rule.

5.5.2 Organisational and technical resources

A Market Participant must have and maintain the necessary organisational and technical resources to ensure that:

- (a) Trading Messages submitted by the Market Participant do not interfere with:
 - (i) the efficiency and integrity of the Chi-X Market; or
 - (ii) the proper functioning of a Trading Platform; and
- (b) the Market Participant complies at all times with these Rules and the Market Operating Rules.

Maximum penalty: \$1,000,000

5.5.3 Trading management arrangements

A Market Participant must have arrangements in place so that at all times the Market Participant can determine the origin of all orders and Trading Messages, including:

- (a) the different stages of processing each order (regardless of whether a Trading Message is generated) and the time at which each stage of processing occurred;
- (b) the order that corresponds to a Trading Message;
- (c) the identity and capacity of the person placing the order that corresponds to the Trading Message;
- (d) whether the Trading Message was the result of Automated Order Processing;
- (e) the Open Interface Device and the computer or other device of the Market Participant connected to an Open Interface Device of the Market Participant through which the Trading Message was submitted;
- (f) the DTR with responsibility for that Open Interface Device or computer or other device connected to the Open Interface Device (unless the Trading Message was the result of Automated Order Processing); and
- (g) whether the Trading Message was submitted on the Market Participant's Own Account or for a client.

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Maximum penalty: \$1,000,000

5.5.4 Trading management arrangements—Records

A Market Participant must maintain records of the matters referred to in Rule 5.5.3, for a period of 7 years from the date of the Trading Message to which the matters relate.

Maximum penalty: \$100,000

Part 5.6 Automated Order Processing—Filters, conduct, and infrastructure

5.6.1 Responsible use of system for Automated Order Processing

A Market Participant which uses its system for Automated Order Processing must at all times:

- (a) have appropriate automated filters, in relation to Automated Order Processing; and
- (b) ensure that such use does not interfere with:
 - (i) the efficiency and integrity of the Chi-X Market; or
 - (ii) the proper functioning of any Trading Platform.

Maximum penalty: \$1,000,000

5.6.2 Authorised Persons for Automated Client Order Processing

A Market Participant which uses its system for Automated Client Order Processing must also have procedures in place to ensure that each Authorised Person has demonstrated to the Market Participant knowledge of the order entry system of the Market Participant and of the Dealing Rules, directions, decisions and requirements of the Market Operator relevant to the type of order submission facilities given to the Authorised Person by the Market Participant.

Maximum penalty: \$1,000,000

5.6.3 Automated Order Processing system requirements

(1) A Market Participant which uses its system for Automated Order Processing must ensure that the system has in place:

- (a) organisational and technical resources, including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters, to enable Trading Messages to be submitted into the Trading Platform without interfering with the efficiency and integrity of the Chi-X Market or the proper functioning of the Trading Platform;

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- (b) trading management arrangements, including having appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters to enable the ready determination of the origin of all orders and trading messages; ~~and~~
- (c) security arrangements to monitor for and prevent unauthorised persons having access to a gateway or an Open Interface Device or to a computer or other device connected to an Open Interface Device, and to ensure that the Automated Order Processing system does not interfere with the efficiency and integrity of ~~markets provided by the Market Participant~~the Chi-X Market or the proper functioning of the Trading Platform;-
- (d) controls, including automated controls, that enable immediate suspension, limitation or prohibition of the conduct of all Automated Order Processing or Automated Order Processing in respect of:
- (i) one or more Authorised Persons or clients;
- (ii) Automated Client Order Processing; or
- (iii) one or more Equity Market Products; and
- (e) controls that enable immediate:
- (i) suspension of, limitation of, or prohibition on, the entry into the Chi-X Market of Trading Messages in a series of related Trading Messages where the Market Participant has identified that Trading Messages in the series have entered the Chi-X Market and have interfered with or are likely to interfere with the efficiency or integrity of the Chi-X Market; and
- (ii) cancellation of Trading Messages in a series that have already entered the Chi-X Market where the entry of further messages in the series have been suspended, limited or prohibited under subparagraph (i).

(2) A Market Participant which uses its system for Automated Order Processing must have direct control over all automated filters and the filter parameters for those filters.

Maximum penalty: \$1,000,000

5.6.4 Review of documentation and systems prior to use of Automated Order Processing system

(1) Subject to Rule 5.6.6A, before using their system for Automated Order Processing, a Market Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, perform a review of the Market Participant's policies, procedures, system design documentation, including the Market Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters, and other relevant documentation concerning the Market Participant's compliance with Part 5.6 of these Rules.

(2) A Market Participant that was not required to comply with Rule 5.6.4 in relation to a system for Automated Order Processing because of the operation of Rule 5.6.6A is not required to conduct the review referred to in subrule (1) in relation to that system for Automated Order Processing.

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Note: Rule 5.6.6A was omitted on [date to be inserted], but until that date stated that Market Participants who complied with ASX Market Integrity Rule 5.6.4 did not need to comply with Rule 5.6.4.

Maximum penalty: \$1,000,000

5.6.5 Representations as to organisational and technical resources, trading management arrangements and security arrangements, prior to use of Automated Order Processing system

(1) ~~Subject to Rule 5.6.6A, b~~efore using their system for Automated Order Processing, the Market Participant must, for the purposes of providing the certification referred to in Rule 5.6.6, obtain written representations that ~~their Automated Order Processing system meets the requirements of each of paragraphs 5.6.3(a), (b) and (c)~~ the Market Participant has in place organisational and technical resources, arrangements and controls in relation to the system for Automated Order Processing that meet the requirements of Rule 5.6.3.

(2) The representations referred to in subrule (1) must:

- (a) ~~must~~ be provided by persons who are suitably qualified and experienced in relation to organisational and technical resources, arrangements and the controls for which they are making the representation;
- (b) include the name of the person making the representation;
- (c) be signed and dated by the person making the representation; and
- (d) set out the methodology used by the person to enable them to make the representation.

(32) A Market Participant that was not required to comply with Rule 5.6.5 in relation to a system for Automated Order Processing because of the operation of Rule 5.6.6A is not required to obtain the representations referred to in subrule (1) in relation to that system for Automated Order Processing.

Note: Rule 5.6.6A was omitted on [date to be inserted], but until that date stated that Market Participants who complied with ASX Market Integrity Rule 5.6.5 did not need to comply with Rule 5.6.45.

Maximum penalty: \$1,000,000

5.6.6 Certification of Automated Order Processing system

(1) ~~Subject to Rule 5.6.6A, b~~efore using their system for Automated Order Processing, a Market Participant must give a written certification (“AOP Initial Certification”) to ASIC that includes the matters set out in subrule (2).:

- ~~(a) give a written certification to ASIC that includes the matters set out in subrule (2); and~~
- ~~(b) receive a written confirmation from ASIC that the certification complies with subrule (2).~~

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- (2) The ~~written certification~~ AOP Initial Certification given by the Market Participant to ASIC must include:
- (a) the name of the Market Participant;
 - (b) the version number and name of the Market Participant's Automated Order Processing system;
 - (c) copies of the representations required by Rule 5.6.5 in relation to the system referred to in paragraph (b);
 - (d) a confirmation by the Market Participant that:
 - (i) the Market Participant has performed the review required by Rule 5.6.4 and that nothing came to the attention of the Market Participant during the course of that review which would indicate that the Market Participant is unable to comply with Part 5.6 of these Rules;
 - (ii) based on the review required by Rule 5.6.4 and the representations required by Rule 5.6.5, the Market Participant's Automated Order Processing system:
 - (A) does, or does not, permit Automated Client Order Processing, as the case may be; and
 - (B) meets the requirements of Rule 5.6.3; and
 - (iii) the representations required by Rule 5.6.5 have been made by persons whom the Market Participant considers to be suitably qualified and experienced in relation to the organisational and technical resources, arrangements and controls for which they are making those representations; and
 - (e) the name of the directors of the Market Participant referred to in subrule (3).
- (3) At least two directors of the Market Participant must sign and date the written certification referred to in subrule (2).

(4) A Market Participant that was not required to comply with Rule 5.6.6 in relation to a system for Automated Order Processing because of the operation of Rule 5.6.6A is not required to give the certification referred to in subrule (1) in relation to that system for Automated Order Processing.

Note: Rule 5.6.6A was omitted on [date to be inserted], but until that date stated that Market Participants who complied with ASX Market Integrity Rule 5.6.6 did not need to comply with Rule 5.6.6.

Maximum penalty: \$1,000,000

~~5.6.6A Application of Rules 5.6.4, 5.6.5 and 5.6.6 to Market Participants that are ASX Participants~~

~~A Market Participant is not required to comply with Rules 5.6.4, 5.6.5 and 5.6.6 with respect to an Automated Order Processing system where, at the time the obligation to comply with those Rules would arise, all of the following are satisfied:~~

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- ~~(a) the Market Participant is also an ASX Participant;~~
- ~~(b) the Market Participant has complied with ASX Market Integrity Rules 5.6.4, 5.6.5 and 5.6.6 with respect to the Automated Order Processing system it uses for the purposes of submitting orders to the ASX Market;~~
- ~~(c) the Market Participant proposes to use the Automated Order Processing system referred to in paragraph (b) for the purposes of submitting orders to the Chi X Market;~~
- ~~(d) the Market Participant treats the proposed use of the Automated Order Processing system referred to in paragraph (b) for the purposes referred to in paragraph (c) as a material change to the organisational or technical resources employed to comply with Rule 5.6.3; and~~
- ~~(e) before implementing the change, the Market Participant:

 - ~~(i) undertakes the review required by Rule 5.6.8;~~
 - ~~(ii) provides the further certification as required by Rule 5.6.10; and~~
 - ~~(iii) receives a written confirmation from ASIC that the certification complies with Rule 5.6.10.~~~~

Note: There is no penalty for this rule

5.6.7 Material changes

~~(1) If a Market Participant who uses its system for Automated Order Processing under the Rules proposes to make a material change to any of the organisational or technical resources employed to comply with Rule 5.6.3, the Market Participant must immediately notify ASIC of the proposed change.~~

~~(2) The Market Participant must, before implementing the change:~~

- ~~(a) undertake the review required by Rule 5.6.8 and provide either of the following at the option of ASIC:

 - ~~(i) a confirmation as required by Rule 5.6.9; or~~
 - ~~(ii) a further certification as required by Rule 5.6.10; and~~~~
- ~~(b) receive a written confirmation from ASIC that the confirmation or certification complies with Rule 5.6.9 or 5.6.10, as applicable.~~

Maximum penalty: \$100,000

5.6.8 AOP Material change rReview

~~(1) Before making a material change to any of the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3, the Market Participant must, for the purposes of providing the confirmation referred to in Rule 5.6.9 or the further certification referred to in Rule 5.6.10, ensure that an appropriately qualified person performs a review ("AOP Material Change Review") of the material changes to the Automated Order Processing system, the Market Participant's policies, procedures, system~~

design documentation, including the Market Participant's procedures for implementation of subsequent changes to the Automated Order Processing software, filters and filter parameters and other relevant documentation concerning the Market Participant's compliance with Part 5.6 of these Rules.

(2) Before implementing a material change the subject of a AOP Material Change Review the Market Participant must, for the purposes of providing the AOP Annual Notification referred to in Rule 5.6.8B, obtain written representations from the person that performed the AOP Material Change Review that nothing came to the attention of the person during the course of the AOP Material Change Review that would indicate that the Market Participant is unable to comply with Part 5.6 of these Rules.

(3) The representations referred to in subrule (2) must:

- (a) include the name of the person making the representation; and
- (b) be signed and dated by the person making the representation.

Maximum penalty: \$100,000

5.6.8A AOP Annual Review

(1) Where a Market Participant has not performed an AOP Material Change Review in the 12 months before the AOP Annual Review Date, the Market Participant must, for the purposes of providing the AOP Annual Notification, ensure that an appropriately qualified person performs a review ("AOP Annual Review") of the Automated Order Processing system, the Market Participant's policies, procedures, system design documentation, including the Market Participant's procedures for implementation of changes to the Automated Order Processing software, filters and filter parameters and other relevant documentation concerning the Market Participant's compliance with Part 5.6 of these Rules.

(2) The Market Participant must, for the purposes of providing the AOP Annual Notification referred to in Rule 5.6.8B, obtain written representations from the person who performed the AOP Annual Review that nothing came to the attention of the person during the course of the AOP Annual Review that would indicate that the Market Participant is unable to comply with Part 5.6 of these Rules.

(3) The representations referred to in subrule (2) must:

- (a) include the name of the person making the representation; and
- (b) be signed and dated by the person making the representation.

Maximum penalty: \$100,000

5.6.8B AOP Annual Notification

(1) A Market Participant must, within 10 Business Days of each AOP Annual Review Date, given a written notice ("AOP Annual Notification") to ASIC that includes:

- (a) the name of the Market Participant; and
- (b) the version number and name of the Market Participant's Automated Order Processing system; and
- (c) a confirmation by the Market Participant that nothing came to the attention of the Market Participant during the 12 months before the AOP Annual Review date that would indicate that the Market Participant is unable to comply with Part 5.6 of these Rules;
- (d) the name of the directors of the Market Participant referred to in subrule (2).

(2) At least two directors of the Market Participant must sign and date the AOP Annual Notification.

Maximum penalty: \$100,000

~~5.6.9 Material change confirmation~~

~~(1) A confirmation provided under subparagraph 5.6.7(2)(a)(i) must include:~~

- ~~(a) the name of the Market Participant;~~
- ~~(b) the version number and name of the Market Participant's Automated Order Processing system;~~
- ~~(c) a description of the material changes to the system that are the subject of the confirmation; and~~
- ~~(d) a confirmation from the appropriately qualified person who performed a review in accordance Rule 5.6.8 that:

 - ~~(i) the person has performed the review and that nothing came to the attention of the person during the course of the review which would indicate that the Market Participant is unable to comply with Part 5.6 of these Rules; and~~
 - ~~(ii) the material changes set out in the confirmation do not detract from the certification of the Automated Order Processing system previously provided to the Market Operator or ASIC.~~~~

~~(2) The confirmation referred to in paragraph (1)(d) must include the name of the person making the confirmation and be signed and dated by that person.~~

~~Maximum penalty: \$100,000~~

~~5.6.10 Material change further certification~~

~~(1) A further certification provided under subparagraph 5.6.7(2)(a)(ii) must include:~~

- ~~(a) the name of the Market Participant;~~
- ~~(b) the version number and name of the Market Participant's Automated Order Processing system;~~
- ~~(c) a description of the material changes to the system that are the subject of the confirmation; and~~

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- ~~(d) a confirmation from the appropriately qualified person who performed a review in accordance with Rule 5.6.8 that:~~
- ~~(i) the person has performed the review and that nothing came to the attention of the person during the course of the review which would indicate that the Market Participant is unable to comply with Part 5.6 of these Rules;~~
 - ~~(ii) the elements of the system which have not been the subject of the material changes do not detract from the certification for the system previously provided to the Market Operator or ASIC; and~~
 - ~~(iii) the Market Participant has in place, in relation to the material changes the subject of the certification, organisational and technical resources, trading management arrangements and security arrangements that meet the requirements of Rule 5.6.3.~~
- ~~(2) The confirmation referred to in paragraph (1)(d) must include the name of the person making the confirmation and be signed and dated by that person.~~

~~Maximum penalty: \$100,000~~

5.6.11 Further certification

- (1) A Market Participant must, if directed by ASIC in writing to do so, provide a further certification in a form acceptable to ASIC from an appropriately qualified person acceptable to ASIC as to compliance by the Market Participant with the Automated Order Processing Requirements.
- (2) A Market Participant must comply with a direction under subrule (1) within the time specified in the direction.

Maximum penalty: \$100,000

5.6.12 Limitations on Automated Order Processing

- (1) This Rule applies where ASIC reasonably considers that:
- (a) a Market Participant is not complying with the Automated Order Processing Requirements; or
 - (b) it is otherwise appropriate to direct a Market Participant to take the actions referred to in subrule (2).
- (2) A Market Participant must, if directed to do so by ASIC:
- (a) cease conducting Automated Order Processing until ASIC is satisfied that the Market Participant complies with the Automated Order Processing Requirements; or
 - (b) immediately suspend, limit or prohibit the conduct of Automated Order Processing in respect of:
 - (i) one or more Authorised Persons or clients;
 - (ii) Automated Client Order Processing;

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- (iii) Automated Order Processing; or
 - (iv) one or more Equity Market Products,
- as required by the direction.

Maximum penalty: \$1,000,000

Part 5.7 Manipulative trading

5.7.1 False or misleading appearance

A Market Participant must not make a Bid or Offer for, or deal in, any Equity Market Products:

- (a) as Principal:
 - (i) with the intention; or
 - (ii) if that Bid, Offer or dealing has the effect, or is likely to have the effect, of creating a false or misleading appearance of active trading in any Equity Market Product or with respect to the market for, or the price of, any Equity Market Product; or
- (b) on account of any other person where:
 - (i) the Market Participant intends to create;
 - (ii) the Market Participant is aware that the person intends to create; or
 - (iii) taking into account the circumstances of the Order, a Market Participant ought reasonably suspect that the person has placed the Order with the intention of creating,
 - a false or misleading appearance of active trading in any Equity Market Product or with respect to the market for, or the price of, any Equity Market Product.

Maximum penalty: \$1,000,000

5.7.2 Circumstances of Order

In considering the circumstances of the Order, the Market Participant must have regard to the following matters:

- (a) whether the Order or execution of the Order would be inconsistent with the history of or recent trading in that Equity Market Product;
- (b) whether the Order or execution of the Order would materially alter the market for, or the price of, the Equity Market Product;
- (c) the time the Order is entered or any instructions concerning the time of entry of the Order;
- (d) whether the person on whose behalf the Order is placed, or another person who the Market Participant knows to be a Related Party of that person, may have an interest in

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creating a false or misleading appearance of active trading in any Equity Market Product or with respect to the market for, or the price of, any Equity Market Product;

- (e) whether the Order is accompanied by settlement, delivery or security arrangements which are unusual;
- (f) where the Order appears to be part of a series of Orders, whether when put together with other Orders which appear to make up the series, the Order or the series is unusual having regard to the matters referred to in this Rule 5.7.2;
- (g) whether there appears to be a legitimate commercial reason for that person placing the Order, unrelated to an intention to create a false or misleading appearance of active trading in or with respect to the market for, or price of, any Equity Market Product; and
- (h) whether the transaction, bid or offer the execution of which is proposed will involve no change of beneficial ownership.

Maximum penalty: \$1,000,000

5.7.3 Obligations apply to Automated Order Processing

A Market Participant must also comply with this Part 5.7 in respect of Orders the subject of Automated Order Processing.

Note: There is no penalty for this Rule.

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ASIC

Australian Securities & Investments Commission

REGULATORY GUIDE 000

Electronic trading

August 2012

About this guide

This guide is for market participants of the markets operated by ASX Limited (ASX) and Chi-X Australia Pty Ltd (Chi-X) that use or intend to use their systems for automated order processing (AOP).

It gives guidance on how ASX and Chi-X market participants can comply with their obligations under ASIC market integrity rules that apply to the use of AOP.

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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 in August 2012 and is based on legislation and regulations as at the date of issue.

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.

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A Overview

Key points

This regulatory guide contains guidance on how a market participant can comply with the automated order processing (AOP) obligations in the ASIC Market Integrity Rules (ASX Market) 2010 and the ASIC Market Integrity Rules (Chi-X Australia Market) 2011.

This guide contains new guidance and where appropriate incorporates aspects of ASX Guidance Notes 19, 21 and 22. Those ASX guidance notes are superseded by this regulatory guide.

ASIC's market supervision role

- RG 000.1 On 1 August 2010, the Australian Securities and Investments Commission (ASIC) assumed responsibility for supervising domestic licensed markets and participants of licensed markets. This is in addition to our role of 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 000.2 Accordingly, also on 1 August 2010, ASIC made the ASIC Market Integrity Rules (ASX Market) 2010, which were based on a subset of the ASX Market Rules as at 31 July 2010. In April 2011, we made the ASIC Market Integrity Rules (Chi-X Australia Market) 2011, which were modelled (as far as possible) on the ASIC Market Integrity Rules (ASX). Both of these included rules relating to automated order processing (AOP).

Note: In this document 'ASIC Market Integrity Rules (ASX) and (Chi-X)' refers to the ASIC Market Integrity Rules (ASX Market) 2010 and ASIC Market Integrity Rules (Chi-X Australia Market) 2011.

- RG 000.3 There are a number of distinct terms reflecting each step, process and component of the electronic trading cycle, used in the rules and in this regulatory guide. We refer to AOP, designated trading representatives (DTRs), automated client order processing (ACOP)—also referred to as direct electronic access (DEA)—algorithmic programs, and filters. These terms are described and where applicable illustrated in Figure 1 under 'Key concepts' and at RG 000.11–RG 000.23.

Note: For the purposes of this guide, 'electronic trading' includes algorithmic programs, AOP, automated client order processing (ACOP) and direct electronic access (DEA). For a discussion of these concepts, see RG 000.10–RG 000.23.

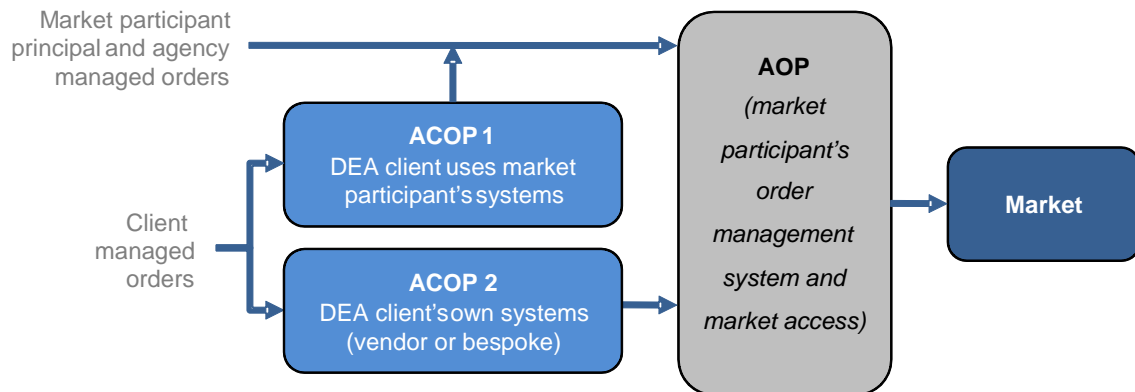
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Scope of this regulatory guide

- RG 000.4 This regulatory guide gives guidance on a market participant's obligations under the ASIC Market Integrity Rules (ASX) and (Chi-X) when it uses an automated order processing (AOP) system. It covers:
- (a) requirements for AOP (see Section B);
 - (b) access by authorised persons (see Section C); and
 - (c) review and certification of documentation and systems (see Section D).
- RG 000.5 In Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168), we proposed to build on the existing ASIC Market Integrity Rules (ASX) and (Chi-X) with new requirements to deal with the changes occurring in the electronic trading environment.
- RG 000.6 Based on feedback to CP 168, we have made amendments to the ASIC Market Integrity Rules (ASX) and (Chi-X) and issue this guidance to provide a robust minimum framework for electronic trading in a changing market environment.
- RG 000.7 In [*date to be added*], we amended the ASIC Market Integrity Rules (ASX) and (Chi-X) to:
- (a) require market participants to have direct control over filters and filter parameters, and the capability to immediately suspend, limit or prohibit AOP and suspend, limit, prohibit or cancel trading messages; and
 - (b) remove the requirement for market participants to provide certifications and confirmations to ASIC on material changes, but require an annual review and notification to ASIC.
- Note: In this document 'Chapter 5', 'Part 5.5' or 'Rule 5.5.1' (for example) refer to a particular chapter, part or rule of the ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X), unless otherwise specified.
- RG 000.8 In this regulatory guide, we give guidance to market participants about how they may comply with the obligations relating to AOP in Parts 5.5 and 5.6 of the ASIC Market Integrity Rules (ASX) and (Chi-X). It applies to trading in all products quoted and traded on ASX and Chi-X.
- RG 000.9 Our guidance is not exhaustive in terms of the arrangements that a market participant could implement to ensure ongoing compliance with these obligations. The arrangements a market participant puts in place should be tailored to and implement technology reflective of the nature, scale and complexity of the market participant's trading through its AOP system.

Key concepts

- RG 000.10 The interaction between AOP, ACOP and the market is illustrated in Figure 1.

Figure 1: Automated order processing and direct electronic access

Source: ASIC Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168).

Automated order processing (AOP)

- RG 000.11 ‘Automated order processing’ (AOP) is the process by which orders are registered in a market participant’s trading system and, if accepted for submission into a trading platform by the market participant, submitted as corresponding trading messages without being ‘keyed’ or ‘re-keyed’ by a designated trading representative (DTR): see RG 000.14.
- RG 000.12 The concept of being ‘keyed’ or ‘re-keyed’ is critical to the distinction between manual processing and AOP. An order is not an AOP order where a DTR is required to exercise discretion and ‘key’ or ‘re-key’ an order into a trading platform to a particular market operator after registration (including creation in) a market participant’s AOP system.
- RG 000.13 Where a DTR submits an order into a market participant’s trading system but a routing decision is subsequently made by that system, the order would be considered an AOP order rather than a DTR order.

DTRs and AOP

- RG 000.14 A ‘designated trading representative’ (DTR) is a representative of the market participant who has been authorised by the market participant to submit trading messages to the trading platform on behalf of the market participant: Rule 1.4.3. ‘Trading messages’ are messages relating to trading functions, such as orders, amendment or cancellation of orders and the reporting or cancellation of transactions: Rule 1.4.3.

Automated client order processing (ACOP)

- RG 000.15 ‘Automated client order processing’ (ACOP) is AOP for an order submitted by an ‘authorised person’ (being a client, or an agent of a client, of a market

participant) into the market participant's trading system, as distinct from AOP for an order submitted by the market participant as principal: Rule 1.4.3.

RG 000.16 ACOP is commonly referred to in International Organization of Securities Commissions (IOSCO) documents as direct electronic access (DEA) or direct market access (DMA).

Note: See IOSCO Report, *Principles for direct electronic access to markets* (IOSCOPD332), Technical Committee of IOSCO, 12 August 2010.

RG 000.17 When using ACOP, an authorised person may use either:

- (a) the market participant's order management system and algorithmic programs to manage and generate orders (described as 'ACOP 1' in Figure 1); or
- (b) their own systems or programs that are connected to the market participant's AOP system (described as 'ACOP 2' in Figure 1).

RG 000.18 ACOP enables an authorised person to access a market through a market participant without itself being a market participant and therefore, without being subject to the market integrity rules and operating rules of that market.

Algorithmic programs

RG 000.19 AOP systems may use algorithmic programs to generate trading messages in, or through, those systems. For the purpose of this regulatory guide, 'algorithmic programs' are automated strategies using programmable logic, system-generated (rather than human-generated) messages based on a set of predetermined parameters, logic rules and conditions. These programs include algorithmic trading, automated order generation and automated order routing.

RG 000.20 Algorithmic programs are discussed in more detail at RG 000.82–RG 000.86.

Filters

RG 000.21 'Filters' are a set of rules that apply to an AOP system and that determine automatically which trading messages (or series of related trading messages) meet a pre-defined set of criteria and can pass into a trading platform.

RG 000.22 'Filter parameters' are the variables within each filter that can be changed to modify the operation of the filter without changing the rule to which the filter applies. The filter parameters result in trading messages being handled differently according to factors such as, for example, the type, source, size or price of an order, or its relationship with other orders. A filter parameter may apply at a number of different levels (e.g. to particular financial products, representatives, authorised persons or clients, or to a dollar value level).

RG 000.23 Filters and filter parameters are discussed in more detail in RG 000.31–RG 000.43.

Notifications to ASIC

When to contact ASIC

- RG 000.24 To meet its obligations for each AOP system, a market participant must provide us with certifications and notifications: see Section D.
- RG 000.25 These include:
- (a) initial review and certification (see RG 000.120–RG 000.142);
 - (b) annual review and notification (see RG 000.154–RG 000.167); and
 - (c) further certification (as required by ASIC) (see RG 000.168–RG 000.169).

Note: For the suggested form of these certifications and notifications, see Appendices 1 and 2 of this guide.

How to contact ASIC

- RG 000.26 The required certifications or notifications should be addressed to the Senior Executive Leader of Market and Participant Supervision, ASIC by email at market.participants@asic.gov.au.

Other relevant guidance

- RG 000.27 This guide should be read in conjunction with other regulatory guides on market integrity rules and other obligations for market operators and market participants.

Table 1: Related guidance

ASIC regulatory guide	What it covers
Regulatory Guide 172 <i>Australian market licences: Australian operators</i> (RG 172)	Our expectations for market operator systems and controls
Regulatory Guide 214 <i>Guidance on ASIC market integrity rules for ASX and ASX 24 markets</i> (RG 214)	Our rule-making regime and approach to supervising compliance with ASIC market integrity rules for ASX and ASX 24 (including our approach to waivers)
Regulatory Guide 216 <i>Markets Disciplinary Panel</i> (RG 216)	The disciplinary process for breaches of all ASIC market integrity rules (including market integrity rules for competition in exchange markets)
Regulatory Guide 223 <i>Guidance on ASIC market integrity rules for competition in exchange markets</i> (RG 223)	Guidance on ASIC market integrity rules for competition in exchange markets
Regulatory Guide 224 <i>Guidance on ASIC market integrity rules for the Chi-X market</i> (RG 224)	Guidance on ASIC Market Integrity Rules (Chi-X)

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ASIC regulatory guide	What it covers
Regulatory Guide 225 <i>Markets Disciplinary Panel practices and procedures</i> (RG 225)	The operational framework for the Markets Disciplinary Panel when considering alleged breaches of ASIC market integrity rules
Regulatory Guide 226 <i>Guidance on ASIC market integrity rules for capital and related requirements: ASX, ASX 24 and Chi-X markets</i> (RG 226)	Guidance on ASIC market integrity rules for capital and related requirements: ASX and ASX 24 markets

B Requirements for AOP

Key points

A market participant that uses its system for AOP must:

- have appropriate automated filters for AOP, including processes for recording any changes to, and having direct control over, automated filters and filter parameters;
- have in place trading management arrangements, including arrangements to determine and log the origin and ownership of orders and trading messages, sufficient system capacity and adequate business continuity, backup and disaster recovery plans;
- have in place organisational and technical resources to ensure it can comply with its obligations for trading through AOP;
- have in place security arrangements to monitor for and prevent unauthorised access to the system;
- meet other requirements for responsible use of AOP including monitoring trading through AOP in real time or close to real time, exception and post-trade analysis, managing particular financial and trading risks and having adequate resources to manage change;
- have and review policies and procedures for compliance with Part 5.6 and appropriate system design documentation;
- have appropriate arrangements for testing its AOP filters, filter parameters, controls and systems; and
- immediately comply with any direction from ASIC to cease, suspend, limit or prohibit AOP.

RG 000.28 AOP systems can improve the speed and efficiency with which a market participant routes and executes orders. However, the use of AOP systems can also result in increased risks to the integrity of a market, and financial, reputational and regulatory risk to a market participant.

RG 000.29 Part 5.6 of the ASIC Market Integrity Rules (ASX) and (Chi-X) imposes obligations on market participants that seek to mitigate these risks, and in particular the risks to the integrity of the market posed by AOP. The rules in Part 5.6 are specific to AOP systems, and build upon the general obligations in Part 5.5, which require a market participant to have organisational and technical resources and trading management arrangements in relation to the use of its trading infrastructure as a whole.

RG 000.30 This section covers requirements for AOP relating to:

- (a) automated filters;
- (b) trading management arrangements;
- (c) organisational and technical resources;

- (d) security arrangements;
- (e) responsible use of AOP;
- (f) documentation;
- (g) testing arrangements; and
- (h) directions from ASIC to cease, suspend, limit or prohibit AOP.

Automated filters

RG 000.31 The requirement to have appropriate automated filters is fundamental to the obligations imposed on market participants under Part 5.6. Automated filters are referred to in:

- (a) Rule 5.6.1(a), which requires a market participant that uses its system for AOP to at all times have appropriate automated filters for AOP;
- (b) Rules 5.6.3(1)(a) and 5.6.3(1)(b), which require a market participant to have appropriate automated filters as part of its organisational and technical resources and trading management arrangements; and
- (c) Rule 5.6.3(2), which requires a market participant to have direct control over its automated filters and the filter parameters for those filters.

RG 000.32 Filters and filter parameters are pre-trade controls and the principal means by which trading messages are checked to ensure they will not interfere with the efficiency or integrity of the market or the proper functioning of any trading platform.

Note: For the definitions of ‘filters’ and ‘filter parameters’, see RG 000.21–RG 000.23.

RG 000.33 Filters establish points at which trading messages are tested and, by exception, action other than passing them directly into the market is taken. In practical terms, an automated filter can usually do one of four things in relation to any given trading message (depending on the settings of the filter parameters):

- (a) pass the trading message into the market;
- (b) pass the trading message into the market but identify it as an exception on exception reports generated by the system for subsequent analysis;
- (c) pass the trading message to a designated trade representative (DTR) for review and a decision as to whether the trading message may be submitted; or
- (d) reject the trading message outright.

RG 000.34 We recognise that, given the differences in types of business conducted by market participants, there must be some degree of flexibility in determining what constitutes ‘appropriate’ filters for each market participant. The type of filters will depend on the market participant’s system capabilities, the nature,

scale and complexity of its business and the particular risks that the market participant has assessed as relevant to that business (including financial, reputational and regulatory risks: see RG 000.77–RG 000.78).

- RG 000.35 Where a market participant provides ACOP access to clients, the market participant should have an adequate understanding of its clients' business. The filters and controls for the client access should reflect the nature of the business.
- RG 000.36 We expect that for the purposes of Rules 5.5.2, 5.6.1(a) and 5.6.3(1)(a), a market participant will have in place filters that minimise the opportunity for erroneous orders to be entered in the market, as such orders may interfere with the efficiency and integrity of the market or the proper functioning of a trading platform.
- RG 000.37 An 'erroneous order' may be described as an order that is submitted in error, or that contains an error in one of its attributes (e.g. the price or volume of the order does not reflect the price or volume at which the market participant or its client intended to trade).
- RG 000.38 In an AOP environment, an erroneous order may be caused by, for example:
- (a) a mistake in, or incorrect context used for, any parameter of instruction placed by an authorised person (e.g. entering the wrong price, or entering the volume into the price field), or a mistake in the handling of an instruction by an order management system;
 - (b) corruption of data when the order is transmitted to, or interpreted by, a system; or
 - (c) duplication, or loss, of a trading message.
- RG 000.39 Market operators must have in place controls for equity market products to filter anomalous orders and manage extreme price movements: see Chapter 2 of the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 and Section B of Regulatory Guide 223 *Guidance on ASIC market integrity rules for competition in exchange markets* (RG 223). These controls may complement the controls a market participant may have in place. However, a market participant cannot rely on a market operator's controls to comply with its obligations under the ASIC Market Integrity Rules (ASX) and (Chi-X) and ASIC Market Integrity Rules (Competition), including those outlined in this regulatory guide.

Note: In this document 'ASIC Market Integrity Rules (Competition)' refers to the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011.

Processes to record any changes to the filters or filter parameters

- RG 000.40 A market participant must have processes to record any changes to the filters or filter parameters: Rule 5.6.3(1)(a). We expect a market participant, in complying with this rule, to have an ongoing audit and review function that will capture and record any changes to the filters or filter parameters. This includes intra-day changes to the filter parameters and changes made by authorised persons: see Section C of this guide.
- RG 000.41 A market participant should be able to control, monitor and reconstruct (i.e. for information purposes) any changes to systems, filters or parameters within an AOP system. A market participant should be able to identify which filters are activated and which are not activated at any point in time. We expect a market participant to have in place procedures such that changes to filters and filter parameters at the ‘administrator level’ can be implemented only after they are authorised by a qualified person (e.g. a person with relevant experience in broking operations, operational management or compliance).
- RG 000.42 We expect a market participant to demonstrate in the documentation that accompanies its initial certification under Rule 5.6.6 (see Section D of this guide) that it has in place processes to record any changes to the filters or filter parameters. We would not accept that an AOP system complies with Rules 5.5.2 and 5.6.3 where there are poor processes and internal controls over changes to filters, filter parameters and exception reports, or where filters, filter parameters and exception reports could be deactivated.
- RG 000.43 Any material changes to the filters will also be subject to a review of material changes in accordance with Rule 5.6.8: see Section D.

Direct control over automated filters and filter parameters

- RG 000.44 A market participant that uses its system for AOP must at all times have direct control over its automated filters and the filter parameters: Rule 5.6.3(2).
- RG 000.45 We expect a market participant to have direct control over the application of the filters and filter parameters at the ‘administrator’ level. This means that a market participant must have direct control over whether the filter is activated or deactivated in the AOP system, and over any changes to the filter parameters. However, a market participant may allow a person some discretion to change the filter parameters at the ‘user’ level, within a defined range.
- RG 000.46 Where the market participant relies on filters that are outside its AOP system (e.g. where the filter sits between the market operator and market participant or with an independent third party provider, or within another AOP system belonging to the market participant), the market participant must ensure that the activation or deactivation of the filter, and changes to the filter parameters,

are only made with the authorisation of a qualified person of the market participant (e.g. a person with relevant experience in broking operations, operational management or compliance).

RG 000.47 An example of where we would not consider that a market participant has direct control over filters and changes to filter parameters is where there is no ‘administrator level’ control or where changes at this level are made by the client (or, if the client’s order management system is operated by a related party of the client, by that related party) and merely copied over to the market participant for authorisation or information purposes.

RG 000.48 Access arrangements where an authorised person deals directly on a market through a market participant but independent of the market participant’s controls, such as a sponsored access arrangement, are not permitted under Rule 5.6.3 (when read in conjunction with Rule 5.5.1).

Controls for suspending, limiting or prohibiting AOP

RG 000.49 A market participant which uses its system for AOP must ensure that the system has in place controls, including automated controls, that enable immediate suspension, limitation or prohibition of the conduct of all AOP, AOP in respect of ACOP, or AOP in respect of one or more authorised persons, clients or financial products: Rule 5.6.3(1)(d).

RG 000.50 We would expect a market participant to rely on these automated controls to suspend, limit or prohibit AOP when the market participant has identified, for example, that trading messages from a particular source (e.g. a particular authorised person, account or algorithm) are interfering with the efficiency or integrity of the market or do not comply with the AOP requirements.

RG 000.51 The automated controls required by Rule 5.6.3(1)(d) may include:

- (a) termination of an AOP system (referred to as a ‘kill switch’);
- (b) shutdown of responsible AOP subsystem;
- (c) forced logout of an authorised person; or
- (d) a control implemented by amending the parameters of a particular filter to zero or a level that would prevent further trading.

Controls for suspending, limiting or cancelling trading messages

RG 000.52 A market participant that uses its system for AOP must also ensure the system has in place controls that enable immediate:

- (a) suspension of, limitation of or prohibition on, the entry into the market of trading messages in a series of related trading messages where the market participant has identified that trading messages in the series have entered the market and have interfered with, or are likely to interfere with, the efficiency or integrity of the market (Rule 5.6.3(1)(e)(i)); and

- (b) cancellation of trading messages in a series that have already entered the market, where the entry of further trading messages in the series have been suspended, limited or prohibited under Rule 5.6.3(1)(e)(i) (Rule 5.6.3(1)(e)(ii)).

RG 000.53 For the purposes of Rule 5.6.3, trading messages may be part of a series of related trading messages where they are generated by a common user, account or algorithm and occur in close succession.

RG 000.54 We understand it may be difficult for a market participant to test the impact that trading messages or a series of trading messages may have on the market before those trading messages are submitted to the market. For example, a trading message or series of trading messages may not necessarily affect the last traded price of a product, but may affect the depth of the order book in that product and give rise to a false and misleading appearance of active trading in the product.

RG 000.55 However, a market participant must have in place controls so that once it has identified, through its monitoring arrangements (see RG 000.70–RG 000.76), a series of trading messages that is having, or is likely to have, an impact on the market, it can suspend (i.e. isolate for review), limit or prohibit further trading messages in the series from being submitted to the market, and cancel any trading messages in the series that have already entered the market.

Trading management arrangements

RG 000.56 Under Rule 5.5.3, a market participant must have in place arrangements so that at all times the market participant can determine the origin of all orders and trading messages, including:

- (a) the different stages of processing each order (regardless of whether a trading message is generated) and the time at which each stage of processing occurred;
- (b) the order that corresponds to a trading message;
- (c) the identity and capacity of the person placing the order (e.g. whether acting as agent or principal);
- (d) whether the trading message was the result of AOP;
- (e) the open interface device (i.e. the electronic protocol and message structure used to access the trading platform) and computer (or other device of the market participant connected to an open interface device of the market participant) through which the trading message was submitted;
- (f) the DTR with responsibility for the open interface device or computer or other device connected to the open interface device (unless the trading message was the result of AOP); and

- (g) whether the trading message was submitted on the market participant's own account or for a client.

- RG 000.57 A market participant must maintain records of the matters referred to in Rule 5.5.3 for a period of seven years from the date of the trading message to which the matters relate: Rule 5.5.4.
- RG 000.58 Under Rule 5.6.3(1)(b), a market participant that uses its system for AOP must ensure that the system has trading management arrangements, including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters to enable the ready determination of the origin of all orders and trading messages. We consider this to mean that all AOP systems must have the capacity to capture the information required by Rule 5.5.3.

Capacity

- RG 000.59 As part of its trading management arrangements, a market participant should have sufficient AOP system capacity to accommodate reasonably foreseeable volumes of trading activity. We expect a market participant to have in place arrangements to prevent capacity limits on messaging from being breached.
- RG 000.60 Market participants should keep capacity requirements under review and conduct capacity stress tests regularly. A market participant's systems should be scalable to allow for changes in response to elevated message levels and/or stressed market conditions that might breach their capacity.

Business continuity

- RG 000.61 As part of its trading management arrangements, a market participant should have adequate business continuity, backup and disaster recovery plans for each of its systems that support order entry, order routing, execution, and trade reporting. These plans should reflect the nature and complexity of the market participant's businesses, including ensuring there is sufficient system capacity.
- RG 000.62 Market participants should have adequate arrangements to ensure timely access to skilled and knowledgeable internal and vendor technical support for their specific AOP system configurations, particularly while implementing AOP system changes.

Logging information

- RG 000.63 We expect a market participant to have trading management arrangements to ensure that its AOP systems logs information about the interaction of trading messages with any connected system or market operator system, to ensure that the origin and ownership of the order can be traced.
- RG 000.64 When considering the origin of each order, a market participant should have in place trading management arrangements to define the origin of order such as the source of the instructions to place the order and also the ‘owner’ during each stage of the process before a message reaches the trading platform (that is, the person or system responsible for the order).
- RG 000.65 Where additional systems such as smart order routers, algorithmic programs and internalised crossing engines are involved in processing trading messages, a market participant may choose to pass message ownership to each system processing stage without changing the origin of the initial placement of the order.

Organisational and technical resources

- RG 000.66 For the purposes of complying with Rule 5.5.2(b), a market participant should have in place organisational and technical resources to ensure it can comply with its obligations for trading through AOP as set out below:
- (a) *Trading record requirements:* We expect a market participant to have in place organisational and technical resources to automatically generate and maintain all trading records from the AOP system that are required to be kept specifically under Parts 4.1 and 4.2, and generally under the ASIC Market Integrity Rules (ASX) and (Chi-X) and the ASIC Market Integrity Rules (Competition) and the Corporations Act, regardless of whether the order enters the trading platform or is rejected by the market participant’s AOP filter.
 - (b) *Capital requirements:* We expect a market participant (other than a market participant that is a clearing participant or trades as principal only) to have in place organisational and technical resources to ensure that when it trades on its own behalf or on behalf of clients through AOP, it complies at all times with the risk-based capital requirements set out in Schedule 1A or the net tangible assets (NTA) requirements set out in Schedule 1B of the ASIC Market Integrity Rules (ASX) and (Chi-X), as applicable (Rule 8.2.1).
 - (c) *Best execution obligations:* We expect a market participant to have in place organisational and technical resources to ensure that when it trades for clients through its AOP system, it complies with its best execution obligations and best execution policies and procedures (Chapter 3 (Competition)).

- (d) *Client order priority requirements*: We expect a market participant to have in place organisational and technical resources to ensure that it complies with its obligations to deal fairly and in due turn with clients' orders, and a client order on its own account (Rule 5.1.3), and that its AOP system can effectively manage both on a pre-trade and post-trade basis transactions where principal orders or orders from the same client on opposing sides of the market match (such that there is no change in beneficial ownership) (Rule 5.7.2(h)).

Security arrangements

- RG 000.67 Under Rule 5.6.3(1)(c), a market participant's AOP system must have in place security arrangements to monitor for and prevent unauthorised persons having access to a gateway or an open interface device, or to a computer or other device connected to an open interface device, and to ensure that the system does not interfere with the efficiency and integrity of markets provided by the market participant or the proper functioning of the trading platform. A market participant should consider assessing its security arrangements against security standards such as AUS/NZS 4444 *Information security management* and ISO/IEC 17799 *Information technology: Security techniques—Code of practice for information security management* or equivalent.
- RG 000.68 A market participant that accepts orders should have in place adequate physical and electronic security arrangements and seek to adopt and enforce written procedures to ensure reliability and uphold the confidentiality of orders and client account information. Such procedures would seek to at least address the following:
- (a) authentication and authorisation of users, so that the operating system and application security limit internal access to authorised personnel;
 - (b) encryption of information;
 - (c) firewalling, to prevent unauthorised external access;
 - (d) periodic testing of the market participant's security management; and
 - (e) administration and ownership of system management.

Responsible use of AOP

- RG 000.69 We consider that, to comply with Rules 5.5.2, 5.6.1 and 5.6.3 and to ensure responsible use of AOP, a market participant must ensure that it has in place monitoring and control arrangements, arrangements for managing the particular financial and trading risks that are relevant to the business it conducts through AOP, and resources for managing change: see RG 000.70–RG 000.91.

Monitoring and control: Real time or close to real time

- RG 000.70 We expect a market participant to be able to monitor in real time, or close to real time, all trading messages submitted to a market. In some cases, a combination of filters and oversight by a DTR may be sufficient for this purpose. However, when the volume, speed or complexity of messaging exceeds, or may be expected to exceed, levels where manual oversight is no longer effective, a market participant should consider automated methods for monitoring.
- RG 000.71 Any surveillance (whether manual or automated) should be capable of identifying potential or actual breaches of market integrity rules in real or close to real time.
- RG 000.72 A market participant may consider monitoring the following when using an AOP system:
- (a) the nature and liquidity demands of the AOP system to avoid unusual movements in market price or increased volatility;
 - (b) the level of use of the AOP system to avoid generation of large numbers of the following types of orders, which may result in a load which could have an adverse impact on a market:
 - (i) concurrent orders; or
 - (ii) orders of small executable quantity (e.g. under an elected dollar-based or other nominal value);
 - (c) whether the AOP system appears to react to order book changes outside of the best market; and
 - (d) the effectiveness of the ‘Chinese Walls’ required to manage the involvement of those staff operating in a compliance or information technology (IT) oversight role that have access to information on the nature of the AOP system and to client order flow.

Monitoring and control: Exception and post-trade analysis

- RG 000.73 We consider a market participant must have both the capability and appropriately qualified personnel to regularly analyse historic order and trading patterns to:
- (a) identify trading activity that may warrant review by the market participant’s compliance area; and
 - (b) adjust the relevant automated filters and filter parameters where it is apparent that they are not operating as intended.

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- RG 000.74 Where a trading message (or series of trading messages) that has been rejected by a filter is passed to a DTR for review, the DTR will need to make a decision whether to amend, cancel, or pass the trading message (or series of trading messages) into the market.
- RG 000.75 Where a trading message has been passed to a DTR for review, a market participant must ensure records of the DTR's action comply with Parts 4.1 and 4.2 and Rule 5.5.3(f).
- RG 000.76 Where, in real-time monitoring, a DTR decides to pass a trading message into the market but places the trading message on an exception report for ongoing monitoring, a compliance officer or other qualified person must be available for the DTR to consult. Market participants should ensure exception reports are monitored on a regular basis and at least daily.

Financial and trading risks

- RG 000.77 In complying with Rules 5.5.2, 5.6.1 and 5.6.3 and ensuring responsible use of AOP, a market participant should take into account financial and trading risks in addition to the regulatory risks and market integrity risks already described.
- RG 000.78 We consider the factors that will be relevant in assessing the level of financial and trading risk include, but are not be limited to:
- (a) the proposed nature of the business passing through the AOP;
 - (b) whether the AOP will permit ACOP;
 - (c) where the system does permit ACOP, whether the market participant intends to allow authorised persons to delegate their ACOP access;
 - (d) whether the AOP will allow algorithmic trading (see RG 000.82–RG 000.86);
 - (e) whether the AOP uses a third-party system and whether it is provided to the market participant by a related party of the authorised person conducting business through the AOP;
 - (f) whether there will be a high message or trade ratio flow through the AOP; and
 - (g) whether the AOP relies on latency-dependant connections and interfaces such as co-located business.

ACOP

- RG 000.79 Where a market participant's AOP system permits ACOP, the market participant will need to manage the financial risks associated with ACOP.
- RG 000.80 Market participants should adopt and enforce written procedures reasonably designed to prevent clients and other authorised persons from entering into trades that create undue financial risk for the clearing participant (whether the clearing participant is the market participant or a third party).

- RG 000.81 In particular, the procedures should address both pre-execution and post-execution controls to minimise financial risk and to determine which controls apply to a particular authorised person or other client, special considerations for authorising use of ACOP, and ongoing review of all controls imposed. In particular, the controls should ensure the ACOP client has sufficient financial resources for their trading.

Algorithmic programs

- RG 000.82 Market participants that allow or conduct algorithmic programs will need to have in place arrangements to manage the risk associated with trading using algorithmic programs. Trading using algorithmic programs is a major source of trading messages.

Note: For a definition of 'algorithmic programs', see RG 000.19–RG 000.20.

- RG 000.83 Algorithmic programs may be used by the market participant, a client or by an authorised person. Like all trading messages, trading messages generated by the algorithmic program must pass through the market participant's filters and are deemed to have been submitted with the knowledge of the market participant: Rules 2.5.1 and 2.5.4.
- RG 000.84 We consider a market participant should also seek to have an agreement or understanding with an authorised person that uses their own algorithmic trading models that systems flow should be tested against market participant AOP filters before use (i.e. at the development stage) and to the extent possible before implementing material changes.
- RG 000.85 Market participants should take into account any differences between the speed with which their AOP system can generate messages and the speed with which the market operator's system can process those messages.
- RG 000.86 Where poor AOP controls lead to continuing patterns of order deletions, order amendments, over trading or wash trading, we may consider giving a direction under Rule 5.6.12 to cease, suspend, limit or prohibit AOP: see RG 000.104–RG 000.106.

Trading on multiple markets and multi-product AOP system routing

- RG 000.87 We consider responsible use of AOP requires market participants to manage the risk associated with trading on multiple markets and in multiple product types, to accommodate the differing platform specifications and financial products and order types and to consider the impact that a disruption caused by an AOP order on one market may have on another market (i.e. to ensure that the market participant does not interfere with the conduct of an orderly market and does not assist or facilitate manipulative trading).

Corporate actions

- RG 000.88 We consider that responsible use of AOP includes arrangements to manage the risk associated with trading during corporate actions.
- RG 000.89 When operating in a multiple market environment, a market participant will need to ensure that it can manage or alert for stock reconstructions, order book purges and corporate actions, taking into account any different treatment of those corporate actions by each market operator.

Resources to manage change

- RG 000.90 We expect a market participant to have resources to manage change, and to demonstrate that change management. This requires appropriately authorised (e.g. at an IT oversight or change manager level), well-documented and clearly auditable processes reflecting systems upgrades, changes and implementations.
- RG 000.91 Change management procedures may include procedures that ensure:
- (a) changes are adequately tested before implementation (see also RG 000.96–RG 000.103);
 - (b) only authorised changes to software, hardware and systems can be implemented; and
 - (c) new software, hardware and systems can only be implemented into the production environment after authorisation by an appropriately senior, qualified person.

Documentation

- RG 000.92 A market participant must have, and review, policy documents relating to the use of AOP: Rules 5.6.4, 5.6.8(1) and 5.6.8A(1). We consider these policy documents should address use of AOP in light of the business requirements of the market participant and the type of activity envisaged for the AOP system(s).
- RG 000.93 We expect that a market participant's policies and procedures for compliance with Part 5.6 and system design documentation should be tailored to the nature, scale and complexity of the market participant's business and the type of activity envisaged for the AOP system, and must be accurate, complete and up-to-date. These policies and procedures and system design documentation form the basis for initial certification and annual notification of the market participant's AOP system(s): see Section D of this guide.

Policies and procedures

- RG 000.94 A market participant's policies and procedures for compliance with Part 5.6 should cover at least the following matters:
- (a) monitoring and reviewing all aspects of AOP and the AOP parameter specifications;
 - (b) evaluating the manner in which AOP and its components will operate under various market scenarios;
 - (c) ensuring that before effecting a particular algorithm, changes in market conditions are assessed to ensure compliance;
 - (d) setting (and adjusting where necessary) system monitoring parameters (alerts) designed to detect potential manipulative, disruptive or other unusual activity (e.g. improper short selling);
 - (e) generation of ad hoc and exception reports (i.e. reports that identify where an underlying policy, procedure, or system requirement has not been met) for review by designated staff (e.g. management and compliance) with procedures to ensure that where necessary there is follow-up action;
 - (f) involvement of appropriate staff (e.g. management, risk, compliance and internal audit) in the development of an algorithm before it is made available for use;
 - (g) training and education of staff in relation to AOP; and
 - (h) system certification requirements.

System design

- RG 000.95 A market participant's system design documentation should cover at least the following matters:
- (a) system and sub-system architecture (hardware and software) including communication architecture, detailed design, processing logic, files and database designs, system security/integrity controls;
 - (b) the flow of trading messages including origin of all orders and trading messages;
 - (c) targeted execution venues;
 - (d) filter arrangements;
 - (e) output layouts including reports, logs, screen based field/data layouts, query results;
 - (f) operator input layouts (e.g. data entry screens, optical character readers, scanners, input record types file structures); and
 - (g) external interfaces including data format requirements, specifications, directional diagrammatic representation of connectivity between systems.

Testing

- RG 000.96 A market participant must have automated filters and filter parameters to enable trading messages to be submitted into the trading platform without interfering with the efficiency and integrity of the market or the proper functioning of the trading platform: Rule 5.6.3(1)(a).
- RG 000.97 To comply with this rule, a market participant should have appropriate arrangements for testing its AOP filters, filter parameters, controls and systems:
- (a) before using an AOP system for the first time, to provide representations under Rule 5.6.5 that the market participant has in place organisational and technical resources, arrangements and controls in relation to the AOP that meet the requirements of Rule 5.6.3 (for the purposes of initial certification as outlined in Section D of this guide);
 - (b) when there is a material change to an AOP system; and
 - (c) on an ongoing basis, to ensure the market participant continues to meet the requirements of Rule 5.6.3.
- RG 000.98 Market participants should have appropriate testing arrangements to ensure that their AOP systems are functional and reliable, and do not pose a threat to the efficiency and integrity of the market. Non-production testing is a crucial part of ensuring that the AOP system functions as intended. The nature and extent of the testing arrangements a market participant puts in place will depend on the type of business the market participant intends to conduct through its AOP system.
- RG 000.99 The testing methodologies should be designed to ensure that:
- (a) filters, filter parameters and controls work as intended;
 - (b) the AOP system can continue to work effectively in stressed market conditions; and
 - (c) testing results are quantifiable and display definitive qualitative outcomes.
- RG 000.100 When undertaking AOP testing, a market participant should have a documented test strategy, confirming the intended scope of the testing, test plans, test cases, test results, defect resolution and final test results. This information may be requested by ASIC to confirm the scope of testing for an AOP system. Testing methodology should seek to include evidence of an ongoing process for management of changes to the AOP system over time, including material changes: see Section D of this guide.
- RG 000.101 AOP testing may include, but not be limited to, the following types of testing:
- (a) *Unit testing*: This involves testing code fragments or modules in isolation.
 - (b) *Conformance testing*: This involves testing system conformance with the targeted operator, execution venue, order book.
 - (c) *Functional testing*: This involves confirming that the AOP system and filters function as intended for the proposed business.

- (d) *Regression testing*: This involves running previous tests to confirm that further changes have not introduced new bugs.
- (e) *Stress testing*: This involves testing both AOP logic and filters under extreme circumstances and market conditions and consideration of the system's scalability, capacity, stability and performance (see also RG 000.59–RG 000.60).
- (f) *System testing*: This involves testing both AOP logic and filters when used in conjunction with other systems.
- (g) *Acceptance testing*: This involves validation by end users before use within the production environment.

Testing in non-production environments

- RG 000.102 In testing its AOP system, a market participant should use a non-production test environment to stress test algorithmic programs and order flow. A market participant should consider stress testing filters under conditions which simulate production use (e.g. a low-latency, high message volume, volatile environment).
- RG 000.103 We recognise that the situations in which an AOP will function may be difficult to reproduce within an operator development, or a client or market participant sandbox, environment. However a market participant is expected to take steps that reflect the size scope and nature of the AOP systems business function to test for these situations, commensurate with the degree of risk to market integrity and efficiency, before using an AOP within the market.

ASIC direction to cease, suspend, limit or prohibit AOP

- RG 000.104 Under Rule 5.6.12, ASIC may give a direction to a market participant to:
- (a) cease conducting AOP until we are satisfied that the market participant complies with the AOP requirements; or
 - (b) immediately suspend, limit or prohibit AOP, where we reasonably consider the market participant is not complying with the requirements in Part 5.6, or it is otherwise appropriate to give a direction.
- RG 000.105 We will provide directions under Rule 5.6.12 in writing. However, there may be circumstances where we need to provide a direction quickly. In these circumstances, we will advise the market participant verbally (either by telephone or in person) that we intend to provide the direction and follow up with a written direction. We expect a market participant that is advised that we intend to provide a written direction under Rule 5.6.12 to consider taking immediate action to cease, suspend, limit or prohibit AOP before receiving the written direction.
- RG 000.106 A market participant that receives a direction from ASIC must immediately comply with the direction.

C Access by authorised persons

Key points

A market participant must meet certain obligations before giving access to its system for AOP to a client or a client's agent, or to a representative of the market participant (other than a DTR), as an authorised person.

Before giving this access, a market participant must ensure it is satisfied that the client, client's agent or representative has adequate skills and knowledge. How a market participant chooses to satisfy itself of an authorised person's competency may vary depending on both the nature and scope of the access being given.

Some of the ways a market participant may consider satisfying itself about authorised persons include:

- policies and procedures for demonstrated knowledge;
- policies and procedures for supervision of authorised persons; and
- written agreements between the market participant and authorised persons.

Authorised persons

RG 000.107 This section gives guidance on our expectations of a market participant where it permits authorised persons, including representatives other than designated trading representatives (DTRs), to submit orders into its AOP system.

RG 000.108 For the purposes of this guide, an authorised person is a person who:

- (a) is either:
 - (i) a client of a trading participant; or
 - (ii) an agent of a client of a trading participant; or
 - (iii) a representative of a trading participant (other than a (DTR)); and
- (b) is permitted by a trading participant to submit orders into the trading participant's system: Rule 1.4.3.

RG 000.109 A market participant that uses its system for ACOP must have in place procedures to ensure that each authorised person—that is, a client or a client's agent, or a representative of a market participant (other than a DTR)—has demonstrated to the market participant knowledge of the market participant's order entry system and the dealing rules, directions, decisions and requirements of the market operator that are relevant to the type of order submission facilities given to the authorised person by the market participant: Rule 5.6.2.

Note: For a definition of 'ACOP', see RG 000.15–RG 000.18.

- RG 000.110 'Dealing rules' are the ASIC Market Integrity Rules (ASX) and (Chi-X) and the operating rules of the ASX and Chi-X markets that govern the submission of orders and the execution and reporting of market transactions on a trading platform: Rule 1.4.3.

Policies and procedures

Demonstrated knowledge

- RG 000.111 The requirement in Rule 5.6.2 relating to authorised persons is intended to ensure that a market participant has considered, and is satisfied with, the market-related knowledge of each person allowed access to its system for ACOP.
- RG 000.112 A market participant that uses its system for AOP should ensure that each authorised person (including relevant representatives of the market participant) understands all relevant aspects and limitations of its AOP system whether trading directly with or connecting to the AOP system.
- RG 000.113 The manner in which each market participant chooses to ensure authorised persons have demonstrated knowledge may vary depending upon the nature and scope of access afforded each authorised person and the financial products in which the authorised person can trade. For example, the requirements for an unsophisticated retail investor who can only enter, amend and delete orders will be different from the requirements for an institutional client who can conduct more complex strategies using ACOP, or for an authorised person who intends to sub-delegate its market access to a third party.

Supervision

- RG 000.114 A market participant should have written supervisory policies and procedures for authorised persons to:
- (a) primarily document the supervisory system that will ensure compliance with the laws and rules set out in a market participant's compliance procedures;
 - (b) be distinct from compliance procedures;
 - (c) contain escalation procedures inclusive of whether compliance, senior management, regulator notification and assessment is required;
 - (d) be periodically reviewed and amended where required; and
 - (e) be distributed to all relevant persons and relevant representatives.

Agreements between market participants and authorised persons

- RG 000.115 We encourage market participants to enter into agreements with their authorised persons. This is particularly important in circumstances where an authorised person is acting on behalf of another client (agency) or permits delegation of its access to a client of the authorised person. The purpose of a written agreement between the market participant and the client is to ensure that there is common understanding of the role and responsibilities for both parties conducting business through AOP.
- RG 000.116 We note that Rule 4.1.9 requires a market participant to maintain records relating to authorised persons for seven years. We expect agreements between market participants and authorised persons to be retained for the same period as they represent a critical aspect of the audit trail for the operation of ACOP.
- RG 000.117 Further, in meeting the obligations of Rule 5.6.3(1)(c), we expect a market participant to retain records of the security arrangements for access by an authorised person to the market participant's systems. Where the location of a particular computer or other device of an authorised person may change, the market participant should have in place effective policies, procedures and systems which can continuously identify all such devices.

D Review and certification of documentation and systems

Key points

A market participant must review and certify its documentation and system for AOP. This includes the following reviews and certifications or notifications:

- initial review and certification to ASIC before use of its system for AOP;
- review of any material changes to its AOP system before the changes are implemented; and
- annual review of its AOP system (where there has been no material change review in 12 months) and annual notification to ASIC.

A market participant may also need to provide further certification to ASIC if required.

- RG 000.118 Under Part 5.6 of the ASIC Market Integrity Rules (ASX) and (Chi-X), a market participant must undertake an initial review and certification of the system it uses for AOP and provide subsequent annual notifications about that system to ASIC. The purpose of these certifications and notifications is to provide additional assurance that the market participant knows and understands the nature of the business it conducts (or intends to conduct) through the AOP system and that compliance issues have been accordingly addressed.
- RG 000.119 A market operator may, under its operating rules or procedures or as part of an access agreement, also impose additional or different qualification or certification requirements that a market participant must meet before it will be permitted to connect to a trading platform. Satisfying a market operator's requirements does not mean the market participant has satisfied the requirements of the ASIC Market Integrity Rules (ASX) and (Chi-X).

Initial review and certification

Initial review

- RG 000.120 Before using its system for AOP, a market participant must review its policies, procedures, system design documentation (including procedures for implementing subsequent changes to the AOP software), filters and filter parameters, and other relevant documentation concerning its compliance with Part 5.6: Rule 5.6.4.
- RG 000.121 The purpose of this review is so that the market participant can provide the initial certification under Rule 5.6.6 (see RG 000.127–RG 000.130), in which it must confirm that nothing has come to its attention during the course of the review that would indicate that it is unable to comply with Part 5.6.

Representations

- RG 000.122 Before using an AOP system for the first time, a market participant must obtain written representations that the market participant has in place organisational and technical resources, arrangements and controls in relation to the AOP system that meet the requirements of Rule 5.6.3: Rule 5.6.5.
- RG 000.123 The purpose of obtaining the representations in Rule 5.6.5 is so that the market participant can provide the initial certification under Rule 5.6.6, which must include copies of the representations and confirmation by the market participant that its AOP system meets the requirements of Rule 5.6.3.
- RG 000.124 The written representations referred to in Rule 5.6.5(1) must:
- (a) be provided by persons who are suitably qualified and experienced in the systems and controls for which they are making the representations (see RG 000.170–RG 000.174);
 - (b) include the name of the person making the representation;
 - (c) be signed and dated by the person making the representation; and
 - (d) set out the methodology used by the person to enable them to make the representation: Rules 5.6.5(2) and (3).
- RG 000.125 We expect the methodology set out in the representation to include details of:
- (a) the process the person used to review the market participant's policies, procedures, system design documentation and other documents;
 - (b) the security arrangements for the AOP system, including but not limited to the matters set out in RG 000.67–RG 000.68; and
 - (c) the testing arrangements for the AOP system, including the matters set out in RG 000.96–RG 000.103.
- RG 000.126 When supplying to ASIC detail of methodology used in making the representations, supporting documentation should be provided. The supporting documentation should reflect the nature, scale and complexity of the market participant's business.

Initial certification

- RG 000.127 Before using a system for AOP, a market participant must provide to ASIC a written certification, signed by at least two directors of the market participant, that sets out the following matters:
- (a) the name of the market participant;
 - (b) the name and version number of the AOP system;
 - (c) copies of the representations required by Rule 5.6.5 (see RG 000.124–RG 000.126);

- (d) a confirmation by the market participant that:
 - (i) it has reviewed its documentation as required by Rule 5.6.4 (see RG 000.120–RG 000.121) and that nothing has come to its attention during the course of that review which would indicate that it is unable to comply with Part 5.6;
 - (ii) based on the review and the representations required by Rules 5.6.4 and 5.6.5, the AOP system either does or does not permit ACOP and meets the requirements of Rule 5.6.3; and
 - (iii) the representations have been made by persons whom the market participant considers to be suitably qualified and experienced in the controls and systems for which they are making the representations; and
- (e) the name of the directors of the market participant who signed the certification.

- RG 000.128 All certifications must meet these minimum requirements. We encourage market participants to provide the certification in the form set out in Appendix 1 of this guide.
- RG 000.129 We will not accept a qualified certification. For example, we will not accept certification that is premised on caveats that may undermine the integrity of the certification.
- RG 000.130 The fact that an AOP system has been certified does not absolve the market participant of any of its underlying obligations under the ASIC Market Integrity Rules (ASX) and (Chi-X), including the requirements in Section B of this guide.

Use of third party systems

- RG 000.131 We recognise that some AOP systems are developed internally by a market participant and others are developed externally by a third party. A market participant must ensure that it provides a certification for any third party systems it uses unless orders coming through the system are subsequently processed by a certified AOP system of the market participant.
- RG 000.132 Further, the fact that one market participant has certified an AOP system provided by a third party does not imply that another market participant using that third-party provider's system is not required to certify that system. For AOP systems developed by a third party, we will accept as supporting documentation for the initial certification, parts of the technical certification documentation supplied by that third party, provided the market participant can demonstrate that it has successfully reviewed the AOP system as required by Rule 5.6.4 and is making the representations required by Rule 5.6.5, including evidence of completed user acceptance testing of system integration with internal systems.

Connecting to new market operators

RG 000.133 Under Rule 5.6.6, market participants are required to certify their AOP systems when they connect to a market.

RG 000.134 Before *[date to be inserted]*, Rule 5.6.6A (Chi-X) permitted an ASX market participant that had already certified its AOP system for use on ASX under Rule 5.6.6 (ASX) to treat a proposed connection of that system to Chi-X as a material change, rather than having to undertake an initial certification of the system for use on Chi-X under Rule 5.6.6 (Chi-X).

Note: In this document ‘Rule 5.6.6A (Chi-X)’ or ‘Rule 5.6.6 (ASX)’ (for example) refers to a rule of the ASIC market integrity rules for the relevant market (in this example numbered 5.6.6A or 5.6.6).

RG 000.135 From *[date to be inserted]*, Rule 5.6.6A (Chi-X) will be removed. Therefore, from that date, ASX market participants that have an AOP system that is certified under Rule 5.6.6 (ASX) (or the pre-existing ASX Market Rules) and that wish to make a new connection of that system to Chi-X will need to undertake an initial certification of the system for use on Chi-X under Rule 5.6.6 (Chi-X). Market participants that have previously relied on Rule 5.6.6A (Chi-X) for an existing connection will not need to take any action as a result of the removal of this rule: Rules 5.6.4(2), 5.6.5(3) and 5.6.6(4) (Chi-X).

RG 000.136 As has always been the case, Chi-X market participants that have certified an AOP system for use on Chi-X under Rule 5.6.6 (Chi-X) and that wish to make a new connection of that system to ASX will need to undertake an initial certification of the system for use on ASX under Rule 5.6.6 (ASX).

Nature and scope of certification

RG 000.137 The nature and scope of a particular certification will depend largely on the specific business operations of the market participant and the features of the AOP system used.

RG 000.138 In evaluating the nature and scope of certification required, a market participant needs to consider and identify the key features of the AOP system—for example, whether it is primarily for client or proprietary flow, whether the client intends to further delegate access, or whether it involves highly automated flow.

RG 000.139 By providing details of interconnected systems and automated controls that are not part of the AOP system but may further contribute to a market participant’s ability to comply with Part 5.6, a market participant can demonstrate to ASIC the review process undertaken.

RG 000.140 The name and version number of the AOP system that has been certified must be clearly stated in each certification in accordance with Rule 5.6.6(2)(b).

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- RG 000.141 The market and order books for which the AOP system has been certified should also be stated in each certification.

How to provide certifications to ASIC

- RG 000.142 Certifications should be on the market participant's letterhead. They should be directed to the Senior Executive Leader, Market and Participant Supervision, ASIC via email at market.participants@asic.gov.au.

Review of material changes

- RG 000.143 Before making a material change to any of the organisational and technical resources, arrangements or controls employed to comply with Rule 5.6.3, a market participant must ensure that:
- (a) an appropriately qualified person reviews the material change in accordance with Rule 5.6.8(1) (see RG 000.150–RG 000.151); and
 - (b) it has obtained from the person referred to in written representations about the material change in accordance with Rule 5.6.8(2) (see RG 000.150–RG 000.151).

What is a material change?

- RG 000.144 The term 'material' is a broad concept and should be considered in the context of the nature, scale and complexity of the business being conducted by the market participant through the AOP system.
- RG 000.145 A change to the system that may increase the potential for the market participant to fail to comply with its obligations under the ASIC Market Integrity Rules (ASX) and (Chi-X) or ASIC Market Integrity Rules (Competition), or series of changes to the system that when considered together may have the same effect, would be considered material. A market participant will need to take a practical approach when determining whether a particular change or series of changes to the AOP system, whether made by the market participant or the system provider, constitutes a 'material' change.
- RG 000.146 A market participant should consider, at a minimum, the following factors when assessing whether a change is material:
- (a) the ability of the market participant to meet the requirements of Rule 5.6.3 after the change is made;
 - (b) the potential for a change to result in trading activity that may interfere with the efficiency and integrity of the market provided by an operator;
 - (c) the potential for a change to result in a breach of Part 5.7 (manipulative trading); and

- (d) the potential for a change to result in trading activity that may interfere with the proper functioning of the relevant market.

RG 000.147 We consider that the following changes are examples of material changes for the purposes of Rule 5.6.8:

- (a) changes to upgrade from a ‘basic’ system to a ‘complex’ system—for example, from a single market to a multimarket system or from an automated principal-only order processing system to a system that will accommodate both principal and agency (i.e. an ACOP system);
- (b) changes to upgrade the functionality made available to clients and which may impact upon the types of orders passed into the market;
- (c) changes to allow access for clients to additional order books or execution venues which may impact on the types of orders and messages passed into the market;
- (d) the provision of ACOP or addition of new client order flow which may impact upon the capabilities of the AOP filters and filter parameters;
- (e) a series of incremental changes to a system over a period of time that may, when considered together, constitute a material change based on the system at the time of its initial certification or previous annual review and notification (see RG 000.155–RG 000.167);
- (f) a change to the type, size and growth of client order flow that may require significant changes to system capacity;
- (g) a change to a latency-dependant solution such as co-location, hardware, software configuration change;
- (h) a change that increases the risk of orders being entered or amended, which could create or appear to create a disorderly market or manipulative trading; and
- (i) a change to permit one or more clients to use more complex trading strategies.

RG 000.148 We consider that the following changes are examples of changes that may *not* be considered material changes for the purposes of Rule 5.6.8:

- (a) changes in a market participant’s staff if the change does not adversely affect the market participant’s ability to comply with the ASIC Market Integrity Rules (ASX) and (Chi-X) (e.g. the absence of a designated compliance person may be considered non-material but may require a review of DTR or responsible executive responsibilities under Part 2.5 or 2.1);
- (b) a change to the appearance of the computer screen used to access the relevant execution venue; and
- (c) re-locating from one co-location facility to another facility provided by the same entity where no further additional changes beyond the movement of physical location have taken place (however, the market participant will

remain responsible for reviewing its obligations under the ASIC Market Integrity Rules (ASX) and (Chi-X), particularly if there are additional changes beyond the movement of physical location).

- RG 000.149 A change from a third-party-provided system to a system provided by a new third party would be considered to be a new system (rather than a material change) requiring initial certification under Rule 5.6.6.

Review of material changes

- RG 000.150 Under Rule 5.6.8(1), before making a material change to any of the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3, a market participant must ensure that an appropriately qualified person (see RG 000.170–RG 000.174) reviews the material changes to the AOP system, the market participant’s policies, procedures, system design documentation (including its procedures for implementation of subsequent changes to the AOP software, filters and filter parameters) and other relevant documentation concerning its compliance with Part 5.6: Rule 5.6.8.
- RG 000.151 If a market participant is operating multiple AOP systems, we consider that when reviewing material changes to be made across those AOP systems, certain documents would not need to be separately reviewed for each individual AOP system. This means that documentation, policies and procedures that apply across AOP systems could be considered in totality when reviewing material changes across those systems.

Representations

- RG 000.152 Before implementing a material change that is the subject of a material change review, the market participant must obtain written representations from the person who performed the material change review that nothing came to the attention of the person during the course of that review which would indicate that the market participant is unable to comply with Part 5.6: Rule 5.6.8(2). The representations must include the name of the person making the representation and be signed and dated by that person: Rule 5.6.8(3).
- RG 000.153 The purpose of obtaining the representations in Rule 5.6.8(2) is so that the market participant can provide the annual notification under Rule 5.6.8B, in which the market participant must confirm that nothing came to its attention during the 12 months before the annual review date which would indicate that it is unable to comply with Part 5.6.

Annual review and notification

Annual review

- RG 000.154 Under Rule 5.6.8A, a market participant must have an appropriately qualified person (see RG 000.170–RG 000.174) undertake an annual review, much like the review of material changes, of the AOP system, the market participant’s policies, procedures, system design documentation (including the market participant’s procedures for implementation of subsequent changes to the AOP software, filters and filter parameters) and other relevant documentation for compliance with Part 5.6.
- RG 000.155 The purpose of the annual review under Rule 5.6.8A is so that the market participant can provide annual notification to ASIC under Rule 5.6.8B, in which the market participant must confirm that nothing has come to its attention during the 12 months before the annual review date which would indicate that the market participant is unable to comply with Part 5.6.
- Note: See RG 000.92–RG 000.95 for our expectations on reviewing policies and procedures and system design documentation.
- RG 000.156 A market participant is not required to undertake an annual review of an AOP system if it has reviewed material changes to that AOP system (in accordance with Rule 5.6.8) within the 12 months before the annual review date: Rule 5.6.8A(1).
- RG 000.157 As with the review of material changes, if a market participant is operating multiple AOP systems, only one review across all systems is required: see RG 000.151.
- RG 000.158 If a market participant is operating multiple AOP systems and has conducted a review of material changes to one or any number of those systems (in accordance with Rule 5.6.8) within the 12 months before the annual review, the documentation, policy and procedures that are common to the relevant AOP and the other AOP systems would not need to be revisited as part of the annual review.

Review date

- RG 000.159 The annual review date is 1 November each calendar year. The annual notification (see RG 000.161–RG 000.166) must be given to ASIC within 10 business days of each annual review date. The confirmation in the annual notification therefore relates to the 12-month period from 1 November in the previous calendar year until 31 October in the current calendar year.
- RG 000.160 If the period from the date of the initial certification to 1 November is significantly less than 12 months, we may consider giving a waiver from the requirement to give an annual notification for that period. This would be given on a case-by-case basis, having regard to the nature, scale and complexity of the AOP system and the business conducted by the market participant through that

system. In this case, the first annual notification that we would expect is within 10 business days of the annual review date in the following calendar year.

Annual notification

- RG 000.161 A market participant must provide an annual notification to ASIC within 10 business days of the annual review date each year (see RG 000.159–RG 000.160): Rule 5.6.8.
- RG 000.162 The notification must be in writing, signed and dated by two directors of the market participant, and set out the following matters:
- (a) the name of the market participant;
 - (b) the name and version number of the AOP system, or systems if the notification covers more than one system;
 - (c) a confirmation by the market participant that nothing came to the attention of the market participant during the 12 months before the annual review date which would indicate that the market participant is unable to comply with Part 5.6; and
 - (d) the name of the directors of the market participant signing the annual notification.
- RG 000.163 All annual notifications must meet these minimum requirements. We encourage market participants to provide the notification in the form set out in Appendix 2.
- RG 000.164 A market participant operating more than one certified AOP system can, for the purposes of an annual notification, consolidate the AOPs into one single annual notification.
- RG 000.165 A market participant who has an AOP system certified for use across multiple markets and/or operators can, for the purposes of an annual notification, consolidate the markets into each individual AOP and list them on the same notification.
- RG 000.166 The nature and scope of a particular review will depend largely on the specific business operations of the market participant and the features of the AOP system used. See RG 000.137–RG 000.141 on the nature and scope of initial certifications, which is also relevant to annual notifications.

How to provide notifications to ASIC

- RG 000.167 Annual notifications should be on the market participant's letterhead. They should be directed to the Senior Executive Leader, Market and Participant Supervision, ASIC via email at market.participants@asic.gov.au.

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Further certification

- RG 000.168 Under Rule 5.6.11, ASIC may direct a market participant to provide further certification of its compliance with Part 5.6 for an AOP system in a form acceptable to ASIC and from an appropriately qualified person acceptable to ASIC. The market participant must comply with ASIC's direction within the time specified in the direction.
- RG 000.169 Examples of the circumstances where we may require a further certification include, but are not limited to, the following:
- (a) where we are not satisfied with the quality of a review undertaken for a material change or an annual review;
 - (b) where we believe that an AOP system no longer operates in the manner for which it was initially certified; and
 - (c) where we believe that an AOP system no longer complies with requirements in Part 5.6.

Appropriately qualified persons/suitably qualified persons

- RG 000.170 Under Rule 5.6.5, the representations that accompany the initial certification of an AOP system must be made by persons whom the market participant considers to be suitably qualified and experienced in the controls and systems for which they are making the representations.
- RG 000.171 Under Rules 5.6.8 and 5.6.8A, the review of material changes and annual review must be conducted by an appropriately qualified person, and that person must provide to the market participant representations relating to compliance with Part 5.6.
- RG 000.172 We do not intend to publish a list of persons who are qualified for these purposes, or specify minimum qualifications or experience for the purposes of these rules. It is the responsibility of the directors of the market participant to satisfy themselves that the relevant persons making the representations are qualified. Directors may wish to rely upon different persons to make representations about compliance with the different requirements of Rule 5.6.3 for the purposes of initial certification under Rule 5.6.6. Ideally, a responsible executive (as defined in Rule 1.4.3) should be a signatory to the documentation.
- RG 000.173 However, a market participant should consider the following qualifications when relying upon one or more persons to conduct an initial review, review of material changes or annual review:
- (a) relevant experience in broking operations, systems design, operational management and systems security;

- (b) familiarity with the relevant market integrity rules (e.g. provisions relevant to AOP, in particular, orderly markets issues) and applicable law (e.g. market misconduct provisions in the Corporations Act); and
- (c) relevant technical qualifications—due to the technological and interconnected nature of systems, there should be some indication of the person’s qualifications in this regard (e.g. Certified Information Systems Auditor issued by the Information Systems Audit and Control Association or its equivalent, ‘Systems Assurance Partner’ of an accounting organisation, tertiary qualification in computer science or a similar academic discipline and a minimum number of years experience in information systems audits).

RG 000.174 We will take similar considerations into account in selecting an ‘acceptable person’ to perform a further certification in accordance with Rule 5.6.11: see RG 000.168–RG 000.169.

Appendix 1: Sample certification

This appendix sets out a sample certification that can be used as a template.

Certifications should be provided on the market participant's letterhead and addressed to: Senior Executive Leader, Market and Participant Supervision, ASIC, market.participants@asic.gov.au.

Certification of AOP compliance

This certification is given by [*insert name of market participant*] under Rule 5.6.6 of the [*ASIC Market Integrity Rules (ASX Market) 2010/ASIC Market Integrity Rules (Chi-X Australia Market) 2011*].

Note: In this document 'Rule 5.6.6 (ASX)' and 'Rule 5.6.6 (Chi-X)' or 'Part 5.6 (ASX)' and 'Part 5.6 (Chi-X)' (for example) refer to a particular rule or part of the ASIC market integrity rules for those markets (in this example numbered 5.6.6 and 5.6).

We have examined our obligations under the relevant market integrity rules, including those for automated order processing (AOP), and considered Regulatory Guide 000 *Electronic trading* (RG 000).

This certification is for version [*insert version number*] of [*insert name of system*] (the AOP system) to be connected to the following market(s) and trading platform(s):

- [*insert name of market(s) and trading platform(s)*].

In relation to the AOP system, we have reviewed our policies, procedures and system design documentation—including our procedures for implementing subsequent changes to the AOP software, filters and filter parameters—and other relevant documentation concerning compliance with [*Part 5.6 (ASX)/ Part 5.6 (Chi-X)*]. Our review included all matters that we consider are necessary in the circumstances.

We confirm the following, based on the representations in Schedules A–F and our own inquiries:

- The AOP system [*does/does not*] permit automated client order processing (ACOP).
- The AOP system has in place the organisational and technical resources—including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters—to enable trading messages to be submitted into the trading platform(s) without interfering with the efficiency and integrity of the market(s) or the proper functioning of the trading platform(s).
- The AOP system has in place trading management arrangements—including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters—to enable the ready determination of the origin of all orders and trading messages.
- The AOP system has in place security arrangements to monitor for and prevent unauthorised persons having access to a gateway or an open interface device, or to a computer or other device connected to an open interface device, and to ensure that the AOP system does not interfere with the efficiency and integrity of the markets(s) or the proper functioning of the trading platform(s).

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- The AOP system has in place controls—including automated controls—that enable immediate suspension, limitation or prohibition of the conduct of all AOP, ACOP or AOP in respect of one or more authorised persons, clients or products.
- The AOP system has in place controls that enable immediate suspension of, limitation of, or prohibition on, the entry into the market(s) of trading messages in a series of related trading messages where we have identified that trading messages in the series have entered a market and have interfered with or are likely to interfere with the efficiency and integrity of a market, and cancellation of trading messages in that series that have already entered the market(s).
- We have direct control over all automated filters and the filter parameters for those filters, in relation to the AOP system.
- Nothing has come to our attention during the course of our review which would indicate that we are unable to comply with [Part 5.6 (ASX)/Part 5.6 (Chi-X)].
- The representations in Schedules A–F have been made by persons we consider to be suitably qualified and experienced in the organisational and technical resources, arrangements and controls for which they are making those representations.

Director Date

Director Date

Schedule A: Organisational and technical resources

I confirm the following, based on my own inquiries:

- The AOP system has in place the organisational and technical resources—including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters—that I consider are necessary for trading messages to be submitted to the trading platform(s) without interfering with the efficiency and integrity of market(s) or the proper functioning of the trading platform(s).
- Nothing has come to my attention during the course of my review which would indicate that [insert name of market participant] is unable to comply with [Part 5.6 (ASX)/Part 5.6 (Chi-X)].

Name Signature Date

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Schedule B: Trading management arrangements

I confirm the following, based on my own inquiries:

- The AOP system has in place trading management arrangements—including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters—that I consider are necessary to readily determine the origin of all orders and trading messages.
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of market participant]* is unable to comply with *[Part 5.6 (ASX)/Part 5.6 (Chi-X)]*.

_____	_____	_____
Name	Signature	Date

Schedule C: Security arrangements

I confirm the following, based on my own inquiries:

- The AOP system has in place security arrangements that I consider are necessary to monitor for and prevent unauthorised persons having access to a gateway or an open interface device, or to a computer or other device connected to an open interface device, and to ensure that the AOP system does not interfere with the efficiency and integrity of market(s) or the proper functioning of the trading platform(s).
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of market participant]* is unable to comply with *[Part 5.6 (ASX)/Part 5.6 (Chi-X)]*.

_____	_____	_____
Name	Signature	Date

Schedule D: Controls for suspension, limitation or prohibition of AOP

I confirm the following, based on my own inquiries:

- The AOP system has in place controls, including automated controls, that enable immediate suspension, limitation or prohibition of the conduct of all AOP, ACOP or AOP in respect of one or more authorised persons, clients or products.
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of market participant]* is unable to comply with *[Part 5.6 (ASX)/Part 5.6 (Chi-X)]*.

_____	_____	_____
Name	Signature	Date

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Schedule E: Controls for suspension, limitation or prohibition of trading messages

I confirm the following, based on my own inquiries:

- The AOP system has in place controls that enable immediate suspension of, limitation of, or prohibition on, the entry into the market(s) of trading messages in a series of related trading messages where [*insert name of market participant*] has identified that trading messages in the series have entered a market and have interfered with or are likely to interfere with the efficiency and integrity of a market, and cancellation of trading messages in that series that have already entered the market(s).
- Nothing has come to my attention during the course of my review which would indicate that [*insert name of market participant*] is unable to comply with [*Part 5.6 (ASX)/Part 5.6 (Chi-X)*].

Name	Signature	Date

Schedule F: Direct control over filters and filter parameters

I confirm the following, based on my own inquiries:

- [*Insert name of market participant*] has direct control over all automated filters and the filter parameters for those filters, in relation to the AOP system.
- Nothing has come to my attention during the course of my review which would indicate that [*insert name of market participant*] is unable to comply with [*Part 5.6 (ASX)/Part 5.6 (Chi-X)*].

Name	Signature	Date

Schedule G: Certification methodology

Attached is a copy of the methodology used by the persons identified in Schedules A–F to make the representations in those schedules.

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Appendix 2: Sample annual notification

This appendix sets out a sample annual notification that can be used as a template.

Annual notifications should be provided on the market participant's letterhead and addressed to: Senior Executive Leader, Market and Participant Supervision, ASIC, market.participants@asic.gov.au.

Annual notification of AOP compliance

This notification is given by [*insert name of market participant*] under Rule 5.6.8B of the [*ASIC Market Integrity Rules (ASX Market) 2010/ASIC Market Integrity Rules (Chi-X Australia Market) 2011*].

Note: In this document 'Rule 5.6.8B (ASX)' and 'Rule 5.6.8B (Chi-X)' or 'Part 5.6 (ASX)' and 'Part 5.6 (Chi-X)' (for example) refer to a particular rule or part of the ASIC market integrity rules for those markets (in this example numbered 5.6.8B and 5.6).

We have examined our obligations under the relevant market integrity rules, including those for automated order processing (AOP) and considered Regulatory Guide 000 *Electronic trading* (RG 000).

This notification is for the AOP system(s) and version(s) connected to trading platform(s) as listed in Schedule A.

We confirm, for the purposes of [*Rule 5.6.8B (ASX)/Rule 5.6.B (Chi-X)*], that nothing came to our attention during the 12 months period from 1 November [*previous calendar year*] to 31 October [*current calendar year*] which would indicate that the trading participant is unable to comply with [*Part 5.6 (ASX)/Part 5.6 (Chi-X)*].

_____	_____	_____
Name of director	Signature	Date
_____	_____	_____
Name of director	Signature	Date

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Schedule A: Details of AOP system(s), trading platform(s) and material changes

Name of system	Version	Date of initial certification or previous annual notification	Trading platform(s)

[Include or attach the following:

- *details of the AOP(s) the notification is intended to cover, including the last version(s) to which a previous initial certification or annual notification applies, and the most recent version(s) to which this notification applies; and*
- *details of the trading platform(s) connected to the relevant AOP system(s) and to which this notification applies, including the number of instances that each AOP is connected to each platform.]*

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Key terms

Term	Meaning in this document
12-61MR	ASIC media release (12-61MR) <i>ASIC provides direction on market structure reforms</i> , issued 3 April 2012
ACOP (automated client order processing)	AOP for an order submitted by an authorised person into the market participant's trading system, as distinct from AOP for an order submitted by the market participant as principal
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.
algorithm or algorithmic trading	Electronic trading activity where specific execution outcomes are delivered by predetermined parameters, rules and conditions
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
ASIC	Australian Securities and Investments Commission
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 (ASX) and (Chi-X)	ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X)
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
ASIC Market Integrity Rules (Competition)	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
ASX	ASX Limited (ACN 008 624 691) or the exchange market operated by ASX Limited

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Term	Meaning in this document
ASX 24	The exchange market formerly known as Sydney Futures Exchange (SFE), operated by Australian Securities Exchange Limited
ASX guidance notes	Guidance notes providing assistance to ASX market participants on ASX's interpretation of the former ASX Market Rules
authorised person	A person who: <ul style="list-style-type: none"> • is either: <ul style="list-style-type: none"> – a client of a trading participant; or – an agent of a client of a trading participant; or – a representative of a trading participant (other than a DTR); and • is permitted by a trading participant to submit orders into the trading participant's system
automated trading	See 'AOP'
CDI (CHESS Depository Interest)	An instrument used by non-Australian companies to support electronic registration, transfer and settlement of their products listed on ASX
Chapter 5 (for example)	A chapter of the ASIC Market Integrity Rules (ASX) and (Chi-X) (in this example, numbered 5), unless otherwise specified
Chapter 6 (Competition) (for example)	A chapter of the ASIC Market Integrity Rules (Competition) (in this example, numbered 6)
Chi-X	Chi-X Australia Pty Limited or the exchange market operated by Chi-X
CLOB (central limit order book)	A central system of limit orders, where bids and offers are typically matched on price–time priority
Corporations Act	Corporations Act 2001, including regulations made for the purposes of the Act
Corporations Regulations	Corporations Regulations 2001
CP 145	ASIC consultation paper <i>Australian equity market structure: Proposals</i> , released 4 November 2010
CP 168	ASIC consultation paper <i>Australian equity market structure: Further proposals</i> , released 20 October 2011
CP 179	ASIC consultation paper <i>Australian market structure: Draft market integrity rules and guidance</i> , released 28 June 2012
DEA (direct electronic access)	An arrangement between a participant of a licensed market under which authorised person submits orders directly into the licensed market using the participants trading system

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Term	Meaning in this document
dealing rules	ASIC market integrity rules for the ASX and Chi-X markets and the operating rules of the ASX and Chi-X markets that govern the submission of orders and the execution and reporting of market transactions on a trading platform
DTR (designated trading representative)	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
electronic trading	Includes algorithmic programs, AOP, ACOP and DEA
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
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	A facility, service or location on or through which transactions in equity market products are executed and includes: <ul style="list-style-type: none"> • each individual order book maintained by a market operator; • a crossing system; and • a market 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
filters	A set of rules that apply to an AOP system and that determine automatically which trading messages (or series of related trading messages) meet a pre-defined set of criteria and can pass into a trading platform
filter parameters	Variables within each filter that can be changed to modify the operation of the filter without changing the rule to which the filter applies
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: <ul style="list-style-type: none"> • 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

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Term	Meaning in this document
liquidity	The ability to enter and exit positions with a limited impact on price
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
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 participant	An entity that is a participant of a financial market on which financial products are traded
Part 5.5 (for example)	A part of the ASIC Market Integrity Rules (ASX) and (Chi-X) (in this example, numbered 5.5), unless otherwise specified
Part 6.3 (Competition) (for example)	A part of the ASIC Market Integrity Rules (Competition) (in this example numbered 6.3)
representative	Has the same meaning as in s910A of the Corporations Act
REP 290	ASIC report <i>Response to submissions on CP 168 Australian equity market structure: Further proposals</i> , released 28 June 2012
RG 214 (for example)	An ASIC regulatory guide (in this example, numbered 214)
Rule 5.5.1 (for example)	A rule of the ASIC Market Integrity Rules (ASX) and (Chi-X) (in this example, numbered 5.5.1), unless otherwise specified
Rule 5.6.6 (ASX) (for example)	A rule of the ASIC Market Integrity Rules (ASX) (in this example, numbered 5.6.6)
Rule 5.6.6A (Chi-X) (for example)	A rule of the ASIC Market Integrity Rules (Chi-X) (in this example, numbered 5.6.6A)
Rule 6.5.1 (Competition) (for example)	A rule of the ASIC Market Integrity Rules (Competition) (in this example, numbered 6.5.1)
s798G (for example)	A section of the Corporations Act (in this example, numbered 798G)
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
sponsored access	An arrangement where a market participant permits an authorised person to electronically transmit orders for execution directly to the market without passing through the participants infrastructure

Term	Meaning in this document
trading messages	Messages submitted into a trading platform relating to trading functions, such as orders, amendment or cancellation of orders and the reporting or cancellation of market transactions on the trading platform
trading platform	A facility made available by the market operator to market participants for the entry of trading messages, the matching of orders, the advertisement of invitations to trade and the reporting of transactions

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Related information

Headnotes

algorithmic programs, automated client order processing (ACOP), automated order processing (AOP), automated trading, designated trading representative (DTR), direct electronic access (DEA), electronic trading, filter parameters, filters, market integrity rules

Regulatory guides

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 223 *Guidance on ASIC market integrity rules for competition in exchange markets*

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

RG 225 *Markets Disciplinary Panel practices and procedures*

RG 226 *Guidance on ASIC market integrity rules for capital and related requirements: ASX, ASX 24 and Chi-X markets*

Legislation

Corporations Act, Div 3 of Pt 7.1, s761A, 763B–D, 767A, 798G, 910, 913B

Consultation papers and reports

CP 145 *Australian equity market structure: Proposals*

CP 168 *Australian equity market structure: Further proposals*

CP 179 *Australian market structure: Draft market integrity rules and guidance*

CP 184 *Australian market structure: Draft market integrity rules and guidance on automated trading*

REP 290 *Response to submissions on CP 168 Australian equity market structure: Further proposals*

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