# COMMENTS ON CONSULTATION PAPER 202: Dark Liquidity and High-Frequency Trading: PROPOSALS

GETCO Australia Pty LTD: May 2013

# About GETCO

GETCO is a global liquidity provider.  GETCO was founded in Chicago in 1999, and the firm now employs about 400 people worldwide.  The firm provides liquidity on over 50 markets in North and South America, Europe and Asia.  The liquidity GETCO supplies allows individual and institutional investors to immediately transfer the risk often associated with financial instruments while saving money on trading costs.  As a liquidity provider, we do this by:

- increasing liquidity;
- reducing market volatility;
- facilitating price discovery;  and
- promoting competition among market centres and liquidity providers.

In these ways, GETCO plays an important role in making financial markets more efficient, lowering the cost of capital for businesses and reducing trading costs for investors.  Our strategy is to align our business with the values we believe best serve the market and investors:  efficiency, transparency, reliability and competition.  GETCO maintains a long-term view on the markets, which means that we understand the importance of stable, well-regulated markets.

From offices in London, Chicago, New York and Singapore, the firm transacts business in cash, futures and options products across four asset classes:  equities, fixed income, currencies and commodities.

Since 2007, GETCO has traded the Asian markets through GETCO Asia Pte Ltd. (GETCO Asia), located in Singapore.  GETCO Asia acts as a high volume liquidity provider in the Asian markets and has established itself as one of the leading proprietary trading firms in the Asia region.

In 2011, GETCO Asia established an Australian subsidiary, GETCO Australia Pty Ltd (“GETCO Australia”), to provide liquidity in the Australian markets.  GETCO Australia holds an Australian Financial Services Licensing (“AFSL”) for market making and exchange participations on ASX, ASX 24, and Chi-X.

Full details of GETCO’s responses to regulatory consultations world-wide can be found on our website at www.getcollc.com

# GETCO'S COMMENTS ON CONSULTATION PAPER 202: DARK LIQUIDITY AND HIGH FREQUENCY TRADING: PROPOSALS

GETCO supports ASIC's efforts to fully understand and assess the financial and other impacts of its proposals and alternative approaches in connection with its development of policy on dark liquidity and high-frequency trading. GETCO's comments to ASIC's proposals in Consultation Paper 202 will be limited to the Section entitled "High Frequency Trading" that addresses excessive messaging and market noise.

To facilitate ASIC's consideration of our responses, we have tagged our comments to the relevant ASIC proposal and where appropriate the ASIC feedback query.

## EXCESSIVE MESSAGING AND MARKET NOISE (PROPOSAL E)

### I. Small, Fleeting Orders Should be Discouraged in Dark Markets (E1Q1)

GETCO's view is that small, fleeting orders should be discouraged in dark markets. On the lit segments on the Australian exchanges, GETCO has not seen any evidence that "small, fleeting orders" are "impacting market integrity and efficiency" as ASIC suggests. The fact that these orders only make up 3.6% of all untraded orders suggests that these orders impact on market dynamics is quite limited.

For Centrepoint orders, on the other hand, GETCO's experience is different. At Centrepoint, GETCO has and continues to find it commonplace for a counterparty to execute a one-lot order against its resting liquidity. These orders have been presumably tagged "IOC" and would therefore be cancelled if they are not instantly filled. GETCO worries that these orders may be intended to identify whether there are buyers/sellers in the market and that such information can be used to trade ahead of the midpoint order.

### II. GETCO Does Not Generally Support Minimum Resting Times (E1Q2)

GETCO does not generally support minimum resting times. A minimum resting time places those that add liquidity to the market book at a disadvantage to those that remove liquidity. Placing a limit order in such a scenario essentially gives faster market participants an option to trade at that price for the time of the minimum resting period. In general, minimum times are likely to widen market spreads, as liquidity providers would need to ask for additional spread in order to be compensated for those occasions where the market price moves against resting liquidity.

### III. If Imposed, Minimum Resting Times For Small Orders Should Apply to Removal Trading at Midpoint As Well (E1Q3)

While CP 202 focuses on small additive orders that are presumably used, among other things, to test price and liquidity in market, we believe that using small orders to take liquidity at midpoint is equally undesirable. To ensure equal treatment, our suggestion would be that an IOC order tag should not be permitted for non-retail Centrepoint flow that falls within ASIC's definition of a small order.

## IV. While a six-month implementation period should suffice, ASIC should be mindful of the high costs imposed on Australian market participants (E1Q6)

While a six-month time period for implementation should be sufficient, GETCO would like to emphasize that the cost of this development is substantial. As GETCO continues to observe, Australian financial markets have a high base cost level for participants and we ask ASIC to be cognizant of the costs associated with not only this implementation but the breadth of regulatory reform proposed by ASIC over the last 24 months. To save participants the compliance burden and to ensure that the control is properly implemented, a more cost efficient, effective control t would be to place the implementation requirement at the exchange level.

## V. Order-To-Trade Ratios are an Important Metric and Monitoring this Metric Should be Part of a Participant's Compliance Program (E2)

GETCO believes that it is important to be cognizant of aggregate order-to-trade ratios in ensuring that trade flow is interacting with the market in an orderly way and shares ASIC's view that monitoring of "bursting" order-to trade ratios should be part of a participant's compliance program. GETCO's view is that sending a very large number of orders in a small amount of time is a meaningful metric to identify market activity that requires further attention. Such behaviour may indicate a technology issue, is disruptive to markets, and puts exchanges and other systems under stress. Daily aggregate messaging rates, on the other hand, are often indicative of a lack of symbol liquidity and nothing more so it is important that messaging rates be viewed in connection with context of trading activity in the relevant market and symbol.