



ASIC

Australian Securities & Investments Commission

REPORT 311

Response to submissions on CP 179 and CP 184 Australian market structure: Draft market integrity rules and guidance

November 2012

About this report

This report highlights the key issues that arose out of the submissions received on Consultation Paper 179 *Australian market structure: Draft market integrity rules and guidance* (CP 179) and Consultation Paper 184 *Australian market structure: Draft market integrity rules and guidance on automated trading*. This report details our responses in relation to those issues.

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.

Disclaimer

This report 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.

This report does not contain ASIC policy. Please see updated Regulatory Guide 223 *Guidance on ASIC market integrity rules for competition in exchange markets* (RG 223), the addendum to Regulatory Guide 172 *Australian market licences: Australian operators* (RG 172) and Regulatory Guide 241 *Electronic trading* (RG 241).

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A Overview/Consultation process

ASIC consultation on market structure issues

- 1 Since November 2010, ASIC has consulted on market structure issues arising from developments in Australia's financial markets. This consultation was conducted through:
 - (a) Consultation Paper 145 *Australian equity market structure: Proposals* (CP 145); and
 - (b) Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168).
- 2 On 3 April 2012, we issued Media Release (12-61MR) *ASIC provides direction on market structure reforms* outlining our direction and timetable for implementing the proposals in CP 168, which were further refined following the consultation process.
- 3 On 28 June 2012, we published our formal response to CP 168 in Report 290 *Response to submissions on CP 168 Australian equity market structure: Further proposals* (REP 290) and released Consultation Paper 179 *Australian market structure: Draft market integrity rules and guidance* (CP 179).
- 4 In CP 179, we consulted on draft market integrity rules and guidance, which were based on the refined proposals from CP 168 and which related to:
 - (a) extreme price movements;
 - (b) enhanced data for supervision; and
 - (c) pre-trade transparency and price formation.
- 5 We also consulted on additional consequential amendments to the market integrity rules relating to:
 - (a) crossings during takeover bids and on-market buybacks; and
 - (b) post-trade transparency.
- 6 On 13 August 2012, we released Consultation Paper 184 *Australian market structure: Draft market integrity rules and guidance on automated trading* (CP 184). In CP 184, we consulted on:
 - (a) draft market integrity rules and guidance on the refined proposals from CP 186 on automated trading; and
 - (b) an additional consequential amendment to the ASIC Market Integrity Rules (Chi-X Australia Market) 2011 on the certification of automated order processing (AOP) systems.

Note: In this document 'ASIC Market Integrity Rules (ASX)' refers to the ASIC Market Integrity Rules (ASX Market) 2010, 'ASIC Market Integrity Rules (Chi-X)' refers to the ASIC Market Integrity Rules (Chi-X Australia Market) 2011 and 'ASIC Market Integrity Rules (Competition)' refers to the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011. A reference to a chapter, part or rule followed by '(ASX)', '(Chi-X)' or '(Competition)' refers to a chapter, part or rule of the relevant market integrity rules as indicated.

- 7 This report highlights the key issues that arose out of the submissions to CP 179 and CP 184 and our responses to those issues.
- 8 This report is not meant to be a comprehensive summary of all responses received. It is also not meant to be a detailed report on every question from CP 179 and CP 184. We have limited this report to the key issues.
- 9 This report should be read in conjunction with the following guidance:
- (a) updated Regulatory Guide 223 *Guidance on ASIC market integrity rules for competition in exchange markets* (RG 223), which includes guidance on the intended application of rules for market-level volatility controls, enhanced data for surveillance and pre-trade transparency;
 - (b) the addendum to Regulatory Guide 172 *Australian market licences: Australian operators* (addendum to RG 172), which gives guidance on systems and controls for holders of an Australian market licence under s795B(1); and
 - (c) Regulatory Guide 241 *Electronic trading* (RG 241), which includes guidance on testing of systems and filters/controls, the ability to manage highly automated trading, and stress testing of order flow.
- 10 For a list of the non-confidential respondents to CP 179 and CP 184, see Appendix 1. Copies of the submissions are on the ASIC website at www.asic.gov.au/cp under CP 179 and CP 184.

Responses to consultation

- 11 We received 10 responses to CP 179 and 16 responses to CP 184 from a range of stakeholders including market operators, market participants, associations, superannuation funds, proprietary trading firms and a high-frequency trading firm. We are grateful to respondents for taking the time to send us their comments.
- 12 The general support from respondents for the proposals arising from CP 179 and CP 184 reflects the fact that these draft rules and guidance are a result of considerable consultation with industry, which began in November 2010.

Timing for implementation

- 13 Based on the feedback received, we have made new or amended market integrity rules and have issued new or amended regulatory guidance relating to the proposals consulted on in CP 179 and CP 184: see Sections B and C of this report. The key changes to the market integrity rules and guidance, and the timing for implementation, are summarised in Appendix 2.

General comments on high-frequency trading and dark pools

- 14 A number of the responses received to CP 184 focused on the impact on market structure of high-frequency trading (HFT) and execution of trades in dark pools. For example, responses from a number of superannuation funds cautioned that HFT may undermine the efficiency of the market. Another respondent advocated that appropriate rules and boundaries should be established for dark pools.

ASIC's response

We have established two taskforces to review the impact of HFT and dark liquidity on the quality and integrity of Australian markets.

As the submissions address topics and concepts beyond the scope of issues consulted on in CP 184, we have referred issues in these submissions to the HFT and dark liquidity taskforces for consideration.

Both taskforces aim to publish reports on their findings in the first quarter of 2013.

B Feedback on CP 179

Key points

In CP 179, we consulted on draft market integrity rules and guidance following feedback received to CP 168. The draft rules and guidance in CP 179 addressed the following key policy issues:

- *market operator systems and controls*—this included draft guidance clarifying our expectations on market operators' systems and controls (see the addendum to RG 172);
- *extreme price movements*—this included amended rules for the anomalous order threshold and extreme cancellation range, and an extension of the amended rules to the ASX SPI 200 Index Future (see Chapter 2 of the ASIC Market Integrity Rules (Competition) and Section B of updated RG 223);
- *enhanced data for market surveillance*—this included a draft rule requiring identification of a subset of the information proposed in CP 168 (see Chapter 5A (Competition) and Section H of RG 223); and
- *pre-trade transparency*—this included a draft rule on meaningful price improvement and amendments to the block trade sizes as proposed in CP 168 (see Rules 4.2.1 and 4.2.3 (Competition) and Section D of RG 223).

We also proposed a number of consequential amendments on crossings during takeover bids and on-market buybacks, and post-trade transparency.

Respondents were broadly supportive of the refined proposals, although there were mixed views on the draft rule for meaningful price improvement.

Draft guidance on market operator systems and controls

- 15 In CP 179, we proposed to issue an addendum to Regulatory Guide 172 *Australian market licences: Australian operators* (RG 172) to clarify our expectations for market operators in relation to their systems and controls to ensure they are appropriate for the increasingly automated and high-speed nature of the market.
- 16 We received limited feedback on this proposal. Overall there was support for the proposed guidance, with one respondent making some minor drafting comments.

ASIC's response

We have issued an addendum to RG 172 as proposed. The guidance in this addendum applies immediately from the date of its release.

Draft rules and guidance on extreme price movements

- 17 In CP 179, we proposed to amend existing rules for equity market products on anomalous order thresholds (AOTs) and extreme cancellation ranges (ECRs) to require that market operators should effectively minimise the incidence of transactions executing in the extreme trade range (ETR). We proposed a new process that may trigger a 10-minute trading pause. For the ASX SPI 200 Index Future, we proposed new market integrity rules requiring the operator of ASX 24 to have AOTs, introduce an ETR and prevent trades from executing in the ETR. This was intended to limit cross product contagion. To give guidance on the new and amended market integrity rules, we proposed to update RG 223 to reflect our policy position.
- 18 We also proposed to make a number of consequential amendments to the market integrity rules on extreme price movements as a result of feedback we received to CP 168.
- 19 Market participants supported the proposals and emphasised the importance of clear guidance to ensure compliance with the new rules.
- 20 Market operators were also supportive of the proposals, but raised a number of technical and drafting issues relating to the rules and the proposed ETR reference price ranges. One submission objected to the proposed timeframe for the trading pause, arguing that 10 minutes is too long. It submitted that the timeframe should not be equated with a sensitive announcement as no new information is being released, and noted that in many circumstances the market operator can restart trading in a minimum of one minute. This minimises market disruption.
- 21 Some respondents raised concerns about costs and asked that sufficient time be given to implement the new rules. One respondent also urged ASIC to reconsider a dynamic ETR reference price.

ASIC's response

We have amended the existing market integrity rules on AOTs and ECRs for equity market products, and extended those amended rules to the ASX SPI 200 Index Future: see Chapter 2 (Competition).

Taking into account the feedback received, we have reduced the trading pause to two minutes: see Rule 2.2.2C(1)(c) (Competition).

For equity market products, the rules commence on the day after the day on which they are registered.

For the ASX SPI 200 Index Future, the rules apply from the day that is 18 months after the day on which they are registered.

We have also updated RG 223 to reflect our policy position on extreme price movements: see Section B of RG 223.

Draft rules and guidance on enhanced data for market surveillance

- 22 Taking into account industry feedback on CP 168, we refined our proposal on enhanced data for market surveillance. In CP 179, we proposed a rule requiring a smaller set of additional data and client information. We also consulted on additional guidance in the draft updated RG 223.
- 23 Respondents were generally appreciative of our refined approach. They supported the proposed changes, but noted the impact on costs. Some respondents indicated that the proposed changes required development work and additional time for implementation. Some market operators also queried how the data could be used (e.g. whether the rules would prevent them from disclosing the data to contractors for system maintenance).
- 24 A small number of submissions suggested that the requirement to identify the exchange or crossing system on trades negated the need for the current monthly crossing system report as it would result in a duplication of reporting.
- 25 One respondent queried whether confidentiality of client information would be maintained.

ASIC's response

We have made market integrity rules requiring additional data on orders and/or trades, including:

- identification of crossing systems;
- flagging whether a participant is acting as principal or agent;
- a client identifier or reference;
- identification of intermediaries that are Australian financial services (AFS) licence holders; and
- flagging whether a trade for a wholesale client was done through direct market access (i.e. through a market participant's filters and controls but without the participant's manual involvement).

See Chapter 5A of the ASIC Market Integrity Rules (Competition).

We have also updated RG 223 to reflect our policy position on enhanced data for market surveillance: see Section H of RG 223.

We have taken into account feedback on timing and will phase in implementation as follows:

- for market operators, the new rule will apply from 28 October 2013; and
- for market participants, the new rule will apply from 10 March 2014.

Note: Market participants who wish to start implementing their regulatory data reporting system before 10 March 2014 may choose to provide some or all of the regulatory data required by Rule 5A.2.3 (Competition) in their orders and trade reports to market operators from 28 October 2013.

Draft rules and guidance on pre-trade transparency

- 26 In CP 179, we proposed a rule requiring meaningful price improvement and altered the rule on block trades by replacing it with a tiered model. Other proposed rules related to confirming primary market transactions and that stock lending should not be subject to the pre-trade transparency obligations, validation of trades relying on pre-trade transparency exceptions, and record keeping. We also proposed to update RG 223 to reflect these changes.
- 27 There were mixed responses on the draft rule for meaningful price improvement. Some respondents, particularly market operators, supported the proposed rule. One respondent argued for further measures for dark pools as they are not regulated like lit markets. Other respondents opposed the proposed rule on the basis that it is untargeted (as it has no exceptions) and would be a restrictive rule compared to other global markets.
- 28 There was general support for the proposal to replace the rules for block trades with a tiered model. Some respondents proposed alternative thresholds. One respondent submitted that \$1 million was too low for some of the largest stocks and another proposed that the total consideration for Tier 2 and 3 block trades be substantially lowered.
- 29 Although a minimum size for dark orders was not proposed in CP 179, some of the submissions we received cited support for such a proposition. There was strong support from one respondent to introduce a threshold immediately.
- 30 We received general support for the remaining proposals.

ASIC's response

We have made market integrity rules and issued guidance on:

- meaningful price improvement (see Rule 4.2.3 (Competition) and Section D of RG 223);
- a tiered threshold for block trades (see Rules 4.1.1(2)(a) and 4.2.1 (Competition) and Section D of RG 223);
- primary market transactions and stock lending that are not subject to the pre-trade transparency obligations (see Rule 4.1.8 (Competition) and Section D of RG 223);
- validation of trades relying on pre-trade transparency exceptions (see Rules 5.1.1(4A), 5.1.1(4B) and 5.1.4A (Competition) and Section F of RG 223); and
- record keeping (see Rule 4.1.1(3) (Competition) and Section D of RG 223).

Emerging research indicates that dark liquidity is adversely affecting price formation for some stocks in our market, including wider spreads, meaning a worse outcome for on (and off) market trades. There is also heightened concern in the industry about the spread of change, which may be undermining confidence in the market.

To slow this trend, we propose to bring forward the effective date of the meaningful price improvement and block trade rules to commence on the day that is 6 months (rather than 9 months as indicated in REP 290) after the day on which they are registered.

As outlined in REP 290, the remaining rules commence on the day after the day on which they are registered.

Consequential amendments on crossings during takeover bids and on-market buybacks

- 31 In CP 179, we proposed to amend Rules 6.4.1 and 6.4.3(1) of the ASIC Market Integrity Rules (ASX Market) 2010 to refer to a ‘Takeover Bid’ rather than a ‘Market Bid’ so that it is clear that a market participant conducting a late, overseas or overnight crossing in a cash market product or cash only combination during the offer period under a takeover bid must not do so at a price which is at or below the offer price for that product. We also confirmed our interpretation that the prohibition in the rules applies to late, overseas and overnight crossings during the offer period for all schemes under s411 of the *Corporations Act 2001* (Corporations Act).
- 32 There was widespread support for the changes proposed to clarify crossings that are conducted late, overseas and overnight.
- 33 We also confirmed our interpretation that a transaction that is pre-arranged is not ‘on market’ and is not entered into in the ‘ordinary course of trading’ for the purposes of the takeover bid and on-market buyback provisions of the Corporations Act. This means that transactions of this nature on behalf of the bidder for bid class securities under a takeover bid or on behalf of a listed corporation conducting an on-market buyback of its own shares are not permitted.
- 34 We proposed to apply this interpretation of the Corporations Act to transactions on behalf of the bidder for bid class securities under a takeover bid or on behalf of a listed company conducting an on-market buyback of its own shares that are:
- (a) ‘at or within the spread’ entered into other than on an order book;
 - (b) CentrePoint priority crossings; and
 - (c) ASX priority crossings (from the date the amended Rule 4.2.3 (Competition) on trade with price improvement takes effect).
- 35 There were mixed responses to our interpretation that ASX priority crossings are pre-arranged and not entered into in the ordinary course of trading ‘on market’. Some respondents, particularly market operators, supported our interpretation of ASX priority crossings for the purposes of the takeover bid and on-market buyback provisions of the Corporations Act. A number of

respondents disagreed with our interpretation of ASX priority crossings and submitted that precluding these crossings during takeover bids and on-market buybacks would be unnecessarily restrictive and may give rise to unintended consequences.

ASIC's response

We have confirmed our interpretation that a transaction that is pre-arranged is not 'on market' and is not entered into in the 'ordinary course of trading' for the purposes of the takeover bid and on-market buyback provisions of the Corporations Act.

We will apply this interpretation to transactions on behalf of the bidder for bid class securities under a takeover bid or on behalf of a listed company conducting an on-market buyback of its own shares that are:

- (a) 'at or within the spread' entered into other than on an order book;
- (b) CentrePoint priority crossings; and
- (c) ASX priority crossings (from the date the amended Rule 4.2.3 (Competition) on trade with price improvement takes effect).

We note that, historically, because of the 10-second rule, ASX priority crossings were technically 'on market'. Since this rule has been abolished, ASX priority crossings are quite clearly pre-arranged and therefore not on market or in the ordinary course of trading.

The provisions of the Corporations Act are based on the policy position that takeover bids and on-market buybacks should be conducted on market rather than through pre-arranged transactions.

On-market transactions give all holders of bid class securities a reasonable and equal opportunity to participate in the benefits provided by the bidder, as well as giving shareholders of a listed company a reasonable opportunity to participate in on-market buybacks.

We acknowledge that our interpretation of the definitions of 'on market' and in the 'ordinary course of trading' in the Corporations Act will require changes in market practices for market participants conducting takeovers and on-market buybacks for clients.

This interpretation takes effect from the day the amended Rule 4.2.3 (Competition) on trade with price improvement is registered.

Consequential amendments on post-trade transparency

36 In CP 179, we proposed a number of consequential amendments on post-trade transparency to more accurately reflect the intent of the rules (e.g. to clarify the definitions of executing participant and large principal transactions) and the validation of off-order book transactions by market operators.

37 There was general support for these proposals.

ASIC's response

We have made new and amended market integrity rules on:

- validation of delayed reported off-order book trades (see Rules 5.1.1(4A) and 5.1.4A (Competition), and Section F of RG 223);
- the definition of 'executing participant' (see Rule 5.1.2(2) (Competition));
- a market operator's obligation to make available trading information (see Rule 5.1.6 (Competition)); and
- the definition of 'large principal transaction' (see Rule 5.2.1 (Competition)).

The new and amended rules commence on the day after the day on which they are registered.

C Feedback on CP 184

Key points

In CP 184, we proposed to:

- make new or amended market integrity rules on automated trading;
- issue new regulatory guidance on some of the issues relating to automated order processing (AOP); and
- make a consequential amendment to the ASIC Market Integrity Rules (Chi-X) for the certification of AOP systems.

Respondents were generally supportive of the proposals.

Based on submissions received, we have:

- made new or amended market integrity rules on automated trading with minor amendments (see ASIC Market Integrity Rules (ASX) and ASIC Market Integrity Rules (Chi-X));
- issued a new regulatory guide on automated trading with minor amendments (see RG 241); and
- made the consequential amendment to the ASIC Market Integrity Rules (Chi-X) as proposed.

Draft rules on automated trading

- 38 In CP 184, we proposed to make a number of new or amended market integrity rules on automated trading to reflect our policy position after the consultation process on CP 168.
- 39 Respondents were generally supportive of our proposed amendments. One submission noted that the technical measures proposed would, when combined with controls already in place at the market operator level, provide a robust and clear operational compliance framework to manage the risk of aberrant automated trading activity. There was also strong support for the proposed requirement for a market participant to have direct control over filters and provide annual notifications to ASIC.
- 40 A number of submissions expressed views on the drafting of the definition of ‘authorised person’. One respondent suggested that the proposed change to this definition raised concerns that a designated trading representative (DTR) could not act in a different capacity by using AOP.
- 41 One respondent thought that initial certification is a key control when implementing a new AOP system and so did not support the amendment to omit ASIC confirmation of AOP certification.

- 42 There was mixed feedback on the proposed penalties for the new and amended rules. One respondent thought that there needed to be financially relevant fines for misbehaviour. On the other hand, another respondent stated that the maximum fines appeared to be very high.

ASIC's response

We have made new and amended market integrity rules 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 Rules 5.6.3(1)(d), 5.6.3(1)(e) and 5.6.3(2) (ASX) and (Chi-X));
- an annual review of AOP systems and notification of market participants' compliance with the market integrity rules for AOP (see Rules 5.6.8A and 5.6.8B (ASX) and (Chi-X)); and
- market participants to conduct an internal review where a material change is made to an AOP system (see Rule 5.6.8 (ASX) and (Chi-X)). This replaces the requirement for market participants to notify ASIC of a material change to an AOP system.

We have set penalties for the new and amended rules as proposed.

Taking into account the feedback received, we have made the following amendments to the proposed rules:

- amended the definition of 'authorised person' in Rule 1.4.3 (ASX) and (Chi-X) by removing 'other than a DTR'; and
- required confirmation to be received by a market participant from ASIC after initial AOP certification under Rule 5.6.6(1) (ASX) and (Chi-X). In substance, this means that the current requirement to receive ASIC confirmation continues.

The new and amended rules for AOP commence on the day that is 18 months after the day on which they are registered.

Draft guidance on automated trading

- 43 In CP 184, we proposed to issue new guidance that reflects our proposed policy position on automated trading and consolidate existing ASIC and ASX guidance on this topic. We also proposed to update our existing regulatory guides to remove any guidance on and references to AOP, as it would be integrated into our new guidance.
- 44 The feedback we received was broadly supportive of the draft new guidance. Respondents were in favour of the guidance on automated filters as they thought that effective filters play a key role in the stability of a fair and orderly market. Submissions also supported the proposed guidance on direct control over filters.

- 45 On business continuity arrangements, a number of submissions raised concerns about the implications of the guidance for market participants operating different business models. In particular, distinctions were drawn between:
- (a) small brokers that may have simplified arrangements with other brokers or with facilities provided by the market operator;
 - (b) large firms with client-facing commitments that may use different business continuity arrangements; and
 - (c) market making firms who need to maintain their quoting commitments.
- 46 On material changes, one respondent submitted that the guidance was useful in assessing materiality. However, the respondent suggested that there should be greater focus on the filters in place. Another respondent indicated a preference for further guidance on what constituted a material change.
- 47 Some respondents thought that the guidance was too prescriptive, particularly on testing an AOP system. Others wanted additional clarity on a number of topics such as monitoring and control, and policies and procedures.

ASIC's response

We have issued a new regulatory guide on automated trading: see Regulatory Guide 241 *Electronic trading* (RG 241).

Taking into account the feedback received, we have amended our guidance in a number of ways. These amendments include:

- clarifying the interaction between DTRs and AOP systems;
- adding further detail of the different business continuity arrangements that market participants operating different models may have in place;
- clarifying our expectations on monitoring AOP in real time or close to real time;
- expanding the considerations to be taken into account before authorising the use of automated client order processing (ACOP), including the policies and procedures a market participant should have in place for access by authorised persons;
- clarifying the link between material changes and organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3 (ASX) and (Chi-X); and
- clarifying the commonality between the methodology for an initial AOP review and a material change review.

Our guidance in RG 241 applies 18 months from the date of its release.

We intend to update 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) to remove references to AOP.

RG 214 and RG 224 will be updated as part of our ongoing review of ASX guidance notes and the wider rule harmonisation process.

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

- 48 In CP 184, we proposed to remove Rule 5.6.6A (Chi-X). The proposal meant 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.
- 49 We received mixed feedback on this proposal. Some respondents were opposed to it, while others thought that uniform compliance across the ASX and Chi-X markets as proposed by the removal of Rule 5.6.6A (Chi-X) was a sensible approach given the time since the commencement of competition in exchange markets.

ASIC's response

We have removed Rule 5.6.6A (Chi-X).

As outlined in CP 184, this rule was not intended to be a longer-term approach. We believe that the removal of this rule is appropriate at this time.

The removal of Rule 5.6.6A (Chi-X) comes into effect at the same time as the new and amended rules for AOP (i.e. 18 months after the day on which these rules are registered).

Appendix 1: List of non-confidential respondents

Non-confidential respondents to CP 179	Non-confidential respondents to CP 184
<ul style="list-style-type: none">• ASX Limited• Australian Financial Markets Association• Chi-X Australia Pty Ltd• Liquidnet Australia Pty Ltd	<ul style="list-style-type: none">• Association of Mining and Exploration Companies Inc• ASX Limited• Australian Council of Trade Unions• Australian Financial Markets Association• Chi-X Australia Pty Ltd• Clark, Rolland (Just4Business Pty Ltd)• Crossley, David• Eclipse Options (AU) Pty Ltd• Evans, Jean• IMC Pacific Pty Ltd• Industry Super Network Pty Ltd• Mose, Mark• Optiver Australia Pty Limited• Tibra Trading Pty Limited

Appendix 2: Timing for implementation

Issue	Rule(s)/guidance	Effective date of rule(s)/guidance
Automated trading	<p>New and amended market integrity rules for:</p> <ul style="list-style-type: none"> • direct control over pre-trade filters, and appropriate controls to suspend, limit or prohibit automatic order processing (AOP) for one or more authorised persons or a series of related messages (see Rules 5.6.3(1)(d), 5.6.3(1)(e) and 5.6.3(2) (ASX) and (Chi-X)); • an annual review of AOP systems and notification of market participants' compliance with the market integrity rules for AOP (see Rules 5.6.8A and 5.6.8B (ASX) and (Chi-X)); and • market participants to conduct an internal review where a material change is made to an AOP system (see Rule 5.6.8 (ASX) and (Chi-X)). This replaces the requirement for market participants to notify ASIC of a material change to an AOP system. <p>New Regulatory Guide 241 <i>Electronic trading</i> (RG 241) clarifying our expectations for:</p> <ul style="list-style-type: none"> • trading system controls under existing rules; • testing of systems under existing rules (including of order flow via algorithms); and • additional minimum standards for direct market access under existing rules. 	<p>The new and amended rules for AOP commence on the day that is 18 months after the day on which the rules are registered.</p> <p>RG 241 applies 18 months from the date of its release.</p>
Market operator systems and controls	<p>Addendum to Regulatory Guide 172 <i>Australian market licences: Australian operators</i> (RG 172) providing guidance on our expectations for market operators in relation to their systems and controls.</p>	<p>The guidance in this addendum applies immediately from the date of its release.</p>
Extreme price movements	<p>For equity market products, amendments to existing rules and updates to Regulatory Guide 223 <i>Guidance on ASIC market integrity rules for competition in exchange markets</i> (RG 223) on anomalous order thresholds and extreme cancellations ranges to require market operators to effectively minimise the incidence of transactions executing in the extreme trade range. The new process may trigger a 2-minute trading pause.</p> <p>See Chapter 2 (Competition).</p>	<p>The amended rules commence on the day after the day on which the rules are registered.</p> <p>The guidance in RG 223 applies immediately from the date of its release.</p>

Issue	Rule(s)/guidance	Effective date of rule(s)/guidance
Extreme price movements (cont.)	<p>For the ASX SPI 200 Index Future, new rules and guidance in RG 223 requiring the operator of ASX 24 to:</p> <ul style="list-style-type: none"> • have anomalous order thresholds for the ASX SPI 200 Future; and • for the ASX SPI 200 Future, introduce an extreme trade range and to prevent trades from executing in the range. <p>See Chapter 2 (Competition).</p>	<p>These rules apply from the day that is 18 months after the day on which the rules are registered.</p> <p>The guidance will be reflected in RG 223 when the rules commence.</p>
Enhanced data for supervision	<p>A new rule and guidance in RG 223 for the following data to be provided, recorded and passed on to ASIC:</p> <ul style="list-style-type: none"> • the execution venue; • the capacity of market participant (e.g. principal or agent only); • a reference indicating the origin of the order, to the extent that information is available to a market participant taking reasonable steps to ascertain it; • the AFS licence number where an order originates from an indirect market participant and the information is readily available; and • flagging of directed wholesale orders. <p>See Chapter 5A (Competition).</p>	<p>For market operators, the new rule and guidance in RG 223 apply from 28 October 2013.</p> <p>For market participants, the new rule and guidance in RG 223 apply from 10 March 2014. However, market participants may choose to provide some or all of the data from 28 October 2013.</p>
Pre-trade and post-trade transparency	<p>Trades 'with price improvement' replace trades 'at or within the spread' as an exception to the obligation for market participants to submit orders to a pre-trade transparent order book: see Rule 4.2.3 (Competition).</p> <p>A tiered threshold replaces the static \$1 million threshold for block trades: see Rules 4.1.1(2)(a) 4.2.1 (Competition).</p> <p>New rule to confirm that primary market transactions and stock lending are not subject to the pre-trade transparency obligations: see Rule 4.1.8 (Competition).</p> <p>New rule to require market participants to keep, for 7 years, records that enable the participant to demonstrate compliance with any pre-trade transparency exceptions relied on: see Rule 4.1.1(3) (Competition).</p>	<p>This rule commences 6 months after the day on which the rule is registered.</p> <p>The guidance will be reflected in RG 223 when the rules commence.</p> <p>This rule commences 6 months after the day on which the rule is registered.</p> <p>The guidance will be reflected in RG 223 when the rules commence.</p> <p>This rule commences on the day after the day on which the rule is registered.</p> <p>The guidance in RG 223 applies immediately from the date of its release.</p> <p>This rule commences on the day after the day on which the rule is registered.</p> <p>The guidance in RG 223 applies immediately from the date of its release.</p>

Issue	Rule(s)/guidance	Effective date of rule(s)/guidance
Pre-trade and post-trade transparency (cont.)	New rules requiring market participants and market operators to have in place systems and controls to ensure that they validate and verify that trades (including trades entitled to delayed publication) executed in reliance of a pre-trade transparency exception meet the criteria for the exception: see Rules 5.1.1(4A), 5.1.1(4B) and 5.1.4A (Competition).	These rules commence on the day after the day on which the rules are registered. The guidance in RG 223 applies immediately from the date of its release.