



ASIC

Australian Securities & Investments Commission

REPORT 394

Review of recent rule changes affecting dark liquidity

May 2014

About this report

In this report, we publish the results of our review of the impact on market quality of the meaningful price improvement rule and amendments to block tier thresholds which came into effect on 26 May 2013.

This report includes, as an attachment, a report commissioned by ASIC and produced by Charles Lane Advisory.

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.

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

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Executive summary

- 1 On 26 May 2013, ASIC implemented two independent rule changes—a new meaningful price improvement rule and lower block tier thresholds—to address the concerns we had about the impact of dark liquidity on the efficiency and integrity of our markets. These concerns related to:
 - (a) *Market quality*: Growth in dark trading (below block size trading) had impacted on price formation. Bid–offer spreads had widened in securities with high levels of below block size trades, despite the general trend of spreads narrowing.
 - (b) *Queue Jumping*: Before the introduction of the meaningful price improvement rule, below block size trades could trade ahead of ‘lit’ orders at the same price. This was unfair and provided little incentive for participants to contribute to price formation by placing lit orders on the market.
 - (c) *Liquidity*: The existing block tier threshold was inflexible and did not efficiently account for differences in liquidity in determining the price impact of large trades.
- 2 The two rule changes have affected both block size and below block size trading. The meaningful price improvement rule requires trades that are conducted in the dark in small sizes to offer price improvement. Together with the meaningful price improvement rule, the lower thresholds for trading in block size for most securities was anticipated to reduce the proportion of trading conducted below block size while increasing the availability of block size trades, particularly in less liquid securities.
- 3 In this report, we publish the results of our analysis of the impact of these rules on the use of dark liquidity and market quality.
- 4 We commissioned Charles Lane Advisory Pty Ltd (CLA) to conduct research to assist ASIC in analysing the impact of the rules on market quality. The *Report by Charles Lane Advisory: Review of recent rule changes* (CLA report) contains CLA’s analysis of the impact on market quality of the meaningful price improvement rule and amendments to block tier thresholds: see the attachment to this report. The CLA report was prepared by Carole Comerton-Forde.
- 5 The CLA report supports our conclusions that the rule changes have achieved the desired outcomes. The outcomes achieved include the following:
 - (a) Fairness issues associated with below block size dark orders stepping ahead of lit orders at the same price have been addressed. Due to the introduction of the meaningful price improvement rule stepping ahead is now prohibited. As a result, participants may be more likely to contribute to price formation by placing orders on lit markets.

- (b) The bid–offer spread is more equitably distributed between parties executing below block size dark trades.
- (c) We saw bid–offer spreads widen during 2013. However, the widening in spreads was driven by increased volatility at the time. After controlling for factors that are known to affect spreads (trading activity and volatility) there has been no material change. Therefore, the meaningful price improvement rule and change in block tier thresholds has not affected bid–offer spreads.
- (d) Below block size turnover as a proportion of total turnover declined by almost 30% in the year to September quarter 2013. This decline was wide ranging, with nearly three quarters of the most active 300 securities reporting a decline in below block size dark trading.
- (e) Participants can now trade smaller blocks away from lit markets where they would have traditionally faced higher market impact costs. There has been an increase in block size trading, both in new tiers below \$1 million and the traditional block tier greater than \$1 million.

6 The trend in recent years of increasing below block size turnover and declining block size turnover, appears to have abated. The share of below block size dark liquidity as a proportion of total turnover is back to where it was in 2010.

7 We are satisfied that the current policy settings and rule framework has had the desired effect of improving fairness and addressing the concerning trend of increasing below block size trading and declining block size trading. We do not propose to change the current policy and rules on dark liquidity, but will continue to monitor market developments.

A Background

Key points

There have been concerns about the changing nature of dark liquidity and its impact on efficient price formation. There have also been questions about the fairness of dark venues for investors.

To address some of the concerns about trends in dark liquidity, we made amendments to market integrity rules. In May 2013, the meaningful price improvement rule and amended block tier thresholds came into effect.

In March 2013, we published findings from the analytical work done by our internal dark liquidity taskforce to assess the impact of dark liquidity and high-frequency trading on market quality and integrity.

Rationale for rule changes

- 8 In recent years, advances in technology have made it easier to trade away from exchange markets and have facilitated a proliferation of dark trading venues known as ‘crossing systems’ and ‘dark pools’.
- 9 Before the rule changes, the proportion of total trading that occurred ‘in the dark’ remained fairly consistent, although the nature of this trading changed significantly. There were fewer large block size trades and a dramatic increase in below block size trades. We expressed concern about the changing nature of dark liquidity and its impact on efficient price formation. There were also concerns about the fairness of dark venues for investors.¹

Meaningful price improvement rule and amendments to block tier thresholds

- 10 On 20 November 2012, we made two amendments to the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 which, together as a package, were intended to address our concerns surrounding both block and below block size trading—the meaningful price improvement rule and the amendments to block tier thresholds: see ASIC Market Integrity Rules

¹ We have previously outlined trends and identified concerns relating to dark liquidity in Section H of Consultation Paper *Australian equity market structure: Proposals* (CP 145), Section E of Report 215 *Australian equity market structure* (REP 215), Section G of Consultation Paper 168 *Australian equity market structure: Further proposals* (CP 168), Section B of Consultation Paper *Dark liquidity and high-frequency trading: Proposals* (CP 202) and Section B of Report 331 *Dark liquidity and high-frequency trading* (REP 331).

(Competition in Exchange Markets) Amendment 2012 (No. 1). The amendments came into effect on 26 May 2013.²

Note: In this report, a reference to the ASIC Market Integrity Rules (Competition) is a reference to the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011, as amended from time to time.

- 11 The rules were the subject of consultation in CP 145 and CP 168, and reported to the market in Regulatory Guide 223 *Guidance on ASIC market integrity rules for competition in exchange markets* (RG 223).

Meaningful price improvement rule

- 12 We amended the ‘at or within the spread’ exception to pre-trade transparency to require dark trades in smaller sizes (below block size) to provide meaningful price improvement (of one tick or at midpoint): see Rule 4.2.3 (Competition).

Note: In this report a reference to Rule 4.2.3 (Competition) (for example) is a reference to a rule of the ASIC Market Integrity Rules (Competition) (in this example, numbered 4.2.3), unless otherwise indicated.

- 13 The amendment sought to address the impact of dark liquidity on price formation, market quality and fairness. It was anticipated that this rule would lower the proportion of below block size trading and encourage more trading to occur on lit exchange markets. The intention of the rule was also to protect lit orders from being traded ahead of by dark trades at the same price.

Amendments to block tier thresholds

- 14 We amended the ‘block trade’ exception to pre-trade transparency from a static \$1 million to a tiered threshold structure of \$1 million for the most liquid equity market products, \$500,000 for comparatively liquid equity market products and \$200,000 for all other equity market products: see Rule 4.2.1 (Competition). It is now possible to trade in smaller sizes (i.e. \$200,000 for the majority of securities, compared to \$1 million before 26 May 2013) at any price. Trades smaller than block size are required to receive meaningful price improvement under the ASIC Market Integrity Rules (Competition).
- 15 This amendment aligned the block tier threshold with the different liquidity profiles of listed stocks. Combined with the meaningful price improvement rule, it was anticipated to have the effect of reducing the proportion of trading conducted below block size while increasing the availability of block size trades, particularly in less liquid securities.

² The first day of trading after these amendments came into effect was 27 May 2013. We have, therefore, measured the impact of the meaningful price improvement rule and amended block tier thresholds from this date.

Dark liquidity taskforce

- 16 In mid-2012, we established an internal taskforce to consider the impact of dark liquidity on the quality and integrity of our financial markets.³
- 17 In March 2013, we published REP 331, which presented findings from the analytical work done by our internal taskforces to assess the impact of dark liquidity and high-frequency trading on market quality and integrity. The dark liquidity taskforce found that:
- (a) while the volume of dark trading had remained around 25–30% of total equity market share, there had been a change in its composition. There was also anecdotal evidence that there was less trading by fundamental investors on lit exchange markets;
 - (b) growth in dark trading below block size had led to a widening of bid–offer spreads on lit exchange markets for a number of securities; and
 - (c) there was also evidence that the quality of price formation had been adversely affected for securities with high levels of dark trading below block size.
- 18 The taskforce anticipated that the meaningful price improvement rule would encourage more trading to occur on lit exchange markets. We also expected more block size dark trading following the introduction of lower block tier thresholds. In light of these predicted developments, we identified the need to review the impact of these changes on market quality to determine whether these changes achieved their desired objectives: see Section B of REP 331.

³ At the same time, we also established a taskforce to analyse issues relating to high-frequency trading.

B Analysis of meaningful price improvement rule and amended block tier thresholds

Key points

The market has not been adversely affected by the changes to dark liquidity rules. While spreads are unchanged, we are seeing other benefits from the meaningful price improvement rule and lower block tier thresholds, including the discontinuation of trends that were concerning ASIC.

We do not propose to change our current policy and rules on dark liquidity but we will continue to monitor market developments.

How we formed our conclusions

- 19 We have monitored the impact of the meaningful price improvement rule and change in block tier thresholds since they were introduced. However, it was important to allow sufficient time to pass in order to remove short term fluctuations in market indicators, and to allow participants and investors to widely adopt the rule changes.
- 20 We have taken two approaches in examining the impact of the rule changes:
- (a) We have revisited the concerning trends identified in REP 331 to determine whether they have responded to the rule changes as anticipated. Specifically, we have monitored the market by comparing the time periods analysed in REP 331 (September quarter 2011 and 2012) with the market one year on (September quarter 2013). This allows a comparison of the market approximately six months before and after the rule change, while also providing reference to the baseline period used in REP 331 (September quarter 2011) (see the appendix).
 - (b) We provided detailed market data to CLA, a market microstructure expert, to conduct a robust empirical analysis of the impact of the rule changes on market efficiency. CLA conducted an event study examining the market, 100 trading days before and after the rule changes (see the attachment to this report).
- 21 These two approaches allow ASIC to review the impact of the rule changes through both longer term trends, and a shorter term event study assessing measures of market efficiency. The time periods examined in each approach differ.⁴ This means that the results of each approach are not directly

⁴ The appendix (update to REP 331) primarily examines the September quarters in 2011, 2012 and 2013. The CLA report covers the period 31 December 2012 to 14 October 2013, inclusive.

comparable. However, together the results provide an overall assessment of the rule changes.

Impact of rule changes

Trends in dark trading

- 22 Total dark trading as a proportion of dollar turnover increased from 25.0% in September quarter 2012, to 28.7% in September quarter 2013. The composition of dark trading has undergone a larger change than indicated by the small increase in the headline figure. Below block size turnover fell from 14.5% of total dollar turnover to 10.2%, while block size turnover rose from 10.3% to 18.5%. A breakdown of dollar turnover is provided in Figure 1.
- 23 Turnover in block size trading trended higher following amendments to block tier thresholds, although this trend was already evident before the rule change. While we cannot directly link this trend with the rule change, the increase in the number of eligible trades that can be conducted as a block special trade has facilitated the increase in total block size trading activity.
- 24 In Australia, research has shown that the quality of a securities market declines when below block size trading exceeds 10% of total dollar volume.⁵ In REP 331 we highlighted the growing trend of securities exceeding this threshold.⁶ This trend has discontinued. The key trends are:
- (a) Of the most active 300 securities, 72% experienced a decline in below block size trading in the year to September quarter 2013 (see Figure 4). In addition, 42% of securities that were above the 10% threshold in September quarter 2012 are now below the threshold.
 - (b) There has still been an increase in below block size trading in the two years since September quarter 2011, with 65% of the most active 300 securities experiencing an increase (Figure 5). Although there has been a decrease for most securities over the past year, levels are still elevated compared to 2011.
 - (c) In REP 331, one security exceeded the 15% threshold for block size trading in September quarter 2012.⁷ Following the reduction in block tier thresholds, the number of securities with a median stock day above the 15% threshold has increased, however, the increase has been small (from one to 15).

⁵ C Comerton-Forde and TJ Putnins, *Dark trading and price discovery*, 19 November 2013, available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2183392.

⁶ This paragraph specifically refers to median stock day results (i.e. a stock exceeds the threshold where the median day below block turnover is greater than 10% of total turnover).

⁷ C Comerton-Forde and TJ Putnins, *Dark trading and price discovery*, 19 November 2013, identified that the marginal impact of block trading in excess of 15% was negative for informational efficiency.

Impact on market quality

- 25 Research conducted by CLA found that while spreads widened during 2013, this was driven by increased volatility at the time: see Figure 4 in the CLA report. After controlling for factors that are known to affect spreads (trading activity and volatility) there was no material change.
- 26 CLA's analysis yielded consistent results when examining security groups segregated by market capitalisation and block tier threshold. While most groups did not experience a change, even where they did report a statistically significant increase in spread, the increase was economically insignificant when compared with the average prevailing spread. Therefore, the meaningful price improvement rule and amendments to block tier thresholds have not affected spreads.
- 27 A time series analysis of depth shows that changes in depth over the sample period were negatively correlated with volatility. However, formal analysis of the impact of the rule changes on depth, after controlling for other factors, was not undertaken as there are no established models of the determinants of depth.

Impact on other measures

- 28 Our analysis shows that the rule changes have achieved the desired outcomes of improving fairness. These outcomes include:
- (a) Fairness issues associated with below block size dark orders stepping ahead of lit orders at the same price have been addressed. Due to the meaningful price improvement rule stepping ahead is now prohibited. As a result, participants may be more likely to contribute to price formation by placing orders on lit markets.
 - (b) Bid-offer spreads are more equitably distributed between parties executing below block size dark trades. Trades reported as at-or-within the spread and offering price improvement increased from around 70% before the meaningful price improvement rule to almost 100% afterwards.⁸
 - (c) As a result of lowering the threshold for blocks in less liquid stocks, participants can now trade in smaller blocks in order to minimise market impact costs. Turnover in block size trades have increased since the lower thresholds were introduced.
- 29 Overall, the trend in recent years of increasing turnover in below block size trading and declining turnover in blocks size trading appears to have

⁸ The reason the percentage remains slightly below 100%, rather than equalling 100%, is likely due to latency issues between exchanges or where orders are entered at the same time stamp as trades are reported, allowing trades to appear to offer no price improvement.

stopped. The aggregate level of below block size dark liquidity is now around the same level it was in 2010: see Figure 2.

Other changes impacting dark liquidity

- 30 A number of other factors affected the level of dark trading around the same time as the meaningful price improvement rule and the lower block tier thresholds were introduced. These factors include the cessation of priority crossings and the introduction of broker preferencing. Given that these changes impacted all stocks on the same day, it is not possible to assess the impact of these changes individually. The analysis provided by CLA therefore evaluates the cumulative impact of all of these changes, rather than evaluating these changes individually.

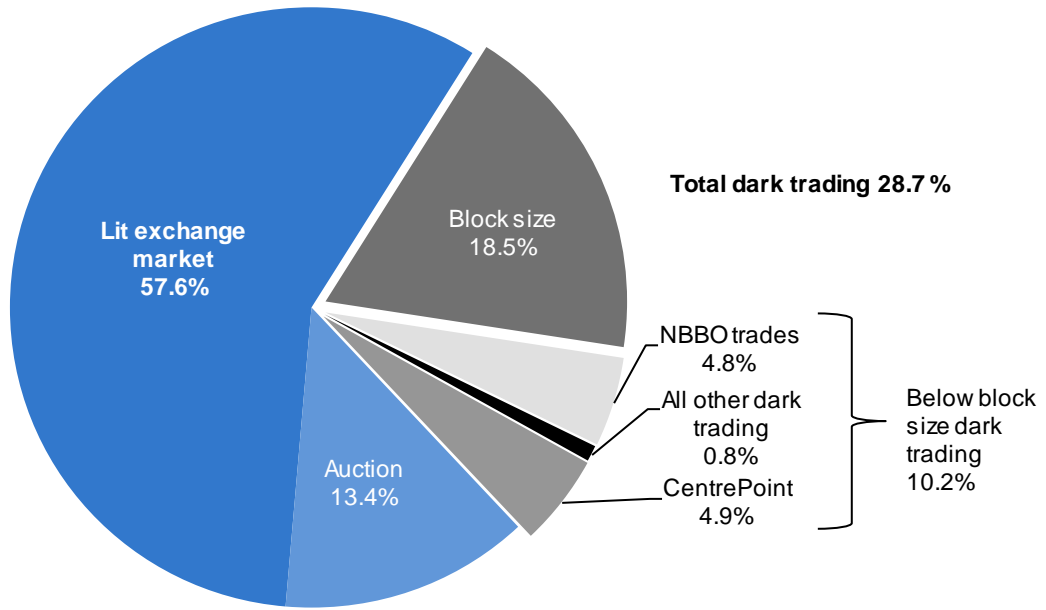
Next steps and further work

- 31 Overall, we are satisfied that the current policy settings have achieved the desired effect of improving fairness, providing a more tailored policy for executing block size trades and addressing the concerning trend of increasing below block size trading and declining blocks. ASIC does not propose to change the current policy and rules on dark liquidity but will continue to monitor market developments.

Appendix: Supporting analysis (update to REP 331)

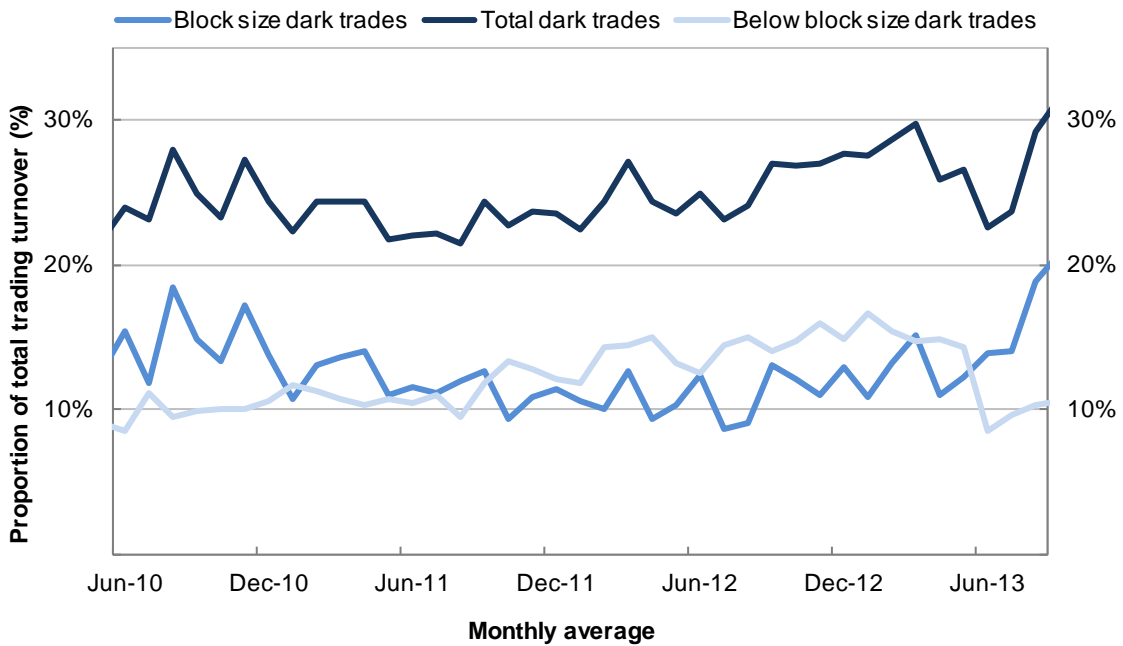
- 32 In REP 331, we identified an apparent shift of fundamental investors away from lit exchange markets into the dark. In particular, there was evidence of a move from block size to below block size trades. ASIC expressed concerns that dark orders stepping ahead of pre-trade transparent orders at the same price may have discouraged investors from displaying orders. This perceived unfairness meant that fundamental investors may have been contributing less to pre-trade price formation on lit exchange markets than they used to.
- 33 However, the introduction of the meaningful price improvement rule and the change in block tier thresholds is intended to address these fairness concerns while providing a more tailored policy for executing block size trades. The figures below have been updated to September quarter 2013, to show how the market has changed in the year since the release of REP 331. We also examine the impact of these new rules, which were introduced approximately halfway through this period.
- 34 It should be noted that block trading, as discussed here and in REP 331, includes all trades executed under pre-trade transparency exemptions in Rules 4.2.1 and 4.2.2 (Competition). This analysis does not directly compare with the analysis in the CLA report, which analyses block trading as those trades subject to the recently amended block special rule in Rule 4.2.1 (Competition).
- 35 Below block size dark liquidity, as a percentage of total market turnover, dropped after the introduction of the rule changes, averaging just 10.2% in September quarter 2013. Block activity, as a percentage of total turnover, rose to its highest level in our data set, averaging 18.5% in the same quarter: see Figure 1 and Figure 2.
- 36 The number of block size trades increased to around 17,000 per month in September quarter 2013, and the number of below block size trades also rose to 3.8 million per month: see Table 1. The ASX Centre Point order book grew strongly in the 12 months to September quarter 2013, from 2.6% to 4.8% of total turnover. Hidden turnover on Chi-X also grew, from 0.2% to 0.8% of total market turnover over the same period.

Figure 1: Trade execution by type of trade as a proportion of value—September quarter 2013



Source: ASIC

Figure 2: Block size and below block size dark turnover as a proportion of total turnover—monthly averages to September 2013



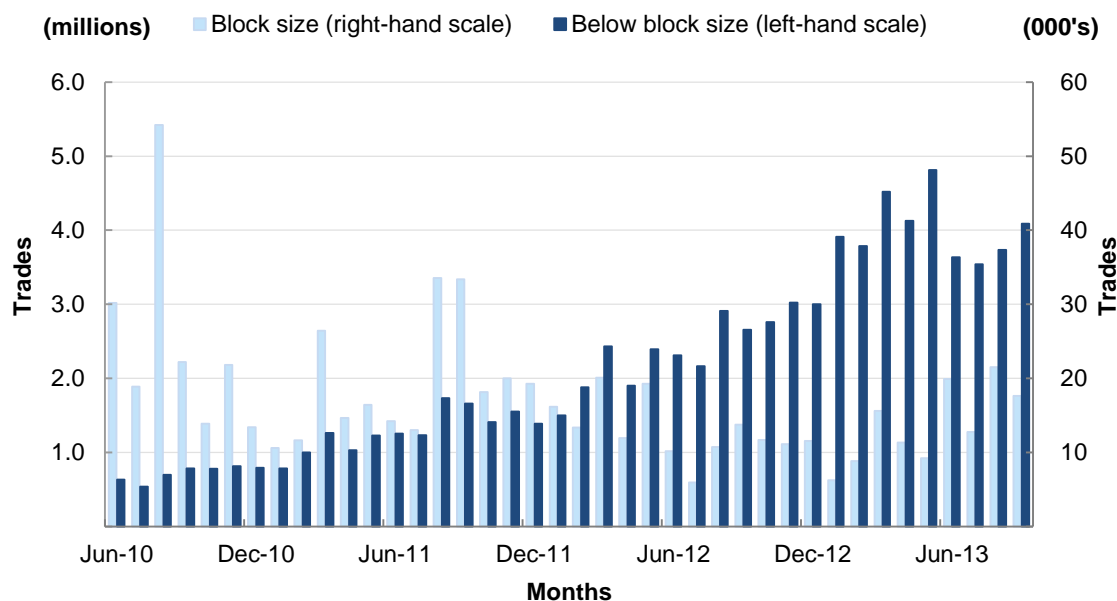
Source: ASIC

Table 1: Trends in dark trading—change from September quarter 2012 to September quarter 2013*

Block size dark trades	Below block size dark trades
Percentage of total turnover:	
Increased from 10% to 18%: see Figure 2	Decreased from 14% to 10%: see Figure 2
Number of trades:	
Increased (by 70%) from 10,000 to 17,000: see Figure 3	Increased (by 47%) from 2.6 million to 3.8 million: see Figure 3
Value of trades:	
Increased (by 97%) from \$8.9 billion to \$17.6 billion	Decreased (by 19%) from \$12.4 billion to \$10.1 billion

* All figures are monthly averages for the quarter.

Source: ASIC

Figure 3: Number of dark trades at block size and below block size—June 2010 to September 2013

Source: ASIC

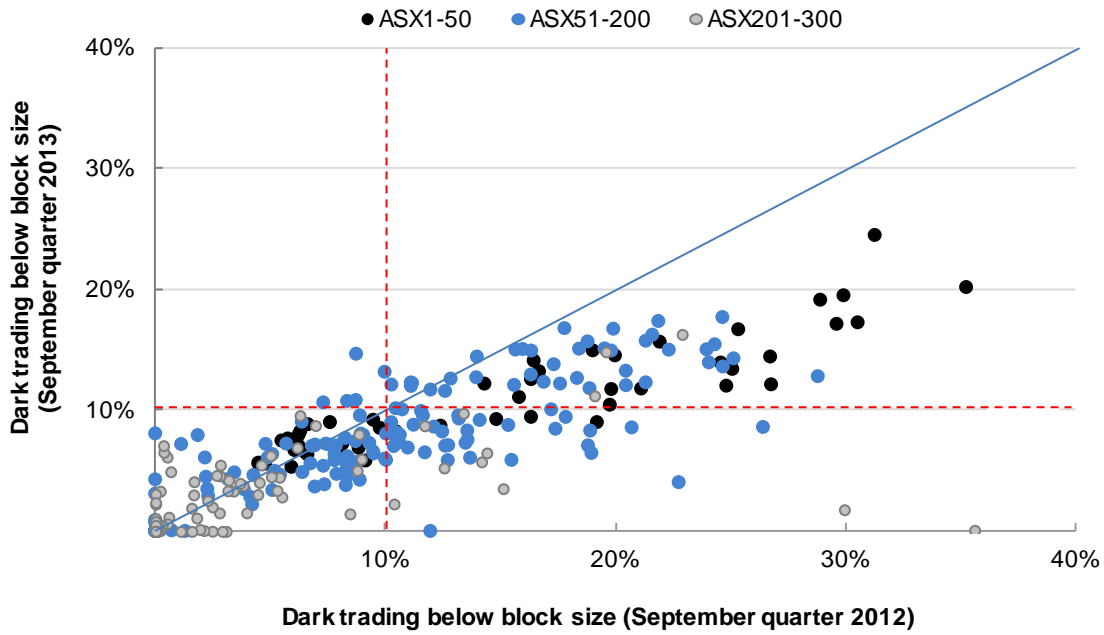
- 37 In Australia, research⁹ has shown that dark liquidity was associated with a decline in the quality of lit exchange markets once dark trading below block size exceeded 10% of total dollar volume, after controlling for other security characteristics.
- 38 REP 331 examined trading in the September quarters of 2011 and 2012, identifying that 85% of securities experienced an increase in below block size dark liquidity between these two periods. We also identified that 28% (142) of

⁹ C Comerton-Forde and TJ Putnins, *Dark trading and price discovery*, 19 November 2013, available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2183392.

the 500 largest securities, by market turnover, were above the estimated 10% threshold, compared with 14% (69) in September quarter 2011.

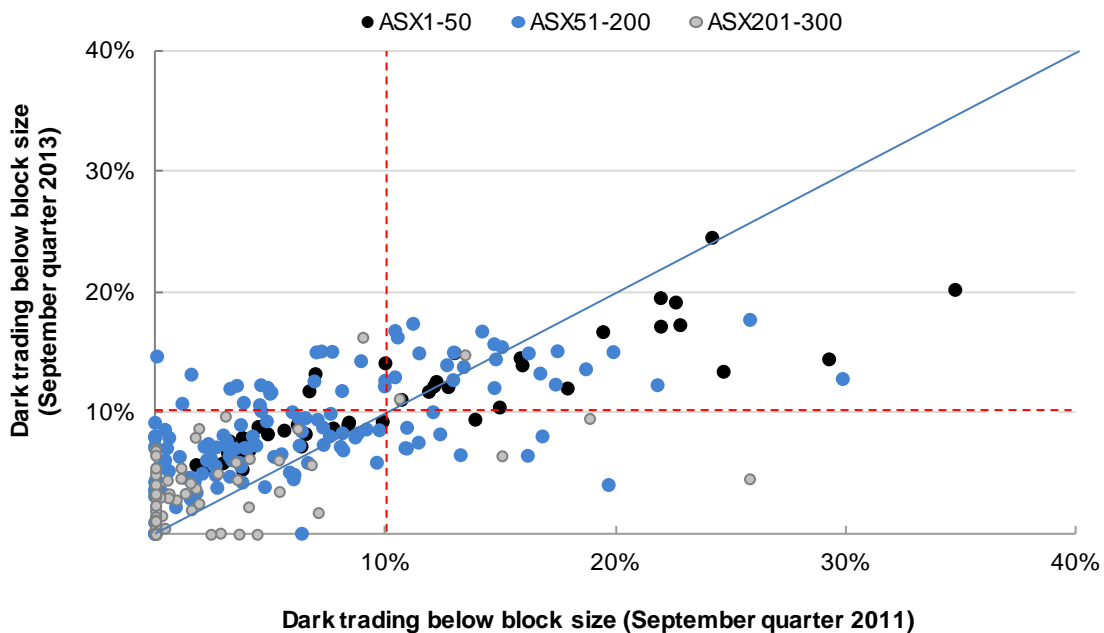
- 39 In this report, we examine the same relationship (median stock day values for the most active 300 securities) between the September quarters of 2012 and 2013. Data for 2012 is plotted against the horizontal axis in Figure 4 and data for 2013 is plotted against the vertical axis: see Figure 4. Securities below (to the right of) the diagonal line represent a decrease in below block size dark liquidity in the year to September quarter 2013. Over this period, 72% (217) of the 300 largest securities, by market turnover, experienced an overall reduction in below block size turnover. Approximately 42% of the securities that were above the threshold in September 2012 were below the threshold in September 2013.
- 40 Approximately 65% of the top 300 securities experienced an increase in below block size turnover as a percentage of their total turnover in the two years since September quarter 2011 (the baseline period in REP 331): see Figure 5. However, of the securities that were above the 10% threshold in September quarter 2011, 68% experienced a decrease in below block size turnover in the two years since. That is, securities with high levels of below block size dark trading have experienced greater falls in the two year period than the remaining securities.
- 41 In the 12 months to September quarter 2013, the number of securities above the 10% below block size threshold has decreased, particularly in securities outside the ASX 200: see Figure 6. Additionally, we have observed that:
- (a) in September quarter 2013, 16% (78) of the 500 largest securities were above the estimated threshold, compared with 28% (142) in September quarter 2012; and
 - (b) the number of small securities (ASX 200+) with below block size dark liquidity exceeding 10% has also dropped from 54 to six over the same 12 month period.

Figure 4: Median day of below block size dark turnover as a percentage of market turnover—September quarter 2012 and September quarter 2013



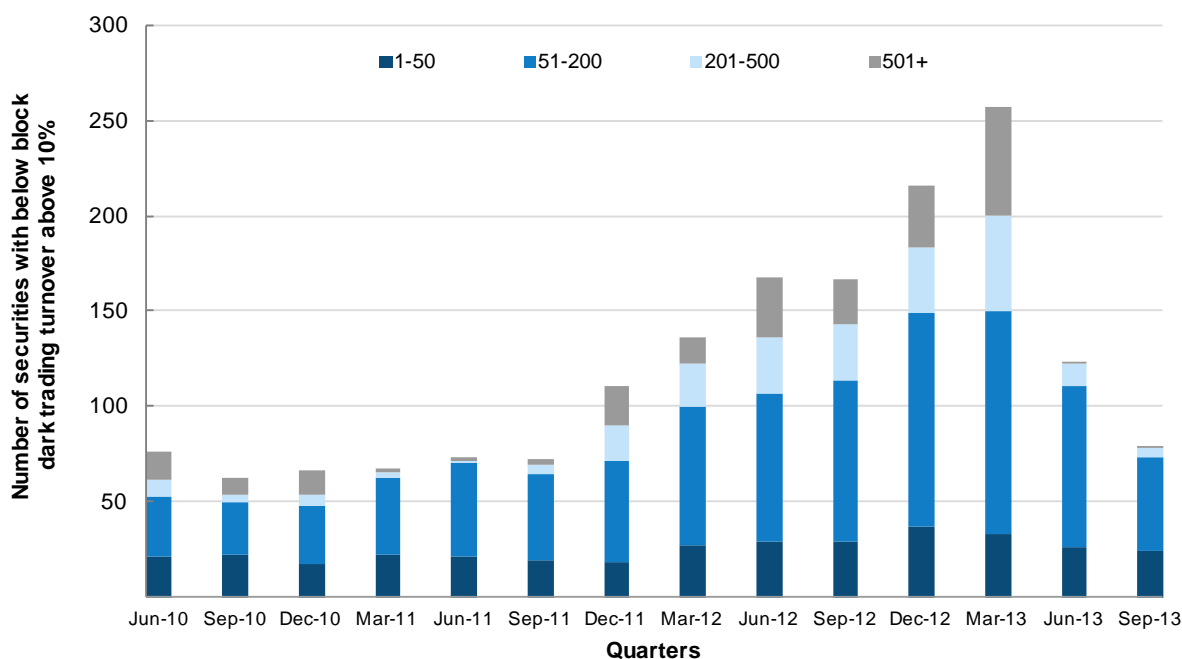
Source: ASIC

Figure 5: Median day of below block size dark turnover as a percentage of market turnover—September quarter 2011 and September quarter 2013



Source: ASIC

Figure 6: Number of securities with the median day of below block size dark turnover above 10% of total turnover—to September quarter 2013



Source: ASIC

42 In REP 331, the declining trend in block size trades and the low number of securities above the 15% threshold for block size dark liquidity reduced the need for the same depth of analysis as provided for below block size dark trading. Between the September quarters of 2012 and 2013, 65% (195) of the 300 largest securities, by market turnover, experienced an overall increase in block size turnover. There were 15 securities that were above the 15% block size threshold in September quarter 2013, compared with one security in September quarter 2012. Looking at block trading in each of the stock groupings:

- (a) 98% of the ASX1–50 securities experienced an increase;
- (b) 85% of the ASX51–200 securities experienced an increase; and
- (c) 16% of the ASX201–300 securities experienced an increase.

43 Exploring the longer time period between the September quarters of 2011 and 2013, approximately half (141) of the top 300 securities experienced an increase in block size turnover as a percentage of their total turnover. The number of securities that reported median stock days above the 15% block size threshold rose from 12 to 15 over the two year period.

44 In general, there does not appear to be a concern with the current level of block size trading, in spite of the recent increase.

Key terms

Term	Meaning in this document
ASIC	Australian Securities and Investments Commission
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 and Commonwealth Government Securities depository interests quoted on ASX
ASX	ASX Limited or the exchange market operated by ASX Limited
below block size dark trades	Trades executed during normal trading hours that are not pre-trade transparent and that are not block size trades
bid–offer spread	The difference between the best bid and the best offer (also known as ‘bid–ask spread’)
block size trade	Trades that rely on the exception to the pre-trade transparency obligations in Rules 4.2.1 and 4.2.2 (Competition)
block tier threshold	The thresholds contained in Rule 4.2.1 (Competition)
Centre Point	An ASX-operated, dark execution venue that references the midpoint of the bid–offer spread on ASX’s CLOB
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, operated by a market operator, where bids and offers are typically matched on price–time priority
competition	Competition between licensed exchange markets
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
crossing	A type of transaction where the market participant is the same for both the buyer and seller. The market participant may be acting on behalf of the buying client and the selling client, or acting on behalf of the client on one side of the transaction and as principal on the other side of the transaction
crossing system	An automated service provided by a market participant to its clients that matches or executes client orders with orders of the market participant (i.e. against the participant’s own account) or with other users with orders in the system. These orders are not matched on a pre-trade transparent order book
crossing system operator	Market participant that operates a crossing system

dark liquidity/trading	Orders that are not pre-trade transparent (i.e. not known to the rest of the market before they match).
dark pools/venues	Electronically accessible pools of liquidity that are not pre-trade transparent, including crossing systems and dark venues operated by exchange market operators
depth	Volume of orders on an order book available to be traded
equity market products	Shares, interests in managed investment schemes, rights to acquire shares or interests in managed investment schemes under a rights issue, and CHESSE depository interests admitted to quotation on ASX
exchange market	A financial market operated by a licensed market operator (under Pt 7.2 of the Corporations Act)
execution venue	<p>A facility, service or location on or through which transactions in equity market products and Commonwealth Government Securities depository interests are executed, and includes:</p> <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
financial market	As defined in s767A of the Corporations Act, a facility through which offers to acquire or dispose of financial products are regularly made or accepted
financial product	<p>Generally, a facility through which, or through the acquisition of which, a person does one or more of the following:</p> <ul style="list-style-type: none"> • makes a financial investment (see s763B); • manages financial risk (see s763C); and • makes non-cash payments (see s763D) <p>Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.</p>
fundamental investor	A person who buys or sells a security based on an assessment of the intrinsic value of the security (sometimes referred to as 'long-term investors')
liquidity	Volume of orders
lit exchange market	An exchange market where orders are displayed on the order book of a market operated by a market licensee and the orders are therefore pre-trade transparent
market impact	The effect on the formation of price, volume and market depth created by order flow or trading activity. This includes the associated cost incurred when the execution price differs from the target price, or when the liquidity required by the execution is different from the liquidity available

market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
market operator	An operator of a licensed market.
market order	An order matched at the best price currently available
market participant	A participant of a licensed market.
meaningful price improvement	The price improvement rule in Rule 4.2.3 (Competition), introduced on 26 May 2013, which requires dark trading (other than large blocks) to be done with meaningful price improvement of one price increment within the bid–offer spread or the midpoint.
order book	An electronic list of buy orders and sell orders, maintained by or on behalf of a market operator, on which those orders are matched with other orders in the same list
pre-trade transparency	Information on bids and offers being made publicly available before transactions occur (i.e. displayed liquidity)
price formation	The process of determining the price of a security through the interaction of buyers and sellers
price improvement	From 26 May 2013, amended Rule 4.2.3 (Competition) takes effect. It provides an exception to the pre-trade transparency obligations where the dark trade provides price improvement of one tick size or the midpoint between the best available bid and best available offer
price step	See ‘tick size’
price–time priority	A method for determining how orders are prioritised for execution. Orders are first ranked according to their price; orders of the same price are then ranked depending on when they were entered
priority crossing	A type of crossing on ASX’s CLOB that is transacted with time priority
REP 215	An ASIC report (in this example numbered 215)
RG 241 (for example)	An ASIC regulatory guide (in this example numbered 241)
Rule 4.2.3 (Competition) (for example)	A rule of the ASIC Market Integrity Rules (Competition) (in this example numbered 4.2.3)
s912 (for example)	A section of the Corporations Act (in this example numbered 912), unless otherwise specified
spread	The difference between the best bid and offer prices
tick size	The minimum increment by which the price for an equity market product or Commonwealth Government Securities depository interest may increase or decrease

Related information

Headnotes

below block size dark trade, block size trade, block tier threshold, dark liquidity, market integrity, market operator, market participant, market quality, price improvement rule

Regulatory guides

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

Legislation

Corporations Act

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 202 *Dark liquidity and high-frequency trading: Proposals*

REP 215 *Australian equity market structure*

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

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

REP 331 *Dark liquidity and high-frequency trading*

REP 364 *Response to submissions on CP 202 Dark liquidity and high-frequency trading: Proposals*

Market integrity rules

ASIC Market Integrity Rules (Competition)