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Australian Securities & Investments Commission
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By email: MIRconsolidation@asic.gov.au

CP 277 – PROPOSALS TO CONSOLIDATE MARKET INTEGRITY RULES

Dear Merrick

Thank you for the opportunity to comment on the proposal to consolidate the various Market Integrity Rulebooks which apply to activities or conduct on licensed financial markets.

ASX supports the proposals to consolidate:

- the multiple rulebooks to create a single point of reference for market integrity matters applying to licensed securities markets, including the proposed approach to applying specific sets of market integrity rules (i.e. excluding the ASIC MIRs (Competition)) to the NSX, SSX and IR Plus markets and their participants;
- the market integrity rules applying to the two licensed futures markets (ASX 24 and FEX) into a single rulebook; and
- the multiple market integrity rulebooks that set out capital requirements for participants trading on a number of markets into two distinct rulebooks on securities markets and futures markets.

ASX would also support the proposals to remove certain obligations on participants relating to management requirements and responsible executives from the market integrity rules.

ASX agrees that, in general, exceptions to the pre-trade transparency requirements should be limited, to enhance fairness and efficiency in the operation of markets and encourage on-market liquidity to improve the quality of price formation. With these objectives in mind, in relation to the measures ASIC propose to clarify the operation of the pre-trade transparency rules, ASX:

- supports clarifying that a block trade involves a crossing between: one client and one client; one client and multiple clients; one client and the participant as principal; and multiple clients and the participant as principal;
- supports clarifying that a large portfolio trade involves a crossing between: one client and one client or one client and the participant as principal;
- supports Option (3) (i.e. maintaining the existing position that principal and client orders cannot be aggregated on the same side for the purposes of conducting a block trade). ASX notes the concerns expressed by some participants that there may be inconsistent interpretation/application of this rule across the market. If ASIC did decide to revise the current position, Option (2) is preferable (i.e. allowing

aggregation of client and principal orders on the same side of a block trade only in circumstances where the client portion of the order exceeds the block trading threshold). ASX considers that Option (1) is not acceptable (i.e. allowing aggregation of client and principal orders on the same side of a block trade), as it does not have regard to the importance of encouraging on-market liquidity to improve the quality of price formation. If a policy change is implemented, ASX would amend its Operating Rule Procedure 4810 to align with the new market integrity rule.

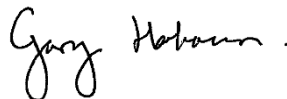
We also have a number of comments and queries on the drafting of the new rulebooks, which are set out in Annexure A.

If you have any queries on these matters please contact Sally Palmer (ph: 9227 0920; email: sally.palmer@asx.com.au) or Gary Hobourn (ph: 9227 0930; email: gary.hobourn@asx.com.au).

Yours sincerely,

A handwritten signature in black ink that reads 'Sally Palmer' in a cursive, flowing script.

Sally Palmer
Deputy General Counsel, Trading

A handwritten signature in black ink that reads 'Gary Hobourn' in a cursive, flowing script.

Gary Hobourn
Senior Economic Analyst

Annexure A

Comments on Consolidated ASIC Market Integrity Rules (Securities Markets)

Section	Reference and page	Topic	Issue
1	1.4.3	'Equity Securities' definition	Will the ability for a Market operator to determine Securities to be Equity Securities under par (f) of the definition mean that they are to be treated as Equity Securities for the purpose of other Markets where that Security is traded?
1	1.4.3	'ETF' definition	The existing definition of ETF does not provided for in-specie application / redemption where the underlying instrument is other than securities, e.g. commodities. Is this intended?
1	1.4.3	'Issuer' definition	'Issuer' definition could be viewed to be extended to ETOs and any Futures (ie 'other financial product able to be traded on a Market'). Currently Issuer concept limited to Cash Market Products. Issuer concept not equally applicable to ETOs and Futures.
1	1.4.3	'Loan Securities' definition	Will the ability for a Market operator to determine Securities to be Loan Securities under par (e) of the definition mean that they are to be treated as Loan Securities for the purpose of other Markets where that Security is traded?
1	1.4.3	'Special Crossing' definition	'Special Crossing' definition: <ul style="list-style-type: none"> - Other than for potentially under new par (c), an Equity Market Product that is only traded on one market does not appear to be captured. Is this intended? - new par (c) assumed to be limited to express classification of the Crossing as a 'negotiated transaction' in relevant Market's operating rules, and would not for example include late trades and trades with price improvement, which by their nature may be negotiated, but which are not currently defined as Special Crossings?
1	1.6	Transitional	We understand that ASIC will reissue existing waivers (or other approval, agreement, determination or notification (as applicable)) applying to market operators. Currently this provision is limited to certifications and notifications to ASIC provided by Participants.
5	5.17.2(2)	Default by a client	The Clearing Agreement contemplated appears to be limited to a scenario where the Market Participant is not a Clearing Participant, however such Clearing Agreement

Section	Reference and page	Topic	Issue
			<p>could also arise where the Market Participant is a Clearing Participant in respect of other products, or even if it is authorised to clear futures market contracts, it chooses to have a third party clearer clear transactions in those contracts.</p> <p>Additionally, ASIC may wish to amend the reference to 'Trading Participant' to instead refer to 'Market Participant' in line with references in 5.17.2(1).</p>
5A	5A.1.1	Financial products vs Equity Market Products	Rule 5A.1.1 includes wording which may limit the scope of this provision to orders and transactions in Equity Market Products only, whereas current wording in Competition Rule 5A.1.1 extends to all Financial products admitted to ASX or Chi-X (including CGS Depository Interests) other than futures or options. Are there any products which are not considered to be Equity Market Products which could be viewed to be products to which such Crossing System requirements should apply?
6	6.2.1AA(e) & 6.3.1AA(e)	Application of Part	The carve-out in Rule 6.2.1AA(e) (which deals with Part 6.2) for Rule 6.3.6A (Course of Sales) should instead be contained in Rule 6.3.1AA(e) (which deals with Part 6.3).
6	6.3.1(3)	Reporting transactions done other than on Order Book	The Market to which a transaction is to be reported for the purposes of Rule 6.3.1 is identified in Rule 6.3.1(3) as the market 'on which the reporting participant determines the transaction has taken place'. If however the transaction is not undertaken on an order book of a market, is it taken to have taken place 'on' the market, or should this simply refer to the market to which the participant reports the transaction?
9	9.3.1AA & 9.3.1	Market operators to synchronise clocks	The operation of Rules 9.3.1AA & 9.3.1 appears to limit the obligation of market operators to synchronise clocks to market operators whose Equity Market Products are traded on another market. Such a limitation does not appear to apply to existing MIR (Competition) 6.3.1. Is this intended?
9	9.4.1AA & 9.4.1	Market operators to use standard Tick Sizes	The operation of Rules 9.4.1AA & 9.4.1 appears to limit the obligation of market operators to use standard tick sizes to market operators whose Equity Market Products are traded on another market. Such a limitation does not appear to apply to existing MIR (Competition) 6.4.1. Is this intended?
9	9.5.1	Market operators to keep records demonstrating	As Rule 9.5.1 covers obligations under the Rules and Part 7.2, it can be interpreted extremely broadly, so as to require records demonstrating compliance with each

Section	Reference and page	Topic	Issue
		compliance	<p>specific Rule under the MIRs applying to Market Operators and each limb of Part 7.2. This could include the need to document every step taken by a market operator to comply with an obligation under each Rule of the MIRs. Is this intended or is this intended to be targeted to the specific aspects set out in paragraphs (a) – (c) which appear to go to obligations specified in s792A and licence obligations (including specific extreme price movement controls in connection with s792A)?</p> <p>While the overriding obligations of market operators under Rule 9.5.1 (reflected in the records to be maintained by market operators for the purposes of Rule 9.5.1(a) & (c)) go to demonstrating compliance with a relevant obligation of market operators, the records for the purposes of 9.5.1(b) are different in that they relate to what records are used by the Market operator’s board of directors or senior managers to consider compliance with certain obligations. Accordingly Rule 9.5.1(b) may not align with the overriding obligation under Rule 9.5.1 and could thus cause confusion as to what is required to be retained.</p>

Comments on Consolidated ASIC Market Integrity Rules (Futures Markets)

Section	Reference and page	Topic	Issue
1	1.4.3	“Trading Messages” definition	Is there a reason that ‘orders’ has been referred to in lower case, even though it is a defined term?
1	1.6	Grandfathering	Clause 1.6 needs to extend to existing waivers (or other approval, agreement, determination or notification (as applicable)) applying to market operators. Currently this provision is limited to Participants.
2 & various	2.2.1(2) & various	“Trading”	There is a reference to “Trading” in this rule and in several other rules, however “Trading” does not appear to be a defined term
2	2.3.2 & 2.3.3	Daily reconciliations / monthly reconciliations of client funds	The reconciliations required for the purposes of these Rules will be a single reconciliation for all client segregated accounts maintained under Rule 2.2.6, which can include across different futures markets. Is this intended?
4	4.3.1	Market operators to keep records demonstrating compliance	<p>As Rule 4.3.1 covers obligations under the Rules and Part 7.2, it can be interpreted extremely broadly, so as to require records demonstrating compliance with each specific Rule under the MIRs applying to Market Operators and each limb of Part 7.2. This could include the need to document every step taken by a market operator to comply with an obligation under each Rule of the MIRs. Is this intended or is this intended to be targeted to the specific aspects set out in paragraphs (a) – (c) which appear to go to obligations specified in s792A and licence obligations (including specific extreme price movement controls in connection with s792A)?</p> <p>While the overriding obligations of market operators under Rule 4.3.1 (reflected in the records to be maintained by market operators for the purposes of Rule 4.3.1(a) & (c)) go to demonstrating compliance with a relevant obligation of market operators, the records for the purposes of 4.3.1(b) are different in that they relate to what records are used by the Market operator’s board of directors or senior managers to consider compliance with certain obligations. Accordingly Rule 4.3.1(b) may not align with the overriding obligation under Rule 4.3.1 and could thus cause confusion as to what is required to be retained.</p>
8	8.1.3	Anomalous Orders	Presumably this provision is limited to Equity Index Futures and ASX SPI 200 Index Futures. Accordingly this Rule should be expressly limited to such Relevant Products. This could be done by adding a reference to ‘for Relevant Products’ after the reference to ‘Anomalous Orders’ in 8.1.3.