



ASIC

Australian Securities & Investments Commission

REGULATORY GUIDE 241

Electronic trading

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About this guide

This guide is for trading participants of the markets operated by ASX Limited, Chi-X Australia Pty Ltd, IR Plus Securities Exchange Limited, National Stock Exchange Australia Limited and Sydney Stock Exchange Limited that use or intend to use their systems for automated order processing, including use in relation to a crossing system.

It gives guidance on how trading participants can comply with their obligations under the ASIC Market Integrity Rules (Securities Markets) 2017 that apply to the use of automated order processing.

Note: From 27 July 2020, applications for relief should be submitted through the [ASIC Regulatory Portal](#). For more information, see [how you apply for relief](#).

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This guide was issued in May 2018 and is based on the legislation and regulations as at the date of issue. It has been amended to reflect the consolidation of pre-existing market integrity rules into the ASIC Market Integrity Rules (Securities Markets) 2017. The note on the front page was inserted on 27 July 2020.

Previous versions:

- Superseded Regulatory Guide 241, issued November 2012, reissued August 2013 and November 2015

Disclaimer

This guide does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

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

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A Overview

Key points

This regulatory guide contains guidance on how a trading participant of a market operated by ASX Limited (ASX), Chi-X Australia Pty Ltd (Chi-X), IR Plus Securities Exchange Limited (IR Plus), National Stock Exchange of Australia Limited (NSXA) or Sydney Stock Exchange Limited (SSX) can comply with the automated order processing (AOP) obligations in the ASIC Market Integrity Rules (Securities Markets) 2017.

ASIC's market supervision role

RG 241.1 We have responsibility for supervising trading on domestic licensed markets and participants of licensed markets.

RG 241.2 As part of our supervisory role, we are able to make market integrity rules under Pt 7.2A of the *Corporations Act 2001* (Corporations Act) dealing with activities and conduct in relation to licensed financial markets, including the activities and conduct of the participants of those markets.

RG 241.3 The ASIC Market Integrity Rules (Securities Markets) 2017 set out market integrity rules relating to automated order processing (AOP), among other things. The rules and this regulatory guide use a number of key concepts and terms reflecting the steps, processes and components of electronic trading.

Note: In this regulatory guide, 'Securities Markets Rules' refers to the ASIC Market Integrity Rules (Securities Markets) 2017.

RG 241.4 We refer to AOP, designated trading representatives (DTRs), automated client order processing (ACOP)—also referred to as direct electronic access (DEA)—algorithmic programs and filters. These terms are described and where applicable illustrated in Figure 1 under 'Key concepts' and at RG 241.10–RG 241.23.

Note: For the purposes of this guide, 'electronic trading' includes algorithmic programs, AOP, ACOP and DEA.

Who must comply with market integrity rules relating to AOP

RG 241.5 Participants of the ASX, Chi-X, IR Plus, NSXA and SSX markets must comply with the Securities Markets Rules, including rules relating to AOP.

Note: Participants of the NSXA market will transition to the Securities Markets Rules in two stages. An NSXA AOP participant must comply with Parts 5.5, 5.6 and 5.7 of the Securities Markets Rules from 4 December 2017 in connection with the use of its system for AOP. Otherwise, a participant of the NSXA market does not have to comply with the Securities Markets Rules until 5 November 2018.

Scope of this regulatory guide

- RG 241.6 This regulatory guide gives guidance on a trading participant's obligations under the Securities Markets Rules when it uses an AOP system, including using an AOP system to transmit orders to a crossing system. It covers:
- requirements for AOP (see Section B);
 - access by authorised persons (see Section C); and
 - review and certification of documentation and systems (see Section D).

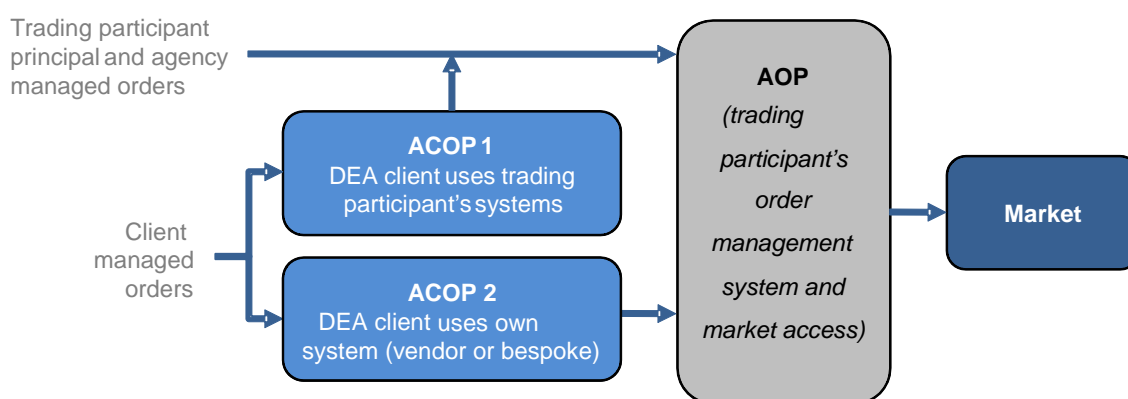
Note: Part 5.6 of the Securities Markets Rules includes rules for AOP that specifically refer to crossing systems: Rules 5.6.1(b)(iii), 5.6.3(1)(e)(iii) and 5.6.3(1)(e)(iv).

- RG 241.7 Where appropriate, this guide incorporates aspects of OLD ASX Guidance Notes 19, 21 and 22. Those ASX guidance notes are superseded by this regulatory guide.
- RG 241.8 This guide is not exhaustive in terms of the arrangements that a trading participant could implement to ensure ongoing compliance with its AOP obligations. The arrangements a trading participant puts in place should be tailored to and implement technology reflective of the nature, scale and complexity of the trading participant's trading through its AOP system.

Key concepts

- RG 241.9 The interaction between AOP, ACOP and the market is illustrated in Figure 1.

Figure 1: Automated order processing and direct electronic access



Automated order processing (AOP)

- RG 241.10 'Automated order processing' (AOP) is the process by which orders are registered in a trading participant's trading system and, if accepted for submission into a trading platform by the trading participant, submitted as

corresponding trading messages without being ‘keyed’ or ‘re-keyed’ by a DTR: see RG 241.13. ‘Trading messages’ are messages relating to trading functions (such as orders), amendment or cancellation of orders, and reporting or cancellation of transactions: Rule 1.4.3.

- RG 241.11 The concept of being ‘keyed’ or ‘re-keyed’ is critical to the distinction between manual processing and AOP. An order is not an AOP order where a DTR is required to exercise discretion and ‘key’ or ‘re-key’ an order into a trading platform of a particular market operator after registration (including creation) in a trading participant’s AOP system.
- RG 241.12 Where a DTR submits an order into a trading participant’s trading system but a routing decision is subsequently made by that system, the order would be considered an AOP order rather than a DTR order.

DTRs and AOP

- RG 241.13 A trading participant must ensure that all trading in a trading platform is carried out either by a DTR, or in accordance with the AOP requirements in Part 5.6 of the Securities Markets Rules: Rules 2.5.1 and 2.5.3. A DTR is a representative of the trading participant who has been authorised by the trading participant to submit trading messages to the trading platform on behalf of the trading participant and who meets the criteria in Rule 2.5.5.
- RG 241.14 A representative of a trading participant that is authorised as a DTR under Part 2.5 may also act in the capacity of an authorised person by submitting trading messages to the trading platform through an AOP system and in accordance with the AOP requirements: see RG 241.12 and Section C of this guide.

Automated client order processing (ACOP)

- RG 241.15 ‘Automated client order processing’ (ACOP) is AOP for an order submitted by an ‘authorised person’ (being a client, or an agent of a client, of a trading participant) into the trading participant’s trading system, as distinct from AOP for an order submitted by the trading participant as principal: Rule 1.4.3.
- RG 241.16 ACOP is commonly referred to in International Organization of Securities Commissions (IOSCO) documents as direct electronic access (DEA) or direct market access (DMA).

Note: See IOSCO Report, [Principles for direct electronic access to markets \(PDF 444 KB\)](#) (IOSCOPD332), Technical Committee of IOSCO, 12 August 2010.

- RG 241.17 When using ACOP, an authorised person may use either:
- (a) the trading participant’s order management system and algorithmic programs to manage and generate orders (described as ‘ACOP 1’ in Figure 1); or

- (b) their own systems or programs that are connected to the trading participant's AOP system (described as 'ACOP 2' in Figure 1).

RG 241.18 ACOP enables an authorised person to access a market through a trading participant without itself being a trading participant and, therefore, without being subject to the market integrity rules and operating rules of that market.

Algorithmic programs

RG 241.19 AOP systems may use algorithmic programs to generate trading messages in, or through, those systems. For the purpose of this guide, 'algorithmic programs' are automated strategies using programmable logic, system-generated (rather than human-generated) messages based on a set of predetermined parameters, logic rules and conditions. These programs include algorithmic trading, automated order generation and automated order routing.

RG 241.20 Algorithmic programs are discussed in more detail at RG 241.90–RG 241.94.

Filters

RG 241.21 'Filters' are a set of rules that apply to an AOP system and that determine automatically which trading messages (or series of related trading messages) meet a pre-defined set of criteria and can pass into a trading platform.

RG 241.22 'Filter parameters' are the variables within each filter that can be changed to modify the operation of the filter without changing the rule to which the filter applies. The filter parameters result in trading messages being handled differently according to factors such as, for example, the type, source, size or price of an order, or its relationship with other orders. A filter parameter may apply at a number of different levels (e.g. to particular financial products, representatives, authorised persons or clients, or to a dollar value level).

RG 241.23 Filters and filter parameters are discussed in more detail at RG 241.33–RG 241.46.

Crossing systems

RG 241.24 'Crossing systems' are automated services provided by a trading participant that match or execute client orders otherwise than on an order book of a licensed market, with orders of:

- (a) the participant;
- (b) other clients of the trading participant; or
- (c) any other person whose orders may access the crossing system.

RG 241.25 Crossing systems are discussed further at RG 241.96 and in Section I of [Regulatory Guide 265](#) *Guidance on ASIC market integrity rules for participants of securities markets* (RG 265).

Notifications to ASIC

When to contact ASIC

RG 241.26 To meet its obligations for each AOP system, a trading participant must provide ASIC with certifications and notifications: see Section D.

RG 241.27 These include:

- (a) initial review and certification (see RG 241.131–RG 241.152);
- (b) annual review and notification (see RG 241.166–RG 241.180); and
- (c) further certification (as required by ASIC) (see RG 241.181–RG 241.182).

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

How to contact ASIC

RG 241.28 The required certifications or notifications can be submitted using the relevant form (where that form is available) on the [market entity compliance system](#) (MECS), which can be accessed from our website. Alternatively, a market participant may send the notification by email to market.participants@asic.gov.au with the subject line ‘Attention: Senior Executive Leader, Market Supervision, ASIC’.

Other relevant guidance

RG 241.29 This guide should be read in conjunction with other regulatory guides on market integrity rules and other obligations for market operators and trading participants: see Table 1.

Table 1: Related guidance

ASIC regulatory guide	What it covers
Regulatory Guide 172 <i>Financial markets: Domestic and overseas operators</i> (RG 172)	Our expectations for market operator systems and controls: see Part 2 of RG 172
Regulatory Guide 216 <i>Markets Disciplinary Panel</i> (RG 216)	The disciplinary process for breaches of all ASIC market integrity rules (including market integrity rules for competition in exchange markets)
Regulatory Guide 225 <i>Markets Disciplinary Panel practices and procedures</i> (RG 225)	The operational framework for the Markets Disciplinary Panel when considering alleged breaches of ASIC market integrity rules

ASIC regulatory guide	What it covers
Regulatory Guide 265 <i>Guidance on ASIC market integrity rules for participants of securities markets (RG 265)</i>	Guidance on the Securities Markets Rules and ASIC Market Integrity Rules (Securities Markets – Capital) 2017
Regulatory Guide 266 <i>Guidance on ASIC market integrity rules for participants of futures markets (RG 266)</i>	Guidance on ASIC Market Integrity Rules (Futures Markets) 2017 and ASIC Market Integrity Rules (Futures Markets – Capital) 2017

B Requirements for AOP

Key points

A trading participant that uses its system for AOP must:

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

RG 241.30 AOP systems can improve the speed and efficiency with which a trading participant routes and executes orders. However, the use of AOP systems can also result in increased risks to the efficiency and integrity of a market or a crossing system operated by a trading participant, as well as financial, reputational and regulatory risks for the trading participant.

RG 241.31 Part 5.6 of the Securities Markets Rules imposes obligations on trading participants that seek to mitigate the risks posed by AOP systems, in particular the risks to the efficiency and integrity of the market or of a crossing system operated by a participant. The rules in Part 5.6 are specific to AOP systems, and build on the general obligations in Part 5.5, which require a trading participant to have organisational and technical resources and trading management arrangements in relation to the use of its trading infrastructure as a whole.

Note: Part 5.6 of the Securities Markets Rules imposes obligations on a trading participant that operates a crossing system.

- RG 241.32 This section covers requirements for AOP relating to:
- (a) automated filters;
 - (b) trading management arrangements;
 - (c) organisational and technical resources;
 - (d) security arrangements;
 - (e) responsible use of AOP;
 - (f) documentation;
 - (g) testing arrangements; and
 - (h) directions from ASIC to cease, suspend, limit or prohibit AOP.

Automated filters

RG 241.33 The requirement to have appropriate automated filters is fundamental to the obligations imposed on trading participants under Part 5.6. Automated filters are referred to in:

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

RG 241.34 Filters and filter parameters are pre-trade controls and the principal means by which trading messages are checked to ensure they will not interfere with the efficiency or integrity of the market or the proper functioning of any trading platform.

Note: For the definitions of ‘filters’ and ‘filter parameters’, see RG 241.21–RG 241.23.

RG 241.35 Filters establish points at which trading messages are tested and, by exception, action other than passing them directly into the market is taken. In practical terms, an automated filter can usually do one of four things in relation to any given trading message (depending on the settings of the filter parameters):

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

- RG 241.36 We recognise that, given the differences in types of business conducted by trading participants, there must be some degree of flexibility in determining what constitutes ‘appropriate’ filters for each trading participant. The types of filters will depend on the trading participant’s system capabilities; the nature, scale and complexity of its business; and the particular risks that the trading participant has assessed as relevant to that business (including financial, reputational and regulatory risks: see RG 241.80–RG 241.81).
- RG 241.37 Where a trading participant provides ACOP access to clients, the trading participant should have an adequate understanding of its clients’ business. The filters and controls for the client’s access should reflect the nature of the business.
- RG 241.38 Where a trading participant operates a crossing system, Rule 5.6.1(b)(iii) requires a trading participant to have in place appropriate filters in relation to AOP to ensure that orders entering the crossing system do not interfere with the efficiency and integrity of the crossing system.
- RG 241.39 We expect that for the purposes of Rules 5.5.2, 5.6.1 and 5.6.3(1)(a), a trading participant will have in place filters that minimise the opportunity for erroneous orders to be entered in the market, as such orders may interfere with the efficiency and integrity of the market or the proper functioning of a trading platform.
- RG 241.40 An ‘erroneous order’ is an order that is submitted in error or that contains an error in one of its attributes (e.g. the price or volume of the order does not reflect the price or volume at which the trading participant or its client intended to trade).
- RG 241.41 In an AOP environment, an erroneous order may be caused by, for example:
- (a) a mistake in, or incorrect context used for, any parameter of instruction placed by an authorised person (e.g. entering the wrong price, or entering the volume into the price field), or a mistake in the handling of an instruction by an order management system;
 - (b) corruption of data when the order is transmitted to, or interpreted by, a system; or
 - (c) duplication, or loss, of a trading message.
- RG 241.42 Market operators must have in place controls for equity market products and CGS depository interests to filter anomalous orders and manage extreme price movements: see Chapter 8 of the Securities Markets Rules and Section O of RG 172. These controls may complement the controls a trading participant may have in place. However, a trading participant cannot rely on a market operator’s controls to comply with its obligations under the Securities Markets Rules, including those outlined in this guide.

Processes to record any changes to the filters or filter parameters

- RG 241.43 A trading participant must have processes to record any changes to the filters or filter parameters: Rule 5.6.3(1)(a). We expect a trading participant, in complying with this rule, to have an ongoing audit and review function that will capture and record any changes to the filters or filter parameters. This includes intra-day changes to the filter parameters and changes made by authorised persons: see Section C of this guide.
- RG 241.44 A trading participant should be able to control, monitor and reconstruct (i.e. for information purposes) any changes to systems, filters or parameters within an AOP system. A trading participant should be able to identify which filters are activated and which are not activated at any point in time. We expect a trading participant to have in place procedures such that changes to filters and filter parameters at the ‘administrator’ level can be implemented only after they are authorised by a qualified person (e.g. a person with relevant experience in broking operations, operational management or compliance).
- RG 241.45 We expect a trading participant to demonstrate in the documentation that accompanies its initial certification under Rule 5.6.6 (see Section D of this guide) that it has in place processes to record any changes to the filters or filter parameters. We would not accept that an AOP system complies with Rules 5.5.2 and 5.6.3 where there are poor processes and internal controls over changes to filters, filter parameters and exception reports, or where filters, filter parameters and exception reports could be deactivated.
- RG 241.46 Any material changes to the filters will also be subject to a review of material changes in accordance with Rule 5.6.8: see Section D.

Direct control over automated filters and filter parameters

- RG 241.47 A trading participant that uses its system for AOP must at all times have direct control over its automated filters and the filter parameters: Rule 5.6.3(2).
- RG 241.48 We expect a trading participant to have direct control over the application of the filters and filter parameters at the ‘administrator’ level. This means that a trading participant must have direct control over whether the filter is activated or deactivated in the AOP system, and over any changes to the filter parameters. However, a trading participant may allow a person some discretion to change the filter parameters at the ‘user’ level, within a defined range.
- RG 241.49 Where the trading participant relies on filters that are outside its AOP system (e.g. where the filter sits between the market operator and trading participant or with an independent third-party provider, or within another AOP system belonging to the trading participant), the trading participant must ensure that the activation or deactivation of the filter, and changes to the filter parameters, are only made with the authorisation of a qualified person of the trading participant (e.g. a person with relevant experience in broking operations, operational management or compliance).

- RG 241.50 An example of where we would not consider that a trading participant has direct control over filters and changes to filter parameters is where there is no ‘administrator level’ control or where changes at this level are made by the client (or, if the client’s order management system is operated by a related party of the client, by that related party) and merely copied over to the trading participant for authorisation or information purposes.
- RG 241.51 Access arrangements where an authorised person deals directly on a market through a trading participant but independent of the trading participant’s controls, such as a sponsored access arrangement, are not permitted under Rule 5.6.3 (when read in conjunction with Rule 5.5.1).

Controls for suspending, limiting or prohibiting AOP

- RG 241.52 A trading participant which uses its system for AOP must ensure that the system has in place controls, including automated controls, that enable immediate suspension, limitation or prohibition of the conduct of all AOP, AOP in respect of ACOP, or AOP in respect of one or more authorised persons, clients, financial products or markets: Rule 5.6.3(1)(d).
- RG 241.53 We would expect a trading participant to rely on these automated controls to suspend, limit or prohibit AOP when the trading participant has identified, for example, that trading messages from a particular source (e.g. a particular authorised person, account or algorithm) are interfering with the efficiency or integrity of the market or do not comply with the AOP requirements.
- RG 241.54 The automated controls required by Rule 5.6.3(1)(d) may include:
- (a) termination of an AOP system (referred to as a ‘kill switch’);
 - (b) shutdown of a responsible AOP subsystem;
 - (c) forced logout of an authorised person; or
 - (d) a control implemented by amending the parameters of a particular filter to zero or a level that would prevent further trading.

Controls for suspending, limiting or cancelling trading messages

- RG 241.55 A trading participant that uses its system for AOP must also ensure the system has in place controls that enable immediate:
- (a) suspension, limitation or prohibition of the entry of trading messages into a market and orders into a crossing system where the trading participant has identified that the trading messages or orders in the series have entered the market or crossing system and have interfered with, or are likely to interfere with, the efficiency or integrity of the market or crossing system (Rules 5.6.3(1)(e)(i) and 5.6.3(1)(e)(iii)); and
 - (b) cancellation of trading messages in a series that have already entered the market and cancellation of orders in a series that have already entered a crossing system, where the entry of further trading messages

or orders in the series have been suspended, limited or prohibited under Rules 5.6.3(1)(e)(i) or 5.6.3(1)(e)(iii) (Rules 5.6.3(1)(e)(ii) and 5.6.3(1)(e)(iv)).

- RG 241.56 For the purposes of Rule 5.6.3, trading messages and orders may be part of a series where they are generated by a common user, account or algorithm and occur in close succession.
- RG 241.57 We understand it may be difficult for a trading participant to test the effect trading messages and orders, or a series of trading messages and orders, may have on the market or crossing system before they are submitted to the market or crossing system. For example, trading messages, orders, or a series of trading messages or orders, may not necessarily affect the last traded price of a product, but may affect the depth of the order book in that product and give rise to a false and misleading appearance of active trading in the product.
- RG 241.58 A trading participant must have in place controls so that once it has identified, through its monitoring arrangements (see RG 241.73–RG 241.79), a series of trading messages that are having or are likely to have an impact on a market, or a series of orders that are having or are likely to have an impact on a crossing system, it can suspend (i.e. isolate for review), limit or prohibit further entry of the orders or trading messages and cancel any that have already entered the market or crossing system.

Trading management arrangements

- RG 241.59 Under Rule 5.5.3, a trading participant must have in place arrangements so that at all times the trading participant can determine the origin of all orders and trading messages, including:
- (a) the different stages of processing each order (regardless of whether a trading message is generated) and the time at which each stage of processing occurred;
 - (b) the order that corresponds to a trading message;
 - (c) the identity and capacity of the person placing the order (e.g. whether acting as agent or principal);
 - (d) whether the trading message was the result of AOP;
 - (e) the open interface device (i.e. the electronic protocol and message structure used to access the trading platform) and computer (or other device of the trading participant connected to an open interface device of the trading participant) through which the trading message was submitted;
 - (f) the DTR responsible for the open interface device or computer or other device connected to the open interface device (unless the trading message was the result of AOP); and

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

- RG 241.60 A trading participant must maintain records of the matters referred to in Rule 5.5.3 for a period of seven years from the date of the trading message to which the matters relate: Rule 5.5.4.
- RG 241.61 Under Rule 5.6.3(1)(b), a trading participant that uses its system for AOP must ensure that the system has trading management arrangements, including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters to enable the ready determination of the origin of all orders and trading messages. We consider this to mean that all AOP systems must have the capacity to capture the information required by Rule 5.5.3.

Capacity

- RG 241.62 As part of its trading management arrangements, a trading participant should have sufficient AOP system capacity to accommodate reasonably foreseeable volumes of trading activity. We expect a trading participant to have in place arrangements to prevent capacity limits on messaging from being breached.
- RG 241.63 Trading participants should keep capacity requirements under review and conduct capacity stress tests regularly. A trading participant's systems should be scalable to allow for changes in response to elevated message levels and/or stressed market conditions that might breach their capacity.

Business continuity

- RG 241.64 As part of its trading management arrangements, a trading participant should have adequate business continuity, backup and disaster recovery plans for each of its systems that support order entry, order routing, execution and trade reporting. These plans should reflect the nature, scale and complexity of the trading participant's businesses, including ensuring there is sufficient system capacity. For example, a trading participant with a smaller, less complex business may rely on another trading participant or the market operator to provide aspects of its business continuity, backup and disaster recovery arrangements. Other trading participants, such as those with substantial client commitments or market makers that are subject to minimum quoting requirements, will be likely to require arrangements that are tailored for their business.
- RG 241.65 Trading participants should have adequate arrangements to ensure timely access to skilled and knowledgeable internal and vendor technical support for their specific AOP system configurations, particularly while implementing AOP system changes.

Logging information

- RG 241.66 We expect a trading participant to have trading management arrangements to ensure that its AOP system logs information about the interaction of orders and trading messages with any connected system or market operator system, to ensure that the origin and ownership of the order can be traced.
- RG 241.67 When considering the origin of each order, a trading participant should have in place trading management arrangements to define the origin of an order—for example, the source of the instructions to place the order and the ‘owner’ during each stage of the process before a message reaches the trading platform (i.e. the person or system responsible for the order).
- RG 241.68 Where additional systems such as smart order routers, algorithmic programs and internalised crossing engines are involved in processing trading messages, a trading participant may choose to pass message ownership to each system processing stage without changing the origin of the initial placement of the order.

Organisational and technical resources

- RG 241.69 For the purposes of complying with Rule 5.5.2(b), a trading participant should have in place organisational and technical resources to ensure it can comply with its obligations for trading through AOP as set out below:
- (a) *Trading record requirements:* We expect a trading participant to have in place organisational and technical resources to automatically generate and maintain all trading records from the AOP system that are required to be kept specifically under Parts 4.1 and 4.2 of the Securities Markets Rules and generally under the Corporations Act, regardless of whether the order enters the trading platform or is rejected by the trading participant’s AOP filter.
 - (b) *Capital requirements:* We expect a trading participant (other than a trading participant that is a clearing participant or trades as principal only) to have in place organisational and technical resources to ensure that when it trades on its own behalf or on behalf of clients through AOP, it complies at all times with the risk-based capital requirements set out in Schedule 1A of the ASIC Market Integrity Rules (Securities Markets – Capital) 2017 (Securities Capital Rules): Rule 8.2.1 of the Securities Capital Rules.
 - (c) *Best execution obligations:* We expect a trading participant of the ASX or Chi-X markets to have in place organisational and technical resources to ensure that when it trades for clients through its AOP system, it complies with its best execution obligations and best

execution policies and procedures: Parts 3.8 and 3.9 of the Securities Markets Rules.

Note: Participants of the NSXA and SSX markets do not have to comply with Parts 3.8–3.11 of the Securities Markets Rules until 16 November 2020: ASIC Market Integrity Rules (Securities Markets) Class Waiver 2018/258.

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

Security arrangements

- RG 241.70 Under Rule 5.6.3(1)(c), a trading participant's AOP system must have in place security arrangements to monitor and prevent unauthorised access to a gateway or an open interface device, or to a computer or other device connected to an open interface device, and to ensure that the AOP system does not interfere with the efficiency and integrity of the market or the proper functioning of the trading platform. A trading participant should consider assessing its security arrangements against security standards such as AUS/NZS 4444 *Information security management* and ISO/IEC 17799 *Information technology: Security techniques—Code of practice for information security management* or equivalent.
- RG 241.71 A trading participant that accepts orders should have in place adequate physical and electronic security arrangements and seek to adopt and enforce written procedures to ensure reliability and uphold the confidentiality of orders and client account information. Such procedures would seek to at least address the following matters:
- (a) authentication and authorisation of users, so that the operating system and application security limit internal access to authorised personnel;
 - (b) encryption of information;
 - (c) firewalling, to prevent unauthorised external access;
 - (d) periodic testing of the trading participant's security management; and
 - (e) administration and ownership of system management.

Responsible use of AOP

RG 241.72 We consider that, to comply with Rules 5.5.2, 5.6.1 and 5.6.3 and to ensure responsible use of AOP, a trading participant must ensure that it has in place monitoring and control arrangements, arrangements for managing the particular financial and trading risks that are relevant to the business it conducts through AOP, and resources for managing change: see RG 241.73–RG 241.100.

Monitoring and control: Real time or close to real time

RG 241.73 We expect a trading participant to be able to monitor in real time, or close to real time, all trading messages submitted to a market. In some cases, a combination of filters and oversight by a DTR may be sufficient for this purpose. However, when the volume of orders, order-to-trade ratios, number of client accounts or speed or complexity of messaging exceeds, or may be expected to exceed, levels where manual oversight is no longer effective, a trading participant should consider automated methods for monitoring.

Note: A trading participant that operates a crossing system should refer to guidance in RG 265 on monitoring arrangements for orders in a crossing system.

RG 241.74 Any surveillance (whether manual or automated) should be capable of identifying potential or actual breaches of market integrity rules in real time or close to real time. Where the trading participant identifies activity that has interfered with or is likely to interfere with the efficiency and integrity of the market, it must take steps to address the issue without delay. Where appropriate, this includes the use of controls that enable immediate suspension, limitation or prohibition of trading messages or of the conduct of all AOP, AOP for ACOP, or AOP for one or more authorised persons, clients or financial products: see RG 241.52–RG 241.58.

RG 241.75 A trading participant may consider monitoring the following when using an AOP system:

- (a) the nature and liquidity demands of the AOP system to avoid unusual movements in market price or increased volatility;
- (b) the level of use of the AOP system to avoid generation of large numbers of the following types of orders, which may result in an adverse impact on a market:
 - (i) concurrent orders;
 - (ii) orders of small executable quantity (e.g. under an elected dollar-based or other nominal value); or
 - (iii) trading strategies that involve amending and/or cancelling a large number of orders that result in either a disproportionately low number of transactions or no transactions;
- (c) whether the AOP system appears to react to order book changes outside of the best market; and

- (d) the effectiveness of the ‘Chinese walls’ required to manage the involvement of those staff operating in a compliance or information technology (IT) oversight role who have access to information on the nature of the AOP system and to client order flow.

Monitoring and control: Exception and post-trade analysis

RG 241.76 We consider that a trading participant must have both the capability and appropriately qualified personnel to regularly analyse historic order and trading patterns to:

- (a) identify trading activity that may warrant review by the trading participant’s compliance area; and
- (b) adjust the relevant automated filters and filter parameters where it is apparent that they are not operating as intended.

RG 241.77 Where a trading message (or series of trading messages) that has been rejected by a filter is passed to a DTR for review, the DTR will need to make a decision whether to amend, cancel or pass the trading message (or series of trading messages) into the market.

RG 241.78 Where a trading message has been passed to a DTR for review, a trading participant must ensure records of the DTR’s action comply with Parts 4.1 and 4.2 and Rule 5.5.3(f).

RG 241.79 Where, in real-time monitoring, a DTR decides to pass a trading message into the market but places the trading message on an exception report for ongoing monitoring, a compliance officer or other qualified person must be available for the DTR to consult. Trading participants should ensure exception reports are monitored on a regular basis and at least daily.

Financial and trading risks

RG 241.80 In complying with Rules 5.5.2, 5.6.1 and 5.6.3 and ensuring responsible use of AOP, a trading participant should take into account financial and trading risks in addition to the regulatory risks and market integrity risks already described.

RG 241.81 We consider the factors that will be relevant in assessing the level of financial and trading risk include, but are not be limited to:

- (a) the proposed nature of the business passing through the AOP system;
- (b) whether the AOP system will permit ACOP;
- (c) where the AOP system does permit ACOP, whether the trading participant intends to allow authorised persons to delegate their ACOP access;
- (d) whether the AOP system will allow algorithmic trading (see RG 241.90–RG 241.94);

- (e) whether the AOP system uses a third-party system and whether it is provided to the trading participant by a related party of the authorised person conducting business through the AOP system;
- (f) whether there will be a high message or trade ratio flow through the AOP system;
- (g) whether the AOP system relies on latency-dependent connections and interfaces such as co-located business; and
- (h) whether the AOP system interacts with a crossing system operated by the trading participant.

Order-to-trade ratios

- RG 241.82 An order-to-trade ratio is a measure of the number of times orders submitted into an order book are amended or cancelled relative to the execution of a trade.
- RG 241.83 A trading participant that uses either a system to manually enter orders and instructions from an authorised person, or a highly sophisticated order management system that automatically generates instructions with little to no human intervention, will need to monitor order-to-trade ratios.
- RG 241.84 In particular, a trading participant will need to monitor order-to-trade ratios that may signal:
- (a) a dysfunctional AOP system or a poorly programmed algorithm that may either create or contribute to a disorderly market; or
 - (b) order behaviour that may indicate abusive behaviour or market misconduct.
- RG 241.85 When monitoring order-to-trade ratios a trading participant will need to consider the following factors, which may indicate the matters set out in RG 241.84(a)–RG 241.84(b):
- (a) whether the value of the transaction(s) relative to the number of orders entered is materially different. For example, 1,000 orders entered into a market that generate trades amounting to a nominal value may indicate market misconduct;
 - (b) whether the order-to-trade ratio is excessive relative to current market liquidity. For example, a large number of trading messages or orders relative to transactions in illiquid securities, or a large number of trading messages or orders (including amendments) in liquid securities away from the current market price may be indicative of either a dysfunctional algorithm or market misconduct;
 - (c) whether the order-to-trade ratio is high in a volatile market and the volatility in the market is not driven by an event or explanation. For example, where an explicable market event is causing volatility, a relatively higher order-to-trade ratio may be appropriate;

- (d) the impact of the order-to-trade ratio on the price of a security;
- (e) the execution goals of the algorithm; and
- (f) compliance with order-to-trade ratio requirements under the market operator rules or guidance.

RG 241.86 For business models that use more sophisticated order management systems and that generate instructions with little or no human intervention or generate subordinated orders from a larger parent order through an AOP or ACOP system, a trading participant will need to consider whether the order-to-trade ratio reflects the execution goals of the algorithm while preventing a disorderly market and ensuring it does not amount to abusive behaviour or market misconduct. Measurement metrics may include, but are not restricted to:

- (a) the number of subordinated orders and trades over a specific timeframe relative to the execution goal and the parent order instruction; and
- (b) whether the order-to-trade ratio is excessive, at a more granular level, when measured relative to typical market liquidity and volatility levels of the financial product.

ACOP

RG 241.87 Where a trading participant's AOP system permits ACOP, the trading participant will need to manage the financial risks associated with ACOP.

RG 241.88 Trading participants should adopt and enforce written procedures reasonably designed to prevent clients and other authorised persons from entering into trades that create undue financial risk for the clearing participant (whether the clearing participant is the trading participant or a third party).

RG 241.89 The procedures should address both pre-execution and post-execution controls to minimise financial risk. This includes considerations that should be taken into account before authorising the use of ACOP, the process for determining which controls to apply to a particular authorised person, and ongoing review of all controls imposed. In particular, the controls should ensure each authorised person has sufficient financial resources for their trading.

Algorithmic programs

RG 241.90 Trading participants that allow or conduct algorithmic programs will need to have in place arrangements to manage the risk associated with trading using algorithmic programs. Trading using algorithmic programs is a major source of trading messages.

Note: For a definition of 'algorithmic programs', see RG 241.19–RG 241.20.

RG 241.91 Algorithmic programs may be used by the trading participant, a client or by an authorised person. Like all trading messages, trading messages generated by the algorithmic program must pass through the trading participant's filters

and are deemed to have been submitted with the knowledge of the trading participant: Rules 2.5.1 and 2.5.4.

- RG 241.92 We consider that a trading participant should also seek to have an agreement or arrangement with an authorised person who uses their own algorithmic trading models that systems flow should be tested against trading participant AOP filters before use (i.e. at the development stage) and to the extent possible before implementing material changes.
- RG 241.93 Trading participants should take into account any differences between the speed with which their AOP system can generate messages and the speed with which the market operator's system can process those messages.
- RG 241.94 Where poor AOP controls lead to continuing patterns of order deletions, order amendments, high order-to-trade ratios relative to the underlying security, over trading or wash trading, we may consider giving a direction under Rule 5.6.12 to cease, suspend, limit or prohibit AOP: see RG 241.113–RG 241.116.

Trading on multiple markets and multi-product AOP system routing

- RG 241.95 We consider responsible use of AOP requires trading participants to manage the risk associated with trading on multiple markets and in multiple product types, to accommodate the differing platform specifications and financial products and order types, and to consider the impact that a disruption caused by an AOP order on one market may have on another market (i.e. to ensure that the trading participant does not interfere with the conduct of an orderly market and does not assist or facilitate manipulative trading).

Crossing systems

- RG 241.96 We consider the responsible use of AOP requires a trading participant that operates a crossing system to manage the risks associated with AOP interacting with its crossing system. For example, the trading participant should have alternative arrangements for managing client orders, including bypassing the crossing system and routing client orders to a licensed market, in the event of a disruption.

Corporate actions

- RG 241.97 We consider that responsible use of AOP includes arrangements to manage the risk associated with trading during corporate actions.
- RG 241.98 When operating in a multiple market environment, a trading participant will need to ensure that it can manage or alert the authorised person for stock reconstructions, order book purges and corporate actions, taking into account any different treatment of those corporate actions by each market operator.

Resources to manage change

- RG 241.99 We expect a trading participant to have resources to manage change, and to demonstrate that change management. This requires appropriately authorised (e.g. at an IT oversight or change manager level), well-documented and clearly auditable processes reflecting system upgrades, changes and implementations.
- RG 241.100 Change management procedures may include procedures that ensure:
- (a) changes are adequately tested before implementation (see also RG 241.105–RG 241.112);
 - (b) only authorised changes to software, hardware and systems can be implemented; and
 - (c) new software, hardware and systems can only be implemented into the production environment after authorisation by an appropriately senior, qualified person.

Documentation

- RG 241.101 A trading participant must have, and review, policy documents relating to the use of AOP: Rules 5.6.4, 5.6.8(1) and 5.6.8A(1). We consider these policy documents should address the use of AOP in light of the business requirements of the trading participant and the type of activity envisaged for the AOP system(s).
- RG 241.102 We expect that a trading participant's policies and procedures for compliance with Part 5.6 and system design documentation should be tailored to the nature, scale and complexity of the trading participant's business and the type of activity envisaged for the AOP system, and must be accurate, complete and up to date. These policies, procedures and system design documentation form the basis for initial certification and annual notification of the trading participant's AOP system(s): see Section D of this guide.

Policies and procedures

- RG 241.103 A trading participant's policies and procedures for compliance with Part 5.6 should cover at least the following matters:
- (a) monitoring and reviewing all aspects of AOP and the AOP parameter specifications;
 - (b) evaluating the manner in which AOP and its components will operate under various market scenarios;
 - (c) ensuring that before effecting a particular algorithm, changes in market conditions are assessed to ensure compliance;

- (d) setting (and adjusting where necessary) system monitoring parameters (alerts) designed to detect potential manipulative, disruptive or other unusual activity (e.g. improper short selling);
- (e) generation of ad hoc and exception reports (i.e. reports that identify where an underlying policy, procedure or system requirement has not been met) for review by designated staff (e.g. management and compliance) with procedures to ensure that where necessary there is follow-up action;
- (f) involvement of appropriate staff (e.g. management, risk, compliance and internal audit) in the development of an algorithm before it is made available for use;
- (g) training and education of staff in relation to AOP; and
- (h) system certification requirements.

System design

RG 241.104 A trading participant's system design documentation should cover at least the following matters:

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

Testing

RG 241.105 A trading participant must have automated filters and filter parameters to enable trading messages to be submitted into the trading platform without interfering with the efficiency and integrity of the market or the proper functioning of the trading platform: Rule 5.6.3(1)(a).

- RG 241.106 To comply with this rule, a trading participant should have appropriate arrangements for testing its AOP filters, filter parameters, controls and systems:
- (a) before using an AOP system for the first time, to provide representations under Rule 5.6.5 that the trading participant has in place organisational and technical resources, arrangements and controls in relation to the AOP system that meet the requirements of Rule 5.6.3 (for the purposes of initial certification as outlined in Section D of this guide);
 - (b) when there is a material change to an AOP system; and
 - (c) on an ongoing basis, to ensure the trading participant continues to meet the requirements of Rule 5.6.3.
- RG 241.107 Trading participants should have appropriate testing arrangements to ensure that their AOP systems are functional and reliable, and do not pose a threat to the efficiency and integrity of the market or any crossing system it operates. Non-production testing is a crucial part of ensuring that the AOP system functions as intended. The nature and extent of the testing arrangements a trading participant puts in place will depend on the type of business the trading participant intends to conduct through its AOP system.
- RG 241.108 The testing methodologies should be designed to ensure that:
- (a) filters, filter parameters and controls work as intended;
 - (b) the AOP system can continue to work effectively in stressed market conditions; and
 - (c) testing results are quantifiable and display definitive qualitative outcomes.
- RG 241.109 When undertaking AOP testing, a trading participant should have a documented test strategy, confirming the intended scope of the testing, test plans, test cases, test results, defect resolution and final test results. This information may be requested by ASIC to confirm the scope of testing for an AOP system. Testing methodology should seek to include evidence of an ongoing process for management of changes to the AOP system over time, including material changes: see Section D of this guide.
- RG 241.110 AOP testing may include, but not be limited to, the following types of testing:
- (a) *Unit testing*: This involves testing code fragments or modules in isolation.
 - (b) *Conformance testing*: This involves testing system conformance with the targeted operator, execution venue and order book.
 - (c) *Functional testing*: This involves confirming that the AOP system and filters function as intended for the proposed business.
 - (d) *Regression testing*: This involves running previous tests to confirm that further changes have not introduced new bugs.

- (e) *Stress testing*: This involves testing both AOP logic and filters under extreme circumstances and market conditions and consideration of the system's scalability, capacity, stability and performance (see also RG 241.62–RG 241.63).
- (f) *System testing*: This involves testing both AOP logic and filters when used in conjunction with other systems.
- (g) *Acceptance testing*: This involves validation by end users before use within the production environment.

Testing in non-production environments

- RG 241.111 In testing its AOP system, a trading participant should use a non-production test environment to stress test algorithmic programs and order flow. A trading participant should consider stress testing filters under conditions which simulate production use (e.g. a low-latency, high-message-volume, volatile environment).
- RG 241.112 We recognise that the situations in which an AOP system will function may be difficult to reproduce within an operator development, or a client or trading participant sandbox, environment. However, a trading participant is expected to take steps that reflect the size, scope and nature of the AOP system's business function to test for these situations, commensurate with the degree of risk to market integrity and efficiency, before using an AOP system within the market.

ASIC direction to cease, suspend, limit or prohibit AOP

- RG 241.113 Under Rule 5.6.12, we may give a direction to a trading participant to:
- (a) cease conducting AOP until we are satisfied that the trading participant complies with the AOP requirements; or
 - (b) immediately suspend, limit or prohibit AOP, where we reasonably consider the trading participant is not complying with the requirements in Part 5.6, or it is otherwise appropriate to give a direction.
- RG 241.114 We will provide directions under Rule 5.6.12 in writing. However, there may be circumstances where we need to provide a direction quickly. In these circumstances, we will advise the trading participant verbally (either by telephone or in person) that we intend to provide the direction and follow up with a written direction.
- RG 241.115 We expect a trading participant that is advised that we intend to provide a written direction under Rule 5.6.12 to consider taking immediate action to cease, suspend, limit or prohibit AOP before receiving the written direction.
- RG 241.116 A trading participant that receives a direction from ASIC must immediately comply with the direction.

C Access by authorised persons

Key points

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

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

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

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

Authorised persons

RG 241.117 This section gives guidance on our expectations of a trading participant where it permits authorised persons to submit orders into its AOP system.

RG 241.118 For the purposes of this guide, an authorised person is a person who:

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

RG 241.119 A trading participant that uses its system for ACOP must have in place procedures to ensure that each authorised person—that is, a client or a client's agent, or a representative of a trading participant—has demonstrated to the trading participant knowledge of the trading participant's order entry system and the dealing rules, directions, decisions and requirements of the market operator that are relevant to the type of order submission facilities given to the authorised person by the trading participant: Rule 5.6.2.

Note: For a definition of 'ACOP', see RG 241.15–RG 241.18.

- RG 241.120 ‘Dealing rules’ are the Securities Markets Rules and the operating rules of a market that govern the submission of orders and the execution and reporting of market transactions on the trading platform of the relevant market: Rule 1.4.3.
- RG 241.121 Where a representative of a trading participant that is authorised as a DTR acts in the capacity of an authorised person (see RG 241.13–RG 241.14), the trading participant must ensure that the representative meets the requirements of Rule 5.6.2. We would expect in many cases that a representative who meets the criteria in Rule 2.5.5 will have demonstrated knowledge that satisfies the requirements of Rule 5.6.2.

Policies and procedures

Demonstrated knowledge

- RG 241.122 The requirement in Rule 5.6.2 relating to authorised persons is intended to ensure that a trading participant has considered, and is satisfied with, the market-related knowledge of each person allowed access to its system for ACOP.
- RG 241.123 A trading participant that uses its system for AOP should ensure that each authorised person (including relevant representatives of the trading participant) understands all relevant aspects and limitations of its AOP system whether trading directly with or connecting to the AOP system.
- RG 241.124 The manner in which each trading participant chooses to ensure authorised persons have demonstrated knowledge may vary depending upon the nature and scope of access granted to each authorised person and the financial products in which the authorised person can trade. For example, the requirements for an unsophisticated retail investor who can only enter, amend and delete orders using the AOP system provided by the trading participant will be different from the requirements for an institutional client who can conduct more complex strategies (either provided by the trading participant or facilitated through the trading participant’s AOP system), or for an authorised person who intends to sub-delegate its market access to a third party.

Supervision

- RG 241.125 A trading participant should have written policies and procedures for the supervision of authorised persons that:
- (a) primarily document the supervisory system that will ensure compliance with the laws and rules set out in a trading participant’s compliance procedures;

- (b) are distinct from compliance procedures;
- (c) contain escalation procedures which specify whether compliance, senior management or regulator notification and assessment is required;
- (d) are periodically reviewed and amended where required; and
- (e) are available to all relevant persons, including authorised persons and relevant representatives.

Agreements between trading participants and authorised persons

- RG 241.126 We encourage trading participants to enter into agreements with their authorised persons. This is particularly important where an authorised person is acting on behalf of another client (agency) or permits delegation of its access to one of its clients. The purpose of a written agreement between a trading participant and an authorised person is to ensure that there is common understanding of the role and responsibilities for both parties conducting business through AOP.
- RG 241.127 Rule 4.1.9 requires a trading participant to maintain records relating to authorised persons for seven years from the date the person ceases to be an authorised person. We expect agreements between trading participants and authorised persons to be retained for the same period as they represent a critical aspect of the audit trail for the operation of ACOP.
- RG 241.128 Further, in meeting the obligations of Rule 5.6.3(1)(c), we expect a trading participant to retain records of the security arrangements for access by an authorised person to the trading participant's systems. Where the location of a particular computer or other device of an authorised person may change, the trading participant should have in place effective policies, procedures and systems which can continuously identify all such devices.

D Review and certification of documentation and systems

Key points

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

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

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

RG 241.129 Under Part 5.6 of the Securities Markets Rules, a trading participant must undertake an initial review and certification of the system it uses for AOP and provide subsequent annual notifications about that system to ASIC. The purpose of these certifications and notifications is to provide additional assurance that the trading participant knows and understands the nature of the business it conducts (or intends to conduct) through the AOP system and that compliance issues have been accordingly addressed.

RG 241.130 A market operator may, under its operating rules or procedures or as part of an access agreement, also impose additional or different qualification or certification requirements that a trading participant must meet before it will be permitted to connect to a trading platform. Satisfying a market operator's requirements does not mean the trading participant has satisfied the requirements of the Securities Markets Rules.

Initial review and certification

Initial review

RG 241.131 Before using its system for AOP in relation to a market, a trading participant must review its policies, procedures, system design documentation (including procedures for implementing subsequent changes to the AOP software), filters and filter parameters, and other relevant documentation concerning its compliance with Part 5.6: Rule 5.6.4.

RG 241.132 The purpose of this review is so that the trading participant can provide the initial certification under Rule 5.6.6 (see RG 241.138–RG 241.142), in which it must confirm that nothing has come to its attention during the course of the review that would indicate that it is unable to comply with Part 5.6.

Representations

RG 241.133 Before using an AOP system for the first time in relation to a market, a trading participant must obtain written representations that it has in place organisational and technical resources, arrangements and controls in relation to the AOP system that meet the requirements of Rule 5.6.3: Rule 5.6.5.

RG 241.134 The purpose of obtaining the representations in Rule 5.6.5 is so that the trading participant can provide the initial certification under Rule 5.6.6, which must include copies of the representations and confirmation by the trading participant that its AOP system meets the requirements of Rule 5.6.3.

RG 241.135 The written representations referred to in Rule 5.6.5(1) must:

- (a) be provided by persons who are suitably qualified and experienced in the systems and controls for which they are making the representations (see RG 241.183–RG 241.187);
- (b) include the name of the person making the representation;
- (c) be signed and dated by the person making the representation; and
- (d) set out the methodology used by the person to enable them to make the representation: Rule 5.6.5(2).

RG 241.136 We expect the methodology set out in the representation to include details of:

- (a) the process the person used to review the trading participant's policies, procedures, system design documentation and other documents;
- (b) the security arrangements for the AOP system, including but not limited to the matters set out in RG 241.70–RG 241.71; and
- (c) the testing arrangements for the AOP system, including the matters set out in RG 241.105–RG 241.112.

RG 241.137 When supplying ASIC with details of the methodology used in making the representations, supporting documentation should be provided. The supporting documentation should reflect the nature, scale and complexity of the trading participant's business.

Initial certification

RG 241.138 Before using a system for AOP in relation to a market, a trading participant must provide ASIC with a written certification signed by at least two of its directors, and receive a written confirmation from ASIC that the certification

complies with Rule 5.6.6(2): Rule 5.6.6(1). The written certification must include:

- (a) the trading participant's name;
- (b) the name and version number of the AOP system;
- (c) copies of the representations required by Rule 5.6.5 (see RG 241.135–RG 241.137);
- (d) a confirmation by the trading participant that:
 - (i) it has reviewed its documentation as required by Rule 5.6.4 (see RG 241.131–RG 241.132) and that nothing has come to its attention during the course of that review which would indicate that it is unable to comply with Part 5.6;
 - (ii) based on the review and the representations required by Rules 5.6.4 and 5.6.5, the AOP system either does or does not permit ACOP and meets the requirements of Rule 5.6.3; and
 - (iii) the representations have been made by persons whom the trading participant considers to be suitably qualified and experienced in the controls and systems for which they are making the representations; and
- (e) the names of the two directors who signed the certification.

RG 241.139 All certifications must meet these minimum requirements. We encourage trading participants to provide the certification in the form set out in Appendix 1 of this guide.

RG 241.140 We will not accept a qualified certification. For example, we will not accept certification that is premised on caveats that may undermine the integrity of the certification.

RG 241.141 A certification that was given to ASIC before the commencement of the Securities Markets Rules and that has not been withdrawn or otherwise ceased continues to have the same effect as when given: Rule 1.6.1.

RG 241.142 The fact that an AOP system has been certified does not absolve the trading participant of any of its underlying obligations under the Securities Markets Rules, including the requirements in Section B of this guide.

Use of third-party systems

RG 241.143 We recognise that some AOP systems are developed internally by a trading participant and others are developed externally by a third party. A trading participant must ensure that it provides a certification for any third-party systems it uses unless orders coming through the system are subsequently processed by a certified AOP system of the trading participant.

RG 241.144 Further, the fact that one trading participant has certified an AOP system provided by a third party does not imply that another trading participant

using that third-party provider's system is not required to certify that system. For AOP systems developed by a third party, we will accept as supporting documentation for the initial certification, parts of the technical certification documentation supplied by that third party, provided the trading participant can demonstrate that it has successfully reviewed the AOP system as required by Rule 5.6.4 and is making the representations required by Rule 5.6.5, including evidence of completed user acceptance testing of system integration with internal systems.

Connecting to new market operators

- RG 241.145 Under Rule 5.6.6, trading participants are required to certify their AOP systems when they connect to a market, and receive a written confirmation from ASIC that the certification complies with the requirements of Rule 5.6.6(2): Rule 5.6.6(1).
- RG 241.146 A trading participant wishing to use an AOP system in relation to another market for which it is not certified, will need to give ASIC an AOP initial certification for use of the system on that market under Rule 5.6.6.

Nature and scope of certification

- RG 241.147 The nature and scope of a particular certification will depend largely on the specific business operations of the trading participant and the features of the AOP system used.
- RG 241.148 In evaluating the nature and scope of certification required, a trading participant needs to consider and identify the key features of the AOP system—for example, whether it is primarily for client or proprietary flow, whether the client intends to further delegate access, or whether it involves highly automated flow.
- RG 241.149 By providing details of interconnected systems and automated controls that are not part of the AOP system but may further contribute to a trading participant's ability to comply with Part 5.6, a trading participant can demonstrate to ASIC the review process undertaken.
- RG 241.150 The name and version number of the AOP system that has been certified must be clearly stated in each certification: Rule 5.6.6(2)(b).
- RG 241.151 The market and order books for which the AOP system has been certified should also be stated in each certification.

How to provide certifications to ASIC

- RG 241.152 Certifications should be on the trading participant's letterhead. They should be emailed to the Senior Executive Leader, Market Supervision, ASIC at market.participants@asic.gov.au.

Review of material changes

- RG 241.153 Before making a material change to any of the organisational and technical resources, arrangements or controls employed to comply with Rule 5.6.3, a trading participant must ensure that:
- (a) an appropriately qualified person reviews the material change in accordance with Rule 5.6.8(1) (see RG 241.161–RG 241.163); and
 - (b) it has obtained from the person referred to in RG 241.153(a) written representations about the material change in accordance with Rule 5.6.8(2) (see RG 241.164–RG 241.165).

What is a material change?

- RG 241.154 The term ‘material’ is a broad concept and should be considered in the context of the nature, scale and complexity of the business being conducted by the trading participant through the AOP system.
- RG 241.155 The following changes would be considered material:
- (a) a change to any of the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3 that may increase the potential for the trading participant to fail to comply with its obligations under the Securities Markets Rules;
 - (b) a series of such changes that when considered together may have the same material effect; or
 - (c) a change to an AOP system, or series of changes, that may result in the AOP system’s organisational and technical resources, arrangements or controls no longer complying with Rule 5.6.3.
- RG 241.156 A trading participant will need to take a practical approach when determining whether a particular change or series of changes to the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3 constitutes a ‘material’ change, regardless of whether made by the trading participant or the system provider.
- RG 241.157 A trading participant should consider, at a minimum, the following factors when assessing whether a change is material:
- (a) the ability of the trading participant to meet the requirements of Rule 5.6.3 after the change is made;
 - (b) the potential for a change to result in trading activity that may interfere with the efficiency and integrity of the market provided by an operator;
 - (c) the potential for a change to result in a breach of Part 5.7 (manipulative trading); and
 - (d) the potential for a change to result in trading activity that may interfere with the proper functioning of the relevant market.

RG 241.158 We consider that, for the purposes of Rule 5.6.8, the following changes are examples of changes to the AOP system that may be associated with material changes to the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3:

- (a) changes to upgrade from a ‘basic’ system to a ‘complex’ system—for example, from a single market to a multimarket system or from an automated principal-only order processing system to a system that will accommodate both principal and agency (i.e. an ACOP system);
- (b) changes to upgrade the functionality made available to clients which may affect the types of orders passed into the market;
- (c) changes to allow access for clients to additional order books or execution venues which may affect the types of orders and messages passed into the market;
- (d) the provision of ACOP or the addition of new client order flow which may affect the capabilities of the AOP filters and filter parameters;
- (e) a series of incremental changes to a system over a period of time that may, when considered together, constitute a material change based on the system at the time of its initial certification or previous annual review and notification (see RG 241.166–RG 241.180);
- (f) a change to the type, size and growth of client order flow that may require significant changes to system capacity;
- (g) a change to a latency-dependent solution (e.g. a co-location, hardware, or software configuration change);
- (h) a change that increases the risk of orders being entered or amended, which could create or appear to create a disorderly market or manipulative trading;
- (i) a change that increases the risk of orders being entered or amended resulting in a high order-to-trade ratio relative to the security, underlying market liquidity or current market volatility; and
- (j) a change to permit one or more clients to use more complex trading strategies.

RG 241.159 We consider that the following changes are examples of changes that may *not* be considered material changes for the purposes of Rule 5.6.8:

- (a) changes in a trading participant’s staff if the change does not adversely affect the trading participant’s ability to comply with the Securities Markets Rules (e.g. the absence of a designated compliance person may not be material but may require a review of supervisory staff or DTR under Parts 2.1 or 2.5 respectively);
- (b) a change to the appearance of the computer screen used to access the relevant execution venue; and

- (c) re-locating from one co-location facility to another facility provided by the same entity where no further additional changes beyond the change of physical location have taken place (however, the trading participant will remain responsible for reviewing its obligations under the Securities Markets Rules, particularly if there are additional changes beyond the change of physical location).

RG 241.160 A change from a third-party-provided system to a system provided by a new third party would be considered to be a new system (rather than a material change) requiring initial certification under Rule 5.6.6.

Review of material changes

RG 241.161 Under Rule 5.6.8(1), before making a material change to any of the organisational or technical resources, arrangements or controls employed to comply with Rule 5.6.3, a trading participant must ensure that an appropriately qualified person (see RG 241.183–RG 241.187) reviews the material changes to the AOP system, as well as the trading participant’s policies, procedures, system design documentation (including its procedures for implementation of the proposed changes to the AOP software, filters and filter parameters) and other relevant documentation concerning its compliance with Part 5.6: Rule 5.6.8.

RG 241.162 We note that the requirements to review policies, procedures and system design documentation (including procedures for implementation of the proposed changes to an AOP system’s software, filters and filter parameters) are common to both Rules 5.6.4 and 5.6.8. Trading participants may adopt the equivalent approach taken for the initial AOP review for a material change review, depending on the scope of that review.

RG 241.163 If a trading participant is operating multiple AOP systems, we consider that when reviewing material changes to be made across those AOP systems, certain documents would not need to be separately reviewed for each individual AOP system. This means that documentation, policies and procedures that apply across AOP systems could be considered in totality when reviewing material changes across those systems.

Representations

RG 241.164 Before implementing a material change that is the subject of a material change review, the trading participant must obtain written representations from the person who performed the material change review that nothing came to the attention of the person during the course of that review which would indicate that the trading participant is unable to comply with Part 5.6: Rule 5.6.8(2). The representations must include the name of the person making the representation and be signed and dated by that person: Rule 5.6.8(3).

- RG 241.165 The purpose of obtaining the representations in Rule 5.6.8(2) is so that the trading participant can provide the annual notification under Rule 5.6.8B, in which the trading participant must confirm that nothing came to its attention during the 12 months before the annual review date which would indicate that it is unable to comply with Part 5.6.

Annual review and notification

Annual review

- RG 241.166 Under Rule 5.6.8A, a trading participant must have an appropriately qualified person (see RG 241.183–RG 241.187) undertake an annual review (much like the review of material changes of the AOP system) of the trading participant’s policies, procedures, system design documentation (including the trading participant’s procedures for implementation of subsequent changes to the AOP software, filters and filter parameters) and other relevant documentation for compliance with Part 5.6.
- RG 241.167 When undertaking an annual review, a trading participant needs to consider whether the nature of, or change to, existing flows is affecting either system efficiency or performance relative to the certification.
- RG 241.168 The purpose of the annual review under Rule 5.6.8A is so that the trading participant can confirm to ASIC (by providing an annual notification under Rule 5.6.8B) that nothing has come to its attention during the 12 months before the annual review date which would indicate that the trading participant is unable to comply with Part 5.6.
- Note: See RG 241.101–RG 241.104 for our expectations on reviewing policies, procedures and system design documentation.
- RG 241.169 A trading participant is not required to undertake an annual review of an AOP system if it has reviewed material changes to that AOP system (in accordance with Rule 5.6.8) within the 12 months before the annual review date: Rule 5.6.8A(1).
- RG 241.170 As with the review of material changes, if a trading participant is operating multiple AOP systems, only one AOP annual review across all systems is required: see RG 241.163.
- RG 241.171 If a trading participant is operating multiple AOP systems and has conducted a review of material changes to one or any number of those systems (in accordance with Rule 5.6.8) within the 12 months before the annual review, the documentation, policy and procedures that are common to the relevant AOP and the other AOP systems would not need to be revisited as part of the annual review.

Review date

- RG 241.172 The annual review date is 1 November each calendar year. The annual notification (see RG 241.174–RG 241.179) must be given to ASIC within 10 business days of each annual review date. The confirmation in the annual notification relates to the 12-month period from 1 November in the previous calendar year until 31 October in the current calendar year.
- RG 241.173 If the period from the date of the initial certification to 1 November is significantly less than 12 months, we may consider giving a waiver from the requirement to give an annual notification for that period. This would be given on a case-by-case basis, having regard to the nature, scale and complexity of the AOP system and the business conducted by the trading participant through that system. In this case, the first annual notification that we would expect is within 10 business days of the annual review date in the following calendar year.

Annual notification

- RG 241.174 A trading participant must provide an annual notification to ASIC within 10 business days of the annual review date each year (see RG 241.172–RG 241.173): Rule 5.6.8B.
- RG 241.175 The notification must be in writing, signed and dated by two directors of the trading participant, and set out the following matters:
- (a) the name of the trading participant;
 - (b) the name and version number of the AOP system, or systems if the notification covers more than one system;
 - (c) a confirmation by the trading participant that nothing came to the attention of the trading participant during the 12 months before the annual review date which would indicate that the trading participant is unable to comply with Part 5.6; and
 - (d) the name of the directors of the trading participant signing the annual notification.
- RG 241.176 All annual notifications must meet these minimum requirements. We encourage trading participants to provide the notification in the form set out in Appendix 2.
- RG 241.177 A trading participant operating more than one certified AOP system can, for the purposes of an annual notification, identify and consolidate the annual notification for each of its AOP systems into one single annual notification.
- RG 241.178 A trading participant who has an AOP system certified for use across multiple markets and/or operators can provide a single notification which lists each market and operator for which the AOP system is certified.
- RG 241.179 The nature and scope of a particular review will depend largely on the specific business operations of the trading participant and the features of the AOP

system used. For an explanation of the nature and scope of initial certifications, which are also relevant to annual notifications, see RG 241.147–RG 241.151.

How to provide notifications to ASIC

RG 241.180 Annual notifications should be on the trading participant's letterhead. They can be submitted using the relevant form on [MECS](#) (and adding the necessary attachments), which can be accessed through our website. Alternatively, a trading participant may send the notification by email to market.participants@asic.gov.au with the subject line 'Attention: Senior Executive Leader, Market Supervision, ASIC'.

Further certification

- RG 241.181 Under Rule 5.6.11, we may direct a trading participant to provide further certification of its compliance with Part 5.6 for an AOP system in a form acceptable to ASIC and from an appropriately qualified person acceptable to ASIC. The trading participant must comply with ASIC's direction within the time specified in the direction.
- RG 241.182 Examples of the circumstances where we may require a further certification include, but are not limited to, the following:
- (a) where we are not satisfied with the quality of a review undertaken for a material change or an annual review;
 - (b) where we believe that an AOP system no longer operates in the manner for which it was initially certified; and
 - (c) where we believe that an AOP system no longer complies with requirements in Part 5.6.

Appropriately qualified persons/suitably qualified persons

- RG 241.183 Under Rule 5.6.5, the representations that accompany the initial certification of an AOP system must be made by persons whom the trading participant considers to be suitably qualified and experienced in the controls and systems for which they are making the representations.
- RG 241.184 Under Rules 5.6.8 and 5.6.8A, the review of material changes and annual review must be conducted by an appropriately qualified person, and that person must provide the trading participant with representations relating to compliance with Part 5.6.
- RG 241.185 We do not intend to publish a list of persons who are qualified for these purposes, or specify minimum qualifications or experience for the purposes of these rules. It is the responsibility of the directors of the trading participant to satisfy themselves that the relevant persons making the representations are

qualified. Directors may wish to rely upon different persons to make representations about compliance with the different requirements of Rule 5.6.3 for the purposes of initial certification under Rule 5.6.6.

- RG 241.186 However, a trading participant should consider the following qualifications when relying upon one or more persons to conduct an initial review, review of material changes or annual review:
- (a) relevant experience in broking operations, system design, operational management and system security;
 - (b) familiarity with the relevant market integrity rules (e.g. provisions relevant to AOP—in particular, orderly markets issues) and applicable law (e.g. market misconduct provisions in the Corporations Act); and
 - (c) relevant technical qualifications—due to the technological and interconnected nature of systems, there should be some indication of the person’s qualifications in this regard (e.g. Certified Information Systems Auditor issued by the Information Systems Audit and Control Association or its equivalent, ‘Systems Assurance Partner’ of an accounting organisation, tertiary qualification in computer science or a similar academic discipline and a minimum number of years’ experience in information systems audits).
- RG 241.187 We will take similar considerations into account in selecting an ‘acceptable person’ to perform a further certification in accordance with Rule 5.6.11: see RG 241.181–RG 241.182.

Appendix 1: Sample certification

- RG 241.188 This appendix sets out a sample certification that can be used as a template.
- RG 241.189 Certifications should be provided on the trading participant's letterhead and emailed to the Senior Executive Leader, Market Supervision, ASIC at market.participants@asic.gov.au.

Certification of AOP compliance

This certification is given by [*insert name of trading participant*] under Rule 5.6.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

We have examined our obligations under the relevant market integrity rules, including those for automated order processing (AOP), and considered Regulatory Guide 241 *Electronic trading* (RG 241).

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

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

In relation to the AOP system, we have reviewed our policies, procedures and system design documentation—including our procedures for implementing subsequent changes to the AOP software, filters and filter parameters—and other relevant documentation concerning compliance with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017. Our review included all matters that we consider are necessary in the circumstances.

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

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

- The AOP system has in place controls that enable immediate suspension, limitation or prohibition of trading messages in a series of related trading messages being entered into the market(s) where we have identified that trading messages in the series have entered a market and have interfered with or are likely to interfere with the efficiency and integrity of a market, and cancellation of trading messages in that series that have already entered the market(s).
- We have direct control over all automated filters and the filter parameters for those filters, in relation to the AOP system.
- Nothing has come to our attention during the course of our review which would indicate that we are unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.
- The representations in Schedules A–F have been made by persons we consider to be suitably qualified and experienced in the organisational and technical resources, arrangements and controls for which they are making those representations.

Director Date

Director Date

Schedule A: Organisational and technical resources

I confirm the following, based on my own inquiries:

- The AOP system has in place the organisational and technical resources—including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter parameters—that I consider are necessary for trading messages to be submitted to the trading platform(s) without interfering with the efficiency and integrity of the market(s) or the proper functioning of the trading platform(s).
- Nothing has come to my attention during the course of my review which would indicate that [*insert name of trading participant*] is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

Name Signature Date

Schedule B: Trading management arrangements

I confirm the following, based on my own inquiries:

- The AOP system has in place trading management arrangements—including appropriate automated filters, filter parameters and processes to record any changes to the filters or filter

parameters—that I consider are necessary to readily determine the origin of all orders and trading messages.

- Nothing has come to my attention during the course of my review which would indicate that *[insert name of trading participant]* is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

Name	Signature	Date

Schedule C: Security arrangements

I confirm the following, based on my own inquiries:

- The AOP system has in place security arrangements that I consider are necessary to monitor for and prevent unauthorised persons having access to a gateway or an open interface device, or to a computer or other device connected to an open interface device, and to ensure that the AOP system does not interfere with the efficiency and integrity of the market(s) or the proper functioning of the trading platform(s).
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of trading participant]* is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

Name	Signature	Date

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

I confirm the following, based on my own inquiries:

- The AOP system has in place controls, including automated controls, that enable immediate suspension, limitation or prohibition of the conduct of all AOP, ACOP or AOP in respect of one or more authorised persons, clients or products.
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of trading participant]* is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

Name	Signature	Date

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

I confirm the following, based on my own inquiries:

- The AOP system has in place controls that enable immediate suspension, limitation or prohibition of trading messages in a series of related trading messages being entered into the market(s) where *[insert name of trading participant]* has identified that trading messages in the series have entered a market and have interfered with or are likely to interfere with the efficiency and integrity of a market, and cancellation of trading messages in that series that have already entered the market(s).
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of trading participant]* is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

Name	Signature	Date

Schedule F: Direct control over filters and filter parameters

I confirm the following, based on my own inquiries:

- *[Insert name of trading participant]* has direct control over all automated filters and the filter parameters for those filters, in relation to the AOP system.
- Nothing has come to my attention during the course of my review which would indicate that *[insert name of trading participant]* is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

Name	Signature	Date

Schedule G: Certification methodology

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

Appendix 2: Sample annual notification

- RG 241.190 This appendix sets out a sample annual notification that can be used as a template.
- RG 241.191 Annual notifications should be provided on the trading participant's letterhead. They can be submitted using the relevant form on [MECS](#) (and adding the necessary attachments), which can be accessed through our website. Alternatively, a trading participant may email the notification to market.participants@asic.gov.au with the subject line 'Attention: Senior Executive Leader, Market Supervision, ASIC'.

Annual notification of AOP compliance

This notification is given by [*insert name of trading participant*] under Rule 5.6.8B of the ASIC Market Integrity Rules (Securities Markets) 2017.

We have examined our obligations under the relevant market integrity rules, including those for automated order processing (AOP) and considered Regulatory Guide 241 *Electronic trading* (RG 241).

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

We confirm, for the purposes of Rule 5.6.8B, that nothing came to our attention during the 12 months period from 1 November [*previous calendar year*] to 31 October [*current calendar year*] which would indicate that the trading participant is unable to comply with Part 5.6 of the ASIC Market Integrity Rules (Securities Markets) 2017.

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

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

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

[Include or attach the following:

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

Key terms

Term	Meaning in this document
ACOP (automated client order processing)	AOP for an order submitted by an authorised person into the trading participant's trading system, as distinct from AOP for an order submitted by the trading participant as principal
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
algorithm or algorithmic trading	Electronic trading activity where specific execution outcomes are delivered by predetermined parameters, rules and conditions
AOP (automated order processing)	The process by which orders are registered in a trading participant's system, which connects it to a market. Client or principal orders are submitted to an order book without being manually keyed in by an individual (referred to in the rules as a DTR). It is through AOP systems that algorithmic programs access our markets
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or the exchange market operated by ASX Limited
ASX guidance notes	Guidance notes providing assistance to ASX trading participants on ASX's interpretation of the former ASX Market Rules
authorised person	A person who: <ul style="list-style-type: none"> • is either: <ul style="list-style-type: none"> – a client of a trading participant; – an agent of a client of a trading participant; or – a representative of a trading participant; and • is permitted by a trading participant to submit orders into the trading participant's system
Chapter 5 (for example)	A chapter of the Securities Markets Rules (in this example, numbered 5), unless otherwise specified
Chi-X	Chi-X Australia Pty Limited or the exchange market operated by Chi-X Australia Pty Limited

Term	Meaning in this document
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of the Act
crossing system	<p>An automated service provided by a trading participant which matches or executes client orders with orders of:</p> <ul style="list-style-type: none"> • the trading participant (i.e. against the trading participant's own account); • other clients of the trading participant; or • any other person whose orders access the automated service, <p>otherwise than on an order book of a licensed market</p>
DEA (direct electronic access)	An arrangement between a trading participant of a licensed market under which an authorised person submits orders directly into the licensed market using the trading participant's trading system
dealing rules	Securities Markets Rules and the operating rules of the ASX, Chi-X, IR Plus, NSXA and SSX markets (as applicable) that govern the submission of orders and the execution and reporting of transactions on the trading platform of the relevant market
DTR (designated trading representative)	Representative of the trading participant that has been authorised by the participant to submit trading messages to the execution venue on behalf of the participant
electronic trading	Includes algorithmic programs, AOP, ACOP and DEA
equity market products	Shares, managed investment schemes, the right to acquire by way of issue shares and managed investment schemes, CHES Depositary Interests and Transferable Custody Receipts admitted to quotation under a market's operating rules, but does not include a CGS depository interest
exchange market	<p>A market that enables trading in listed products, including through a central limit order book</p> <p>Note: Not all exchange markets offer primary listings services.</p>
execution venue	<p>A facility, service or location on or through which transactions in equity market products 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 trading 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

Term	Meaning in this document
filter	A set of rules that apply to an AOP system and that automatically determine which trading messages (or series of related trading messages) meet a pre-defined set of criteria and can pass into a trading platform
filter parameters	Variables within each filter that can be changed to modify the operation of the filter without changing the rule to which the filter applies
financial market	As defined in s767A of the Corporations Act. It encompasses facilities through which offers to acquire or dispose of financial products are regularly made or accepted
financial product	Generally a facility through which, or through the acquisition of which, a person does one or more of the following: <ul style="list-style-type: none"> • makes a financial investment (see s763B); • manages financial risk (see s763C); and • makes non-cash payments (see s763D) <p>Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.</p>
IR Plus	IR Plus Securities Exchange Limited (ACN 087 708 898) or the exchange market operated by IR Plus Securities Exchange Limited
liquidity	The ability to enter and exit positions with a limited impact on price
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
market operator	A holder of an Australian market licence that is the operator of a financial market on which equity market products are quoted
MECS (market entity compliance system)	Our online regulatory compliance portal that provides trading participants with tools and information to assist them in complying with their regulatory obligations <p>Note: MECS can be accessed through our website.</p>
NSXA	National Stock Exchange of Australia Limited (ACN 000 902 063) or the exchange market operated by National Stock Exchange of Australia Limited
order	An instruction to buy or sell financial products and an instruction to amend or cancel a prior instruction to buy or sell financial products
order-to-trade ratio	The number of times orders submitted into an order book are amended or cancelled relative to the execution of a trade
Part 5.5 (for example)	A part of the Securities Markets Rules (in this example, numbered 5.5), unless otherwise specified

Term	Meaning in this document
participant	A person, in relation to a market, who is allowed to directly participate in the market under the operating rules of the market, other than as a recognised affiliate
representative	Has the same meaning as in s910A of the Corporations Act
RG 172 (for example)	An ASIC regulatory guide (in this example, numbered 172)
Rule 5.5.1 (for example)	A rule of the Securities Markets Rules (in this example, numbered 5.5.1), unless otherwise specified
s798G (for example)	A section of the Corporations Act (in this example, numbered 798G)
Securities Markets Rules	ASIC Market Integrity Rules (Securities Markets) 2017 made by ASIC under s798G of the Corporations Act
short selling	The practice of selling financial products that are not owned by the seller, with a view to repurchasing them later at a lower price. Short sales can be naked or covered
sponsored access	An arrangement where a trading participant permits an authorised person to electronically transmit orders for execution directly to the market without passing through the participant's infrastructure
SSX	Sydney Stock Exchange Limited (ACN 080 399 220) or the exchange market operated by Sydney Stock Exchange Limited
trading messages	Messages submitted into a trading platform relating to trading functions, such as orders, amendment or cancellation of orders, and the reporting or cancellation of market transactions on the trading platform
trading participant	A market participant which has a trading permission (right to submit trade messages in a trading platform) in respect of one or more financial products
trading platform	A facility made available by the market operator to trading participants for the entry of trading messages, the matching of orders, the advertisement of invitations to trade and the reporting of transactions

Related information

Headnotes

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

Regulatory guides

[RG 172](#) *Financial markets: Domestic and overseas operators*

[RG 216](#) *Markets Disciplinary Panel*

[RG 225](#) *Markets Disciplinary Panel practices and procedures*

[RG 265](#) *Guidance on ASIC market integrity rules for participants of securities markets*

[RG 266](#) *Guidance on ASIC market integrity rules for participants of futures markets*

Legislation

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

Legislative instruments

Securities Markets Rules, Parts 2.1, 2.5, 3.8–3.11, 4.1–4.2, 5.5–5.7;
Rules 1.4.3, 1.6.1, 2.5.1, 2.5.3–2.5.5, 4.1.9, 5.1.3, 5.5.1–5.5.4, 5.6.1–5.6.12, 5.7.2(h)

Securities Capital Rules, Schedule 1A; Rule 8.2.1

Consultation papers and reports

[CP 145](#) *Australian equity market structure: Proposals*

[CP 168](#) *Australian equity market structure: Further proposals*

[CP 179](#) *Australian market structure: Draft market integrity rules and guidance*

[CP 184](#) *Australian market structure: Draft market integrity rules and guidance on automated trading*

[CP 202](#) *Dark liquidity and high-frequency trading: Proposals*

[CP 277](#) *Proposals to consolidate the ASIC market integrity rules*

[REP 215](#) *Australian equity market structure*

[REP 290](#) *Response to submissions on CP 168 Australian equity market structure: Further proposals*

[REP 311](#) *Response to submissions on CP 179 and CP 184 Australian market structure: Draft market integrity rules and guidance*

[REP 331](#) *Dark liquidity and high-frequency trading*

[REP 547](#) *Response to submissions on CP 277 Proposals to consolidate the ASIC market integrity rules*

Other documents

IOSCO, [Principles for direct electronic access to markets](#) (PDF 444 KB)