



Market Resiliency

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Key Messages

On Monday 16 November 2020, ASX went live with a new version of their equities market trading system (ASX Trade). Shortly after the go-live, an incident resulted in ASX closing its equities markets for the rest of that day. ASIC examined why very little trading activity migrated to alternative trading venues, including the Cboe Australia market, although they remained available and fully operational. On 24 November 2021, ASIC released a report containing its expectations for industry in responding to a market outage, which focused on measures to enhance market resiliency and support continuity of trading [REP 708].

In response, ASX released a consultation paper on its current market management arrangements on 28 June 2022 and published a feedback report on 19 October 2022. An AFR Chanticleer article titled [‘ASX trading needs a detailed investigation’](#) by Tony Boyd was also published later that day. Among other issues, it noted that respondents to ASX’s consultation paper were supportive of the Enquire session state being used during market outages, which freezes the order book and may make it more difficult for market participants to migrate their trading activity to alternative venues ASIC does not consider that the AFR Chanticleer article provides a technically accurate reflection of market operators’ and participants’ responses to ASIC’s expectations in REP 708 and their associated work. The main reason for ASX’s use of Enquire session state during future market incidents (supported by stakeholders in the feedback report) is to prevent the dissemination of potentially incomplete or inaccurate data, which may be contrary to operating a fair, orderly and transparent market.

As foreshadowed in ASX’s first consultation paper, the second consultation paper proposes four new mechanisms to enhance market resilience during outages. This includes a new ‘Cancel-Only’ session state, which will allow participants to cancel their existing orders. Other proposals include automated dissemination of participants’ existing orders and matched trades and an intraday restart facility. This is expected to assist with managing risk exposures and having more certainty to migrate to alternative trading venues during market outages.

Background

Following the ASX outage on Monday 16 November 2020, ASIC commenced several workstreams, including an investigation into whether ASX had met its obligations under its Australian market licence. As a result, licence conditions were imposed on ASX. The findings from a review of why so little trading activity migrated to alternative trading venues and ASIC’s expectations to enhance market resiliency were published in REP 708.

Subsequently, ASX is conducting a series of three public consultations aimed at enhancing its incident management arrangements during market outages. The first consultation paper was released on 28 June 2022 and focused on existing functionalities and potential enhancements based on current capabilities.

ASX received 19 written responses, including from market participants, industry bodies, vendors and a market operator. It published a feedback report to this consultation on 19 October 2022, which included that it will continue to keep the market in an Enquire session state during market outages, which freezes the market and does not allow orders to be cancelled, will adopt a final cut-off time of



1:30pm for not re-opening the market on an outage day and assess re-opening every 45 minutes before this, and develop pre-approved templates with prescribed content to make its half-hourly system status updates during incidents more informative.

ASX's second consultation paper, published to 31 October 2022, will propose a new "Cancel Only" session state which will allow market participants to cancel their existing orders but nothing else. ASX also proposes an automated service for providing participants with a record of their orders and trades as well as the possibility of an intraday restart to facilitate reopening the market on an outage day. ASX's third consultation paper, on participants' system testing requirements, is scheduled for early next year.

ASIC's Actions

ASIC is actively evaluating and monitoring the implementation of actions taken by market operators and market participants to ensure market operators and participants are taking appropriate steps to address expectations for market outages. This includes engaging closely with ASX as it undertakes its series of three public consultations. In parallel, ASIC provided an update on market operators' and participants' progress in addressing ASIC's expectations and called on industry to continue to improve resilience during market outages [22-159MR].

Our most recent engagement with market participants demonstrated that many have now made good progress in meeting our expectations and are on track to complete implementation of the expectations during 2022; for example, by removing dependencies on ASX's systems and data, providing access to the alternative market and incorporating market outage scenarios into their business continuity plans.

Of a sample of market participants representing around 90% of equity market trading, around 79% now either meet all of ASIC's expectations or are progressing the necessary changes. The remaining 21% are scoping the required work and many are reliant on the capabilities provided by third-party vendors. Some market participants still plan to coordinate their changes with those required for the new Cboe trading system (scheduled for February 2023) and some plan to connect to Cboe for the first time. ASIC will continue to monitor progress by market operators and participants against the expectations.

ASIC has previously issued Consultation Paper 314 which proposed market integrity rules for market operators and market participants to ensure the resilience of their critical business services. These market integrity rules were made on 10 March 2022, with a 12-month transition period [REP 719].

In addition to ASX's feedback report on its consultation paper, the AFR Chanticleer article raised issues with intraday liquidity and HFT on the ASX market, including reduced level of liquidity and higher volatility in the market, higher volumes traded in the closing auction and large deviations between traded prices in the auction and throughout the day. ASIC conducts deep-dive thematic reviews of equity market issues every few years, including topics such as high frequency trading, small trade sizes and closing auction price dislocation. As part of these reviews, ASIC has engaged with relevant firms where risks to market integrity or other undesirable activities were identified.

ASIC also monitors and publishes quarterly statistics for the equities market, with the most recent publication available at [Equity market data for quarter ending September 2022 | ASIC](#). This includes daily trading volumes (Figure 1), the breakdown of trading activity in the opening and closing auctions and throughout the day (Figure 6) and intraday volatility (Figure 7). These statistics assist in highlighting any issues or emerging trends that may be caused by a combination of broad changing market conditions (including macroeconomic and geopolitical) and market structural evolutions requiring further in-depth review.