



ASIC
Australian Securities &
Investments Commission

CONSULTATION PAPER 386

Proposed amendments to the ASIC market integrity rules: Trading systems and automated trading

August 2025

About this paper

This consultation paper sets out our proposals to amend the trading system and automated trading obligations in the *ASIC Market Integrity Rules (Securities Markets) 2017* and the *ASIC Market Integrity Rules (Futures Markets) 2017*.

The proposed amendments aim to:

- modernise the trading system and automated trading obligations to reflect current trading practices, technology and risks;
- drive greater consistency between the trading system rules for securities and futures markets; and
- clarify and reduce complexity in certain rules.

We are seeking the views of interested stakeholders on our proposals.

Note: The draft rules are available on the [CP 386 landing page](#).

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 paper was issued on 27 August 2025 and is based on the legislation as at the date of issue.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

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The consultation process

You are invited to comment on the proposals in this paper, which are only an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information. We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on rules relating to trading systems and automated trading. In particular, any information about compliance costs, impacts on competition and other impacts, costs and benefits will be taken into account if we prepare a Regulation Impact Statement: see Section E, 'Regulatory and financial impact'.

Making a submission

You may choose to remain anonymous or use an alias when making a submission. However, if you do remain anonymous we will not be able to contact you to discuss your submission should we need to.

Please note we will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any personal or financial information) as confidential.

Please refer to our [privacy policy](#) for more information on how we handle personal information, your rights to seek access to and correct personal information, and your right to complain about breaches of privacy by ASIC.

Comments should be sent by 22 October 2025 to:

Senior Manager, Markets Regulation
Markets Group
Australian Securities and Investments Commission
GPO Box 9827
Melbourne VIC 3001
email: markets.consultation@asic.gov.au

What will happen next?

Stage 1	27 August 2025	ASIC consultation paper released
Stage 2	22 October 2025	Comments due on the consultation paper
Stage 3	31 March 2026	Amended rules made and feedback report released

A Overview

Key points

This consultation paper sets out our proposals to amend the trading system and automated trading obligations in the *ASIC Market Integrity Rules (Securities Markets) 2017* and the *ASIC Market Integrity Rules (Futures Markets) 2017*.

Trading on Australian exchange markets is now predominantly automated. The use of algorithmic trading in both the securities and futures exchange markets has grown rapidly and we expect this growth to continue.

Use of artificial intelligence (AI) and machine learning (ML) in financial services is accelerating. To fully realise the potential benefits from these innovations, appropriate guardrails are needed to preserve the integrity of Australia's financial markets. During periods of heightened volatility, markets may be especially vulnerable to risks from unexpected activity by algorithms, AI or ML.

Internationally, financial market regulators and other organisations have increased their focus on managing potential risks from the use of AI and ML in financial markets, including from their use in algorithmic trading.

Our proposed rule amendments aim to update and streamline the trading system and automated trading obligations to:

- reflect current market practices and technology and apply consistent obligations to the trading systems used by market participants;
- extend proportionate and principles-based rules to govern algorithmic trading by market participants;
- drive greater consistency between the rules for securities and futures markets; and
- improve clarity and reduce complexity in certain rules as well as remove redundant and unnecessarily prescriptive rules.

Technological developments in exchange market trading

- 1 Over the past decade, technology and processes supporting trading by market participants and their clients on Australian securities and futures exchange markets has undergone significant change. Notably, with advancements in automation across financial markets, participants' systems used for trading, order management and surveillance are now largely automated.
- 2 We estimate that algorithmic trading in Australian listed equities markets comprises approximately 85% of all trading, while in the futures markets we estimate that 94% of trading in SPI 200 futures and 46% of trading in 3-year Treasury bond futures is algorithmic trading.

- 3 Algorithmic trading strategies are continually being developed and improved, striving for greater efficiency in terms of speed, market impact and anonymity. Previously available only to institutional investors, algorithmic trading is becoming accessible to a broader range of investors.
- 4 As trading systems have become even more automated, the role of designated trading representatives (DTRs) has changed. For most market participants, the majority of, if not all, manually entered orders are sent via a trading participant's trading system or smart order router and are subject to filters before being routed to market.
- 5 AI and ML are also playing an increasing role in the technological development of Australia's financial system. Risks may be increased where AI/ML is deployed with algorithmic trading, such as potential exacerbation of market volatility or 'flash crashes'. AI systems can make decisions at lightning speed and if multiple AI systems react similarly to market conditions ('herding'), this could lead to rapid and significant market movements. Financial markets may be especially vulnerable to risks from unexpected outputs from algorithms, AI or ML during periods of heightened volatility.
- 6 Additionally, the complexity and opacity of AI models can make it difficult to understand their decision-making processes, increasing the risk of unintended consequences. Another risk is the potential for bias and market manipulation. If the data contains biases, AI's decisions reflecting those biases could potentially lead to unfair or unethical trading practices.

ASIC market integrity rules governing trading systems and automated trading

Securities markets participants' obligations

- 7 The *ASIC Market Integrity Rules (Securities Markets) 2017* (Securities Rules) in their current form were largely adopted by ASIC from ASX Market Rules during the transfer of supervision in 2010. These rules apply to ASX, Cboe, NSXA and SSX.

Note: Prior to 2017, each separate market had a market integrity rule book that applied to the market operator and its participants.

- 8 From 2010–2012, we consulted on amendments to insert market integrity rules governing electronic and automated trading for securities markets (see Consultation Paper 145 *Australian equity market structure: Proposals* ([CP 145](#)) and Consultation Paper 168 *Australian equity market structure: Further proposals* ([CP 168](#))).

- 9 Following these consultations, amendments to the Securities Rules included requirements for participants to have:
- (a) direct control over filters and filter parameters;
 - (b) appropriate automated controls to suspend or prohibit automated order processing (AOP) for one or more authorised persons, or to suspend a series of related messages, that, once identified, may interfere with the efficiency and integrity of the market ('kill-switch' rules); and
 - (c) an AOP annual review and notification to ASIC.
- 10 These rules were supplemented by guidance in Regulatory Guide 241 *Electronic trading* ([RG 241](#)). This guidance set out expectations including that a participant should have:
- (a) appropriate arrangements for testing its AOP filters, filter parameters and controls and systems;
 - (b) arrangements to manage the risk associated with algorithmic trading including stress testing of algorithmic programs and an agreement with an authorised person who uses their own algorithmic trading models that systems flow is tested against trading participant AOP filters; and
 - (c) real-time or close to real-time monitoring and post-trade analysis.
- 11 Currently, the relevant rules relating to trading systems and automated trading for securities participants are set out in Part 5.5 (Participant's trading infrastructure) and Part 5.6 (Automated Order Processing—Filters, conduct, and infrastructure) of the Securities Rules.
- 12 Part 5.5 applies to trading participants of the securities markets, whether trading is automated or manual. Under these existing rules:
- (a) trading messages are taken to have been submitted with the trading participant's knowledge (Rule 5.5.1);
 - (b) a trading participant must have and maintain necessary organisational and technical resources to ensure trading messages do not interfere with the efficiency and integrity of a market and the proper functioning of a trading platform (Rule 5.5.2); and
 - (c) a trading participant must have arrangements to determine the origin of all orders and trading messages (Rule 5.5.3) and maintain records (Rule 5.5.4).
- 13 Part 5.6 applies to a trading participant's use of its systems for AOP and requires that a trading participant has:
- (a) appropriate automated filters and ensure that their use of AOP does not interfere with market integrity and proper functioning (Rule 5.6.1);
 - (b) organisational and technical resources, trading management arrangements and security arrangements (Rule 5.6.3(1));

- (c) controls to immediately suspend, limit or prohibit AOP and controls to immediately suspend, limit, prohibit or cancel trading messages ('kill switch' controls) (Rule 5.6.3(1)(d) and (e)); and
 - (d) direct control over all automated filters and filter parameters (Rule 5.6.3(2)).
- 14 Part 5.6 also sets out requirements in relation to initial certification of an AOP system (Rule 5.6.6 together with Rules 5.6.4 and 5.6.5), material change/annual reviews (Rules 5.6.8 and 5.6.8A) and annual notifications to ASIC (Rule 5.6.8B).
- 15 ASIC has the power to direct a trading participant to provide a further AOP system certification (Rule 5.6.11), cease conducting AOP, or to immediately suspend, limit or prohibit the conduct of AOP (all or part) (Rule 5.6.12).
- 16 In addition to these specific trading infrastructure and automated trading obligations, securities participants also have obligations to have other trading safeguards and monitoring mechanisms to:
 - (a) not make a bid, offer or dealing, as a principal or agent, that has the effect of, or is likely to have the effect of, creating a false or misleading appearance of active trading (Rule 5.7.1);
 - (b) ensure that the trading participant does not do anything which results in a market for a financial product not being both fair and orderly, or fail to do anything where that failure has that effect (Rule 5.9.1);
 - (c) comply with suspicious activity reporting (Rule 5.11.1); and
 - (d) ensure the resilience, reliability, integrity and security of their critical business services (which would include a trading system) (Part 8B.2).

Futures markets participants' obligations

- 17 Like the Securities Rules, the *ASIC Market Integrity Rules (Futures Markets) 2017* (Futures Rules) were largely adopted by ASIC from ASX 24 Market Rules during the transfer of supervision in 2010. The Futures Rules apply to ASX 24 and FEX futures markets.
- 18 Given the historical development of the securities and futures exchange markets, the existing obligations relating to trading infrastructure and automated trading in the Futures Rules and the Securities Rules differ.
- 19 Futures Rules relating to trading infrastructure and automated trading have also not been substantively changed in over 15 years. In 2013, we extended the risk management requirements in Rule 2.2.1 to futures participants when executing business on their house accounts (not just their client accounts): see Consultation Paper 195 *Proposed amendments to ASIC market integrity rules: ASX 24 and FEX markets* ([CP 195](#)).

- 20 Under Rule 2.2.1 of the Futures Rules, a market participant must demonstrate prudent risk management procedures, including:
- (a) setting and documenting appropriate predetermined order and/or position limits and maximum price change limits on each client and house account (based on financial resources and other relevant factors);
 - (b) rejecting orders in excess of the agreed predetermined limits from the market participant's order system.
- 21 The Futures Rules provide limited powers for ASIC to issue directions, but they relate to connections to 'terminals' which no longer exist. The rules also set out certain requirements in relation to client and proprietary connections to 'terminals': Rule 2.2.1(2)–(4). Historically, a terminal was a 'gateway' provided by the market operator through which an order system routed orders to the trading platform. ASX-24-supplied terminals have not existed since 2017 when ASX 24 upgraded its technology.
- 22 Futures participants, like securities participants, are required to have controls for:
- (a) not offering to purchase or sell a contract or deal in any contract, either as principal or agent, that has the effect of, or is likely to have the effect of, creating a false or misleading appearance of active trading (Rule 3.1.2);
 - (b) suspicious activity reporting (Rule 3.6.1); and
 - (c) the resilience, reliability, integrity and security of their critical business services (Part 8B.2).
- 23 Regulatory Guide 266 *Guidance on ASIC market integrity rules for participants of futures markets* ([RG 266](#)) sets out expectations that futures participants should have appropriate filter and filter parameters when complying with Rule 2.2.1 of the Futures Rules.

International regulatory developments

- 24 Internationally, financial market regulators and other organisations have increased their focus on the potential risks of using AI/ML in financial markets, including use in algorithmic trading.
- 25 Many international regulators and international bodies have published guidelines on responsible use of AI/ML and are considering what measures to adopt to address this emerging risk.
- 26 In 2021, the International Organization of Securities Commissions (IOSCO) set out recommendations to address the emerging risks arising from AI/ML in its final report, *The use of artificial intelligence and machine learning by market intermediaries and asset managers* ([IOSCO FR06/2021](#)) (PDF 434 KB). This includes recommendations in relation to rules for the development, deployment, testing and monitoring of AI and ML trading algorithms.

- 27 More recently, in March 2025, IOSCO published a consultation report, *Artificial intelligence in capital markets: Use cases, risks, and challenges* ([CR/01/2025](#)) (PDF 1.46 MB). In the report, IOSCO observed that AI technology has undergone significant developments since 2021, that firms are increasingly using AI systems for algorithmic trading and that these are sometimes integrated across the entire trading lifecycle.
- 28 Several overseas jurisdictions have requirements in place relating to algorithmic trading. We have reviewed the requirements in the European Union, United Kingdom, United States, Canada and Singapore to align our proposed rule amendments relating to algorithmic trading with international best practice.

What are we doing now?

- 29 We propose to amend the trading system and automated trading obligations in the Securities Rules and Futures Rules.
- 30 This consultation paper proposes rule amendments to:
- (a) drive greater consistency between the Securities Rules and Futures Rules relating to trading systems and automated trading;
 - (b) apply consistent obligations to any trading systems used by participants, irrespective of how orders are submitted, to modernise the rules to reflect current market practices and highly automated trading;
 - (c) extend proportionate and principles-based rules to govern algorithmic trading by participants; and
 - (d) improve clarity and reduce complexity in certain rules, as well as remove redundant and unnecessarily prescriptive rules.
- 31 This would primarily involve amendments to:
- (a) Parts 4.1, 5.5 and 5.6 of the Securities Rules; and
 - (b) Rules 2.2.1 and 2.2.4 of the Futures Rules (we propose to replace existing Rule 2.2.1 with the proposed new requirements in Parts 5.5 and 5.6 of the Securities Rules).
- See Table 1 for a summary of these changes.
- 32 This paper also seeks feedback on proposals to amend the false or misleading appearance rules in Part 5.7 of the Securities Rules and Part 3.2 of the Futures Rules. The proposed amendments intend to clarify:
- (a) how the rules apply to principal trading and trading on behalf of another person;
 - (b) that the scope of these rules includes trading by a market participant on behalf of a client of a client; and

- (c) that market participants are required have regard to the circumstances of the order.

- 33 We further propose to make some consequential amendments to the Securities Rules and Futures Rules to remove redundant rules and to clarify and reduce complexity in certain rules.
- 34 Separately to this work, we intend to review the operation and effectiveness of existing rules requiring market operators to apply Anomalous Order Thresholds and Extreme Trade Ranges. The review may involve considering whether it would be appropriate to implement additional rules to address market-wide stress events.
- 35 We also welcome any feedback or suggestions on ways we can further simplify the Securities and Futures Rules.

Table 1: Overview of changes to Securities and Futures Rules

Proposed change	Rationale	Securities Rules	Futures Rules
Incorporating guidance on trading algorithms in RG 241 and RG 266 into the rules and adding a definition of trading algorithms	The rules currently do not specifically address risks from AI and ML arising from trading algorithms. Incorporating long-standing guidance in RG 241 and RG 266 aligns with international best practice	1.4.3 (Amend) 5.6.3 (Amend) 5.6.3B (New) 5.6.12 (Amend)	1.4.3 (Amend) Pt 2.2B (New)
Consistent trading system requirements			
Implementing technology-neutral language regarding trading systems	Applying a consistent, principles-based approach to compliance with the trading system obligations, replacing different and prescriptive terminology, e.g. AOP and DTRs	1.4.3 (Amend) Pt 2.5 (Repeal) Pt 5.5 (Amend) 5.6.2 (Repeal) 5.6.3 (Amend) 5.6.4 (Amend)	1.4.3 (Amend) Pt 2.2B (New)
Streamlined obligations	Implement principles-based obligations responsive to technological change and innovation by: <ul style="list-style-type: none"> applying existing obligations for AOP and DTRs consistently to trading systems and trading algorithms repealing obsolete requirements consolidating requirements to have appropriate controls, governance arrangements across Futures and Securities Rules simplifying review and certification obligations for the initial, material changes and annual reviews 	5.6.4 (Amend) 5.6.5 (Repeal) 5.6.6 (Amend) 5.6.8 (Amend) 5.6.8A (Amend) 5.6.8B (Repeal) 5.6.11 (Renumber)	2.2.1 (Repeal) Pt 2.2A (New) Pt 2.2B (New) Pt 5.5 (Amend) 3.1.1A (New)

Proposed change	Rationale	Securities Rules	Futures Rules
Obligation to monitor trading messages	Apply principles-based requirements to monitor trading messages	5.6.3A (New)	2.2B.3 (New)
Clarifying false and misleading appearance rules	Minor changes to refine and simplify the drafting	5.7.1 (Amend)	3.1.2 (Amend)
		5.7.2 (Amend)	3.1.2A (Amend)
		5.7.3 (Repeal)	3.1.3 (Amend)
Minor updates and consequential amendments	Simplifying the rules by reordering and streamlining obligations, including record keeping	Pt 4.1 (Amend)	Pt 2.2 (Amend)
		Various updates	Various updates

Note: Please note that this table does not provide an exhaustive list of all proposed changes.

B Proposals to amend the Securities Rules relating to trading systems and automated trading

Key points

We propose to update, streamline and modernise the Securities Rules relating to trading systems and automated trading to:

- reflect current market practices and technology and apply consistent obligations to trading systems used by market participants;
- drive consistency between the rules for securities and futures markets;
- extend proportionate and principles-based rules to govern algorithmic trading by participants;
- improve clarity and reduce complexity in certain rules, including the false and misleading rule, as well as remove redundant and unnecessarily prescriptive rules.

The draft rules are available on the [CP 386 landing page](#).

Obligations relating to trading algorithms

- 36 While the Securities Rules require robust controls to mitigate risks from automated trading, there are currently no specific rules governing algorithmic trading by participants of securities markets.
- 37 Our guidance in [RG 241](#) sets out long-standing expectations in relation to algorithmic trading, providing that trading participants should:
- (a) have arrangements to manage the risk associated with algorithmic trading including stress testing their algorithmic programs and order flow (RG 241.124);
 - (b) have in place arrangements to manage the risk associated with trading using algorithmic programs (RG 241.98); and
 - (c) 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 241.100).
- 38 It is important that trading participants have robust controls to ensure that algorithmic trading doesn't affect the efficiency and integrity of the market.

- 39 In addition to addressing the risks posed by traditional trading algorithms, ASIC and other international organisations and regulators are focusing on the potential risks that may arise from the increasing adoption and reliance on AI and ML in algorithmic trading and assessing whether the governance and regulation of these technologies are appropriate.
- 40 Specific risks associated with AI- and ML-driven trading algorithms include:
- (a) **Increased market speed and volatility under stress:** AI-driven trading algorithms can further enhance the speed and efficiency of trading. However, rapid, high-volume trading can also lead to sudden spikes in volatility, especially in turbulent market conditions. Prices may react much more quickly in an AI-driven market, potentially risking disorderly trading, market disruption or ‘flash crash’ events. Close monitoring and oversight of AI trading algorithms can help mitigate these risks.
 - (b) **Complexity and opacity:** AI-driven trading algorithms can be highly complex, making them difficult to understand even for their creators. This opacity can complicate efforts to monitor and regulate market activities. Traditional algorithms follow pre-set instructions. In contrast, AI-driven algorithms adapt their strategies in real time based on market conditions, learning from their actions to optimise future trades. The behaviour of AI and ML may therefore change in an unforeseen manner as more data is processed over time. Testing AI and ML algorithms thoroughly before deployment and continuously monitoring an algorithm throughout their deployment can alert market participants that a trading algorithm is behaving in unanticipated ways.
 - (c) **Data quality and bias:** AI-driven trading algorithms rely on quality data. Excessive immaterial, or ‘noisy’ data may cause these algorithms to miss signals in the data and behave unexpectedly. Unlike traditional algorithms, as more data is processed by ML algorithms and they are exposed to new data patterns or different market conditions, they may behave unpredictably. In addition, learned bias in a data set can impact the decisions made by such algorithms and may result in discriminative decisions and provide undesirable outcomes to market participants.

Robust development and testing controls as well as continuous monitoring of ML-driven algorithms can ensure these algorithms are not affected by poor data quality or data bias and that they continue to perform as originally intended.
 - (d) **Increased operational risks as a result of reliance on a few key third-party AI service providers:** Vendor concentration can be a potential source of systemic risk. Overdependence on a limited number of AI model providers and data vendors could lead to ‘herding’ or mass disruptions to trading and investment were one or some of these vendors to fail. Ensuring that participants have adequate skills, expertise and experience to develop, test, deploy, monitor and oversee AI and ML

trading algorithms that the firm utilises (including data and trading algorithms produced by third-party providers) can mitigate these risks.

- (e) **Increased market manipulation and cyber risks:** Fraud, disinformation, and deepfakes will likely become more sophisticated as AI advances and could be used by bad actors to affect trading decisions made by AI and ML based algorithms, which could impact financial markets and asset prices, as well as to conduct cyber-attacks. Data integrity and confidentiality could be compromised, leading to AI models producing suboptimal trading and investment decisions. Again, it is important that AI and ML algorithms are monitored to ensure that they do not affect the efficiency and integrity of the market.

Note: The summary of potential risks has been largely adopted from Chapter 3 of the International Monetary Fund's Global Financial Stability Report, [Steadying the course: Uncertainty, artificial intelligence, and financial stability](#), October 2024 and [IOSCO FR06/2021](#).

Table 2: Overview of proposals relating to trading algorithms

Current rule	Action	Proposed rule	Proposal
1.4.3	Amend	1.4.3	Insert new definition for 'Trading Algorithm'
5.6.3(1)(c)(ii)	Amend	5.6.3(1)(c)(ii)	Specify that automated controls for trading algorithms should enable immediate suspension of trading, which is consistent with existing requirement for automated client order processing and in RG 241 at RG 241.53
5.6.12(2)(b)	Amend	5.6.12(2)(b)	Specify that ASIC's direction power applies to trading algorithms
N/A	New	5.6.3B	Incorporate guidance from RG 241 into rules requiring a trading participant to have appropriate controls and governance arrangements for the development, testing, approval, deployment and monitoring of trading algorithms

Proposal

B1 We propose to introduce new rules governing participants' use of trading algorithms, including:

- (a) defining 'Trading Algorithm' as:

'a computer algorithm which automatically determines with limited or no human intervention, one or more parameters of an Order such as whether to initiate an Order, the timing, price or quantity of the Order or how to manage the Order after its submission, but does not include systems or processes used only:

- (i) for the purpose of routing Orders to one or more Trading Platforms;

- (ii) for the submission of Orders involving no determination of any trading parameters;
- (iii) for producing confirmations of Orders; or
- (iv) for post-trade processing of executed transactions'.
- (b) requiring trading participants to have appropriate controls and governance arrangements (including written procedures) for the development, testing, approval, deployment and monitoring of all trading algorithms used by the trading participant or that the trading participant makes available to a client (see proposed Rule 5.6.3B(1));
- (c) requiring trading participants to take reasonable steps to test that the trading algorithm (whether used by the participant or made available to a client) will not interfere with the efficiency and integrity of a market, crossing system or proper functioning of a trading platform. The algorithm must be tested before use for the first time and before implementing a material change to the algorithm (see proposed Rule 5.6.3B(2));
- (d) requiring trading participants to maintain records in relation to (b) and (c) above for a period of seven years (see Rule 5.6.3B(4));
- (e) extending existing obligations to have controls that enable immediate suspension or limitation of the operation of one or more trading algorithms (see Rules 5.6.3(1)(c) and 5.6.12(2)(b).

Your feedback

B1Q1 Do you agree with our definition of 'Trading Algorithm'? If not, please give reasons why.

B1Q2 Do you agree with our proposal to require a trading participant to:

- (a) have appropriate controls and governance arrangements for the development, approval, deployment, testing and monitoring of trading algorithms; and
- (b) test trading algorithms; and
- (c) have controls that enable immediate suspension or limitation of the operation of trading algorithms?

If not, please give reasons why. Should these requirements extend to client algorithms?

B1Q3 To what extent are your trading algorithms currently tested before use and before implementing a material change?

B1Q4 When would you consider a change to an algorithm to be material?

B1Q5 What standard of testing of trading algorithms should be required?

B1Q6 Do you agree with our proposal to require trading participants to maintain records of the matters referred to in Rule 5.6.3B(1) and (2) for a period of seven years. If not, please give reasons why.

B1Q7 If you are a trading participant, how will these proposed rules affect your business? Please provide an estimate of the time and costs to implement each proposed arrangement. In providing this estimate, please compare this with your expenditure on your current arrangements in relation to algorithmic trading.

Rationale

- 41 In today's interconnected and fast-moving market environment, trading algorithms have the potential to create or amplify trading errors, cause market impact and harm market integrity.
- 42 We consider it essential for safeguarding market integrity that trading participants should have appropriate controls and governance arrangements for the development, approval, deployment, testing and monitoring of trading algorithms. We also consider it vital that trading algorithms (whether developed in-house or by third parties) are appropriately tested by trading participants before use and, when there are material changes, to ensure that the trading algorithm will not interfere with the efficiency and integrity of a market or the proper functioning of a trading platform.
- 43 While [RG 241](#) sets out expectations relating to testing of trading algorithms, given the predominance and continued innovations in algorithmic trading, we consider that it would be more appropriate for these standards to be incorporated into the rules.
- 44 Extending the kill switch controls to trading algorithms will help to mitigate erroneous order entry and aberrant algorithmic programs which have the potential to result in a 'flash crash', without requiring the suspension of a trading participant's trading system.
- 45 Our proposals are also consistent with obligations relating to algorithmic trading and algorithmic trading systems in peer jurisdictions, including the European Union and United Kingdom, which require investment firms to:
- (a) have appropriate procedures for the development, testing and approval of algorithms;
 - (b) have effective governance and oversight of algorithmic trading activities including regular monitoring and review by senior management or compliance functions;
 - (c) have comprehensive documentation of algorithmic trading strategies, including parameters, risk controls, and testing results including reporting requirements; and
 - (d) conduct thorough testing and simulation of algorithms before deployment in live trading environments; and
 - (e) have the ability to 'kill' an algorithm or a suite of algorithms centrally.

Note: See Article 17(1) of [Directive 2014/65/EU](#) and [Directive 2017/589](#) Markets in Financial Instruments Directive II (MiFID II).

- 46 Our proposals are also consistent with [IOSCO FR06/2021](#), which recommends that regulators should require firms to maintain an appropriate development and testing framework when using AI and ML within their algorithmic trading strategies.
- 47 IOSCO FR06/2021 recommends that regulators should require firms to have adequate skills, expertise and experience, as well as responsible designated senior management for the oversight of the development, testing, deployment, monitoring and controls of AI and ML (Measures 1 and 3 of IOSCO FR06/2021). Measure 2 of IOSCO FR06/2021 recommends that regulators should require firms to adequately test trading algorithms to validate the results of an AI and ML technique on a continuous basis.

Applying consistent obligations to trading systems used by participants in securities markets

- 48 Trading practices, technology and risks in securities exchange markets have evolved since we last made material amendments to the market integrity rules relating to trading systems and automated order processing in around 2012. Some elements of the Securities Rules relating to trading systems now require updating. For example, the differentiated requirements in the rules for DTR-entered trading messages and AOP does not reflect the prevalence of automated trading, is overly complex and leaves gaps in responsibilities and powers.

Trading systems

- 49 We propose to streamline the obligations under the Securities Rules so that we have a single set of trading system obligations for trading participants, ensuring a robust and consistent rules framework for the entry of trading messages into the market regardless of how trading messages are submitted. This will ensure that all trading systems have the necessary controls (including filters and filter parameters) to prevent trading messages being submitted into a trading platform that interfere with the efficiency and integrity of the market or the proper functioning of the trading platform.

Table 3: Overview of proposals relating to trading systems

Current rule	Action	Proposed rule	Proposal
1.4.3	Amend	N/A	Replace definitions 'Automated Client Order Processing', 'Automated Order Processing' with new 'Trading Algorithm' and 'Trading System'
Part 2.5	Repeal and merge	Part 5.5	Part 5.5 will extend and simplify the substantive obligations regarding the responsibilities of a trading participant for its DTRs, to any representative that submits a trading message into a trading platform
5.6.2	Repeal	N/A	Repeal Rule 5.6.2 as proposed amendments to Rules 5.5.1 and 5.6.3 address the responsibility of a trading participant for trading messages submitted into a trading platform
5.6.3	Amend	5.6.3	Extend the current obligations for AOP to all trading messages

Initial certification, testing, material change review and annual review of trading systems

- 50 As part of the certification and review process a trading participant should have appropriate arrangements for testing its filters, filter parameters, controls and systems. This is consistent with our guidance in [RG 241](#), which explains that such testing should be conducted:
- (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);
 - (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 (see [RG 241](#) at RG 241.117).
- 51 We are proposing to formalise this guidance by introducing explicit requirements for testing trading systems in the Securities Rules.
- 52 The testing methodologies should be designed to ensure that:
- (a) filters, filter parameters and controls work as intended;
 - (b) the trading system can continue to work effectively in stressed market conditions; and
 - (c) testing results are quantifiable and display definitive qualitative outcomes.

Table 4: Overview of proposals relating to initial certification, testing, material change review

Current rule	Action	Proposed rule	Proposal
5.6.5	Repeal	5.6.6	Consolidate into Rule 5.6.6
5.6.4 and 5.6.6	Amend	5.6.4 and 5.6.6	Implement guidance from RG 241 to incorporate testing of trading systems and simplify and harmonise the initial certification review with the material change and annual review
5.6.8 and 5.6.8A	Amend	5.6.8 and 5.6.8A	Implement guidance from RG 241 to incorporate testing of trading systems and simplify and harmonise the initial certification review with the material change and annual review
5.6.8B	Repeal	N/A	Simplify by removing AOP annual notification to ASIC
5.6.11	Renumber	5.6.7	Minor updates and change of rule number

Systems for real-time and post-trade monitoring of trading messages

- 53 We also intend to insert proposed Rule 5.6.3A to explicitly require trading participants to have in place and maintain an adequate monitoring system that enables the trading participant to monitor real-time and post-trade trading messages. Such monitoring is vital for detecting, preventing and responding to activity that may interfere with the efficiency and integrity of exchange markets.
- 54 This proposed rule would supplement existing obligations in Part 5.6 (Automated Order Processing), Part 5.7 (Manipulative trading) and Part 5.9 (Fair and orderly markets) and our guidance.
- 55 Our existing guidance sets out our expectation that trading participants are able to monitor in real time, or close to real time, all trading submitted to a market: see [RG 241](#) at RG 241.81. We also consider that trading participants should have resources in place to conduct post trade analysis and regularly analyse historic order and trading patterns to identify suspicious trading and adjust their filters as appropriate: see RG 241 at RG 241.84.
- 56 Post-trade analysis enables trading participants to identify manipulative trading practices and give them useful data to assess whether their filters and filter parameters are adequate to prevent such practices and when there are reasonable grounds to lodge a suspicious activity report under Rule 5.11.1.

Table 5: Overview of proposals relating to systems for real-time and post-trade monitoring

Current rule	Action	Proposed rule	Proposal
N/A	New	Rule 5.6.3A	Incorporate guidance from RG 241 into rules requiring a trading participant to be able to monitor in post-trade and real time all trading submitted to a market

Consequential amendments

- 57 We also intend to make other consequential changes to update the trading system rules and to improve clarity. This includes reorganising the obligations in Parts 5.5 and 5.6 and making other consequential amendments (such as moving the obligations in relation to trading arrangements to Part 4.1). These changes would result in less complex rules that are simpler for trading participants to understand.

Proposal

B2 We propose to:

- (a) remove the differences between obligations for AOP and DTR-submitted trading messages, and use a technology neutral definition of 'Trading System', so that existing Part 5.6 obligations apply to 'any system for submitting Trading Messages into a Trading Platform';
- (b) insert the terms 'Trading System' and 'Trading System Requirements' to replace the following definitions in Rule 1.4.3—'AOP', 'Automated Order Processing', 'Automated Order Processing Requirements', 'Automated Client Order Processing', 'ACOP client'—and other terms that are no longer relevant, such as 'Open Interface Device', which refers to the defined terms 'Open Interface', 'Trader Workstation' and 'Trader Workstation Software';
- (c) move elements of DTR requirements in Part 2.5 to Part 5.5; and
- (d) repeal existing Rule 5.6.2 (Authorised Persons for Automated Client Order Processing).

Feedback

- B2Q1 Do you agree with our proposed definition of 'Trading System', which means 'any system for submitting Trading Messages into a Trading Platform'? Please give your reasons why.
- B2Q2 Do you agree with inserting the terms 'Trading System' and 'Trading System Requirements' to replace the AOP-related definitions in Rule 1.4.3? Please give your reasons why.
- B2Q3 Do you agree with our proposal to have a single set of trading system obligations for both manually submitted trading messages by a representative and automated trading of securities participants? If not, please give detailed reasons why.

- B2Q4 Do you agree with our proposal to retain and move elements of 'DTR' in Part 2.5 to Part 5.5 (see amended Rule 5.5.1)? If not, please give detailed reasons why.
- B2Q5 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.
- B2Q6 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

B3 We propose to update and simplify the requirements in Rules 5.6.4–5.6.8B:

- (a) to apply to trading systems used by a trading participant;
- (b) to clarify that the initial certification review should include an assessment of the trading participant's controls, arrangements and resources in relation to the trading system to enable compliance with Rule 5.5.2 and Part 5.6;
- (c) by replacing the existing requirement in Rule 5.6.6(3) that two directors sign and date the initial certification, with the simpler requirement that at least one responsible officer provides a statement that the initial certification given to ASIC is correct (see proposed Rule 5.6.6(2)(g));
- (d) by repealing the AOP annual notification requirement in existing Rule 5.6.8B and replacing it with a simpler requirement of a statement from at least one responsible officer of the trading participant to confirm the trading participant has complied with the annual review requirements in Rule 5.6.8A (see proposed Rule 5.6.8A(4)) and a written statement from at least one responsible officer before implementing a material change (see proposed Rule 5.6.8(1)(b)); and

Note: The requirement to perform the annual review of a trading system under Rule 5.6.8A will remain (see proposed Rule 5.6.8A(1)).

- (e) to require a trading participant to document the methodology, scope and results of its initial certification review, material change review and annual review as well as any recommended changes made as a result of those reviews (see proposed Rules 5.6.4(4), 5.6.8(4) and 5.6.8A(5)).

Feedback

- B3Q1 Should testing proposed in Part 5.6 be independently validated? If so, should independent validation of testing be conducted internally or by a suitably qualified third party?
- B3Q2 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

B3Q3 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

B4 We propose to amend Rules 5.6.4, 5.6.8 and 5.6.8A to require that a trading participant must test its controls, arrangements and resources relating to its trading system:

- (a) before using a trading system for the first time as part of its initial certification review in Rule 5.6.4;
- (b) for the purposes of performing a material change review of a trading system in accordance with current Rule 5.6.8; and
- (c) for the purposes of performing an annual review of a trading system in accordance with current Rule 5.6.8A.

Feedback

B4Q1 Do you agree with our proposal? Please give your reasons why.

B4Q2 Do you agree with our proposal to specify that, as part of the internal certification, material change and annual review, testing by a trading participant of its controls, arrangements and resources should also be included? Please give your reasons why.

B4Q3 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.

B4Q4 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

B5 We propose to insert new Rule 5.6.3A to explicitly require trading participants to have in place adequate monitoring systems to enable the trading participant to:

- (a) identify in real time a trading message or a series of trading messages that may interfere with the efficiency and integrity of a market, or the proper functioning of a trading platform;
- (b) identify a trading message or a series of trading messages that may have created, or were intended to create, a false or misleading appearance of active trading, having regard to the list of matters specified in Rule 5.7.2 (Circumstances of order); and
- (c) maintain records of the trading messages that were identified in (a)–(b) above and any measures taken in respect of those trading messages for a period of seven years.

Feedback

- B5Q1 Do you agree with our proposal to insert proposed Rule 5.6.3A? If you are a trading participant, do you already have in place monitoring systems that would satisfy the proposed rule?
- B5Q2 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.
- B5Q3 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

B6 We propose to make related and consequential amendments to update and streamline related Securities Rules and improve clarity, some of which include:

- (a) consolidating and updating the order record obligations in Rules 4.1.1, 4.1.2, 4.1.6, 4.1.7, 4.1.8, 5.5.3 and 5.5.4 (as a result Rules 5.5.3 and 5.5.4 will be repealed);
- (b) reorganising existing obligations in Parts 5.5 and 5.6.

Feedback

- B6Q1 Do you disagree with any of these consequential amendments? Please give your reasons why.
- B6Q2 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.
- B6Q3 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?

Rationale**Trading systems**

- 58 These proposals would modernise the Securities Rules and better align them with current market practice. The current definition of AOP and the distinction between manual and automated trading in the Securities Rules reflect a time when DTR-entered orders were the main way participants traded and electronic trading was less prevalent. Now, the use of automated and algorithmic trading far outweighs the use of DTRs. A DTR's responsibilities often go beyond submitting trading messages to the trading platform on behalf of the trading participant.

- 59 We consider market participants are best placed to allocate trading functions to representatives across their structure. Rather than continue to mandate the role of a DTR, a market participant will need to satisfy itself that any representative with authority to enter orders directly into the trading platform is suitably qualified and experienced to perform that function. Further, by removing several prescriptive rules around the appointment of DTRs, market participants will have greater flexibility to manage their trading arrangements, including the human resources supporting these arrangements.
- 60 Trading participants would still be expected to have appropriate human resources to ensure compliance with Parts 5.5 and 5.6, including human resources who are appropriately qualified, experienced and have the requisite knowledge to perform their function.

Initial certification, testing, material change review and annual review of trading systems

- 61 We consider that these changes will simplify and improve clarity of the initial certification, material change review and annual review requirements.
- 62 The proposal to replace the annual notification in Rule 5.6.8B with a simpler confirmation will reduce administrative burden for both trading participants and ASIC. We think this strikes an appropriate balance between regulatory efficiencies and ensuring that trading participants still perform an annual review of their trading systems to ensure their infrastructure remains compliant with Part 5.6. We have also adopted a limited no-action position for Rule 5.6.8B, so that trading participants do not need to submit an ‘AOP Annual Notification’ to ASIC from November 2025, subject to keeping an internal written statement from one director that nothing has come to the trading participant’s attention during the 12 months before the AOP Annual Review Date that would indicate the trading participant is unable to comply with Part 5.6.
- 63 The proposed changes in proposal B3 are intended to align those review requirements with the review requirements for critical business services arrangements in Rule 8B.2.1(3).
- 64 Appropriate testing arrangements for trading systems, filters and controls are a baseline expectation for trading participants to protect against risks that trading messages submitted into the trading platform may interfere with the efficiency and integrity of the market or the proper functioning of the trading platform.
- 65 We expect investors, issuers, market participants and market operators to benefit from greater protection against the risk of aberrant automated trading disrupting Australia’s equity markets by raising expectations for testing of

systems, filters and controls. The proposals support trust and confidence in Australia's equity markets.

66 The proposal is consistent with our guidance in [RG 241](#) that trading participants should have adequate arrangements for their automated trading systems. We have also considered APRA's guidance on model risk management for its regulated populations in forming our proposals.

67 The change will also more closely align our regulatory framework with peer jurisdictions. For example:

- (a) the European Union and United Kingdom require an investment firm to review and test its business continuity arrangements for its algorithmic trading systems (this includes kill switch) on an annual basis;

Note: See Article 17(1) of [Directive 2014/65/EU](#) and [Directive 2017/589](#) (MiFID II).

- (b) Canada (Ontario Securities Commission (OSC)) requires testing of automated order systems before use and annually; and

Note: See paragraph 5(3)(b) of [National Instrument 23-103: Electronic trading and direct electronic access to marketplaces](#).

- (c) [IOSCO FR06/2021](#) recommends that firms should appropriately test kill switch functionality.

Systems for real-time and post-trade monitoring of trading messages

68 Our proposal to insert proposed Rule 5.6.3A would incorporate existing expectations in our guidance into the Securities Rules. Our guidance explains that trading participants should conduct real-time and post-trade monitoring of trading messages to detect, prevent and respond to disorderly or suspicious trading in meeting their obligations, including in Parts 5.6, 5.7 and 5.9.

69 This proposal is consistent with obligations in peer jurisdictions. For example, the European Union and United Kingdom (Financial Conduct Authority (FCA)) require real-time monitoring of algorithmic trading as well as post-trade controls that include continuous assessment and monitoring of the market for both securities and derivatives.

Note: See Article 17(1) of [Directive 2014/65/EU](#) and [Directive 2017/589](#) (MiFID II).

70 Additionally, the United States (Securities Exchange Commission (SEC)) and Canada (OSC) require risk management and supervisory controls that include regular post-trade monitoring:

Note: See paragraph 15c3-5(c)(2)(iv) of the Securities Exchange Act and section 3 of [National Instrument 23-103: Electronic Trading and Direct Electronic Access to Marketplaces](#).

- 71 This proposal is consistent with Measure 2 of [IOSCO FR06/2021](#) which provides that regulators should require firms to adequately monitor AI and ML trading algorithms on a continuous basis.

Consequential amendments

- 72 The substance of other existing rules relating to trading systems remain largely unchanged. However, as a result of the rules being reordered, the existing numbering of some of the rules will change.
- 73 These proposals will also facilitate consistency with our proposed amendments to the Futures Rules and the futures market which does not have DTRs and does not distinguish between manual and automated trading.

Clarifying the false or misleading appearance rules

- 74 We propose to amend the false or misleading appearance rules in Part 5.7 to clarify:
- (a) the category of ‘person’ this rule applies to;
 - (b) the obligations when trading as principal or when trading on behalf of a person; and
 - (c) the circumstances of the order to be taken into account.
- 75 Our aim is to ensure that the Securities Rules continue to effectively prevent market manipulation, maintain the integrity of our securities markets and promote investor trust and confidence.

Proposal

- B7** We propose to amend the false or misleading appearance rules in Part 5.7 to:
- (a) clarify that the scope of current Rule 5.7.1(b)(iii) extends to a bid, offer or dealing made on account of any other person, including when that person is acting on behalf of another person;
 - (b) make it clear that an order must not be placed if, taking into account the matters specified in Rule 5.7.2, the market participant ought to reasonably suspect that the person has placed it with the intention of creating a false or misleading appearance of active trading or with respect to the market for, or the price of, any financial product;
 - (c) clarify that the list of matters that a market participant must have regard to when considering the circumstances of the order is a non-exhaustive list; and

- (d) make the following structural changes to simplify the drafting of Rule 5.7.1:
 - (i) create new subrules (1) and (2) which distinguish the rules that apply to principal trading and trading on behalf of another person; and
 - (ii) create new paragraphs (1)(a)–(b) and (2)(a)–(c) to more clearly distinguish the two separate limbs that exist.

Your feedback

B7Q1 Do you agree with our proposal? Please give reasons for your answer.

B7Q2 If you are a market participant, how will these proposed rule changes affect your business? Please provide an estimate of the time and costs to implement these rule changes. In providing this estimate, please compare this with your expenditure on your current arrangements.

Rationale

- 76 The purpose of our proposed amendments is to clarify the scope of the false or misleading rules and to align the rules for securities and futures markets.
- 77 Our view is that the scope of Rule 5.7.1(b) includes persons other than clients of the market participant and extends to orders made on behalf of any other person. A broad interpretation of these rules is also consistent with their purpose, which is for the market participant to act as gatekeeper by not giving effect to orders which ought reasonably be suspected as being manipulative. This interpretation has been made explicit in proposed new Rule 5.7.1(2)(b) and (c).
- 78 The requirement to take into account the circumstances of the order is a key component to the effective operation of this rule. Our proposal clarifies that Rule 5.7.1(b)(ii) expressly requires a market participant to consider the circumstances of the order: see new Rule 5.7.1(2)(c).
- 79 Our proposed amendment clarifying that the list of matters in Rule 5.7.2 is non-exhaustive is to ensure that the Securities Rules:
- (a) are broad enough to capture any other matters which a market participant might consider relevant; and
 - (b) are capable of adapting to changes in trading behaviours or market practices.

C Proposals to amend the Futures Rules relating to trading systems and automated trading

Key points

We propose to set specific standards for automated trading in futures markets and greater consistency between trading system obligations across both the securities and futures markets.

To do so we propose to replace Rule 2.2.1 (Futures) with trading system obligations consistent with proposed amendments to the Securities Rules (based on existing Parts 5.5 and 5.6 incorporating proposed amendments outlined in Section B of this paper).

The draft rules are available on the [CP 386 landing page](#).

Trading system obligations for futures participants

80 Rule 2.2.1 (Futures) requires participants to demonstrate prudent risk management procedures by setting and documenting appropriate predetermined order and/or position limits and maximum price change limits on each client and house account. Rule 2.2.1 (Futures) also requires orders in excess of the agreed predetermined limits to be rejected by the market participant's order system.

81 Rule 2.2.1 was modelled on Rule 2.2.13 of the operating rules of the Sydney Futures Exchange (now ASX 24), as they existed before 1 August 2010, and have not been changed substantially since this time.

82 There have been significant developments in trading technology and infrastructure (e.g. the Futures Rules refer to the use of terminals that have not existed since the ASX 24 trading platform was upgraded in 2017). Temporary arrangements in two conditional class waivers are currently in place to provide for alternative arrangements for complying with Rule 2.2.1. These proposals would remove the need to keep these class waivers in place.

Note: *ASIC Market Integrity Rules (Futures Markets) Class Waiver 2018/313* [CW 2018/313] provides conditional relief from the aggregate loss limits requirement as there is no functionality in the trading platform to set these types of limits. *ASIC Market Integrity Rules (Futures Markets) Class Waiver 2018/312* [CW 2018/312] provides conditional relief from the obligations in Rule 2.2.1 when a principal trader's orders are entered via a market participant's terminal (instead of having access to their own) in which case they do not have the capability to set the required limits.

83 Futures markets have moved away from exchange-provided terminals and now trade through a range of third-party and in-house trading systems.

- 84 Given the historical development of the futures and securities markets, the current trading system obligations in the Futures Rules differ to those in the Securities Rules. We are proposing to modernise the Futures Rules to reflect these technological changes and harmonise the trading system obligations across both securities and futures. These include:
- (a) responsible use and control of the trading system used by the trading participant;
 - (b) having the necessary organisational and technical resources;
 - (c) reviewing and testing of documentation and systems prior to use of a trading system, before a material change to that trading system or annually where there has been no material change; and
 - (d) having 'kill switch' functionality.
- 85 We also consider that the proposals outlined in Section B of this paper for securities participants to address current and emerging risks should be extended to futures participants. This includes the proposals that introduce requirements for:
- (a) controls for and testing of trading algorithms;
 - (b) real-time and post-trade monitoring; and
 - (c) testing of trading systems.
- 86 Detailed reasons for introducing these rules are outlined in Section B of this paper.

Table 6: Aligning the Futures Rules with the Securities Rules

Current rule	Action	Proposed rule	Proposal
1.4.3	Amend	1.4.3	Definitions added for 'Trading System' and 'Trading Algorithm'
N/A	New	3.1.1A	Incorporating Rule 5.9.1 (fair and orderly markets) from the Securities Rules into the Futures Rules
2.2.1	Repeal and replace	Parts 2.2A and 2.2B	Repealed and replaced by: <ul style="list-style-type: none"> Part 2.2A, which replicates Part 5.5 from the Securities Rules (incorporating proposals from Section B of this paper), and Part 2.2B, which replicates Part 5.6 from the Securities Rules (incorporating proposals from Section B of this paper)
2.2.4	Replace and consolidate	2.2.4 to 2.2.4E	Replace and consolidate Rule 2.2.4 with order record rules substantially the same as those proposed in Part 4.1 from the Securities Rules (incorporating proposals from Section B of this paper), but have been adapted to reflect some differences in futures trading and the existing rules.

Proposal

- c1** We propose to replace Rule 2.2.1 (Futures) with the proposed amended trading system obligations in the Securities Rules (based on existing Parts 5.5 and 5.6, incorporating proposed amendments outlined in Section B of this paper), including:
- (a) introducing Rule 2.2B.3, to require futures participants to have adequate monitoring systems to enable them to conduct real-time and post-trade monitoring;
 - (b) introducing Rules 2.2B.5 to 2.2B.9, to require a futures participant to undertake the same review, testing and documentation process for an initial certification review, and to document and retain records for a period of seven years relating to the methodology, scope, results and recommendation regarding the initial certification review material change review and annual review;
 - (c) certain trading management arrangements, including having the necessary organisational and technical resources (proposed Rules 2.2A.1 to 2.2A.2) and trading system requirements (proposed Rules 2.2B.1 to 2.2B.2);
 - (d) responsibility and testing of trading algorithms used by the futures participant or made available to its client (proposed Rule 2.2B.4); and
 - (e) requiring a futures trading participant not to do anything that would result in a market not being both fair and orderly, as already required for securities trading participants under Rule 5.9.1 (proposed Rule 3.1.1A).

Your feedback

- C1Q1 Do you agree with our proposal to harmonise trading system obligations across securities and futures participants? Please give reasons for your answer, having regard to the proposals that we have outlined in Section B of this paper.
- C1Q2 Are there any additional rules or obligations that should apply specifically to the futures markets? Please give reasons for your answer.
- C1Q3 Are there any proposed rules or obligations that should not apply to the futures markets? Please give reasons for your answer.
- C1Q4 Do you agree with introducing Rule 2.2B.3 to explicitly require futures participants to have adequate monitoring systems to enable the trading participant to conduct real time and post trading monitoring? Please give reasons for your answer.
- C1Q5 Do you agree with our proposal to require futures participants to undertake initial certification (before using a trading system), annual and material change reviews of their trading systems (see proposed Rules 2.2B.5 to 2.2B.9)? Please give reasons for your answer.

C1Q6 Do you agree with our proposal to introduce testing and responsibility requirements regarding the use of a trading participant's algorithm (see proposed Rule 2.2B.4)? Please give reasons for your answer.

C1Q7 If you are a futures trading participant, how will these proposed rules affect your business? Please provide an estimate of the time and costs you will incur to implement the proposed rules. In providing this estimate, please compare this with your expenditure on your current arrangements.

C2 We propose to replace Rule 2.2.4 (Futures) with the proposed amended record keeping requirements in Part 4.1 (Securities), but adapted to reflect some differences in futures trading and the existing record keeping rules.

Your feedback

C2Q1 Do you agree with our proposal to update and harmonise the record keeping requirements in the Futures Rules (see proposed Rules 2.2.4 to 2.2.4E)? Please give reasons for your response.

Rationale

- 87 [RG 266](#) sets out our guidance that futures participants should apply appropriate filters and filter parameters to their order system to ensure compliance with Rule 2.2.1 of the Futures Rules. However, the Futures Rules do not set out other specific requirements for futures participants to:
- (a) have adequate organisational and technical resources, trading management arrangements or security arrangements;
 - (b) have 'kill switch' functionality; or
 - (c) certify their trading systems or conduct material/annual review of their trading systems.
- 88 These proposals would require futures participants to have controls which are a critical final checkpoint for access to the market and to protect against the risk of aberrant trading entering the market and affecting market integrity.
- 89 These proposals will drive greater consistency between trading system obligations across both the securities and futures markets. As for our proposed amendments to the Securities Rules in Section B of this paper, these proposals would require a trading participant of a futures market to:
- (a) have controls in relation to algorithmic trading, including testing;
 - (b) conduct real-time and post-trade monitoring; or
 - (c) test trading systems.

- 90 We consider that these same obligations should apply to both the Securities Rules and Futures Rules to strengthen protections against risks of manipulative and disorderly trading, which are applicable to both markets.
- 91 These proposals will ensure that the trading system rules for futures markets:
- (a) reflect the current trading technology and infrastructure used in futures markets;
 - (b) address current and emerging risks, such as AI/ML;
 - (c) are better aligned with the expectations for securities markets; and
 - (d) reflect IOSCO principles and international best practice on algorithmic trading.

Clarifying the false or misleading appearance rules

- 92 We propose to amend the false or misleading appearance rules in Part 3.1 of the Futures Rules to clarify:
- (a) the category of ‘person’ this rule applies to;
 - (b) the obligations when trading as principal or when trading on behalf of a person; and
 - (c) the circumstances of the order to be taken into account.
- 93 Our aim is to ensure that the Futures Rules continue to effectively prevent market manipulation, maintain the integrity of our futures markets and promote investor trust and confidence.

Proposal

- c3** We propose to amend the false or misleading appearance rules in Part 3.1 of the Futures Rules to:
- (a) clarify that the scope of current Rule 3.1.2(b)(iii) extends to an offer to purchase, sell or deal made on account of any other person, including when that person is acting on behalf of another person;
 - (b) replace Rule 3.1.2(3) (which sets out the list of matters that a market participant must have regard to when considering the circumstances of the order) with a new Rule 3.1.2A to align with the drafting in the Securities Rules;
 - (c) make it clear that an order must not be placed if, taking into account the circumstances of the order matters in new Rule 3.1.2A, the market participant ought to reasonably suspect that the person has placed it with the intention of creating a false or misleading appearance of active trading or with respect to the market for, or the price of, any financial product;

- (d) clarify that the list of matters that a market participant must have regard to when considering the circumstances of the order is a non-exhaustive list; and
- (e) make the following structural changes to simplify the drafting of Rule 3.1.2 and to align with the equivalent Securities Rules:
 - (i) create new subrules (1) and (2) which distinguish the rules that apply to principal trading and trading on behalf of another person;
 - (ii) create new paragraphs (1)(a)–(b) and (2)(a)–(c) to more clearly distinguish the two separate limbs that exist; and
 - (iii) remove the definition of ‘Principal’ in Rule 3.1.2(2) and instead rely on the definition of ‘Principal’ in Rule 1.4.3.

Your feedback

C3Q1 Do you agree with our proposal? Please give reasons for your answer.

C3Q2 If you are a market participant, how will these proposed rule changes affect your business? Please provide an estimate of the time and costs to implement these rule changes. In providing this estimate, please compare this with your expenditure on your current arrangements.

Rationale

- 94 The purpose of our proposed amendments is to clarify the scope of the false or misleading rules and to align the false and misleading appearance rules for securities markets and futures markets.
- 95 Our view is that the scope of Rule 3.1.2(1)(b) includes persons other than clients of the market participant and extends to orders made on behalf of any other person. A broad interpretation of these rules is also consistent with their purpose, which is for the market participant to act as gatekeeper by not giving effect to orders which are manipulative.
- 96 The requirement to take into account the circumstances of the order is a key component to the effective operation of this rule. Our proposal clarifies that Rule 3.1.2(1)(b)(iii) expressly requires a market participant to consider the circumstances of the order. This interpretation has been made explicit in proposed new Rule 3.1.2(2)(b) and (c).
- 97 Further, our proposed amendments clarify that the list of matters in Rule 3.1.2(3) is non-exhaustive to ensure that the Futures Rules:
- (a) are broad enough to capture any other matters which a market participant might consider relevant; and
 - (b) remain flexible to adapt to changes in trading behaviours or market practices (see new Rule 3.1.2A).

D Implementation of the obligations

Key points

We propose to give securities and futures trading participants a 12-month transitional period from the date the proposed rules outlined in Section B and Section C of this paper are made.

We propose to update our guidance in RG 241, RG 265 and RG 266, including to reflect any implementation of the proposed rules in Section B and Section C of this paper.

Transition period

Proposal

- D1** We propose a 12-month transition period for the commencement of proposed amendments to the Securities Rules and Futures Rules outlined in Section B and Section C of this paper.

Your feedback

- D1Q1** Do you agree with the 12-month transition period. In your response, please provide detailed reasons for your answer.

Rationale

- 98 We expect securities market participants will already have in place many of the controls proposed under this consultation, as part of complying with their obligations to ensure that:
- (a) they have necessary organisational and technical resources to ensure trading messages do not interfere with the efficiency and integrity of a market and the proper functioning of a trading platform (see Rule 5.5.2 (Securities)); and
 - (b) their automated order processing does not interfere with the efficiency and integrity of a market (see Rule 5.6.1 (Securities)); and
 - (c) they do not do anything that results in the market for a financial product not being both fair and orderly (see Rule 5.9.1 (Securities)).
- 99 In addition, several of the obligations in the proposed amendments formalise and codify long-standing guidance in [RG 241](#) for securities participants.
- 100 For futures participants, [RG 266](#) sets out our guidance for appropriate pre-trade controls so that any order and their order system complies with Rule 2.2.1(2)(a) and (ab), and Rule 2.2.1(4)(c) (Futures): see RG 266 at RG 266.75–RG 266.80.

- 101 Nevertheless, we are proposing a 12-month transition period before proposals take effect to allow sufficient time for all market participants to comply with the proposed rule amendments, recognising that system capabilities and the nature, scale and complexity of businesses vary between participants across both securities and futures markets.
- 102 We are also proposing a 12-month transition period to allow sufficient time for futures participants to prepare for the new obligations to conduct annual and material change reviews of their trading system and enhance their monitoring capability under the new obligations. The initial certification requirements apply before using a trading system in relation to a market, so most futures participants will already have existing trading systems in place at the commencement of the proposed rules. This means that they will have up to two years before the annual review requirement needs to be completed. Similarly, securities participants will also need to enhance their own monitoring and testing capabilities. We consider that 12 months would be sufficient.

E Regulatory and financial impact

103 In developing the proposals in this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us we think they will strike an appropriate balance between:

- (a) monitoring and promoting the integrity of securities and futures markets;
- (b) promoting confident and informed participation in those markets; and
- (c) administering the law effectively and with a minimum of procedural requirements.

104 Before settling on a final policy, we will comply with the Australian Government's Policy Impact Analysis (PIA) requirements by:

- (a) considering all feasible options, including examining the likely impacts of the range of alternative options that could meet our policy objectives;
- (b) if regulatory options are under consideration, notifying the Office of Impact Analysis (OIA); and
- (c) if our proposed option has more than a minor or machinery impact on business or on the not-for-profit sector, preparing an Impact Analysis (IA) or an IA equivalent (Independent Review).

105 All IAs are submitted to the OIA for approval before we make any final decision, or if an IA equivalent—to the OIA for agreement. Without an approved IA or agreed IA equivalent, ASIC is unable to give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.

106 To ensure that we are in a position to properly complete any required IA or IA equivalent, please give us as much information as you can about our proposals or any alternative approaches, including:

- (a) the likely compliance costs;
- (b) the likely effect on competition; and
- (c) other impacts, costs and benefits.

See 'The consultation process', p. 4.

Key terms

Term	Meaning in this document
AI/ML	Artificial intelligence/machine learning
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 financial market operated by ASX Limited
ASX 24	The financial market formerly known as the Sydney Futures Exchange (SFE), operated by Australian Securities Exchange Limited
Cboe	Cboe Australia Pty Ltd (ACN 129 584 667) (formerly known as Chi-X Australia Pty Ltd) or the financial market operated by Cboe
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
DTR	Designated trading representative—the 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
FEX	FEX Global Pty Ltd
financial product	<p>Generally, a facility through which, or through the acquisition of which, a person does one or more of the following:</p> <ul style="list-style-type: none"> • makes a financial investment (see s763B); • manages financial risk (see s763C); and • makes non-cash payments (see s763D) <p>Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.</p>
Futures Rules	<i>ASIC Market Integrity Rules (Futures Markets) 2017</i> —rules made by ASIC under s798G of the Corporations Act
IOSCO	International Organization of Securities Commissions
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets

Term	Meaning in this document
market manipulation	Has the definition given in Pt 7.10 of the Corporations Act
market participant	A participant of a financial market Note: Participant has the meaning given by s767A(4) and (5) of the Corporations Act.
NSXA	National Stock Exchange of Australia Limited (ACN 000 902 063) or the financial market operated by National Stock Exchange of Australia Limited
Part 5.7 (Securities) (for example)	A part of the Securities Rules (in this example numbered 5.7)
Part 3.1 (Futures) (for example)	A part of the Futures Rules (in this example numbered 3.1)
RG 241 (for example)	An ASIC regulatory guide (in this example numbered 241)
Rule 3.1.2 (Futures) (for example)	A rule of the Futures Rules (in this example numbered 3.1)
Rule 5.7.1 (Securities) (for example)	A rule of the Securities Rules (in this example numbered 5.7.1)
Securities Rules	<i>ASIC Market Integrity Rules (Securities Markets) 2017</i> —rules made by ASIC under s798G of the Corporations Act
SSX	Sydney Stock Exchange Limited (ACN 080 399 220) or the exchange market operated by Sydney Stock Exchange Limited
trading participant	A market participant that has a trading permission (right to submit trade messages in a trading platform) in respect of one or more financial products

List of proposals and questions

Proposal	Your feedback
<p>B1 We propose to introduce new rules governing participants' use of trading algorithms, including:</p> <p>(a) defining 'Trading Algorithm' as:</p> <p>'a computer algorithm which automatically determines with limited or no human intervention, one or more parameters of an Order such as whether to initiate an Order, the timing, price or quantity of the Order or how to manage the Order after its submission, but does not include systems or processes used only:</p> <p>(i) for the purpose of routing Orders to one or more Trading Platforms;</p> <p>(ii) for the submission of Orders involving no determination of any trading parameters;</p> <p>(iii) for producing confirmations of Orders; or</p> <p>(iv) for post-trade processing of executed transactions'.</p> <p>(b) requiring trading participants to have appropriate controls and governance arrangements (including written procedures) for the development, testing, approval, deployment and monitoring of all trading algorithms used by the trading participant or that the trading participant makes available to a client (see proposed Rule 5.6.3B(1));</p> <p>(c) requiring trading participants to take reasonable steps to test that the trading algorithm (whether used by the participant or made available to a client) will not interfere with the efficiency and integrity of a market, crossing system or proper functioning of a trading platform. The algorithm must be tested before use for the first time and before implementing a material change to the algorithm (see proposed Rule 5.6.3B(2));</p> <p>(d) requiring trading participants to maintain records in relation to (b) and (c) above for a period of seven years (see Rule 5.6.3B(4));</p> <p>(e) extending existing obligations to have controls that enable immediate suspension or limitation of the operation of one or more trading algorithms (see Rules 5.6.3(1)(c) and 5.6.12(2)(b).</p>	<p>B1Q1 Do you agree with our definition of 'Trading Algorithm'? If not, please give reasons why.</p> <p>B1Q2 Do you agree with our proposal to require a trading participant to:</p> <p>(a) have appropriate controls and governance arrangements for the development, approval, deployment, testing and monitoring of trading algorithms; and</p> <p>(b) test trading algorithms; and</p> <p>(c) have controls that enable immediate suspension or limitation of the operation of trading algorithms?</p> <p>If not, please give reasons why. Should these requirements extend to client algorithms?</p> <p>B1Q3 To what extent are your trading algorithms currently tested before use and before implementing a material change?</p> <p>B1Q4 When would you consider a change to an algorithm to be material?</p> <p>B1Q5 What standard of testing of trading algorithms should be required?</p> <p>B1Q6 Do you agree with our proposal to require trading participants to maintain records of the matters referred to in Rule 5.6.3B(1) and (2) for a period of seven years. If not, please give reasons why.</p> <p>B1Q7 If you are a trading participant, how will these proposed rules affect your business? Please provide an estimate of the time and costs to implement each proposed arrangement. In providing this estimate, please compare this with your expenditure on your current arrangements in relation to algorithmic trading.</p>

Proposal	Your feedback
<p>B2 We propose to:</p> <ul style="list-style-type: none"> (a) remove the differences between obligations for AOP and DTR-submitted trading messages, and use a technology neutral definition of 'Trading System', so that existing Part 5.6 obligations apply to 'any system for submitting Trading Messages into a Trading Platform'; (b) insert the terms 'Trading System' and 'Trading System Requirements' to replace the following definitions in Rule 1.4.3—'AOP', 'Automated Order Processing', 'Automated Order Processing Requirements', 'Automated Client Order Processing', 'ACOP client'—and other terms that are no longer relevant, such as 'Open Interface Device', which refers to the defined terms 'Open Interface', 'Trader Workstation' and 'Trader Workstation Software'; (c) move elements of DTR requirements in Part 2.5 to Part 5.5; and (d) repeal existing Rule 5.6.2 (Authorised Persons for Automated Client Order Processing). 	<p>B2Q1 Do you agree with our proposed definition of 'Trading System', which means 'any system for submitting Trading Messages into a Trading Platform'? Please give your reasons why.</p> <p>B2Q2 Do you agree with inserting the terms 'Trading System' and 'Trading System Requirements' to replace the AOP-related definitions in Rule 1.4.3? Please give your reasons why.</p> <p>B2Q3 Do you agree with our proposal to have a single set of trading system obligations for both manually submitted trading messages by a representative and automated trading of securities participants? If not, please give detailed reasons why.</p> <p>B2Q4 Do you agree with our proposal to retain and move elements of 'DTR' in Part 2.5 to Part 5.5 (see amended Rule 5.5.1)? If not, please give detailed reasons why.</p> <p>B2Q5 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.</p> <p>B2Q6 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?</p>

Proposal	Your feedback
<p>B3 We propose to update and simplify the requirements in Rules 5.6.4–5.6.8B:</p> <ul style="list-style-type: none"> (a) to apply to trading systems used by a trading participant; (b) to clarify that the initial certification review should include an assessment of the trading participant's controls, arrangements and resources in relation to the trading system to enable compliance with Rule 5.5.2 and Part 5.6; (c) by replacing the existing requirement in Rule 5.6.6(3) that two directors sign and date the initial certification, with the simpler requirement that at least one responsible officer provides a statement that the initial certification given to ASIC is correct (see proposed Rule 5.6.6(2)(g)); (d) by repealing the AOP annual notification requirement in existing Rule 5.6.8B and replacing it with a simpler requirement of a statement from at least one responsible officer of the trading participant to confirm the trading participant has complied with the annual review requirements in Rule 5.6.8A (see proposed Rule 5.6.8A(4)) and a written statement from at least one responsible officer before implementing a material change (see proposed Rule 5.6.8(1)(b)); and <p>Note: The requirement to perform the annual review of a trading system under Rule 5.6.8A will remain (see proposed Rule 5.6.8A(1)).</p> <ul style="list-style-type: none"> (e) to require a trading participant to document the methodology, scope and results of its initial certification review, material change review and annual review as well as any recommended changes made as a result of those reviews (see proposed Rules 5.6.4(4), 5.6.8(4) and 5.6.8A(5)). 	<p>B3Q1 Should testing proposed in Part 5.6 be independently validated? If so, should independent validation of testing be conducted internally or by a suitably qualified third party?</p> <p>B3Q2 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.</p> <p>B3Q3 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?</p>

Proposal	Your feedback
<p>B4 We propose to amend Rules 5.6.4, 5.6.8 and 5.6.8A to require that a trading participant must test its controls, arrangements and resources relating to its trading system:</p> <ul style="list-style-type: none"> (a) before using a trading system for the first time as part of its initial certification review in Rule 5.6.4; (b) for the purposes of performing a material change review of a trading system in accordance with current Rule 5.6.8; and (c) for the purposes of performing an annual review of a trading system in accordance with current Rule 5.6.8A. 	<p>B4Q1 Do you agree with our proposal? Please give your reasons why.</p> <p>B4Q2 Do you agree with our proposal to specify that, as part of the internal certification, material change and annual review, testing by a trading participant of its controls, arrangements and resources should also be included? Please give your reasons why.</p> <p>B4Q3 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.</p> <p>B4Q4 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?</p>
<p>B5 We propose to insert new Rule 5.6.3A to explicitly require trading participants to have in place adequate monitoring systems to enable the trading participant to:</p> <ul style="list-style-type: none"> (a) identify in real time a trading message or a series of trading messages that may interfere with the efficiency and integrity of a market, or the proper functioning of a trading platform; (b) identify a trading message or a series of trading messages that may have created, or were intended to create, a false or misleading appearance of active trading, having regard to the list of matters specified in Rule 5.7.2 (Circumstances of order); and (c) maintain records of the trading messages that were identified in (a)–(b) above and any measures taken in respect of those trading messages for a period of seven years. 	<p>B5Q1 Do you agree with our proposal to insert proposed Rule 5.6.3A? If you are a trading participant, do you already have in place monitoring systems that would satisfy the proposed rule?</p> <p>B5Q2 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.</p> <p>B5Q3 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?</p>

Proposal	Your feedback
<p>B6 We propose to make related and consequential amendments to update and streamline related Securities Rules and improve clarity, some of which include:</p> <ul style="list-style-type: none"> (a) consolidating and updating the order record obligations in Rules 4.1.1, 4.1.2, 4.1.6, 4.1.7, 4.1.8, 5.5.3 and 5.5.4 (as a result Rules 5.5.3 and 5.5.4 will be repealed); (b) reorganising existing obligations in Parts 5.5 and 5.6. 	<p>B6Q1 Do you disagree with any of these consequential amendments? Please give your reasons why.</p> <p>B6Q2 If you are a trading participant, how will these proposed changes affect your business? Please provide an estimate of the time and costs to implement these new arrangements. In providing this estimate, please compare this with your expenditure on your current arrangements.</p> <p>B6Q3 Do you have any other feedback in relation to the Securities Rules relating to trading systems and automated trading?</p>
<p>B7 We propose to amend the false or misleading appearance rules in Part 5.7 to:</p> <ul style="list-style-type: none"> (a) clarify that the scope of current Rule 5.7.1(b)(iii) extends to a bid, offer or dealing made on account of any other person, including when that person is acting on behalf of another person; (b) make it clear that an order must not be placed if, taking into account the matters specified in Rule 5.7.2, the market participant ought to reasonably suspect that the person has placed it with the intention of creating a false or misleading appearance of active trading or with respect to the market for, or the price of, any financial product; (c) clarify that the list of matters that a market participant must have regard to when considering the circumstances of the order is a non-exhaustive list; and (d) make the following structural changes to simplify the drafting of Rule 5.7.1: <ul style="list-style-type: none"> (i) create new subrules (1) and (2) which distinguish the rules that apply to principal trading and trading on behalf of another person; and (ii) create new paragraphs (1)(a)–(b) and (2)(a)–(c) to more clearly distinguish the two separate limbs that exist. 	<p>B7Q1 Do you agree with our proposal? Please give reasons for your answer.</p> <p>B7Q2 If you are a market participant, how will these proposed rule changes affect your business? Please provide an estimate of the time and costs to implement these rule changes. In providing this estimate, please compare this with your expenditure on your current arrangements.</p>

Proposal	Your feedback
<p>C1 We propose to replace Rule 2.2.1 (Futures) with the proposed amended trading system obligations in the Securities Rules (based on existing Parts 5.5 and 5.6, incorporating proposed amendments outlined in Section B of this paper), including:</p> <ul style="list-style-type: none"> (a) introducing Rule 2.2B.3, to require futures participants to have adequate monitoring systems to enable them to conduct real-time and post-trade monitoring; (b) introducing Rules 2.2B.5 to 2.2B.9, to require a futures participant to undertake the same review, testing and documentation process for an initial certification review, and to document and retain records for a period of seven years relating to the methodology, scope, results and recommendation regarding the initial certification review material change review and annual review; (c) certain trading management arrangements, including having the necessary organisational and technical resources (proposed Rules 2.2A.1 to 2.2A.2) and trading system requirements (proposed Rules 2.2B.1 to 2.2B.2); (d) responsibility and testing of trading algorithms used by the futures participant or made available to its client (proposed Rule 2.2B.4); and (e) requiring a futures trading participant not to do anything that would result in a market not being both fair and orderly, as already required for securities trading participants under Rule 5.9.1 (proposed Rule 3.1.1A). 	<p>C1Q1 Do you agree with our proposal to harmonise trading system obligations across securities and futures participants? Please give reasons for your answer, having regard to the proposals that we have outlined in Section B of this paper.</p> <p>C1Q2 Are there any additional rules or obligations that should apply specifically to the futures markets? Please give reasons for your answer.</p> <p>C1Q3 Are there any proposed rules or obligations that should not apply to the futures markets? Please give reasons for your answer.</p> <p>C1Q4 Do you agree with introducing Rule 2.2B.3 to explicitly require futures participants to have adequate monitoring systems to enable the trading participant to conduct real time and post trading monitoring? Please give reasons for your answer.</p> <p>C1Q5 Do you agree with our proposal to require futures participants to undertake initial certification (before using a trading system), annual and material change reviews of their trading systems (see proposed Rules 2.2B.5 to 2.2B.9)? Please give reasons for your answer.</p> <p>C1Q6 Do you agree with our proposal to introduce testing and responsibility requirements regarding the use of a trading participant's algorithm (see proposed Rule 2.2B.4)? Please give reasons for your answer.</p> <p>C1Q7 If you are a futures trading participant, how will these proposed rules affect your business? Please provide an estimate of the time and costs you will incur to implement the proposed rules. In providing this estimate, please compare this with your expenditure on your current arrangements.</p>
<p>C2 We propose to replace Rule 2.2.4 (Futures) with the proposed amended record keeping requirements in Part 4.1 (Securities), but adapted to reflect some differences in futures trading and the existing record keeping rules.</p>	<p>C2Q1 Do you agree with our proposal to update and harmonise the record keeping requirements in the Futures Rules (see proposed Rules 2.2.4 to 2.2.4E)? Please give reasons for your response.</p>

Proposal	Your feedback
<p>C3 We propose to amend the false or misleading appearance rules in Part 3.1 of the Futures Rules to:</p> <ul style="list-style-type: none"> (a) clarify that the scope of current Rule 3.1.2(b)(iii) extends to an offer to purchase, sell or deal made on account of any other person, including when that person is acting on behalf of another person; (b) replace Rule 3.1.2(3) (which sets out the list of matters that a market participant must have regard to when considering the circumstances of the order) with a new Rule 3.1.2A to align with the drafting in the Securities Rules; (c) make it clear that an order must not be placed if, taking into account the circumstances of the order matters in new Rule 3.1.2A, the market participant ought to reasonably suspect that the person has placed it with the intention of creating a false or misleading appearance of active trading or with respect to the market for, or the price of, any financial product; (d) clarify that the list of matters that a market participant must have regard to when considering the circumstances of the order is a non-exhaustive list; and (e) make the following structural changes to simplify the drafting of Rule 3.1.2 and to align with the equivalent Securities Rules: <ul style="list-style-type: none"> (i) create new subrules (1) and (2) which distinguish the rules that apply to principal trading and trading on behalf of another person; (ii) create new paragraphs (1)(a)–(b) and (2)(a)–(c) to more clearly distinguish the two separate limbs that exist; and (iii) remove the definition of ‘Principal’ in Rule 3.1.2(2) and instead rely on the definition of ‘Principal’ in Rule 1.4.3. 	<p>C3Q1 Do you agree with our proposal? Please give reasons for your answer.</p> <p>C3Q2 If you are a market participant, how will these proposed rule changes affect your business? Please provide an estimate of the time and costs to implement these rule changes. In providing this estimate, please compare this with your expenditure on your current arrangements.</p>
<p>D1 We propose a 12-month transition period for the commencement of proposed amendments to the Securities Rules and Futures Rules outlined in Section B and Section C of this paper.</p>	<p>D1Q1 Do you agree with the 12-month transition period. In your response, please provide detailed reasons for your answer.</p>