



ASIC

Australian Securities & Investments Commission

REPORT 386

ASIC supervision of markets and participants: July to December 2013

March 2014

About this report

This report summarises key operational statistics and outcomes of ASIC's market and participant supervisory functions in relation to ASX, ASX 24, Chi-X and other market licensees for the period 1 July to 31 December 2013.

A summary of ASIC's markets-related enforcement outcomes, for the period 1 July to 31 December 2013, is provided in Section C of the report.

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.

Previous reports on ASIC supervision of markets and participants

Report number	Report date
REP 366	August 2013
REP 327	February 2013
REP 296	August 2012
REP 277	February 2012
REP 243	July 2011
REP 227	January 2011

Contents

Overview.....	4
ASIC supervision of markets and participants.....	4
Key outcomes	5
Looking ahead	7
A Market surveillance and supervision.....	8
Real-time surveillance of Australia's licensed financial markets	8
Markets inquiries.....	8
Pre-emptive supervision action.....	10
B Supervision of market participants and securities dealers	11
Compliance activity	11
Market participants: Enforcement referrals.....	15
C Markets-related enforcement outcomes	17
Investigation and enforcement outcomes	17
Enforcement outcomes	17
Markets Disciplinary Panel	20
D Markets statistics.....	22
Market share	22
Market spreads	22
Order-to-trade ratio	23
Average trade size.....	24
Key terms	25

Overview

ASIC supervision of markets and participants

- 1 ASIC is responsible for the supervision of the markets operated by Australian market licence holders (market licensees). We conduct surveillance of equities, futures and options trading on the ASX and (since 31 October 2011) Chi-X markets, and we supervise compliance in those markets with the *Corporations Act 2001* (Corporations Act) and ASIC market integrity rules.¹ We also seek to ensure that market participants and securities dealers meet their Australian financial services (AFS) licence conditions.
- 2 In supervising markets, our core objective is the promotion of investor confidence through fair and efficient markets. This requires a market infrastructure that is robust, where the trading, clearing and settlement of transactions is orderly and efficient, and where market misconduct is minimised. We do this through our ongoing engagement with stakeholders, surveillance of markets and market participants, education and guidance, and our enforcement activities.
- 3 Market licensees, market participants and securities dealers perform a number of important functions as gatekeepers of the Australian financial system. These functions include:
 - verifying, certifying, approving and recommending products and services to investors;
 - monitoring compliance by entities and their management;
 - undertaking private supervision through the detection and deterrence of misconduct; and
 - ensuring that markets are fair, orderly and transparent.
- 4 The role of these gatekeepers, in encouraging sound investment practices, detecting and preventing market failures and promoting market integrity, is crucial to ensuring a fair and efficient financial system. These gatekeepers generally perform this role to a high standard. However, we are active in identifying those that do not.
- 5 ASIC remains committed to reducing instances of market misconduct by:
 - ensuring that market participants have controls or filters on the orders placed into the market in accordance with required standards;

¹ The market integrity rules are made by ASIC and apply to market operators, market participants and prescribed entities under the Corporations Regulations 2001.

- supervising markets and market participants in order to detect market misconduct quickly; and
 - conducting timely investigations of market and market participant misconduct, resulting in significant penalties, where warranted.
- 6 Within ASIC, the Market and Participant Supervision (MPS) team has responsibility for:
- market surveillance of Australia’s financial markets, including equities, futures, quoted equity derivatives and exchange-traded funds;
 - ensuring market participants and securities dealers comply with their Corporations Act, AFS licence and market integrity rule requirements; and
 - considering applications for relief and waiver from existing obligations.
- 7 This report summarises key operational statistics and outcomes achieved by MPS in relation to ASX, ASX 24 (previously the Sydney Futures Exchange) and Chi-X for the period 1 July to 31 December 2013 (the relevant period). It also captures matters which were referred to MPS by ASIC’s Misconduct and Breach Reporting (MBR) team, as well as matters which were referred by MPS to ASIC’s Market Integrity Enforcement team (Enforcement).
- 8 This is the seventh of ASIC’s six-monthly market supervision reports. Previous reports are available at: www.asic.gov.au/reports.

Key outcomes

- 9 A significant volume of enforcement and regulatory outcomes was achieved during the relevant period, and we continue to build on the strong results already achieved since ASIC took over responsibility for the real-time supervision of Australia’s domestic licensed markets.
- 10 During the relevant period, our new market surveillance system commenced operation. The new Market Analysis and Intelligence (MAI) system enables ASIC to better detect, investigate and prosecute trading breaches. MAI was built and designed around algorithmic trading technology already used in financial markets, and gives ASIC the ability to analyse trade data for patterns and relationships.
- 11 MAI also allows ASIC to analyse very large data sets and monitor market activity—consistent with the increased use of technology in day-to-day trading. The new system has been built to handle the continued increase in trade and message data, which has the potential to reach one billion messages per day.

- 12 Experienced analysts can now use the system to develop and modify alerts to take into account changing market circumstances and to calibrate alerts more dynamically. The calibration of alerts remains essential to reducing the number of false positives.
- 13 On 20 January 2013, a new market integrity rule commenced that requires ASX, Chi-X and APX market participants to notify ASIC if they have reasonable grounds to suspect that a person has placed an order or entered into a transaction while in possession of inside information, or which has the effect of creating or maintaining an artificial price or a false or misleading appearance in the market or price for trading in financial products.
- 14 We received 75 suspicious activity reports from market intermediaries during 2013. Of these, 13 have resulted in referrals to Enforcement for further investigation. These reports have been a valuable source of information with a high report/referral conversion rate.

Market surveillance and supervision

- 15 In the relevant period, we produced 19,255 trading alerts, with 102 matters requiring further consideration, resulting in 31 referrals to Enforcement. Further details of these outcomes are contained in Section A.
- 16 The processes relating to the identification and investigation of possible market misconduct continue to be streamlined, resulting in a significant and sustained reduction in the average number of days between identifying misconduct and commencing an investigation. Of the 31 matters referred by MPS to Enforcement for formal investigation in the relevant period, 13 of these were referred within 30 days of detection, and another 11 within the first 60 days.

Supervision of market participants and securities dealers

- 17 ASIC's risk-based surveillance of market participants and securities dealers continued in the relevant period. We completed 16 risk-based assessment visits and 73 surveillances (including equities and futures market participants, reactive, proactive and targeted surveillances).
- 18 As a result of these reviews, we identified a number of market participants who had failed to adequately monitor their compliance with the Corporations Act and market integrity rules. Likewise, we continued to identify securities dealers who do not adequately supervise their representatives. Our intervention in these cases led to corrective action by those involved. Further details can be found in Section B.
- 19 Our reviews also considered whether market participants are adequately monitoring their own market activities. While most market participants were

found to have strong detection systems in place, some did not. This will continue to be a focus of ASIC's reviews.

Markets-related enforcement outcomes

- 20 Insider trading continues to be a strong focus for ASIC, in line with our strategic priority of fair and efficient financial markets. During the relevant period, we achieved seven enforcement outcomes against individuals for insider trading activity. We will continue to dedicate significant resources and energy in fighting this crime. Further details can be found in Section C.

Looking ahead

- 21 Markets continue to be predominantly automated, with more than 99% of all orders generated from an automated order processing (AOP) system. In recent years, we have undertaken a significant amount of work around the appropriate use of AOP.
- 22 We will continue to focus on market participants' contribution to high order-to-trade ratios, small and fleeting orders, and general market noise generated by market participants and/or their clients.
- 23 We have observed an increased use of 'client facilitation' accounts by market participants, and will carry out more work in this area to ensure that these accounts do not affect market integrity and are transparent to clients.
- 24 We will also be looking at the manner in which information is handled between research analysts and listed companies. A number of matters have recently come to our attention that suggests that these practices could be improved.

A Market surveillance and supervision

Key points

This section provides details of our real-time market surveillance and supervision activity, preliminary and formal enquiries, and pre-emptive supervision action for the relevant period.

Real-time surveillance of Australia's licensed financial markets

- 25 The MPS team now uses the new MAI surveillance system, which enables for better detection of possible trading breaches. MAI was built and designed around algorithmic trading technology already used in financial markets, and gives ASIC the ability to analyse trade data for patterns and relationships.
- 26 This new system is used together with internally developed market monitoring tools, information provided by the market, and information provided by other ASIC stakeholder groups to identify possible market misconduct matters.
- 27 Trade surveillance alerts are indicators of unusual trading activity. During the relevant period, there were 19,255 alerts compared to 20,938 alerts generated during the previous reporting period: see Table 1. The number of alerts has decreased slightly from the previous period (1 January to 30 June 2013), although the number remains within acceptable volume parameters and is not indicative of any significant changes to calibration.
- 28 The number of alerts is affected by certain factors, including general market volatility, the level of corporate transactions and trading conditions generally. We expect that MAI will allow for the further refinement and calibration of alerts, and lead to greater efficiencies.

Table 1: Trade surveillance alerts, preliminary enquiries and referrals to Enforcement

Surveillance activity	Previous periods		Current period
	1 July–31 Dec 2012	1 Jan–30 June 2013	1 July–31 Dec 2013
Total number of alerts	19,430	20,938	19,255

Markets inquiries

- 29 When our market surveillance analysts are not able to explain an alert or a series of alerts by reference to available market information (including

media, internet chat sites, broker research and dialogue with brokers), we may conduct market inquiries.

- 30 We may call on market participants and investors to assist us with the conduct of these inquiries. We may also use our compulsory information gathering powers to obtain information from market participants, clients, listed entities, and corporate and other advisers, where necessary.
- 31 The number of market inquiries has risen for the third consecutive period. There were 102 market inquiries undertaken during the relevant period, compared with 94 and 86 market inquiries in the previous two periods: see Table 2. More than half of the total inquiries related to insider trading—as we continue to dedicate resources and energy to pursuing individuals who misuse corporate information.
- 32 In other areas, the number of continuous disclosure related inquiries also increased, as did inquiries relating to breaches of market integrity rules.

Table 2: Markets inquiries

Alleged offence	Previous periods		Current period
	1 July–31 Dec 2012	1 Jan–30 June 2013	(1 July–31 Dec 2013)
Insider trading	40	51	53
Market manipulation	29	23	21
Continuous disclosure	5	9*	13
Breach of market integrity rules	12	11	15
Total	86	94	102

* One inquiry was commenced during the relevant period as a result of a continuous disclosure referral from ASX.

- 33 In the relevant period, MPS referred a total of 31 matters to Enforcement for investigation, an increase from 27 and 25 matters in the previous two periods. This included 14 for insider trading (up from eight), and seven for continuous disclosure offences (up from three): see Table 3.
- 34 The number of markets matters referred to Enforcement is comparable to previous periods, and comes at a time of consolidation as we switch over to our new surveillance system—with no interruption to our investigative and referral processes.

Table 3: Market matters referred to Enforcement for investigation

Alleged offence	Previous periods		Current period
	1 July–31 Dec 2012	1 Jan–30 June 2013	1 July–31 Dec 2013
Insider trading	6	8	14
Market manipulation	6	7	5
Continuous disclosure	3	3	7
Breach of market integrity rules	12	7	5
Total	27	25	31

Pre-emptive supervision action

- 35 ASIC seeks to change behaviour by providing guidance before misconduct occurs, including maintaining an active dialogue with market participants. Table 4 summarises the instances where discussions with market participants have led to the amendment of order execution methods and the review of trading algorithms.
- 36 Automated trading continues to be a key area of focus. Several market participants have responded swiftly to questions from ASIC by agreeing to put in place new filters and processes to ensure such orders are reviewed by a designated trading representative (DTR) before being released to the market.

Table 4: Pre-emptive supervision action

Pre-emptive action relating to:	Previous periods		Current period
	1 July–31 Dec 2012	1 Jan–30 June 2013	1 July–31 Dec 2013
Execution strategy	12	7	11
Algorithmic trading and filter issues	6	6	7
Other	5	6	8
Total	23	19	26

- 37 ASIC continues to engage in ongoing dialogue with market participants, to improve processes and procedures and address less serious issues identified by MPS. Importantly, such dialogue does not replace enforcement action, which we pursue for serious breaches of the law and market integrity rules.
- 38 We encourage market participants to raise any trading issues or concerns with us at an early stage. The MPS team may be contacted via the hotline or the markets email address below:
- Hotline: 1300 029 454
- Email: markets@asic.gov.au

B Supervision of market participants and securities dealers

Key points

This section describes our supervision activity of market participants and securities dealers during the relevant period. Table 5 provides a summary of key market participant compliance activity.

Compliance activity

Market participants

- 39 Market participants are required to have arrangements in place to monitor compliance with the Corporations Act and the market integrity rules. During the relevant period, we carried out market participant compliance reviews, with a focus on obligations relating to monitoring client and staff trading in securities for manipulative behaviour and insider trading.
- 40 In our reviews, we noted that several market participants could improve monitoring attendance of research analysts at briefings with listed companies, by keeping records of the analysts that attended briefings, and when. This would allow for compliance personnel to monitor both the briefings, and also trading by clients and staff around that time.
- 41 We also continued to review Product Disclosure Statements (PDS) for exchange-traded options, and identified issues relating to the failure to disclose the impact of transactions costs on option trading profitability, and the failure to include illustrative examples of options trades that feature both upside and downside.
- 42 Table 6 shows that 23 AOP certifications were received in the relevant period. This figure is consistent with the trend in previous periods. Applications and notifications to ASIC for the relevant period included the renewal of accredited derivatives advisers (ADAs) and the updating of management structures. In accordance with the market integrity rules, market participants must submit details of their management structures when there has been a material change.

Securities dealers

- 43 We use the term ‘securities dealers’ to describe holders of an AFS licence who are not market participants but who facilitate trading of securities on

licensed markets for retail clients through an arrangement with a market participants.

- 44 In our review of one securities dealer, we noted the absence of vetting of advertising materials published. We have previously provided guidance regarding advertisement, including that advertisements should give balanced information so that consumers can understand the nature of the product or service being offered. Balance should be provided in relation to any messages about the returns, features, benefits and risks associated with the product.
- 45 We also noted that some securities dealers were failing to monitor trading for manipulative behaviours and insider trading in securities by clients and staff. We consider the review of trading as highly important in complying with license obligations, such as the obligation to comply with the financial services laws and taking reasonable steps to ensure that its representatives comply with s912A(1)(c) and s912A(1)(ca) of the Corporations Act. Such reviews are crucial in detecting front running, wash trading, manipulative behaviour and insider trading.

Table 5: Market participant compliance—Key activity summary

Compliance activity	Previous periods						Current period			
	1 July-31 Dec 2012			1 Jan-30 June 2013			1 July-31 Dec 2013			
	Outstanding at 1 July 2012	New	Completed	Outstanding at 1 Jan 2013	New	Completed	Outstanding at 30 June 2013	New	Completed	Outstanding at 31 Dec 2013*
Surveillance (includes business-as-usual equities and futures market participants, reactive, proactive and targeted)	73	63	66	70	77	88	59	66	73	52
Monitoring and remediation	5	4	2	7	3	6	4	1	1	4
Risk-based assessment visits	9	17	19	7	47	45	9	17	16	10
Industry presentations	–	8	8	–	20	20	–	22	22	–

* Matters 'outstanding at 31 December 2013' represent the opening balance at the beginning of the reporting period (i.e. matters 'outstanding at 30 June 2013') plus 'new' matters less 'completed' matters.

Table 6: Market participant compliance applications, waivers, notifications and exemptions

Applications, waivers, notifications and exemptions	Previous periods						Current period			
	1 July–31 Dec 2012			1 Jan–30 June 2013			1 July–31 Dec 2013			
	Outstanding at 1 July 2012	New	Completed**	Outstanding at 1 Jan 2013	New	Completed**	Outstanding at 30 June 2013	New	Completed**	Outstanding at 31 Dec 2013*
Applications†	–	188	187	1	275	273	3	84	83	4
Waivers requested (ASX)‡	1	1	2	–	–	–	–	8	7	1
Waivers requested (ASX 24)‡	2	–	1	1	–	1	1	5	3	3
Waivers requested (Chi-X)#	–	1	1	–	–	–	–	5	5	–
Waivers requested (NSX)	–	–	–	–	1	1	0	–	–	–
Waivers requested (Competition)	–	6	6	–	13	13	2	5	7	0
Relief applications‡	9	8	13	4	9	9	4	11	14	1
AOP certifications received (includes significant changes)	4	28	26	6	27	31	2	23	23	2
Notifications (includes professional indemnity insurance, responsible executive changes and ADA withdrawals)	10	285	285	10	226	229	7	314	302	19

* Applications, waivers, notifications and exemptions 'outstanding at 30 June 2013' represent the opening balance at the beginning of the reporting period (i.e. 'outstanding at 1 July 2012') plus 'new' applications, waivers, notifications and exemptions matters less 'completed' applications, waivers, notifications and exemptions.

** 'Completed' includes applications, waivers, and relief applications where an in principle decision has been made, but is yet to be finalised. This is consistent with the ASIC Service Charter.

† This includes ADA accreditation, reaccreditation, exemptions and business connections consents.

‡ Waivers relate to ASIC market integrity rules and relief applications relate to the Corporations Act.

Chi-X commenced operation on 31 October 2011.

Market participants: Enforcement referrals

46 In the relevant period, 10 market participant matters were referred by MPS to Enforcement. Table 7 lists the number of market participant matters referred to Enforcement compared to previous periods.

Table 7: Market participant matters referred to Enforcement for investigation

Alleged offence	Previous periods		Current period
	1 July–31 Dec 2012	1 Jan–30 June 2013	1 July–31 Dec 2013
Breach of market integrity rule:			
• trust account obligations	1	3	–
• clients' segregated accounts	–	2	1
• delay in sending sell confirmations	–	1	–
• confirmation not sent to end client	2	–	–
• account reconciliation obligations	–	1	–
• post allocation prohibition	–	1	–
• entering orders with no intention to trade	–	1	–
• supervisory policies and procedures	1	–	–
• AOP—failure to notify ASIC	1	–	–
• crossing systems report	1	–	2
• disclosure	–	–	1
• withholding orders	–	–	1
• pre-arrangement	–	–	1
• trading to the exclusion of others	–	–	1
• management structure—outsourcing and disaster recovery	–	–	1
• trade execution carried out by person who is not a DTR	–	–	1
Market participant: Corporations Act misconduct	–	–	2
Dishonest conduct	–	1	–
Inappropriate advice	1	–	–
Capital	4	–	–
Total	11*	10	11

* This figure has been revised upward, from six to 11, following the identification of some additional referrals in this period.

47 Complaints about the conduct of market participants may be directed to MPS via the hotline or the market participants email address below:

Hotline: 1300 029 454

Email: market.participants@asic.gov.au

C Markets-related enforcement outcomes

Key points

This section provides a summary of ASIC's markets-related enforcement outcomes for the relevant period, as well as a comparison of two-year periods (staggered by six months). Given the time taken to identify and investigate cases, the two-year reporting period provides a better indication of trends in our enforcement outcomes.

Investigation and enforcement outcomes

48 Table 8 outlines significant market integrity related outcomes for the period 1 January 2012 to 31 December 2013, compared to the preceding two-year period ending 30 June 2013. It includes a 'snapshot' of the outcomes for the current six-month period ending 31 December 2013.

Table 8: Investigation and enforcement outcomes

Significant market integrity related outcomes	Previous two-year period	Current two-year period	
	1 July 2011–30 June 2013 (two years)	1 Jan 2012–31 Dec 2013 (two years)	1 Jul–31 Dec 2013 (six months)
Bannings	1	1	–
Insider trading pleas, verdicts and judgments	11	17	7
Continuous disclosure infringement notices	6	8	4
Other sanctions (enforceable undertakings and pecuniary penalties)	15	15	1
Market manipulation pleas, verdicts and judgments	1	1	1
Total	34	42	13

Enforcement outcomes

Insider trading

49 A person who uses non-public price-sensitive information to trade gains a financial advantage over the rest of the market. Insider trading is not only

unfair but also disruptive to a properly functioning market. This unfairness can lead to a loss of confidence in the market by investors, and is contrary to ASIC's strategic priorities of confident and informed investors and financial consumers, and fair and efficient financial markets.

50 In the relevant period, we achieved seven enforcement outcomes against individuals for insider trading activity:

- [REDACTED]
- [REDACTED]
- [Media release withdrawn in accordance with ASIC policy - see [INFO 152](#) *Public comment on ASIC's regulatory activities*]
- [REDACTED]
- Joe Turner and Jonathan Breen both pleaded guilty to insider trading. A profit of approximately \$20,000 was made. Sentencing is set down for 28 March 2014: see Media Release ([13-295MR](#)) *Two men plead guilty to insider trading* (29 October 2013).
- [REDACTED]


Market manipulation

51 It is an offence under the Corporations Act to create a false or misleading appearance:

- of active trading in financial products on a financial market;
- with respect to the market for financial products on a financial market; or
- with respect to the trading price for financial products on a financial market.

This type of behaviour is a form of market manipulation.

52 In the relevant period, we achieved one outcome against an individual, and one against a company:

- 
- We accepted an enforceable undertaking (EU) from National Australia Bank (NAB) following an investigation into the 18 October 2012 share price spike of the ASX 200. The EU relates specifically to NAB's responsibility for potential market misconduct undertaken by the trading personnel of a contractor which led to the spike. NAB has agreed to adopt specific monitoring and control systems for its direct market access trading—we will supervise the certification of those systems for the next three years. NAB will also make a voluntary contribution of \$2 million to fund independent financial literacy projects in Australia: see Media Release ([13-365MR](#)) *ASIC accepts enforceable undertaking from National Australia Bank* (23 December 2013).

Continuous disclosure breaches

53 In the relevant period we achieved three outcomes against companies for continuous disclosure breaches:

- ZLY Limited paid a total penalty of \$66,000 after we served two infringement notices on the company for failing to comply with its continuous disclosure obligations: see Media Release ([13-262MR](#)) *ZYL Ltd fined for continuous disclosure breaches* (20 September 2013).
- Central Asia Resources Limited paid a penalty of \$33,000 after we served an infringement notice on the company for failing to comply with its continuous disclosure obligations: see Media Release ([13-274MR](#)) *Central Asia Resources Limited fined for continuous disclosure breach* (14 October 2013).
- Stone Resources Australia Limited (SHK) paid a penalty of \$33,000 after we served an infringement notice on the company for failing to comply with its continuous disclosure obligations: see Media Release ([13-323MR](#)) *Stone Resources Australia Limited fined for continuous disclosure breach* (3 December 2013).

54 Under s1317DAJ(3)(b)(v) and (vi) of the Corporations Act, compliance with an infringement notice is not an admission of guilt or liability, and the

disclosing entities are not taken to have contravened the provision(s) specified in the notice.

Markets Disciplinary Panel


55 The Markets Disciplinary Panel (MDP) is a peer review body that exercises ASIC's power to issue infringement notices and accept enforceable EUs in relation to alleged breaches of ASIC market integrity rules.

56 In the relevant period, the MDP issued seven infringement notices for contraventions of ASIC market integrity rules:

- 

Note: In this report a reference to Rule 5.6.3 (ASX) (for example) is a reference to Rule 5.6.3 of the ASIC Market Integrity Rules (ASX Market) 2010.

- 
- 
- 

- 
- UBS Securities Australia Ltd paid a \$50,000 penalty to comply with an infringement notice given to it by the MDP, alleging it had contravened s798H(1) of the Corporations Act, for conduct which resulted in a market for a security not being fair and orderly, in contravention of Rule 5.9.1 (ASX): see Media Release ([13-287MR](#)) *UBS Securities Australia Ltd pays \$50,000 infringement notice penalty* (22 October 2013).
 - ABN Amro Clearing Sydney Pty Ltd paid a \$130,000 penalty to comply with an infringement notice given to it by the MDP, alleging it had contravened s798H(1) of the Corporations Act, for not having, at all times, an appropriate automated filter for its AOP system for pre-trade limit checks, which interfered with the efficiency and integrity of the market, and for not ensuring that its AOP system had in place adequate organisational and technical resources, which resulted in a market for a security not being both fair and orderly, in contravention of Rules 5.6.1, 5.6.3 and 5.9.1 (ASX): see Media Release ([13-298MR](#)) *ABN Amro Clearing Sydney Pty Ltd pays \$130,000 infringement notice penalty* (30 October 2013).
 - Macquarie Bank Limited paid a \$175,000 penalty to comply with an infringement notice given to it by the MDP, alleging it had contravened s798H(1) of the Corporations Act, for failing, on two separate occasions, to deposit monies received from a client into client accounts maintained by Macquarie Bank Limited and designated as clients' segregated accounts, in contravention of Rule 2.2.6(a) of the ASIC Market Integrity Rules (ASX 24 Market) 2010: see Media Release ([13-343MR](#)) *Macquarie Bank Limited pays \$175,000 infringement notice penalty* (17 December 2013).

57 Under reg 7.2A.15(4)(b)(ii) of the Corporations Regulations 2001, compliance with an infringement notice is not an admission of guilt or liability and neither entity is taken to have contravened s798H(1) of the Corporations Act.

D Markets statistics

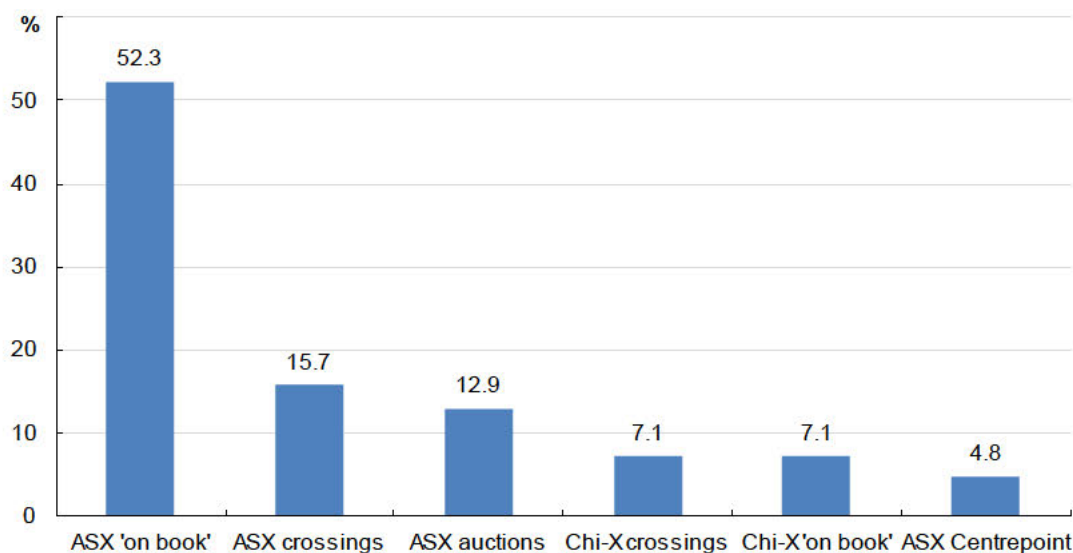
Key points

This section provides some of the key market metrics for the relevant period.

Market share

58 ASX accounted for 85.7% of the total turnover in Australian cash equities, with most of that activity (52.3 percentage points) taking place ‘on book’: see Figure 1. Chi-X was responsible for 14.3% of the total turnover in Australia cash equities.

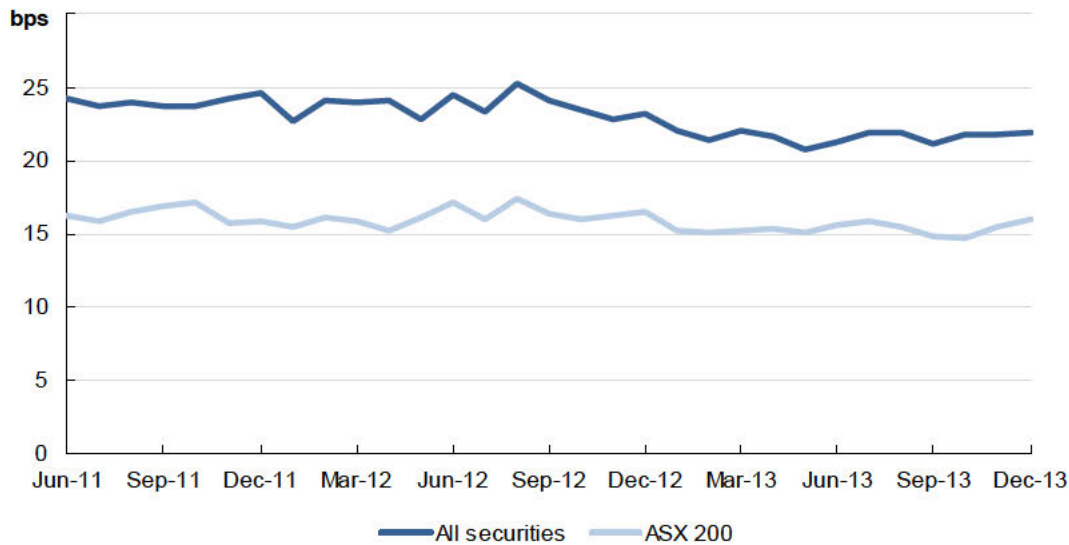
Figure 1: Execution venue by dollar turnover—Six months to December 2013



Market spreads

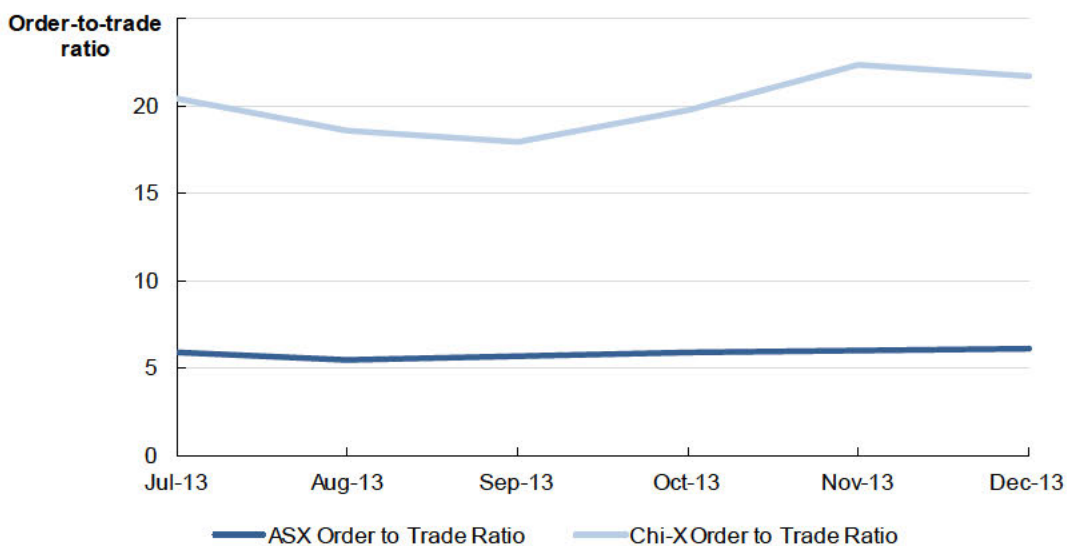
59 Quoted bid-ask spreads for the ASX 200 have risen slightly over the past six months. Average spreads rose from 15.6 basis points in June 2013 to 16.0 basis points in December 2013 (decreasing from the 16.5 basis points observed in December 2012): see Figure 2.

60 The average quoted spread for all securities also rose slightly over the period, from 21.3 basis points in June 2013 to 21.9 basis points in December 2013. Spreads for all securities are lower than their level of 23.2 basis points 12 months ago.

Figure 2: Average quoted spread weighted by turnover

Order-to-trade ratio

61 ASX's order-to-trade ratio² has remained steady, at just under 6:1, in the second half of 2013: see Figure 3. Chi-X has seen a modest rise in the order-to-trade ratio, which averaged 20:1 in the period.

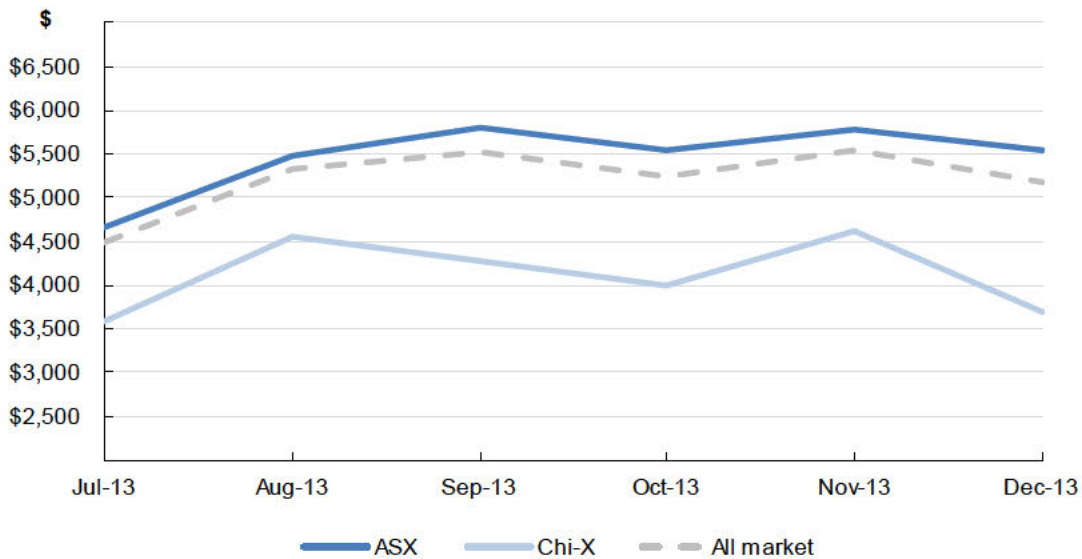
Figure 3: Order-to-trade ratio by venue

² The order-to-trade ratio represents the total number of entered orders, amended orders and deleted orders divided by the number of trades.

Average trade size

62 The average trade size for the whole market increased in the second half of 2013, from \$4,494 in July to \$5,184 in December: see Figure 4. The average trade size on ASX rose from \$4,668 to \$5,548 in the period, while the size of trades on Chi-X also rose, from \$3,585 to \$3,702.

Figure 4: Average trade size



Key terms

Term	Meaning in this document
ADA	Accredited derivatives adviser
AFS licence	<p>An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services</p> <p>Note: This is a definition contained in s761A of the Corporations Act.</p>
AFS licensee	<p>A person who holds an AFS licence under s913B of the Corporations Act</p> <p>Note: This is a definition contained in s761A of the Corporations Act.</p>
algorithm or algorithmic trading	Electronic trading activity where specific execution outcomes are delivered by predetermined parameters, rules and conditions
AOP (automated order processing)	The process by which orders are registered in a market 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 designated trade representative or 'DTR'). It is through AOP systems that algorithmic programs access our markets
ASIC	Australian Securities and Investments Commission
ASIC Market Integrity Rules (ASX Market) 2010	Rules made by ASIC under s798G of the Corporations Act for trading on ASX
ASIC Market Integrity Rules (Competition in Exchange Markets) 2011	Rules made by ASIC under s798G of the Corporations Act that are common to markets dealing in equity market products quote on ASX
ASX	ASX Limited (ACN 008 624 691) or the exchange market operated by ASX Limited
ASX 24	The exchange market formerly known as Sydney Futures Exchange, operated by Australian Securities Exchange Limited
Australian market licence	An Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
Chi-X	Chi-X Australia Pty Ltd (ACN 129 584 667) or the exchange market operated by Chi-X

Term	Meaning in this document
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
DTR (designated trading representative)	A representative of the market participant that has been authorised by the participant to submit trading messages to the trading platform on behalf of the participant
enforceable undertaking	An enforceable undertaking that may be accepted by ASIC under reg 7.2A.01 of the Corporations Regulations 2001
equity market products	Shares, managed investment schemes, the right to acquire by way of issue shares and managed investment schemes, and CHESS Depository Interests admitted to quotation on ASX
financial market	As defined in s767A of the Corporations Act. It encompasses facilities through which offers to acquire or dispose of financial products are regularly made or accepted
infringement notice	An infringement notice issued under reg 7.2A.04 of the Corporations Regulations 2001
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
market licensee	Holder of an Australian market licence
market manipulation	As defined in Pt 7.10 of the Corporations Act
market participant	An entity that is a participant of a financial market on which equity market products are quoted
MDP (Markets Disciplinary Panel)	ASIC's Markets Disciplinary Panel, through which ASIC exercises its power to issue infringement notices and to accept enforceable undertakings in relation to breaches of the market integrity rules
NSX	National Stock Exchange of Australia Limited (ACN 000 902 063) or the exchange market operated by NSX Limited (formerly known as the Newcastle Stock Exchange).
Product Disclosure Statement (PDS)	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A of the Corporations Act for the exact definition.
Rule 5.6.1 (ASX) (for example)	A rule of the ASIC Market Integrity Rules (ASX Market) 2010 (in this example numbered 5.6.1)
securities dealer	An AFS licensee who is not a market participant but sells securities products through a market participant

Term	Meaning in this document
surveillance	The process of gathering and analysing particular information on a particular market participant or other relevant entity. ASIC conducts surveillance to assess and enforce compliance with financial services laws and ASIC market integrity rules to produce constructive change by all market participants and to promote public confidence in Australia's financial markets and its participants