



ASIC

Australian Securities & Investments Commission

REPORT 366

ASIC supervision of markets and participants: January to June 2013

August 2013

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 June to 30 June 2013.

A summary of ASIC's markets-related enforcement outcomes, for the period 1 January to 30 June 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 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 enquiries	8
Pre-emptive supervision action.....	10
B Supervision of market participants and securities dealers	11
Compliance activity.....	11
Referrals and complaints about participants	15
Market participants: Enforcement referrals.....	15
C Markets-related enforcement outcomes	17
Investigation and enforcement outcomes.....	17
Enforcement outcomes.....	17
Markets Disciplinary Panel	19
D Markets statistics	20
Market share	20
Market spreads	20
Order-to-trade ratio	21
Average trade size.....	22
Key terms	23

Overview

ASIC supervision of markets and participants

- 1 ASIC is responsible for the supervision of the markets operated by holders of an Australian market licence (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 Australian financial services (AFS) licence conditions are met by market participants and securities dealers.
- 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 We regard market licensees, market participants and securities dealers as gatekeepers of the Australian financial system. As gatekeepers, they perform a number of important functions, including:
 - 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 essential to ensuring a fair and efficient financial system. We expect that they will perform this role to a high standard and we will take steps to identify those that do not.
- 5 ASIC is 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;
 - supervising markets and market participants in order to detect market misconduct quickly; and

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

- 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 (ETFs);
 - 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 Complaints or questions from the public are received by ASIC’s Misconduct and Breach Reporting (M&BR) team. Those that relate to markets issues are referred to MPS for review. We may also receive reports of possible misconduct from market participants, market operators or AUSTRAC. MPS works closely with ASIC’s Market Integrity Enforcement team (Enforcement) in appropriate cases to determine whether a market licensee, participant, client or securities dealer’s actions may constitute misconduct, and if so, whether an investigation should be commenced.
- 8 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 January to 30 June 2013 (the relevant period). It also captures matters which were referred to MPS by M&BR, as well as matters which were referred by MPS to Enforcement.
- 9 This is the sixth of ASIC’s six-monthly market supervision reports. Previous reports are available at: www.asic.gov.au/reports.

Key outcomes

- 10 We achieved a significant volume of enforcement and regulatory outcomes during the relevant period, building on the strong results already achieved by ASIC since we took over responsibility for the real-time supervision of Australia’s domestic licensed markets.

Market surveillance and supervision

- 11 In the relevant period, we produced 20,938 trading alerts, with 94 matters requiring further consideration, resulting in 25 referrals to Enforcement. Further details of these outcomes are contained in Section A.
- 12 Processes relating to the identification and investigation of possible market misconduct have been refined, resulting in a significant and sustained reduction

in the average number of days between identifying misconduct and commencing an investigation. A total of 25 matters were referred by MPS to Enforcement for formal investigation in the relevant period. Of these, 10 were referred within 30 days of detection, and another 9 within the first 60 days.

- 13 Work has continued on the implementation of a new market surveillance system by the end of 2013. Once the new surveillance system is introduced, ASIC will have the ability to develop and modify alerts to take into account changing market circumstances and to calibrate alerts more dynamically. Calibration of alerts is essential to reduce the number of false positives.

Supervision of market participants and securities dealers

- 14 ASIC's risk-based surveillance of market participants and securities dealers continued in the relevant period. We completed 45 risk-based assessment visits and 88 surveillances (including equities and futures participants, reactive, proactive and targeted surveillances).

- 15 As a result of these reviews, we identified a number of 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.

Markets-related enforcement outcomes

- 16 Insider trading has been a strong focus for ASIC during the relevant period. We achieved five enforcement outcomes against individuals for insider trading activity. We will continue to dedicate significant resources and energy to fighting this crime. Further details can be found in Section C.

Guidance and standards setting

- 17 ASIC is committed to building and innovating towards stronger and cleaner financial markets. In addition to our supervision and surveillance work, we played an active role in setting standards and expectations for market licensees.
- 18 The findings of ASIC's taskforces into the impact of dark liquidity and high-frequency trading on the quality and integrity of our financial markets were published in March 2013: see Report 331 *Dark liquidity and high-frequency trading* (REP 331). We consulted on proposals developed by the taskforces in Consultation Paper 202 *Dark liquidity and high-frequency trading: Proposals* (CP 202). Feedback received during the consultation process is summarised in Report 364 *Response to submissions on CP 202 Dark liquidity and high-frequency trading: Proposals* (REP 364).
- 19 We implemented a number of important market integrity rules to address issues stemming from structural and behavioural changes in Australian

financial markets over recent years, including increased automation and technological innovation. The new rules led to changes in the behaviour of market participants in some instances. For example, there has been a decline in the volume of dark liquidity as a result of the meaningful price improvement rule introduced in May 2013.

Looking ahead

- 20 Current market trends are reflected in markets data that ASIC has started publishing. For example, our markets are now predominantly automated with 99.6% of all orders generated from an automated order processing (AOP) system.
- 21 In recent years, we have undertaken much work around appropriate use of AOP. We now intend to focus on technology governance processes within participant firms to ensure appropriate diligence is applied at all levels across firms (i.e. both business and compliance). We also intend to reach out to the larger audit firms to ensure they understand our focus in this area.
- 22 In addition, there will be a heavy focus (particularly with the introduction of our new surveillance system) on participants' contribution to high order-to-trade ratios, small and fleeting orders, and generally market noise (generated by participants and/or their clients).
- 23 In other areas, we have observed an increased use of 'client facilitation' accounts by market participants. We intend to do 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 turning our attention to the increasing prevalence of other types of principal trading, and in particular, firms who conduct proprietary-only businesses and who may not have a physical presence in Australia.
- 25 In the past, ASIC has adopted a facilitative approach to the implementation of key reforms. We will continue to apply this approach to the implementation of new reforms, such as the Future of Financial Advice reforms. However, once market participants and securities dealers have had sufficient time to familiarise themselves with new obligations, we will take a more enforcement-oriented approach to breaches of the law.
- 26 For example, we previously took a facilitative approach to client money handling obligations in order to improve industry standards in this area. We are now taking a more enforcement-oriented approach to penalise intermediaries who fail to meet their client money handling obligations.

A Market surveillance and supervision

- 27 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

- 28 The MPS team currently uses the SMARTS trade surveillance system, internally developed market monitoring tools, and information provided by the market and other ASIC stakeholder groups to identify possible market misconduct matters. We have recently appointed a contractor, First Derivatives, to provide a new market surveillance system, which will be implemented in the third quarter of 2013.
- 29 Trade surveillance alerts are indicators of unusual trading activity. During the reporting period, there were 20,938 alerts compared to 19,430 alerts generated during the previous reporting period: see Table 1. The number of alerts has increased slightly from the previous period (1 July–31 December 2012), although its number remains within acceptable volume parameters and is not indicative of any significant changes to calibration.
- 30 The number of alerts is affected by factors including general market volatility, the level of corporate transactions and trading conditions generally. We expect that our new enhanced market surveillance system will provide 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 Jan–30 June 2012	1 July–31 Dec 2012	1 Jan–30 June 2013
Total number of alerts	22,225	19,430	20,938

Markets enquiries

- 31 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 enquiries.
- 32 We may call on participants and investors to assist us with the conduct of these enquiries. We may also use our compulsory information gathering powers to obtain information from participants, clients, listed entities, and corporate and other advisers, where necessary.

- 33 There were 94 market enquiries undertaken during the relevant period, compared with 86 such enquiries in the previous period: see Table 2. Most of this increase was due to an increase in the number of enquiries relating to insider trading, although again, the figure is not unusual when compared to earlier reporting periods. We will continue to dedicate significant resources and energy to pursuing individuals who misuse corporate information.
- 34 In other areas, the number of continuous disclosure related enquiries returned to that of previous periods, while the number of enquiries related to market manipulation dropped slightly from 29 to 23.

Table 2: Markets enquiries

Alleged offence	Previous periods		Current period
	Number of enquiries (1 Jan–30 June 2012)	Number of enquiries (1 July–31 Dec 2012)	Number of enquiries (1 Jan–30 June 2013)
Insider trading	63	40	51
Market manipulation	28	29	23
Continuous disclosure	9	5	9*
Breach of market integrity rules	14	12	11
Total	114	86	94

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

- 35 In the relevant period, MPS referred a total of 25 matters to Enforcement for investigation. This included seven matters relating to possible market manipulation breaches and an additional seven matters relating to breaches of the market integrity rules: see Table 3.
- 36 The number of markets matters referred to Enforcement is comparable to previous periods.

Table 3: Market matters referred to Enforcement for investigation

Alleged offence	Previous periods		Current period
	1 Jan–30 June 2012	1 July–31 Dec 2012	1 Jan–30 June 2013
Insider trading	13	6	8
Market manipulation	5	6	7
Continuous disclosure	3	3	3
Breach of market integrity rules	15	12	7
Total	36	27	25

Pre-emptive supervision action

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

Table 4: Pre-emptive supervision action

Pre-emptive action relating to:	Previous periods		Current period
	1 Jan–30 June 2012	1 July–31 Dec 2012	1 Jan–30 June 2013
Execution strategy	10	12	7
Algorithmic trading and filter issues	5	6	6
Other	1	5	6
Total	16	23	19

- 39 We continue to engage in ongoing dialogue with market participants. We will use this dialogue to improve processes and procedures to address less serious issues identified by the MPS. Importantly, this dialogue does not replace enforcement action, which we will pursue for serious breaches of the law and market integrity rules.
- 40 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

- 41 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

- 42 Market participants must have arrangements in place to monitor compliance with the Corporations Act and the market integrity rules. We have continued to identify participants who do not retain sufficient evidence of their compliance with this requirement. For example, we have identified participants who cannot demonstrate that they have undertaken adequate reviews of Statements of Advice (SOAs), or reviews of trades that are potentially manipulative or the result of insider trading.
- 43 As a result of inadequate monitoring, we have observed cases where records of advice were produced when SOAs should have been provided (because of changes in the client's circumstances). In other instances, we have seen SOAs that did not disclose the specific risks of a recommended investment in a hybrid, exchange-traded option or other more complex product.
- 44 Our reviews found Product Disclosure Statements (PDSs) for exchange-traded options that did not sufficiently outline the risks of participating in more complex strategies, where these may not be understood by clients. We also observed that some participants did not have detailed policies for their representatives when dealing with the receipt of potentially price-sensitive information which is not publicly available. In each case, the participants involved have co-operated with ASIC, and have taken appropriate action to deal with our concerns.
- 45 Table 6 shows that 27 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 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

- 46 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 participant.
- 47 We have continued to identify securities dealers who are failing to adequately supervise their representatives—in particular, by not adequately monitoring whether they are providing clients with appropriate personal advice. As a result of such inadequate supervision, we have observed cases where a client’s circumstances (particularly their risk tolerance and product understanding) have not been adequately considered. The securities dealers that we identified have agreed to increase their level of supervision, particularly where their representatives’ recommendations include more complex products or services.
- 48 In other matters, we identified an example of a securities dealer offering margin lending services without the necessary AFS licence authorisation. We are working with this licensee to bring it into compliance and to protect its clients. We also identified an example of a securities dealer who continued to operate while in breach of the requirement to have adequate financial resources to provide the services for which it was authorised. The securities dealer in this instance has voluntarily relinquished its AFS licence.

Table 5: Participant compliance—Key activity summary

Compliance activity	Previous periods						Current period			
	1 Jan–30 June 2012			1 July–31 Dec 2012			1 Jan–30 June 2013			
	Outstanding at 1 Jan 2011	New	Completed	Outstanding at 1 July 2012	New	Completed	Outstanding at 31 Dec 2012	New	Completed	Outstanding at 30 June 2013 [*]
Surveillance (includes business-as-usual equities and futures participants, reactive, proactive and targeted)	59	78	64	73	63	66	70	77	88	59
Monitoring and remediation	5	5	5	5	4	2	7	3	6	4
Risk-based assessment visits	–	31	22	9	17	19	7	47	45	9
Industry presentations	–	21	21	–	8	8	–	20	20	–

* Matters 'outstanding at 30 June 2013' represent the opening balance at the beginning of the reporting period (i.e. matters 'outstanding at 31 Dec 2012') plus 'new' matters less 'completed' matters.

Table 6: Participant compliance applications, waivers, notifications and exemptions

Applications, waivers, notifications and exemptions	Previous periods						Current period			
	1 Jan–30 June 2012			1 July–31 Dec 2012			1 Jan–30 June 2013			
	Outstanding at 1 Jan 2012	New	Completed	Outstanding at 1 July 2012	New	Completed	Outstanding at 1 Jan 2013	New	Completed	Outstanding at 30 June 2013
Applications [†]	4	162	166	–	188	187	1	275	273	3
Waivers requested (ASX) [‡]	–	3	2	1	1	2	–	–	–	–
Waivers requested (ASX 24) [‡]	2	3	3	2	–	1	1	–	1	–
Waivers requested (Chi-X) [#]	–	–	–	–	1	1	–	–	–	–
Waivers requested (NSXA)	–	–	–	–	–	–	–	1	1	–
Waivers requested (Competition)	–	–	–	–	6	6	–	13	13	–
Relief applications [‡]	5	15	11	9	8	13	4	9	9	4
AOP certifications received (includes significant changes)	3	25	24	4	28	26	6	27	31	2
Notifications (includes professional indemnity insurance, responsible executive changes and ADA withdrawals)	8	156	154	10	285	285	10	226	229	7

* 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 operations on 31 October 2011.

Referrals and complaints about participants

- 49 The following referrals from M&BR were reviewed by MPS in the relevant period:
- four complaints made by the public about securities dealers and market participants;
 - five breaches of the Corporations Act that were self-reported by market participants;
 - one breach of the Corporations Act that was reported by the auditors of market participants relating to the actions of the market participants;
 - four market integrity rule breaches that were self-reported by market participants; and
 - 20 notifications of trust account deficiencies.

Market participants: Enforcement referrals

- 50 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 Jan–30 June 2012	1 July–31 Dec 2012	1 Jan–30 June 2013
Adviser: Unauthorised trading	–	–	–
Breach of market integrity rule:			
• order records	–	–	–
• trust account obligations	–	1	3
• clients' segregated accounts	1	–	2
• no responsible executive	–	–	–
• 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 & procedures	–	1	–
• AOP—failure to notify ASIC	–	1	–
• crossing systems report	–	1	–

Alleged offence	Previous periods		Current period
	1 Jan–30 June 2012	1 July–31 Dec 2012	1 Jan–30 June 2013
Supervision of representatives	–	–	–
Participant: Corporations Act misconduct	–	–	–
Misleading and deceptive conduct	–	–	–
Dishonest conduct	–	–	1
Inappropriate advice	–	1	–
Capital	–	4	–
Total	1	11*	10

* This figure has been revised upward from 6 to 11, following the identification of some additional referrals in this period.

51 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

52 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 trend indication of our enforcement outcomes.

Investigation and enforcement outcomes

53 Table 8 outlines significant market integrity related outcomes for the period 1 July 2011–30 June 2013, compared to the preceding two-year period ending 31 Dec 2012. It includes a ‘snapshot’ of the outcomes for the current six-month period ending 30 June 2013.

Table 8: Investigation and enforcement outcomes

Significant market integrity related outcomes	Previous two-year period	Current two-year period	
	1 Jan 2011–31 Dec 2012 (two years)	1 July 2011–30 June 2013 (two years)	1 Jan–30 June 2013 (six months)
Bannings	–	1	1
Insider trading pleas, verdicts and judgements	11	10	5
Continuous disclosure infringement notices	6	6	
Other sanctions (enforceable undertakings and pecuniary penalties)	13	15	2
Market manipulation pleas, verdicts and judgements	1	1	
Total	31	33	8

Enforcement outcomes

Insider trading

54 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.

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

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- Mr Jonathan Jin Yi Ang, a former analyst with Lincoln Crowne & Company Pty Limited, pleaded guilty to an insider trading charge (see [13-124MR](#)).

Market manipulation

56 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;
- the market for financial products on a financial market; or
- the trading price for financial products on a financial market.

This type of behaviour is a form of market manipulation.

57 In the relevant period, we achieved one outcome against an individual for market manipulation. James Pearson was banned from providing financial services for three years for market rigging. An ASIC investigation that found Mr Pearson engaged in conduct inconsistent with the orderly operation of a financial market. In particular, Mr Pearson created a false or misleading appearance of active trading: see [13-099MR](#).

Markets Disciplinary Panel

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

59 In the relevant period, the MDP issued two infringement notices for contraventions of the ASIC Market Integrity Rules (ASX Market) 2010:

- [REDACTED]

Note: In this document, 'Rule 5.6.1 (ASX)' (for example) refers to a particular rule of the ASIC Market Integrity Rules (ASX Market) 2010.

- Merrill Lynch Equities (Australia) Limited has paid a \$120,000 penalty after the MDP served an infringement notice alleging it had contravened s798H(1) of the Corporations Act by contravening Rule 5.6.3(a) (ASX) (see [13-129MR](#)).

60 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.

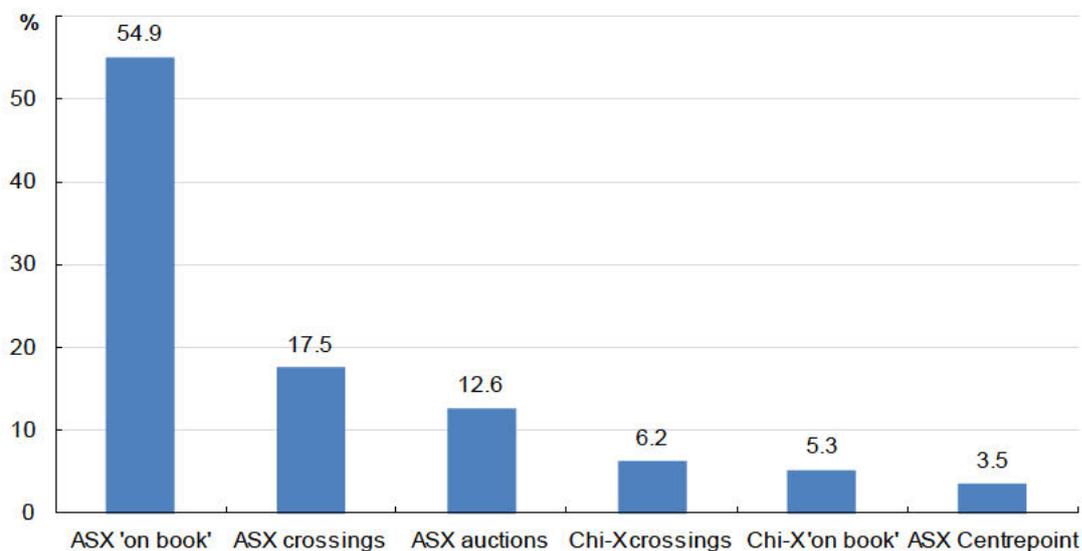
D Markets statistics

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

Market share

62 ASX accounted for 88.5% of the total turnover in Australian cash equities, with most of that activity (54.9 percentage points) taking place ‘on book’: see Figure 1. Chi-X was responsible for 11.5% of the total turnover in Australia cash equities.

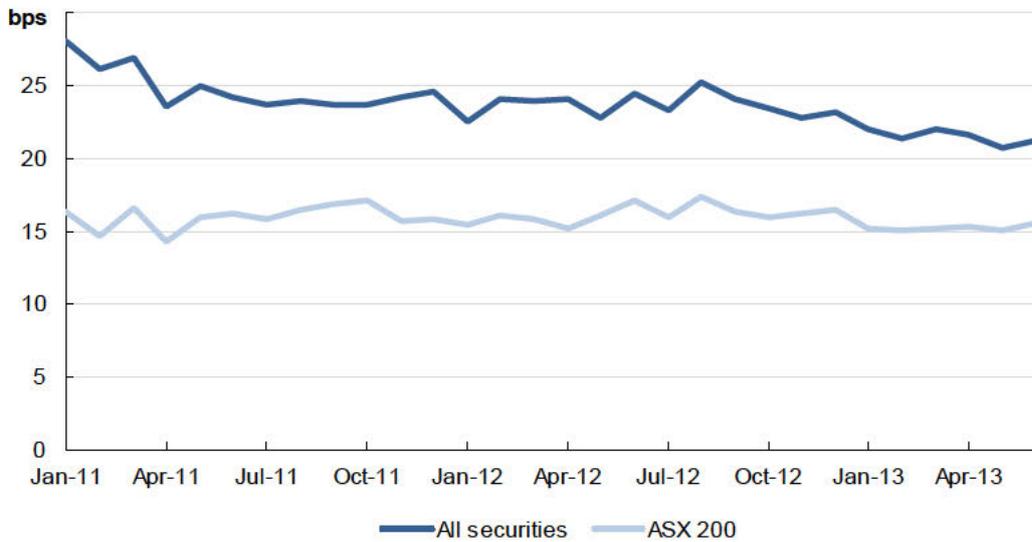
Figure 1: Execution venue by dollar turnover—Six months to June 2013



Market spreads

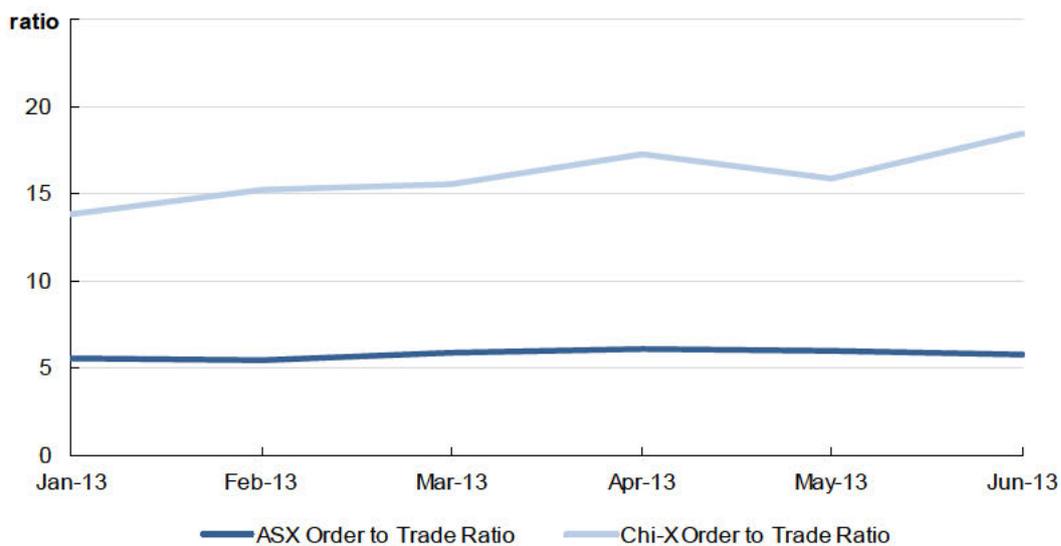
63 Quoted bid–ask spreads for the ASX 200 have continued to exhibit a downward trend over the past six months. Average spreads for the ASX 200 have fallen to 15.6 basis points in June 2013 from 16.5 basis points in December 2012 and 17.2 basis points in June 2012: see Figure 2.

64 The average quoted spread for all securities also fell over the period, from 23.2 basis points in December 2012 to 21.3 basis points in June 2013. Spreads for all securities are lower than their level of 24.5 basis points 12 months ago.

Figure 2: Average quoted spread weighted by turnover

Order-to-trade ratio

65 ASX's order-to-trade ratio² has remained steady, at just under 6:1, in the first half of 2013: see Figure 3. Chi-X has seen a rise in the ratio from 14:1 to over 18:1 in the period.

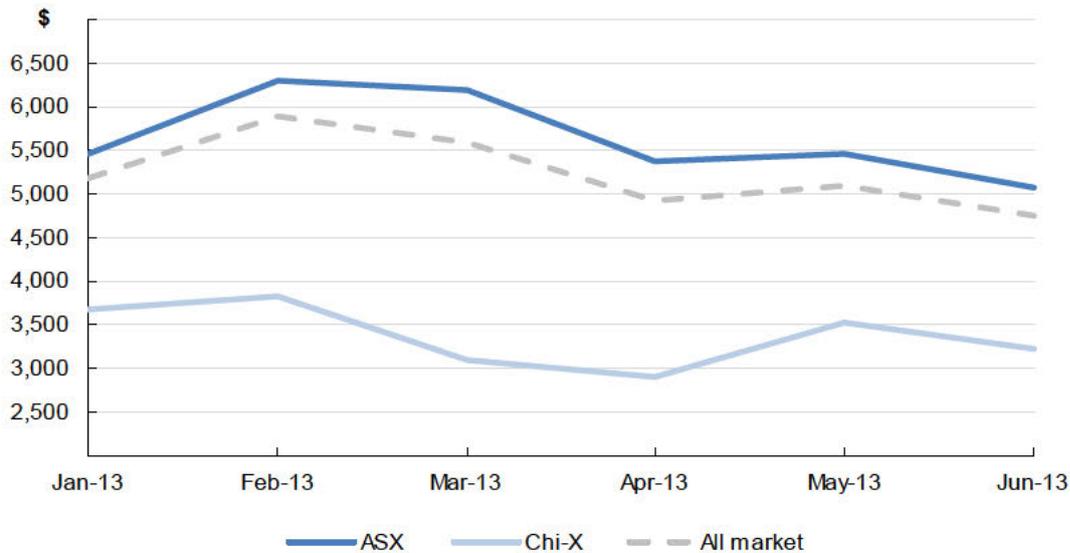
Figure 3: Order-to-trade ratio by venue

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

66 The average trade size for the whole market declined in the first half of 2013, from \$5,172 in January to \$4,760 in June: see Figure 4. The average trade size on ASX fell from \$5,500 to just above \$5,000 in the period, while the size of trades on Chi-X also declined (from \$3,677 in January to \$3,234 in June 2013).

Figure 4: Average trade size



Key terms

Term	Meaning in this document
ADA	Accredited derivatives adviser
AFS licence	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 Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
algorithm or algorithmic trading	Electronic trading activity where specific execution outcomes are delivered by predetermined parameters, rules and conditions
AOP (automated order processing)	The process by which orders are registered in a 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
high-frequency trading	While there is not a commonly agreed definition of high-frequency trading, we characterise it as: <ul style="list-style-type: none"> • the use of high-speed computer programs to generate, transmit and execute orders; • the generation of large numbers of orders, many of which are cancelled rapidly; and • typically holding positions for very short time horizons and ending the day with a zero position
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
NSXA	National Stock Exchange of Australia Limited (ACN 000 902 063) or the exchange market operated by NSXA 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.

Term	Meaning in this document
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
Statement of Advice (SOA)	<p>A document that must be given to a retail client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act</p> <p>Note: See s761A of the Corporations Act for the exact definition.</p>
surveillance	<p>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</p>