

**ASIC MARKET INTEGRITY RULES
(COMPETITION IN EXCHANGE MARKETS) 2011**

EXPLANATORY STATEMENT

Prepared by the Australian Securities and Investments Commission

Corporations Act 2001

Enabling Legislation

The Australian Securities and Investments Commission (ASIC) makes the *ASIC Market Integrity Rules (Competition in Exchange Markets) 2011* (the *Market Integrity Rules* or *Rules*) under subsection 798G(1) of the *Corporations Act 2001* (the *Act*).

Subsection 798G(1) of the Act provides that ASIC may, by legislative instrument, make rules that deal with:

- (a) the activities or conduct of licensed markets;
- (b) the activities or conduct of persons in relation to licensed markets;
- (c) the activities or conduct of persons in relation to financial products traded on licensed markets.

Subsection 798G(1) of the Act was inserted by Schedule 1 of the *Corporations Amendment (Financial Market Supervision) Act 2010* (the *Amending Act*). Details of the Market Integrity Rules are contained in the Attachment. Capitalised terms in this Explanatory Statement refer to defined terms in the Market Integrity Rules.

Background and Rationale

On 31 March 2010, the Australian Government announced its support for competition between exchange markets for trading in listed shares in Australia, and its in-principle support for granting an Australian market licence to Chi-X Australia Pty Ltd (Chi-X). The Government announced that competition is an important step in ensuring that Australia's financial markets are innovative and efficient, as well as for the development of Australia as a leading financial centre.

Markets have evolved considerably over recent years. The numbers and types of venues for trading in equities has already begun to change and is expected to change significantly going forward when competition between Australian exchange markets is introduced.

These Market Integrity Rules have been created to address the regulatory issues resulting from the introduction of competition. In creating these Market Integrity Rules, ASIC aims to maximise market efficiency and opportunities for innovation, while mitigating risks to price formation and delivering the best outcomes for investors.

Historically, Australia's equity market has been dominated by the exchange market known as the Australian Securities Exchange (ASX). In general terms, ASX's cash equity market evolved around trades executed on its central limit order book (CLOB) and on the ASX 'crossing market'. Very large trades that might cause a material impact on the CLOB are executed off the CLOB on the crossing market. The existing regulatory framework surrounding exchange markets trading in listed shares in Australia does not provide appropriate and effective protections in a multimarket environment. It relies on rules developed for a single market in ASX-quoted products.

With the introduction of new Australian market licensees trading in ASX-quoted products, the existing rules that apply to ASX and its participants will not necessarily apply to trading on other markets. Inconsistent rules may affect the normal and efficient functioning of the markets and compromise investor protection. A regulatory framework that applies common, consistent rules to ASX and new market operators and their participants is necessary to enable competition to occur in Australia. ASIC also needs to put in place measures to mitigate issues (such as fragmentation of trading and data) that arise as a result of competition.

Based on overseas experience, the introduction of competing exchanges is expected to result in:

- (a) more innovation in products and services, more choice in where to match and execute orders, and maintained or improved market quality (including market depth, liquidity and price formation), which should attract new players, new trading strategies and new liquidity;
- (b) a faster and more efficient trading experience resulting from developments in technology; and
- (c) a reduction in overall costs of execution, due to tighter spreads and a reduction in transaction costs.

In developing these Market Integrity Rules, maintaining confidence in the integrity of Australia's markets has been of paramount importance. ASIC has also been guided by its other objectives to protect retail investors and facilitate international capital flows. The Market Integrity Rules build on the strengths of the Australian market and minimise the necessary system changes for industry.

Scope of Rules

These Market Integrity Rules apply to all trading in:

- (a) a share in a body;
- (b) a financial product referred to in sub-paragraph 764A(1)(b)(i) or sub-paragraph 764A(1)(ba)(i) of the Act;
- (c) a right (whether existing or future and whether contingent or not) to acquire, by way of issue, the following under a rights issue:
 - i. a share covered by paragraph (a);
 - ii. a financial product covered by paragraph (b); or
- (d) a CHESSE Depository Interest;

admitted to quotation on ASX. These products are referred to in this Explanatory Statement as 'Equity Market Products'.

The Market Integrity Rules apply to market operators that offer trading services in Equity Market Products, participants that deal in Equity Market Products on their own behalf or for clients (whether or not the participant transacts on an order book or off-order book in Equity Market Products), and participants who provide a service to clients that enables the electronic matching of orders in Equity Market Products with orders of the participant or of clients of the participant.

The Market Integrity Rules supplement existing *ASIC Market Integrity Rules (ASX Market) 2010*, which came into effect on 1 August 2010, and *ASIC Market Integrity Rules (Chi-X Australia Market) 2011*, which came into effect on [DATE].

Intent of Rules

These Rules ensure that:

- market operators have appropriate controls and consistent arrangements for dealing with sudden and extreme price movements (to address lessons from the 6 May 2010 'flash crash' in the US);
- client orders are transmitted to the market delivering the best execution outcome;
- there are consistent pre-trade and post-trade transparency arrangements across all markets, and that pre-trade and post-trade information is consolidated;
- crossing system ('dark pool') operators register with ASIC and provide monthly data to assist ASIC's market analysis; and
- market operators coordinate on matters such as information sharing, trading halts, use of consistent stock and broker codes as well as tick sizes.

Consultation

On 4 November 2010, ASIC released a consultation package on enhancing regulation of Australia's equity markets, including the introduction of competition between exchange markets. The consultation package included a detailed consultation paper, Consultation Paper 145 *Australian equity market structure: Proposals* (CP 145), draft market integrity rules and a supporting economic report on Australian equity market structure, *Report into Australian equity market structure* (REP 215). The public consultation was conducted for 11 weeks, from November 2010 to January 2011.

ASIC received 40 written submissions to CP 145 from a broad range of stakeholders, including market operators, participants, fund managers, high-frequency trading firms and others from research, data vendor and technology sectors. ASIC has had over 60 meetings with stakeholders since the consultation material was published and held information sessions for members of the Australian Financial Markets Association (AFMA), the Financial Services Council (FSC) and Stockbrokers Association of Australia (SAA). There was widespread support for ASIC to focus on the rules necessary to quickly enable the commencement of competition and allow the industry more time to engage with broader market developments. ASX was an exception, which submitted that some of these issues (eg; 'dark pools') should be dealt with before competition is allowed to commence.

The vast majority of respondents suggested that they would require 6 months after the Rules were settled to prepare for the commencement of competition. Some respondents requested a transitional period to become fully compliant with the Rules.

Response to Consultation

Having considered the submissions to CP 145, ASIC has decided to implement those Market Integrity Rules that are necessary for competition at this time. ASIC intends to further consider Market Integrity Rules that deal with market developments and implement those Rules at another time. Some proposals related to competition were amended to take into account industry feedback where appropriate:

Best Execution:

- The distinction where additional flexibility has been applied in best execution is between 'retail client' and 'wholesale client' as defined in the Act (rather than non-professional and

professional clients), on the basis that industry systems and processes for categorising clients in this way are already established.

- ASIC has also proceeded with requiring participants that deal with clients to take a more holistic approach to best execution by obtaining the ‘best outcome’ for their clients. This is more in line with obligations overseas:
 - For retail clients, best outcome is best total consideration (which may be interpreted as best price in the interim), unless the client specifically instructs otherwise on a case-by-case basis.
 - For wholesale clients, participants may take into account a range of outcomes, in addition to ‘total consideration’. Wholesale clients may also elect to provide clear standing instructions to ‘opt-out’ of the best execution rules, subject to periodic review.

Pre-Trade Transparency:

- While ASIC has not proceeded with the proposed \$20,000 threshold, below which orders must be transmitted to a pre-trade transparent market, ASIC has proceeded with making a competition Market Integrity Rule with the threshold set at zero.
- ASIC has harmonised some of the current ASX exceptions to pre-trade transparency across all markets. This will ensure consistent standards across competing markets from the commencement of competition.

Consolidation of pre-trade and post-trade information:

- ASIC has proceeded with implementing a multiple consolidator model with minimal regulation, based on industry expectations that existing data providers will continue to provide such services, encouraging competition and innovation in data services and producing the most efficient outcome for users.
- To ensure market data is accessible and easily consolidated, the new competition market integrity rules require market operators to:
 - ensure that all pre-trade and post-trade information is complete, accurate and up-to-date, and to take reasonable steps to identify and correct any errors; and
 - make all pre-trade and post-trade data available on a non-discriminatory basis to anyone who wants access to it.
- ASIC has imposed an obligation on market operators to make post-trade information available free of charge on a delayed basis of no more than 20 minutes of the trade being executed.

Market operators – other obligations relating to market Information:

- Rather than by way of a protocol, ASIC has imposed direct obligations under market integrity rules which require cooperation between market operators for market integrity and efficiency purposes (eg; to immediately share information on trading halts and suspensions and a notification requirement when a market operator's systems experience an outage).

Penalties

Subsection 798G (1) of the Act provides that market integrity rules are legislative instruments for the purposes of the *Legislative Instruments Act 2003*.

Subsection 798G (2) of the Act provides that market integrity rules may include a penalty amount for a rule. A penalty amount must not exceed \$1,000,000. The penalty amount set out below a Market Integrity Rule is the maximum penalty amount for that Market Integrity Rule.

Commencement of Rules

Chapter 1, Rules 2.1.1(2), 2.1.4(2), 3.3.2, 4.1.3, 5.1.5 and 6.2.1 and Part 4.3 of the Market Integrity Rules will commence on the day after the instrument is registered under the Legislative Instruments Act 2003 (Chapters 2 to 7 of the Rules (excluding Rules 2.1.1(2), 2.1.4(2), 3.3.2, 4.1.3, 5.1.5 and 6.2.1 and Part 4.3) will commence on 31 October 2011).

ATTACHMENT

CHAPTER 1: INTRODUCTION

Part 1.1 Preliminary

Rule 1.1.1 – Enabling legislation

Rule 1.1.1 provides that the enabling legislation for the Rules is subsection 798G (1) of the Act.

Rule 1.1.2 Title

Rule 1.1.2 provides that the title for the Rules is *ASIC Market Integrity Rules (Competition in Exchange Markets) 2011*.

Rule 1.1.3 Commencement

Paragraph 1.1.3(a) provides that Chapter 1, Rules 2.1.1(2), 2.1.4(2), 3.3.2, 4.1.3, 5.1.5 and 6.2.1 and Part 4.3 will commence on the day after the instrument is registered under the *Legislative Instruments Act 2003*.

Paragraph 1.1.3(b) provides that Chapters 2 to 7 of the Rules (excluding Rules 2.1.1(2), 2.1.4(2), 3.3.2, 4.1.3, 5.1.5 and 6.2.1 and Part 4.3) commence on 31 October 2011.

Rule 1.1.4 Scope of these Rules

Rule 1.1.4 provides that the Rules apply to the activities or conduct of a Market, persons in relation to a Market and persons in relation to Equity Market Products.

Rule 1.1.5 Entities that must comply with these Rules

Rule 1.1.5 provides that the following entities must comply with the Rules:

- (a) Market Operators; and
- (b) Participants;

as specified in each Rule.

Rule 1.1.6 Conduct by officers, Employees or agents

Paragraph 1.1.6(a) provides that in the Rules, conduct engaged in on behalf of a person by an officer, Employee or other agent of the person, and whether or not within the scope of the actual or apparent authority of the officer, Employee, or other agent, is deemed to have been engaged in by the person.

Paragraph 1.1.6(b) provides that in the Rules, conduct engaged in on behalf of a person by any other person at the direction or with the consent or agreement (express or implied) of an officer, Employee or other agent of the person, and whether or not the giving of the direction, consent or agreement is within the scope of the actual or apparent authority of the officer, Employee or other agent, is deemed to have been engaged in by the person.

Rule 1.1.7 State of mind of a person

Subrule 1.1.7(1) provides that, if for the purposes of the Rules in respect of conduct engaged in by a person, it is necessary to establish the state of mind of the person, it is sufficient to show that an officer, Employee or other agent of the person, being an officer, Employee or other agent by whom the conduct was engaged in and whether or not the conduct was within the scope of the actual or apparent authority of that officer, Employee, or other agent, had that state of mind.

Subrule 1.1.7(2) provides that, in subrule 1.1.7(1), a reference to the state of mind of a person includes a reference to the knowledge, intention, opinion, belief or purpose of the person and the person's reasons for the person's intention, opinion, belief or purpose.

Part 1.2 Waiver

Rule 1.2.1 Waiver of Rules

Subrule 1.2.1(1) provides that ASIC may relieve any person or class of persons from the obligation to comply with a provision of the Rules, either generally or in a particular case or category, and either unconditionally or subject to such conditions as ASIC thinks fit.

Subrule 1.2.1(2) provides that if any conditions on a waiver are imposed, all of the conditions must be complied with for the waiver to be effective.

Subrule 1.2.1(3) provides that ASIC may withdraw a waiver In Writing at any time.

Subrules 1.2.1(4) to (5) provide that a waiver, conditions on a waiver and a request by a person for a waiver must be In Writing.

Subrule 1.2.1(6) provides that ASIC may publish notice of a waiver.

Rule 1.2.2 Compliance with conditions

Rule 1.2.2 provides that failure to comply with a condition imposed under Rule 1.2.1 is a contravention of Rule 1.2.2.

Rule 1.2.3 Period during which relief applies

Rule 1.2.3 provides that ASIC may specify the period or specific event during which any relief from an obligation to comply with a provision of the Rules may apply.

Rule 1.2.4 Register

Subrule 1.2.4(1) provides that ASIC may establish and maintain a register for recording details of relief granted under Rule 1.2.1 and sets out the details that may be entered in the register. Subrule 1.2.4(2) provides that ASIC may publish the register.

Part 1.3 Notice, notification and service of documents

Rule 1.3.1 Participant to have email

Rule 1.3.1 provides that a Participant must acquire and maintain an operating email system for the purposes of receiving notices under the Rules.

Rule 1.3.2 Methods of giving notice In Writing

Rule 1.3.2 provides for methods by which ASIC may give a notice under the Rules.

Part 1.4 Interpretation

Rule 1.4.1 References to time

Rule 1.4.1 provides that in the Rules, unless the contrary intention appears, references to time are to the time in Sydney, Australia.

Rule 1.4.2 Words and expressions defined in the Corporations Act

Rule 1.4.2 provides that words and expressions defined in the Corporations Act will, unless otherwise defined or specified in the Rules or the contrary intention appears, have the same meaning in the Rules.

Rule 1.4.3 Definitions

Rule 1.4.3 provides definitions for terms used in the Rules for:

- "Act";
- "Anomalous Order";
- "Anomalous Order Threshold";
- "ASIC";
- "ASX";
- "Best Available Bid"
- "Best Available Offer"
- "Best Mid-Point";
- "Bid";
- "Block Trade";
- "Buy Order";
- "Category A Equity Market Product";
- "Category B Equity Market Product";
- "Category C Equity Market Product";
- "Category D Equity Market Product";
- "CHESS Depository Interest";
- "Client Order";
- "Confirmation";
- "Continuously and in Real-Time";
- "Crossing System";
- "Crossing System Initial Report";
- "Crossing System Monthly Report";

- "Crossing System Reporting Information";
- "Disclosed";
- "Employee";
- "Equity Market Product";
- "Exchange-Traded Fund Special Trade";
- "Executing Participant";
- "Extreme Cancellation Range";
- "Family Company";
- "Family Trust";
- "Financial Market";
- "Funds Manager";
- "Hidden";
- "Immediate Family";
- "In Writing";
- "Large Portfolio Trade";
- "Large Principal Transaction";
- "Listing Market";
- "Listing Market Operator";
- "Listing Rules";
- "Market";
- "Market Operator";
- "Market Operator's Trading System";
- "NMI";
- "Normal Trading Hours";
- "Offer";
- "Off-Market Bid";
- "Operating Rules";
- "Order";
- "Order Book";
- "Out of Hours Trade";
- "Participant";
- "Partly Disclosed";
- "Permitted Trade during the Post-Trading Hours Period";
- "Permitted Trade during the Pre-Trading Hours Period";
- "Post-Trade Information";
- "Post-Trading Hours Period";
- "Pre-Trade Information";
- "Pre-Trade Transparent";
- "Pre-Trading Hours Period";
- "Price Step";
- "Principal";
- "Recognised Stock Exchange";
- "Reference Bid";
- "Reference Mid-Point";
- "Reference Offer";
- "Reference Price";
- "Related Body Corporate";
- "Reporting Participant";
- "Retail Client";

- "Retail Client's Instructions";
- "Rules";
- "Securities Lending Arrangement";
- "Sell Order";
- "Substantial Holder";
- "Tick Size";
- "Time Priority";
- "Total Consideration";
- "Trade At or Within the Spread";
- "Trading Day";
- "Trading Hours";
- "Trading Information";
- "Trading Messages";
- "Trading Suspension";
- "Transaction";
- "Transaction Costs";
- "Under the Rules of a Market";
- "UTC(AUS)";
- "Wholesale Client"; and
- "Wholesale Client's Instructions".

CHAPTER 2: EXTREME PRICE MOVEMENTS

The Rules in Chapter 2 are intended to minimise the risk of unexpected and extreme price movements that are unexplained. These events undermine confidence in the Market and discourage investor participation. There are also Rules in this Chapter to manage and mitigate any liquidity and volatility effects, should an extreme price movement event occur.

Part 2.1 Order entry controls for Anomalous Orders

The Rules in Part 2.1 prescribe minimum requirements on Market Operators to have adequate controls to prevent Anomalous Orders from entering their Markets. Anomalous trades are undesirable primarily because they interrupt the price formation process for the products involved. This disruption may then trigger a sequence of market-moving trades, mis-pricing other products. While trades in these mis-priced products may be subsequently cancelled, it can be problematic and undesirable to unwind all related trades.

Rule 2.1.1 Requirement to have Anomalous Order Thresholds

Subrule 2.1.1(1) provides that a Market Operator must determine an Anomalous Order Threshold for each Equity Market Product that is quoted on its Market. Anomalous Order price Thresholds can filter out Orders with anomalous prices, such as Offers at prices well below the market price. These Thresholds minimise the execution of Anomalous Orders that may subvert the price formation process and undermine the orderly functioning of Markets, and ensure that the effects of such Transactions are curtailed.

As the requirement in subrule 2.1.1(1) is for Market Operators to determine an Anomalous Order Threshold for each Equity Market Product quoted on their own Market, oversight over the efficacy of this regime is required across Markets to ensure that Thresholds on different Markets do not conflict with each other. This oversight will give Participants certainty that the Orders that they see in the Market are valid, and less likely to require subsequent cancellation. Subrules 2.1.1(2), (3) and (4) provide for a whole-of-market oversight mechanism of these Anomalous Order Thresholds, provided by ASIC.

Subrule 2.1.1(2) provides that a Market Operator must notify ASIC In Writing of the Anomalous Order Threshold for each Equity Market Product that is quoted on its Market not less than 45 days before first adopting the Threshold for the purposes of Rule 2.1.3. The requirement to notify ASIC of Anomalous Order Thresholds is so that ASIC may consider the appropriateness of those Thresholds in the context of promoting a fair, orderly and transparent Market. Subrule 2.1.1(2) commences on the day after the instrument is registered under the Legislative Instruments Act 2003. However, it is not expected that the required notification is made until closer to 31 October 2011.

Subrule 2.1.1(3) provides that ASIC may notify a Market Operator that its Anomalous Order Threshold is not appropriate to promote market integrity or a fair, orderly or transparent market, as Market Operators' Anomalous Order Thresholds will be reviewed from time to time as required. ASIC considers that having appropriately determined Anomalous Order Thresholds with ASIC approval of those Thresholds will give Participants certainty that the Orders that they see in the Market are valid, and not anomalous.

Subrule 2.1.1(4) requires a Market Operator to determine a new Anomalous Order Threshold for the relevant Equity Market Product if ASIC notifies the Market Operator that an Anomalous Order Threshold is not appropriate to promote market integrity or a fair, orderly or transparent

market, and notify ASIC In Writing of the new Anomalous Order Threshold before adopting it for the purposes of Rule 2.1.3. The determination of a new Anomalous Order Threshold must occur as soon as is practicable. This will ensure that the Anomalous Order Thresholds in place under subrule 2.1.1(1) will have regard to furthering market quality, and will not be counter-productive to promoting market integrity, and that those Anomalous Order Thresholds which are not appropriate to promote a fair, orderly or transparent Market are revised within a practicable time period, so that Market Operators are in compliance with Rule 2.1.3.

Subrule 2.1.1(5) provides that a Market Operator must, in determining the Anomalous Order Threshold for an Equity Market Product, take into account at a minimum the price at which an Order substantially deviates from prevailing market conditions and historical trading patterns, and the Tick Size for the relevant Equity Market Product. ASIC considers these to be the primary attributes of an Equity Market Product which are relevant and important in determining appropriate Anomalous Order Thresholds. The objective is to minimise the risk of Anomalous Orders entering Markets, and to enhance the level of confidence in the Market by ensuring the minimum considerations that Market Operators must take into account in determining an Anomalous Order Threshold.

Rule 2.1.2 Requirement to make Anomalous Order Thresholds publicly available

Rule 2.1.2 provides that a Market Operator must make an Anomalous Order Threshold determined under Rule 2.1.1 publicly available before adopting the Anomalous Order Threshold for the purposes of Rule 2.1.3, so that Participants and investors have certainty about what Anomalous Order Thresholds are in operation at the Market Operator level. Certainty around what constitutes an Anomalous Order will give Participants and investors clarity about the integrity of the price of Orders that they see in the Market, and thus confidence that their Transactions will less likely require subsequent cancellation. This may also assist Participants in the determination and calibration of their own filters as required under Part 5.6 of the *ASIC Market Integrity Rules (ASX Market) 2010* and *ASIC Market Integrity Rules (Chi-X Market) 2011*.

Rule 2.1.3 Requirement to prevent Anomalous Orders from entering Markets

Rule 2.1.3 provides that a Market Operator must have in place adequate controls to prevent Anomalous Orders from entering its Market. Anomalous Order Thresholds are intended to enhance the level of confidence in the Australian market and encourage investor participation. The objective is to minimise the risk of Anomalous Orders and trades occurring by ensuring that Market Operators assist in minimising the risk of Anomalous Orders.

Rule 2.1.4 Requirement to have adequate arrangements in relation to Anomalous Order Thresholds

Subrule 2.1.4(1) provides that a Market Operator must have in place adequate arrangements for determining, regularly reviewing, monitoring and amending or adjusting the effectiveness of its Anomalous Order Thresholds, to ensure that the controls are adequate to prevent Anomalous Orders from entering its Market. This will ensure the Anomalous Order Thresholds remain relevant and effective in preventing Anomalous Orders from entering Markets.

Subrule 2.1.4(2) provides that a Market Operator must notify ASIC In Writing of its arrangements for determining an Anomalous Order Threshold not less than 45 days before first adopting an Anomalous Order Threshold for the purposes of Rule 2.1.3 in accordance with those arrangements, and each time it revises those arrangements. The requirement for Market Operators

to notify ASIC of their arrangements for determining an Anomalous Order Threshold and their revisions to these arrangements is so that ASIC may consider the appropriateness of those arrangements in the context of promoting a fair, orderly and transparent Market. Subrule 2.1.4(2) commences on the day after the instrument is registered under the Legislative Instruments Act 2003. However, it is not expected that the required notification is made until closer to 31 October 2011.

Subrule 2.1.4(3) provides that ASIC may notify a Market Operator that its arrangements for determining Anomalous Order Thresholds are not appropriate to promote market integrity or a fair, orderly or transparent Market, as Market Operators' arrangements for determining Anomalous Order Thresholds will be reviewed from time to time as required. ASIC considers that having appropriate arrangements for determining Anomalous Order Thresholds with ASIC approval of those arrangements will give Participants certainty that the Orders that they see in the Market are valid, and not anomalous.

Subrule 2.1.4(4) requires a Market Operator to revise its arrangements for determining an Anomalous Order Threshold if ASIC notifies the Market Operator that its arrangements are not appropriate to promote market integrity or a fair, orderly or transparent Market, and to notify ASIC In Writing of the new arrangements prior to adopting them for the purposes of paragraph 2.1.4(1)(a). The notification of the new arrangements must occur as soon as is practicable. This will ensure that Market Operators' arrangements for determining Anomalous Order Thresholds that are not appropriate to promote market integrity or a fair, orderly or transparent Market are revised within a practicable time period so that Market Operators are in compliance with Rule 2.1.4.

Subrule 2.1.4(5) provides that a Market Operator must record the arrangements required by subrule 2.1.4(1) In Writing. This will assist the Market Operator to compare arrangements over time and will assist ASIC in reviewing a Market Operator's compliance with these Rules.

Part 2.2 Extreme Cancellation Range

The Rules in Part 2.2 prescribe the ranges in which Transactions at certain prices must be cancelled, and what steps must be taken by Market Operators in these instances. While the controls required in Part 2.1 will minimise the risk of Anomalous Order entry into Markets, they will not fully remove the risk of an extreme price movement. This may result in Orders being executed at a price significantly away from the price when the Participant entered the Order. The Rules in this Part are intended to ensure that Market Operators have arrangements in place to cancel Transactions resulting from extreme price movements.

Rule 2.2.1 Extreme Cancellation Range for Equity Market Products

Rule 2.2.1 introduces the concept of an Extreme Cancellation Range and defines it as prices which are greater than or equal to the number of Price Steps set out in the table in Rule 2.2.1, or the percentage amount set out in the table, away from the Reference Price for the Equity Market Product. Providing Participants with certainty about the point at which Transactions will be cancelled should increase investor confidence that the Orders they submit into the Market, if outside the Extreme Cancellation Range, are less likely to be cancelled. This will encourage participation in the Market.

Rule 2.2.2 Obligation on Listing Market to notify Reference Price

Subrule 2.2.2(1) provides that the Listing Market Operator must determine the Reference Price for each Equity Market Product for each Trading Day. It is important that one Reference Price is used by all Market Operators in determining the Extreme Cancellation Range for each Equity Market Product, otherwise there will be less certainty for Participants and investors whether their Transactions are in the Extreme Cancellation Range, requiring cancellation.

Subrule 2.2.2(2) provides that subject to Rule 6.2.1, the Listing Market Operator must notify ASIC and each other Market Operator of the Reference Price it determines for each Equity Market Product for each Trading Day as soon as practicable after first determining the Reference Price, and as soon as practicable after a change to the Reference Price during that Trading Day. This real-time notification will assist Market Operators in determining real-time Extreme Cancellation Ranges for Equity Market Products traded on their Market. In an environment where there are multiple Markets offering trading services in the same product, ASIC considers Market Operators should have consistent arrangements for trade cancellations and cooperate in relation to these arrangements in real-time. This will help to maximise certainty for Participants.

Subrule 2.2.2(3) provides that where Trading Hours for a Market other than the Listing Market commence before the Listing Market notifies the Reference Prices for that Trading Day in accordance with paragraph 2.2.2(2)(a), the Market Operator of the other Market must use the price of the first Transaction executed on the other Market for that Trading Day as the Reference Price until such time as the Listing Market Operator notifies the Reference Price for the Trading Day. This will ensure that all Markets have a Reference Price in operation throughout the Trading Day, regardless of what time the Market opens or closes in relation to the Listing Market.

Subrule 2.2.2(4) provides a definition for a term used in these Rules for:

- "Reference Price".

Rule 2.2.3 Notification of Transactions in Extreme Cancellation Range

Rule 2.2.3 provides that if a Transaction is executed on a Market within the Extreme Cancellation Range for an Equity Market Product, the relevant Market Operator must notify the price and time of the relevant Transaction to ASIC and the other Market Operators which quote that Equity Market Product, notify the Participants which executed the relevant Transaction that it was executed in the Extreme Cancellation Range, and make the price and time of the relevant Transaction publicly available, or, where more than one Transaction was executed in the Extreme Cancellation Range at or around the same time, the range of prices and times at which the Transactions were executed, and the total number of such Transactions. This must occur as soon as practicable after becoming aware that the Transaction was executed.

This promotes communication between ASIC, Market Operators and Participants about the circumstances in which trades have been cancelled, will alert other Market Operators that they should test whether any trades were executed on their Market within the Extreme Cancellation Range and enable Market Operators to form a record of precedent cancellations on other Markets. Transparency about the circumstances when trades will be cancelled will assist in minimising cancellations because Participants and investors will have certainty about the point at which Transactions will be cancelled.

Rule 2.2.4 Market Operator arrangements in relation to Extreme Cancellation Range

Subrule 2.2.4(1) provides that the Listing Market Operator must have adequate arrangements in place to notify ASIC and other Market Operators of the Reference Prices it determines under subrule 2.2.2(2). Ensuring the adequacy of these arrangements will allow for a timely and efficient process for disclosing Reference Prices to Market Operators, minimising confusion and delay and promoting a robust policy for trade cancellations across Markets.

Subrule 2.2.4(2) provides that a Market Operator must have adequate arrangements for identifying when a Transaction is executed on its Market in the Extreme Cancellation Range, notifying ASIC, Market Operators and the relevant Participants when it becomes aware that a Transaction in the Extreme Cancellation Range was executed on its Market, and making publicly available the price and time of a Transaction executed in the Extreme Cancellation Range, and, where applicable, the range of prices and times, and total number, of Transactions executed in the Extreme Cancellation Range at or about the same time, in accordance with Rule 2.2.3. Ensuring the adequacy of these arrangements will allow for a timely and efficient process for communicating instances where Transactions have been cancelled to other Market Operators, minimising confusion and delay and promoting consistency of actions taken under the policy for cancellations across Markets. Timely disclosure of cancellations will also assist Market Operators to closely monitor activity on their own Market during the time that Transactions have been cancelled on another Market, for any unusual market volatility which may give rise to extreme price movements and potential cancellations. This will also instil confidence in Participants and investors that Market Operators will have adequate arrangements for managing extreme price movements.

Part 2.3 Transparent cancellation policies

Rule 2.3.1 Market Operator to have transparent cancellation policies

Subrule 2.3.1(1) provides that a Market Operator must have adequate policies and procedures for the cancellation of Transactions entered into on its Market. Policies about trade cancellations will promote predictability and consistency of actions taken under the policy, promote fairness, provide a timely process and provide a process for disclosing cancellation decisions to the market. Having policies and procedures on file will also assist ASIC in its regular reviews and annual assessments of the Market Operator.

Subrule 2.3.1(2) requires a Market Operator's policies and procedures for the cancellation of Transactions entered into on its Market to include a policy to cancel all Transactions identified within 30 minutes from the time of execution within the Extreme Cancellation Range (subject to the Transaction being identified no later than 10 minutes after the end of Trading Hours); the circumstances in which other Transactions will be cancelled, may be cancelled subject to a discretion or will not be cancelled; provision for the timely cancellation of Transactions and a description of how the Market Operator will communicate with Participants about the cancellation of Transactions.

Having adequate policies and procedures relating to cancellations will ensure the Market Operator's arrangements for cancelling Transactions are effective and relevant, and that the policy is appropriately implemented. Having procedures on file will also assist ASIC in its regular reviews and annual assessments of the Market Operator. In an environment where there are multiple Markets offering trading services in the same product, ASIC considers Market Operators

should have consistent arrangements and cooperate in relation to these arrangements. They should maximise certainty for Participants.

Subrule 2.3.1(3) provides that a Market Operator must comply with the policies and procedures it has in place for the cancellation of Transactions in Equity Market Products entered into on its Market under subrule 2.3.1(1).

Subrule 2.3.1(4) provides that a Market Operator must ensure that the policies and procedures it has in place to comply with subrule 2.3.1(1), and any changes to those policies and procedures, are published to all Participants before those policies and procedures, or those changes, take effect. Transparency about the circumstances when Transactions will be cancelled will assist in minimising cancellations, as Participants will have certainty about the point at which Transactions will be cancelled. Certainty will increase investor confidence and participation in the Market.

CHAPTER 3: BEST EXECUTION

The Rules in Chapter 3 are intended to promote efficiencies by ensuring Orders are directed to the Market offering the best outcome. They are also intended to ensure investors' interests are protected. Where there is more than one Market available for executing Orders, Participants may not necessarily place the interests of their clients above their own.

There are Rules in this chapter requiring Participants to obtain best execution for their clients, to have adequate policies and procedures to ensure this outcome, to disclose to clients that they have this obligation, and to evidence execution performance to show whether best execution has been achieved.

Part 3.1 Best execution obligation

Rule 3.1.1 Best execution obligation – Best outcome

Subrule 3.1.1(1) provides that subject to subrules 3.1.1(3), (4) and (6), a Participant must, when handling and executing an Order on behalf of a client, take reasonable steps to obtain the best outcome for the client. This Subrule is known as the 'best execution obligation'. For a range of reasons (eg; information asymmetries between themselves and their clients), a Participant may have incentives that differ from the client's and, therefore, if permitted, may not send Client Orders to the Market or any other matching mechanism permitted under Part 4.1 that offers the best outcome for the client. The best execution obligation requires clients' interests to take priority. It also promotes efficiencies by ensuring Orders are directed to the Market offering the best outcome. It is also an important investor protection mechanism as it ensures Participants do not place their own interests ahead of those of their clients and that clients receive the best outcome.

Subrule 3.1.1(2) provides that when handling and executing an Order on behalf of a Retail Client, 'best outcome' means the best Total Consideration either paid by, or payable to, the client (where the client has not provided an instruction to the contrary). Participants may interpret best Total Consideration as best price while there are not material difference in execution costs between Markets. For Wholesale Clients who have not provided a Participant with instructions under subrule 3.1.1(4), the 'best outcome' may be price, costs, Total Consideration, speed, likelihood of execution or any other relevant outcome, or any combination of these outcomes.

The rationale for best Total Consideration for Retail Clients is that Retail Clients will typically expect a best Total Consideration outcome and cost is simpler to implement, execute and evidence, whereas Wholesale Clients can have more complex Transactions and requirements, and outcomes other than cost may be more important (eg; speed or certainty of execution).

Subrule 3.1.1(3) provides that where a Retail Client provides a Participant with instructions in relation to the handling and execution of that client's Order and where those instructions are inconsistent with the Participant's obligation to obtain the best Total Consideration under subrule 3.1.1(1), the Participant must take reasonable steps to satisfy the client's instruction. These instructions must be clear, unambiguous, In Writing (or if provided verbally, recorded by the Participant), retained for seven years and must be specific to a single Order (ie; not a standing instruction and not contained within the terms and conditions of a client agreement or any other standard form agreement provided by the Participant to the client). This gives Retail Clients the flexibility to nominate specific instructions in relation to the handling of their Order. For example, a Retail Client may nominate the Market on which it wants its Order executed.

However, by not permitting standing instructions, it protects retail investors by ensuring their Orders are normally executed on the basis of the best Total Consideration.

Subrule 3.1.1(4) provides that where a Wholesale Client provides a Participant with an instruction in relation to the handling and execution of that client's Order and where those instructions are inconsistent with the Participant obtaining the best outcome under subrule 3.1.1(1), the Participant must take reasonable steps to satisfy the Wholesale Client's instructions. These instructions must be clear, unambiguous, In Writing (or if provided verbally, recorded by the Participant) and retained for seven years and must not be contained within the standard terms and conditions of a client agreement provided by the Participant to the client. Unlike Retail Clients, Wholesale Clients may provide standing instructions in addition to Order-by-Order instructions, including the ability to opt-out of the best execution protection.

This gives Wholesale Clients the ability to nominate specific instructions in relation to the handling of their Order. For example, an investor seeking to buy a large parcel of shares may be happy to trade off the best available price for execution certainty and quick execution. The flexibility to opt-out of best execution protection may be appealing to entities such as high-frequency direct electronic access clients, where the Participant is not involved in the client's execution decisions.

Subrule 3.1.1(5) provides that if a standing instruction is given to a Participant under paragraph 3.1.1(4)(c), that instruction must be periodically reviewed. Where the instruction is to opt-out of the best execution protection in subrule 3.1.1(1), it should only be acted on by the Participant for a period of 12 months. This will ensure that the Participant is still able to satisfactorily perform the instruction.

Subrule 3.1.1(6) provides that for the period from the commencement of Rule 3.1.1 to 31 October 2012, a Participant may comply with its best execution obligation by transmitting Orders only to the Listing Market, notwithstanding that the Participant may have been able to obtain the best outcome required by Rule 3.1.1 by transmitting Orders to another Market. This will reduce the burden of connections to multiple Markets.

Rule 3.1.2 No inducement

Subrule 3.1.2(1) provides that, subject to subrule 3.1.2(3), a Participant must not take steps to encourage or induce its clients to provide the instructions referred to in subrules 3.1.1(3) or (4). This means that a Participant must not influence a client into providing instructions or entering into an agreement that limits the client's rights in relation to the handling and execution of that client's Orders.

Subrule 3.1.2(2) provides that a Participant must not take steps to encourage or induce a client to agree that the Participant is not required to disclose the matters referred to in subrules 3.3.1(1) and (2). This means that a Participant must not attempt to influence a client to elect not to receive the Participant's disclosures of its best execution obligation under subrule 3.3.1(1) or summaries of material changes which affect the matters referred to at paragraphs 3.3.1(1)(c) or (d) under subrule 3.3.1(2), which would limit the client's ability to assess whether they are likely to receive best execution, and to make informed decisions in relation to the handling and execution of that client's Orders.

Subrule 3.1.2(3) provides that a Participant who takes steps to inform a Wholesale Client that its standing instructions provided under paragraph 3.1.1(4)(c) are due to expire is not in

contravention of Rule 3.1.2. ASIC considers that a notification about an impending expiry is not in itself an inducement to renew, provided the client retains the discretion as to whether to renew.

Rule 3.1.3 Prohibition on discriminatory commission structure

Rule 3.1.3 provides that a Participant must not charge or propose to charge a client brokerage, commission or other fees for executing an Order on a Market that differs from those charged if the Order was executed on another Market, unless the difference is related to the actual cost of executing Orders on a Market. Participants should not structure or charge their commissions in such a way as to discriminate between Markets.

Part 3.2 Policies and procedures

Rule 3.2.1 Participant must have adequate policies and procedures in place

Subrule 3.2.1(1) provides that a Participant must establish, document and implement adequate policies and procedures to ensure that it complies with its best execution obligation under Rule 3.1.1. Comprehensive and robust internal policies and procedures will help to ensure that Participants are successful in obtaining the best outcome for their clients.

Subrule 3.2.1(2) provides that a Participant's best execution policies and procedures must, without limitation, set out a description of the Order Books and any other place (in reliance on an exception to the pre-trade transparency obligation in subrule 4.1.1(1)) to which the Participant may transmit Client Orders. They should also set out how Client Orders will be handled and executed, including a description of the circumstances in which Orders will be transmitted for matching or execution to an Order Book or elsewhere, the circumstances in which the transmission may be automatic or manual, and the arrangements to monitor the policies, procedures and implementation required by Rule 3.2.1(1) to ensure they continue to be adequate to ensure compliance with subrule 3.1.1(1). Such policies and procedures will ensure Client Orders are handled and executed in a consistent way, and in accordance with Participants' obligations to obtain the best outcome for their clients.

Rule 3.2.2 Participant must comply with its policies and procedures

Rule 3.2.2 provides that a Participant must comply with the policies and procedures required under Rule 3.2.1. This will ensure Client Orders are handled and executed in a consistent way, and in accordance with Participants' obligations to obtain the best outcome for their clients.

Rule 3.2.3 Best execution arrangements – Review

Subrule 3.2.3(1) provides that a Participant must review the policies, procedures and implementation of them as required by Rule 3.2.1 each time there is a material change in circumstances that affects where the Participant may transmit Client Orders, and each time the results of monitoring under paragraph 3.2.1(2)(c) suggest the policies and procedures under subrule 3.2.1(1) are not adequate to ensure compliance with the best execution obligation, for the purpose of ensuring the policies and procedures and implementation of them continue to be adequate to ensure compliance with subrule 3.1.1(1). This will ensure that the policies and procedures and their implementation continue to enable the Participant to deliver the best outcome to its clients. This is particularly important as new Market Operators enter the Market to compete with existing Market Operators. New service offerings are likely to result in different outcomes becoming available to clients.

Subrule 3.2.3(2) provides that a Participant who relies on subrule 3.1.1(6) to transmit Orders to the Listing Market only for the period until 31 October 2012 must, prior to 31 October 2012:

- (a) review the policies and procedures and implementation of them required by Rule 3.2.1 for the purposes of ensuring they will continue to be adequate to ensure compliance with subrule 3.1.1(1) in the period after 31 October 2012; and
- (b) disclose In Writing to its clients any changes to its policies and procedures arising from the review it undertakes under paragraph 3.2.3(2)(a).

This is to ensure that Participants that choose to transmit Orders to the Listing Market only for the period until 31 October 2012 undertake a review of their best execution arrangements before that date, to ensure that they will continue to be adequate to comply with the best execution obligation under Rule 3.1.1.

Part 3.3 Disclosure to clients of best execution obligation

Rule 3.3.1 Disclosure of best execution obligation

Subrule 3.3.1(1) provides that before accepting a Client Order from a client for the first time, a Participant must disclose to the client that the Participant is required to handle and execute Client Orders in accordance with its best execution obligation and what this means for the handling and execution of the Client's Orders; the Order Books and (in reliance on an exception to subrule 4.1.1(1)) any other place to which the Participant may transmit Client Orders and the circumstances in which Orders may be transmitted to these Order Books or places; and that where provided with instructions from a client the Participant must take reasonable steps to satisfy those instructions.

The rationale for this subrule is that disclosure of certain execution arrangements to clients will enable those clients to better assess whether they are likely to receive best execution. It is appropriate that this disclosure is made to all clients that are owed a duty of best execution, so all clients can make this assessment.

Subrule 3.3.1(2) provides that a Participant must disclose a summary of a material change which affects the matters referred to at paragraphs 3.3.1(1)(c) or (d) to clients as soon as practicable after the change occurs. This will give certainty to clients of a Participant's current arrangements for handling Client Orders, and where the Orders may be transmitted, to enable them to assess the quality of their executions based on up-to-date Order handling arrangements.

Subrule 3.3.1(3) provides that a Participant must disclose the matters required by paragraphs 3.3.1(1)(a) to (e) upon receipt of a request from a client within a reasonable time of receiving the request. This will ensure that clients have certainty about their Participant's best execution arrangements at any point in time.

Subrule 3.3.1(4) provides that disclosures made to a client under subrules 3.3.1(1) and (2) must be In Writing and retained by the Participant for a period of seven years. This will assist Participants to assess changes in their policies over time, and ASIC in monitoring the adequacy of a Participant's disclosure of its best execution obligation to its clients.

Subrule 3.3.1(5) provides that the disclosure of a Participant's best execution obligation required under subrule 3.3.1(1) must include the level of detail of information about a Participant's handling and execution arrangements that a client would reasonably require to enable the client to

make an informed decision about whether to instruct the Participant to handle and execute Orders on its behalf. This subrule ensures that clients receive the right level of information to enable them to make an informed decision.

Subrule 3.3.1(6) provides that a Participant is not required to make the disclosures about its best execution obligation under subrules 3.3.1(1) and (2) to Wholesale Clients, if both the Wholesale Client and the Participant agree that the disclosure is not required, and terms of that agreement are clear, unambiguous, In Writing and retained for seven years by the Participant and not part of a standard client agreement or any other standard form agreement provided by the Participant to the client. This gives Wholesale Clients the ability to opt-out of receiving disclosures about best execution if they consider it unnecessary.

Rule 3.3.2 Disclosure of best execution obligation – Existing clients

Subrule 3.3.2(1) provides that a Participant must disclose the matters concerning its best execution obligation as required under paragraphs 3.3.1(1)(a) to (e) to all its existing clients by 31 October 2011. This will ensure that clients have certainty that the Orders they give to their Participant will be subject to a best execution obligation from the commencement of the best execution obligation. However, subrule 3.3.2(1) does not apply to the extent that an existing Wholesale Client has an agreement with a Participant under subrule 3.3.1(6) to not receive the disclosures.

Subrule 3.3.2(2) provides that the disclosure of the matters concerning a Participant's best execution obligation as required by subrule 3.3.2(1) must be In Writing, and be retained by a Participant for a period of seven years. This will assist Participants in assessing changes in their policies over time, and will also assist ASIC in monitoring the adequacy of a Participant's disclosure of its best execution obligation to its clients.

Rule 3.3.2 commences on the day after the instrument is registered under the Legislative Instruments Act 2003. However, it is not expected the required disclosure is provided to existing clients until closer to 31 October 2011.

Part 3.4 Evidencing execution performance

Rule 3.4.1 Demonstrating execution performance and Order transmission by Participants – On request by a client

Subrule 3.4.1(1) provides that subject to Rule 3.4.2, a Participant must demonstrate to a client, on that client's reasonable request, that the Client's Orders have been executed in accordance with the Participant's best execution policies and procedures required under Part 3.2. This is important in enabling clients to assess a Participant's compliance with its best execution obligation.

Subrule 3.4.1(2) provides that a Participant must comply with a client request made under subrule 3.4.1(1) in a reasonable timeframe, to allow timely evaluations of execution quality by clients.

Rule 3.4.2 Demonstrating execution performance and Order transmission by Participants – Evidencing adequacy of arrangements

Rule 3.4.2 provides that a Participant must keep records which allow it to demonstrate its compliance with its policies and procedures required under Part 3.2 and client instructions for seven years. Keeping such documents will enable Participants to more effectively demonstrate

execution performance to clients and will assist Participants in demonstrating that their best execution policies and procedures enable them to consistently deliver the best result for clients.

CHAPTER 4: PRE-TRADE TRANSPARENCY

The Rules in Chapter 4 are intended to promote fairness and efficiency of Markets, and in particular to the liquidity and quality of price formation, by requiring a high level of trading interest to be immediately Pre-Trade Transparent. Pre-trade transparency enables investors to identify trading opportunities, contributing to investor confidence that they will be able to execute a Transaction. It assists listed companies in valuing their assets and their ability to raise further funds, and contributes to Participants' ability to achieve and evidence best execution.

To ensure a high level of trading interest is immediately Pre-Trade Transparent, there are Rules in this Chapter requiring Participants to enter into Pre-Trade Transparent Transactions subject to limited exceptions, Market Operators to make available Pre-Trade Information of a certain quality on a continuous basis, in real-time, and on reasonable commercial terms, and Pre-Trade Transparent Orders to take priority over Hidden Orders.

Part 4.1 Orders must be Pre-Trade Transparent

Rule 4.1.1 Participants to enter into Transactions on Pre-Trade Transparent Order Book, subject to exceptions

Subrule 4.1.1(1) provides that, subject to subrule 4.1.1(2), a Participant must not enter into a Transaction unless the Transaction is entered into by matching of a Pre-Trade Transparent Order on an Order Book. This is known as the 'pre-trade transparency' obligation. This Subrule reflects the importance of pre-trade transparency to the price formation process and a fair and efficient Market, setting a single standard for pre-trade transparency across all Markets.

Subrule 4.1.1(2) lists the exceptions to the requirements of subrule 4.1.1(1). Participants are not required to comply with subrule 4.1.1(1) in relation to:

- (a) Block Trades;
- (b) Large Portfolio Trades;
- (c) Trades At or Within the Spread;
- (d) a Permitted Trade during the Post-Trading Hours Period;
- (e) a Permitted Trade during the Pre-Trading Hours Period; and
- (f) Out of Hours Trades.

The rationale for the Block Trade and Large Portfolio Trade exceptions is to reflect that in some circumstances, pre-trade transparency on large Orders can adversely impact a Market and the investor in terms of price volatility and higher execution costs. For example, large trades can result in significant price movements, where other traders can act on the information before the large trade is filled, resulting in worse prices for the large trade. In this context, having no pre-trade transparency reduces the possibility of information leakage, and therefore lowers the costs of trading for these investors.

The rationale for the remaining exceptions is to preserve the substance of existing ASX exceptions to pre-trade transparency and apply them consistently across all Markets. This will minimise change for the industry. ASIC has introduced a new threshold on the 'Trades At or Within the Spread' and 'Partly Disclosed' exceptions. The threshold is currently set to zero. This will enable ASIC to quickly respond if there is a shift of liquidity from the Pre-Trade Transparent Markets in the short term at a level that would adversely affect the price formation process.

Rule 4.1.2 Market Operator to immediately make available Pre-Trade Information subject to exceptions

Subrule 4.1.2(1) provides that, subject to subrules 4.1.2(2) and 4.1.2(3), a Market Operator must make available Pre-Trade Information for its Market to all persons in this jurisdiction who have entered into an arrangement with the Market Operator to access the Pre-Trade Information on that basis. Subrule 4.1.2(1) also sets out the timing requirements for the availability of the Pre-Trade Information. For all Orders received during Trading Hours for the Market, the Market Operator must make available Pre-Trade Information for its Market Continuously and in Real-Time. For all Orders received outside of Trading Hours for the Market, the Market Operator must make available Pre-Trade Information by no later than the time Trading Hours next resume. Subrule 4.1.2(1) is important because access to timely information is imperative to enable Participants to find liquidity and to fulfil their best execution obligation. Pre-trade transparency is generally regarded as central to both the fairness and efficiency of a Market, and in particular to its liquidity and quality of price formation.

Subrule 4.1.2(2) lists the exceptions to the requirements of subrule 4.1.2(1). Market Operators are not required to comply with subrule 4.1.2(1) if the Order or Orders would result in a Block Trade, a Large Portfolio Trade or a Trade At or Within the Spread. This is because there are some circumstances in relation to large trades where pre-trade transparency can adversely impact a Market and the investor in terms of price volatility and higher execution costs. In this context, having no pre-trade transparency reduces the possibility of information leakage, and therefore lowers the costs of trading for these investors. These exceptions preserve the substance of existing ASX exceptions to pre-trade transparency and apply them consistently across all Markets.

Subrule 4.1.2(3) provides that a Market Operator must take reasonable steps to ensure that the Pre-Trade Information it makes available is and remains complete, accurate and up-to-date at all times. To ensure there is an accurate view of trading activity, it is important that full, accurate, robust and reliable information is available. Pre-trade transparency that is of a high quality is generally regarded as central to both the fairness and efficiency of a Market, and in particular to its liquidity and quality of price formation. This enables investors to identify trading opportunities, contributing to investor confidence that they will be able to execute a trade.

Rule 4.1.3 Market Operator to make available Pre-Trade Information on reasonable commercial terms and on a non-discriminatory basis

Rule 4.1.3 provides that subject to Rule 6.2.1, where a person in this jurisdiction seeks access to Pre-Trade Information for a Market, the Market Operator must make the Pre-Trade Information available on reasonable commercial terms, and on a non-discriminatory basis. This applies to all Market Operators, and will ensure that Market Operators do not discriminate against persons in relation to provision of access to Pre-Trade Information for a Market, and that the provision of that access is on reasonable terms. This Rule does not prevent Market Operators from providing data to persons outside of Australia.

Rule 4.1.4 Pre-Trade Information

Rule 4.1.4 provides a definition for a term used in these Rules for:

- "Pre-Trade Information".

Rule 4.1.5 Partly Disclosed Orders

Subrule 4.1.5(1) provides a definition for a term used in these Rules for:

- "Partly Disclosed Order".

Subrule 4.1.5(2) provides that for the purposes of subrule (1), a Partly Disclosed Order includes an Order on an Order Book which the Operating Rules of a Market:

- (a) require to be of a minimum volume or value; and
- (b) permit to be divided into separate parts so that part of the Order is Disclosed and part of the Order is Hidden, until such time as the part of the Order that is Disclosed is executed, following which the Hidden part of the Order (or the residual amount of the Order if less than the minimum volume or value) are in turn Disclosed until the total Order has been executed.

The rationale for this subrule is to preserve the existing ASX exception to pre-trade transparency for iceberg Orders.

Rule 4.1.6 Application to partly filled Orders

Rule 4.1.6 provides that where an exception referred to in subrule 4.1.1(2) or subrule 4.1.2(2) applies to an Order and that Order is executed in part, the exception ceases to apply unless the remainder of the Order would have been entitled to the exception if it were a separate Order. This is consistent with the way the existing ASX pre-trade transparency exceptions operate, and does not involve a material change from current market practice.

Rule 4.1.7 Priority for Disclosed Orders and Partly Disclosed Orders

Rule 4.1.7 provides that a Market Operator must not permit a Hidden Order on an Order Book of the Market to have Time Priority over a Disclosed Order or Partly Disclosed Order in the same Equity Market Product, at the same price, as the Hidden Order. The rationale for this Rule is that investors who take a risk in displaying their limit Orders and contribute to the price formation process should be rewarded for taking this risk. Priority over Hidden Orders is their reward. This principle is consistent with Principle 3 of the IOSCO October 2010 Consultation report titled 'Issued raised by dark liquidity'.

Part 4.2 Pre-Trade Information – Exceptions

Rule 4.2.1 Exception – Block Trades

Subrule 4.2.1(1) provides a definition for a term used in these Rules for:

- "Block Trade".

Subrule 4.2.1(2) clarifies that for the purposes of paragraph 4.2.1(1)(b), Equity Market Products that differ only in relation to the amount of dividend or distribution payable are in the same class. A Participant may aggregate different classes of an Equity Market Product which differ only in relation to the amount of dividend payable. In order to meet the threshold for the Block Trade exception, one side of the Transaction may include a number of Orders from one or more clients

provided the other side of the Transaction is the Participant as Principal or as agent on behalf of one client.

Rule 4.2.2 Exception – Large Portfolio Trades

Subrule 4.2.2(1) provides a definition for a term used in these Rules for:

- "Large Portfolio Trade".

Subrule 4.2.2(2) clarifies that a Large Portfolio Trade can comprise additional purchases or sales in other classes where the consideration is less than \$200,000, without effect to the classification of the Transaction as a Large Portfolio Trade.

Rule 4.2.3 Exception – Trades At or Within the Spread

Subrule 4.2.3(1) provides a definition for a term used in these Rules for:

- "Trade At or Within the Spread".

Subrule 4.2.3(2) provides that for the purposes of paragraph Rule 4.2.3, the Best Mid-Point and Reference Mid-Point are not limited to standard Price Steps for the Equity Market Product. Given that the exception allows for a trade to occur at the Mid-Point, the Mid-Point may, in some circumstances, be within the Tick Size.

Rule 4.2.4 Exception-Permitted Trades during Post -Trading Hours Period

Rule 4.2.4 provides a definition for a term used in these Rules for:

- "Permitted Trade during the Post-Trading Hours Period".

Rule 4.2.5 Exception-Permitted Trades during Pre-Trading Hours Period

Rule 4.2.5 provides a definition for a term used in these Rules for:

- "Permitted Trade during the Pre-Trading Hours Period".

Rule 4.2.6 Exception – Out of Hours Trade

Rule 4.2.6 provides a definition for a term used in these Rules for:

- "Out of Hours Trade".

Part 4.3 Reporting requirements for Crossing Systems

Rule 1.4.3 defines a Crossing System as an automated service provided by a Participant to its clients which facilitates matching or execution of Client Orders with Orders of the Participant or other clients of the Participant, other than on an Order Book of a Market. It is intended to capture all trading on non-Pre-Trade Transparent systems, irrespective of its purpose or operator..

New technologies and trading strategies, together with the existing exceptions to pre-trade transparency, have resulted in significant growth in the number of these systems domestically and

globally. This has resulted in significant growth in the volume of trading that occurs away from Order Books. There has been some concern about the impact of this shift away from trading on public Pre-Trade Transparent Markets into non-Pre-Trade Transparent matching mechanisms and the impact this is having on the price formation process.

The Rules in this Part enable ASIC to monitor developments with Crossing Systems and to continue to analyse the impact of non-Pre-Trade Transparent matching mechanisms on the price formation process on public Markets. The data collected pursuant to these Rules will inform further consultation on the exceptions to pre-trade transparency in Rule 4.1.1.

Rule 4.3.1 Reporting requirements for Crossing Systems – Crossing System Initial Report

Subrule 4.3.1(1) provides that a Participant which operates, or proposes to operate, a Crossing System in this jurisdiction must provide a Crossing System Initial Report to ASIC which provides details about the nature, operation and users of the Crossing System. ASIC considers this subrule important to enable it to analyse the number and nature of these rapidly growing non-Pre-Trade Transparent Crossing Systems in Australia.

Subrule 4.3.1(2) provides that a Participant who must provide a Crossing System Initial Report to ASIC under Subrule 4.3.1(1) must provide the Crossing System Initial Report by the later of 20 business days from the commencement of Rule 4.3.1 or 20 business days before commencement of its operation of the Crossing System. This will ensure the timely provision of information to ASIC.

Rule 4.3.2 Reporting requirements for Crossing Systems – Crossing System Monthly Report

Rule 4.3.2 provides that a Participant that operates a Crossing System during a calendar month must provide a report to ASIC within 20 business days of the end of the calendar month which sets out any changes to the information reported to ASIC under subrule 4.3.1(1), as well as the Crossing System Reporting Information set out in Rule 4.3.3. ASIC considers this Subrule important to enable it to stay abreast of new developments in non-Pre-Trade Transparent Crossing Systems.

Rule 4.3.3 Crossing System Reporting Information

Rule 4.3.3 sets out the data requirements for monthly Crossing System reporting, and provides a definition for a term used in Rule 4.3.2 for:

- "Crossing System Reporting Information".

This includes the volume, number and value of all Orders received, executed and cancelled through the service in the preceding month, the median Transaction size and the volume, dollar value and number of trades where the Participant acts as Principal. ASIC considers this Subrule important to enable it to analyse the rapid development of non-Pre-Trade Transparent Crossing Systems.

CHAPTER 5: POST-TRADE TRANSPARENCY

The Rules in Chapter 5 are intended to promote fairness and efficiency of Markets, and in particular to the liquidity and quality of price formation by requiring timely market information to be accessible. Disclosure of volumes and prices about completed Transactions enables investors to assess execution quality and Transaction costs.

To ensure timely market information is accessible, there are Rules in this Chapter requiring Participants to report Transactions not done on an Order Book, Market Operators to make available Post-Trade Information of a certain quality on a continuous basis, in real-time and on reasonable commercial terms, and specified trading information free of charge on a delayed basis.

Part 5.1 Transactions must be post-trade transparent

Rule 5.1.1 Participants to report Transactions done other than on an Order Book of a Market

Subrule 5.1.1(1) provides that the Reporting Participant must report Post-Trade Information for a Transaction entered into otherwise than matching of Orders on an Order Book, to a Market Operator. This Rule aims to ensure that all relevant Transactions will be reported to a Market. This Rule also aims to facilitate the consolidation of information because it will limit the sources of information required for consolidation purposes to Market Operators only.

Sub-paragraph 5.1.1(2)(a)(i) provides that the Reporting Participant must report Post-Trade Information for a Transaction referred to in subrule 5.1.1(1) immediately after the Transaction is executed, if the Transaction is matched or executed during Normal Trading Hours, unless exceptions in paragraph 5.1.1(2)(b) apply. Access to timely market information is imperative to enable Participants to find liquidity and to fulfil their best execution obligation. Post-trade transparency is generally regarded as central to both the fairness and efficiency of a Market, and in particular to its liquidity and quality of price formation.

Sub-paragraph 5.1.1(2)(a)(ii) provides that if a Transaction is matched or executed during a period in which there is an auction on the Market to which the Transaction will be reported, the Reporting Participant must report Post-Trade information for a Transaction referred to in subrule 5.1.1(1) immediately after that auction, unless exceptions in paragraph 5.1.1(2)(b) apply. This Rule aims to take into account trading that occurs when there is an auction on the Market to which the Transaction will be reported.

Sub-paragraph 5.1.1(2)(a)(iii) provides that if a Transaction is matched or executed outside of the times referred to in sub-paragraphs 5.1.1(2)(a)(i) and (ii), the Reporting Participant must report Post-Trade information for a Transaction referred to in subrule 5.1.1(1) by no later than 15 minutes before the time Normal Trading Hours next resume, or at such earlier time as is required by the Operating Rules of the Market under which the Reporting Participant determines the Transaction has taken place, unless exceptions in paragraph 5.1.1(2)(b) apply. This Rule aims to take into account trading that occurs outside of normal Trading Hours.

Paragraph 5.1.1(2)(b) provides exceptions to paragraph 5.1.1(2)(a) by providing that if the Transaction is a Large Principal Transaction or a Large Portfolio Trade in which the Participant acts as Principal as either buyer or seller, the Reporting Participant must report Post-Trade Information for the Transaction as soon as practicable after the Reporting Participant is no longer exposed to risk as Principal in connection with the Transaction, and by no later than the time set

out in subrule 5.1.1(3). This Rule aims to take into account circumstances where immediate disclosure of executed trades can have negative market impacts.

Subrule 5.1.1(3) provides that if the Transaction referred to in paragraph 5.1.1(2)(b) is executed before 1.00 pm on a Trading Day, the Reporting Participant must report the Post-Trade Information relating to that Transaction by no later than 15 minutes prior to the next Trading Day, or if the Transaction is executed after 1.00 pm on a Trading Day, the Reporting Participant must report the Post-Trade Information relating to that Transaction by no later than 1.00 pm on the next Trading Day. This Rule aims to take into account circumstances where immediate disclosure of executed trades can have negative market impacts.

Subrule 5.1.1(4) provides that the Reporting Participant must take reasonable steps to ensure that all Post-Trade Information it reports under subrule 5.1.1(2) is and remains complete, accurate and up-to-date. To ensure there is an accurate view of trading activity, it is important that full, accurate, robust and reliable information is available.

Subrule 5.1.1(5) provides where a Participant that enters into more than one Transaction as Principal and in the same class of Equity Market Products, at the same time and for the same price, for the purposes of executing a Buy Order of one client against a Sell Order of another client, the Participant must take reasonable steps to ensure that those Transactions are reported as a single Transaction. This Rule aims to ensure that Transactions are only reported once. This Rule aims to avoid duplication and is necessary to avoid misleading the wider market about the volume of trading.

Rule 5.1.2 Reporting Participant

Subrules 5.1.2(1) and (2) provide definitions for terms used in these Rules for:

- "Reporting Participant"; and
- "Executing Participant".

Subrule 5.1.2(3) provides that if a Participant is deemed to be the Executing Participant under subrule 5.1.2(2), the Participant that is the seller or is acting on behalf of the seller must document the agreement reached with the Participant that is the buyer or is acting on behalf of the buyer. This Subrule aims to ensure that all parties to a Transaction are clear as to which party will report a Transaction, and require only one party to report the Post-Trade Information.

Subrule 5.1.2(4) provides that each Participant that is a party to a Transaction to which subrule 5.1.1(1) applies, must take reasonable steps to determine, prior to the Transaction being executed, which party is the Reporting Participant. This Subrule aims to avoid duplication of reporting and provide clarity about which party should report the Transaction.

Rule 5.1.3 Application to constituent parts of portfolio trade

Rule 5.1.3 provides that where a Participant enters into a single agreement to buy or sell more than one class of Equity Market Products, the Participant may consider each class of Equity Market Products to be bought or sold under the agreement as a separate Transaction for the purposes of determining whether that Transaction is a Large Principal Transaction. This Rule aims to allow Participants to consider each class of Equity Market Products as a separate Transaction for the purposes of determining whether the Transaction is a Large Principal Transaction. This consideration will determine whether the Participant is able to defer publication of the Transaction.

Rule 5.1.4 Market Operator to immediately make available Post-Trade Information

Subrule 5.1.4(1) provides that a Market Operator must make available Post-Trade Information for its Market to all persons in this jurisdiction who have entered into an arrangement with the Market Operator to access the Post-Trade Information on that basis.

Subrule 5.1.4(1) also sets out the timing requirements for display of Post-Trade Information by a Market Operator in relation to Transactions executed or reported to it, depending on the time of the day. If the Post-Trade Information relates to Transactions executed or reported during Trading Hours, subrule 5.1.4(1) requires the Market Operator to display the Post-Trade Information Continuously and in Real-Time. If the Post-Trade Information relates to Transactions executed or reported outside Normal Trading Hours, subrule 5.1.4(1) requires the Market Operator to display the Post-Trade Information before Trading Hours next resume. Subrule 5.1.4(1) is important because access to timely market information is imperative to enable Participants to find liquidity and to fulfil their best execution obligation. Post-trade transparency is generally regarded as central to both the fairness and efficiency of a Market, and in particular to its liquidity and quality of price formation.

Subrule 5.1.4(2) provides that the Market Operator must take reasonable steps to ensure that the information it makes available under subrule 5.1.4(1) is and remains complete, accurate and up-to-date. To ensure there is an accurate view of trading activity, it is important that full, accurate, robust and reliable information is available.

Rule 5.1.5 Market Operator to make available Post-Trade Information on reasonable commercial terms and on a non-discriminatory basis

Rule 5.1.5 provides that, subject to Rule 6.2.1, where a person in this jurisdiction seeks access to Post-Trade Information, the Market Operator must make that Post-Trade Information available on reasonable commercial terms and on a non-discriminatory basis. This applies to all Market Operators, and will ensure that Market Operators do not discriminate against persons in relation to provision of access to Post-Trade Information for a Market, and that the provision of that access is on reasonable terms. This Rule does not prevent Market Operators from providing data to persons outside of Australia.

Rule 5.1.6 Market Operator to make available Trading Information on a website within 20 minutes

Subrule 5.1.6(1) provides that a Market Operator must make available Trading Information for its Market on a website that is publicly accessible, free of charge and on a delayed basis of no more than 20 minutes. Disclosure of volumes and prices about completed trades enables investors to assess execution quality and conduct transaction cost analysis. Requiring Trading Information to be made publicly accessible and free of charge aims to ensure that anyone can access this information.

Subrule 5.1.6(2) provides a definition for a term used in subrule 5.1.6(1) for:

- "Trading Information".

Rule 5.1.7 Post-Trade Information

Rule 5.1.7 provides a definition for a term used in the Rules for:

- "Post-Trade Information".

ASIC is requiring a high degree of post-trade transparency because together with Pre-Trade Information, the integrity of Post-Trade Information is generally regarded as central to both the fairness and efficiency of a Market, and in particular to its liquidity and quality of price formation. Access to reliable, accurate and current market information is imperative to investor confidence in consolidated market data and market integrity. It is therefore imperative that all reported Post-Trade Information is of a high quality.

Part 5.2 Exceptions

Rule 5.2.1 Exceptions – Large Principal Transaction

Subrules 5.2.1(1) and (3) provide definitions for terms used in these Rules for:

- "Large Principal Transaction";
- "Category A Equity Market Products";
- "Category B Equity Market Products";
- "Category C Equity Market Products"; and
- "Category D Equity Market Products".

Subrule 5.2.1(2) provides that for the purposes of a Transaction in which one party to the Transaction is the Participant acting as Principal and the other party to the Transaction is the Participant acting as agent for a client, the client may be a Funds Manager acting on behalf of more than one fund. The Rule aims to give certainty to Participants about the application of this Rule.

Subrule 5.2.1(4) provides that, for the purposes of subrule 5.2.1(3), the notification given by the Listing Market Operator must be published on its website and notified In Writing to other Market Operators and Participants, and will take effect from the day following that notification. This Rule aims to give certainty to Market Operators and Participants about the categorisation of Equity Market Products for the purposes of subrule 5.2.1(3).

Rule 5.2.2 Dealings to which this Chapter does not apply

Rule 5.2.2 provides that Chapter 5 of these Rules does not apply to:

- (a) a Participant transmitting an Order to another Participant for the purposes of the second Participant transmitting the Order to an Order Book or Crossing System;
- (b) primary market actions, including an issue or allotment of, application or subscription for an Equity Market Product, or acceptance of an offer under an Off-Market Bid;
- (c) delivery of an Equity Market Product under a Securities Lending Arrangement; and
- (d) Exchange-Traded Fund Special Trades.

This Rule aims to ensure that only those activities that constitute a Transaction are reported. This is necessary to avoid misleading the wider market about the volume of trading.

CHAPTER 6: MARKET OPERATORS – OTHER OBLIGATIONS

The Rules in Chapter 6 are intended to ensure there is a high degree of coordination across Markets, to ensure that Participants and investors are trading in fair, orderly and transparent Markets, and that Markets operate with integrity. They require Market Operators to coordinate Trading Suspensions for Equity Market Products, share key market information, and use common Participant identifiers, Equity Market Product symbols and standardised Tick Sizes. The Rules also require notification to ASIC of material changes to a Market Operator's procedures. To ensure satisfactory consolidation of data from all Markets, Market Operators must use synchronised clocks.

Part 6.1 Trading Suspensions

Rule 6.1.1 Market Operator to notify of Trading Suspensions

Subrule 6.1.1(1) provides that subject to Rule 6.2.1, a Market Operator must immediately notify other Market Operators each time the Market Operator places an Equity Market Product into a Trading Suspension, and each time the Market Operator lifts or removes a Trading Suspension. In a multimarket environment, it is important that Market Operators coordinate Trading Suspensions in real-time to maintain orderly Markets and business continuity, and take account of market-wide events in real-time to ensure they are synchronised across all Markets (such as a Trading Suspension relating to the release of price-sensitive market information by a listed entity or a natural disaster). Provision of Trading Suspension information will facilitate the delivery of this outcome.

Subrule 6.1.1(2) provides that where a technical problem (including a power outage) prevents the first Market Operator from making available a notification referred to in paragraphs 6.1.1(1)(a) or (b) immediately, the notification must be made to the other Market Operator without delay by another appropriate means. It is important that Market Operators have back-up arrangements to ensure that they can still provide the notifications in paragraphs 6.1.1(1)(a) and (b) in the event of a system outage. This Rule will facilitate cooperation and coordination in responding to such system outages on a Market, which ASIC considers important to upholding the integrity of the market in general.

Rule 6.1.2 Market Operator to place Equity Market Products into a Trading Suspension

It is ASIC's expectation that when one Market Operator suspends trading in an Equity Market Product for a market integrity purpose, all other Market Operators must suspend trading. Subrule 6.1.2(1) provides that a Market Operator that receives a notification under paragraph 6.1.1(1)(a) must immediately place each Equity Market Product the subject of the notification into a Trading Suspension on its Market. ASIC expects that an Equity Market Product will enter a Trading Suspension on all Markets which trade that Equity Market Product in real-time, and simultaneously, or as close to simultaneously as possible. This synchronisation of trading status is a fundamental component of market integrity which applies to all Market Operators and minimises regulatory arbitrage opportunities between Markets.

Subrule 6.1.2(2) provides that a Market Operator that places an Equity Market Product into a Trading Suspension in accordance with subrule 6.1.2(1) may only lift or remove that Trading Suspension after the Market Operator receives a notification under paragraph 6.1.1(1)(b) in relation to the same Equity Market Product. ASIC expects that an Equity Market Product will be lifted from a Trading Suspension on all Markets which trade that Equity Market Product simultaneously, or as close to simultaneously as possible. Synchronisation of trading status is a

fundamental component of market integrity which minimises regulatory arbitrage opportunities between Markets.

Rule 6.1.3 Market Operator to notify of system outages

Rule 6.1.3 requires a Market Operator to notify ASIC, other Market Operators and Participants immediately upon becoming aware of a technical problem (including a power outage) affecting a Market Operator's trading, compliance monitoring and reporting systems that may interfere with the fair, orderly or transparent operation of any Market. This Rule will facilitate cooperation and coordination in responding to a system outage on a Market, which ASIC considers important to upholding the integrity of the market in general. Where a Market relies on information shared by another Market for any aspect of its own trading (eg; reference pricing) and can no longer receive that information because of a system outage on either Market, the impacted functions may need to stop immediately. Market Operators may also need to coordinate other various responses to a system outage on another Market, such as commencing manual information sharing arrangements as a back-up. Requiring Market Operators to notify each other when there is a system outage will assist other Market Operators in ensuring their response does not threaten the fair, orderly and transparent operation of their own Market.

Part 6.2 Information Sharing

Rule 6.2.1 Provision of information by electronic data feed to other Market Operators

Subrule 6.2.1(1) provides that subject to subrules 6.2.1(2) to (5) and Rule 6.1.3, a Market Operator must make available to each other Market Operator, through an electronic data feed and in a machine-readable format, notifications of Reference Prices referred to in subrule 2.2.2(2); Pre-Trade Information referred to in subrule 4.1.2(1); Post-Trade Information referred to in subrule 5.1.4(1); Trading Suspension notifications referred to in Rule 6.1.1; and information about the status of trading in each Equity Market Product. The intent is that such notifications and information could be provided through one or more data feeds. All Market Operators must access data feeds made available by other Market Operators relating to Trading Suspension and Reference Prices for Extreme Cancellation Ranges. The rationale for this subrule is that use of an electronic data feed in a machine readable format (ie; where no human intervention is required to receive or interpret the data) will ensure provision and processing of this information as close to instantaneously as technically possible. This will in turn enable Market Operators to quickly respond to the substance of the information (eg; to put an Equity Market Product into a Trading Suspension).

Subrule 6.2.1(2) provides that, notwithstanding Rules 4.1.3 and 5.1.5, the first Market Operator must make available a data feed referred to in subrule 6.2.1(1) to each other Market Operator either at no cost or for an amount which is no greater than the direct, efficient, incremental costs of making the data feed available. The purpose of the information made available under Rule 6.2.1 is for regulatory purposes, which will promote the integrity of the operation of Markets in a multimarket environment. On this basis, it is appropriate that this information is made available at no or minimal cost. ASIC recognises that there may be some direct incremental costs incurred by a Market Operator in making the information available to other Market Operators. Where these incremental and efficiently incurred costs are directly associated with the actual provision of information for regulatory purposes (eg; to cover the direct market access costs of providing the information that would not otherwise have been incurred without this obligation), Market Operators are entitled to pass on those direct, efficient, incremental costs. Such costs should be capable of being independently verified. Where independent verification is

not available, the information is to be provided at no cost. The terms 'direct', 'efficient' and 'incremental' are commonly understood cost concepts.

Subrule 6.2.1(3) provides that where a Market Operator makes available a data feed referred to in subrule 6.2.1(1), the first Market Operator may make that data feed available on terms that limit the purposes for which the other Market Operator may make use of the data feed to purposes directly related to compliance with the competition Market Integrity Rules and Part 7.2 and Part 7.2A of the Act. The provision of this information will promote the integrity of the operation of Markets in a multimarket environment.

Subrule 6.2.1(4) provides that a Market Operator need only make available a data feed referred to in subrule 6.2.1(1) in accordance with subrule 6.2.1(2) in relation to an Equity Market Product to another Market Operator, within a reasonable time of receiving a notification from that Market Operator under subrule 6.2.1(5) in relation to that Equity Market Product. There needs to be a balance in ensuring that Market Operators that are required to make information available to other Market Operators have time to adapt their systems and processes to reflect the scope of Equity Market Products on which they are required to make information available, while ensuring the information is made available in good time to requesting Market Operators to enable them to commence trading.

Subrule 6.2.1(5) provides that for the purposes of subrule 6.2.1(4), the other Market Operator may give notice to the first Market Operator that the other Market Operator requires a data feed referred to in subrule 6.2.1(1) for a purpose referred to in subrule (3) in relation to an Equity Market Product.

Subrule 6.2.1(6) provides that the Listing Market Operator need only make the notifications about Reference Prices and Trading Suspensions in relation to an Equity Market Product to another Market Operator within a reasonable time of receiving a notification from that Market Operator under subrule 6.2.1(5) in relation to that Equity Market Product. This will ensure that the Listing Market Operator is aware of the scope of products on which it is required to make data feeds, including Reference Prices and Trading Suspensions, available, and will enable the Listing Market Operator to prepare its systems and processes accordingly, while balancing the needs of the requesting Market Operator to access the information in good time.

Subrule 6.2.1(7) provides that for the purposes of subrule 6.2.1(6), a Market Operator other than the Listing Market Operator must notify the Listing Market Operator of the Equity Market Products it intends to quote on its Market. This will ensure that the Listing Market Operator is aware of the scope of Equity Market Products on which it is required to make information available, including on Reference Prices and Trading Suspensions.

Rule 6.2.2 Market Operator must assign unique identifiers to each Participant

Subrule 6.2.2(1) provides that a Market Operator must assign each Participant a unique identifier for the purposes of identifying the Participant in records of Orders, Transactions and other Trading Messages relating to Equity Market Products. This subrule will allow ASIC to identify Participants in the context of its supervision of trading across Markets.

Subrule 6.2.2(2) provides that where a Participant is a Participant of more than one Market, each relevant Market Operator must assign the same identifier to the Particular under subrule 6.2.2(1). Having a shared language of identifiers is a vital element of a fair, orderly and transparent Market which facilitates the consolidation of market data, ease of trading across Markets and cross-market supervision.

Rule 6.2.3 Market Operator must use unique symbols for Equity Market Products

Subrule 6.2.3(1) provides that the Listing Market Operator must assign each Equity Market Product a unique symbol for the purposes of identification in records of Orders, Transactions and other Trading Messages on its Market. It is appropriate that the Listing Market Operator retain the responsibility of assigning the unique identifier, as it already performs this role under its listing function.

Subrule 6.2.3(2) provides that all Market Operators must assign the unique symbol assigned by the Listing Market Operator to the same Equity Market Product for the purposes of identification in records of Orders, Transactions and other Trading Messages on their Market. Having a shared language of identifiers is a vital element of a fair, orderly and transparent Market which facilitates the consolidation of market data, ease of trading across Markets and cross-market supervision.

Part 6.3 Synchronised Clocks

Rule 6.3.1 Market Operators to synchronise clocks

Subrule 6.3.1(1) provides that a Market Operator must synchronise the clock it uses for recording the time and date in its trading, compliance monitoring and reporting systems to within 20 milliseconds of the UTC(AUS) maintained by the NMI. The rationale for this subrule is that in a multimarket environment, investors, Participants and ASIC will require access to consolidated trading information from various Markets and matching mechanisms permitted under Part 4.1. To ensure accurate data analysis, the consolidated view must be, as far as possible, in the chronological sequence in which Orders were entered and trades executed. Synchronising the clocks of Markets will ensure that the timestamps for Orders and trades allow for correct chronological consolidation across all Markets. Market Operators will also need to coordinate certain market-wide regulatory activities (eg; Trading Suspensions) based on consistent and accurate time.

Subrule 6.3.1(2) provides that where a Market Operator relies on another person to provide any aspect of their trading, compliance monitoring or reporting systems that records the date and time, the Market Operator must also take reasonable steps to ensure that person synchronises the clock used for that purpose to within 20 milliseconds of the UTC(AUS) maintained by the NMI. This is to ensure that a Market Operator is always in compliance with subrule 6.3.1, regardless of who operates the clock.

Rule 6.3.2 Market Operator to have arrangements for compliance

Subrule 6.3.2(1) provides that a Market Operator must have adequate arrangements in relation to the clock it uses for recording the time and date in its trading, compliance monitoring and reporting systems, in that it is regularly monitored to ensure it remains synchronised, and when required, the clock is re-set. ASIC expects that each entity required to synchronise its clocks would have a regular checking mechanism which automatically adjusts the time if a variance with the UTC(AUS) maintained by the NMI is detected, to maintain accuracy to within the 20-millisecond allowable tolerance under subrule 6.3.1(1). Subrule 6.3.2(1) requires Market Operators to ensure that their clocks are resynchronised before they fall outside the 20-millisecond allowable tolerance.

Subrule 6.3.2(2) provides that where a Market Operator relies on another person to provide any aspect of their trading, compliance monitoring and reporting systems, the Market Operator must

take reasonable steps to ensure that person has in place arrangements referred to in subrule 6.3.2(1). Market Operators need to ensure that their clocks are resynchronised before they fall outside the 20-millisecond allowable tolerance in order to ensure that they are always in compliance with Rule 6.3.1, regardless of who operates the clock.

Part 6.4 Tick Sizes

Rule 6.4.1 Market Operators to use standard Tick Sizes

Subrule 6.4.1(1) provides that a Market Operator must not accept, display or queue Orders in an Order Book in Tick Sizes less than those outlined. The aim of the subrule is to set a minimum price increment because there are strong incentives for Market Operators to undercut Tick Sizes on competing Markets, to offer execution priority. If Tick Sizes become too narrow, this may discourage investors from placing limit Orders and may reduce liquidity at each price point, which may increase the overall cost of trading. In order to prevent a 'race to the bottom' on Tick Sizes and to protect investors and their confidence in the Market, ASIC considers it important that there not be competition in Tick Sizes and to instead harmonise them across Markets.

Subrule 6.4.1(2) provides certain exemptions to subrule 6.4.1(1) (such as a Block Trade, Large Portfolio Trade or, in the context of Rule 4.2.3, a Transaction at the Reference Mid-Point or at the Best Mid-Point). This allows for large Orders that have Market impact to be done at any price and for Orders at the mid-point of the spread to be done at the true mid-point.

Part 6.5 Material changes to Operating Rule procedures

Rule 6.5.1 Market Operator to notify material changes to Operating Rule Procedures

Subrule 6.5.1(1) requires a Market Operator to notify ASIC of material changes to the procedures made under its Operating Rules within a reasonable time before adopting the change. This will complement processes in the Corporations Act where proposed changes to a Market Operator's licence or its Operating Rules are subject to notification and the Minister's approval or disallowance respectively.

Notifications of material changes to procedures will enable ASIC to consider the possible impact of the proposed changes for the fair, orderly and transparent operation of the Market, to be satisfied that any necessary cooperation arrangements are in place between Market Operators and to consider ASIC's ability to effectively undertake its market surveillance function. For example, ASIC expects to be notified about material changes to procedures relating to Market Operators' fees and incentives for Participants, to operating hours and status of trading (eg; opening and closing procedures including auctions) and to Order types. What a 'reasonable time' is for making a notification to ASIC may vary, based on the nature of the change. For example, changes that impact ASIC's surveillance system may require notification in sufficient time for ASIC to properly consider and make any necessary system changes, whereas other types of changes may require a much shorter time period.

Subrule 6.5.1(2) recognises that there may be circumstances where Market Operators need to amend the written procedures made under their Operating Rules quickly, for example to respond to a market event or natural disaster. In such circumstances, Market Operators are required to notify ASIC as soon as practicable after making the material change.

CHAPTER 7: PARTICIPANTS – OTHER OBLIGATIONS

The Rules in Chapter 7 are intended to ensure that the conduct of Participants contributes to the operation of fair, orderly and transparent Markets.

Part 7.1 Transactions to be under the Operating Rules of a Market Operator

Rule 7.1.1 Transactions to be under the Operating Rules of a Market Operator

Rule 7.1.1 provides that a Participant must not enter into a Transaction in an Equity Market Product other than Under the Rules of a Market, pursuant to certain exceptions for primary market actions and the terms of an Equity Market Product. This is intended to ensure that clients have certainty about the Rules and protections they are transacting under, can access the full compensation entitlements on a Market, and limit the sources of Pre-Trade Information and Post-Trade Information, which will facilitate data consolidation in the market.

Part 7.2 Trading Suspensions

Rule 7.2.1 Prohibition on trading during Trading Suspensions

Rule 7.2.1 provides that in circumstances where that Equity Market Product is in a Trading Suspension on all Markets on which that Equity Market Product is quoted, Participants must not match an Order or execute a Transaction in the relevant Equity Market Product. The Rule is intended to ensure that Participants do not transact off-Order Book during the time of a Trading Suspension. The scope is limited to Trading Suspensions applying to all Markets because they are likely to be market integrity-related. ASIC considers that where a single Market has placed that Equity Market Product in a Trading Suspension but other Markets have not, this is not likely to be for market integrity-related reasons (eg; a system failure on one Market) and should not impact other trading.

Part 7.3 Multiple Markets – Single trade confirmations

Rule 7.3.1 Multiple Markets – Participant may produce single trade confirmation

Rule 7.3.1 provides that if a Participant is required to give a Confirmation under section 1017F of the Act, ASIC Market Integrity Rule (ASX Market) 3.4.1 or ASIC Market Integrity Rule (Chi-X Australia Market) 3.4.1, and enters into a Transaction on more than one Market for the purpose of completing a Client's Order, the Participant may accumulate the Transactions on different Markets which complete the Client Order on a single Confirmation and specify the volume weighted average price, rather than the price per unit for all the Transactions. This is provided the client authorised In Writing the accumulation and price averaging, at or before the time that the Order was placed. A Participant must also provide a statement of all the individual prices of the Equity Market Products which are accumulated and averaged in the Confirmation, if requested by the client.

This Rule ensures that clients are able, on request, to view how a Participant handled and executed a single Order in multiple Transactions across multiple Markets, and at what prices. The Rule gives flexibility to clients to choose to receive a single Confirmation for a single Order, rather than its constituent parts, and compliments existing ASIC Market Integrity Rule (ASX Market) 3.4.2 and ASIC Market Integrity Rule (Chi-X Australia Market) 3.4.2 by contemplating

a multiple Market context. ASIC expects the ability for Participants to provide accumulated Confirmations to reduce the system burden in generating Confirmations.