



Consultation Paper 1/2013 on minor amendment to the Operating Rules: Procedures on:

- the reference to trades at or within the spread (paragraph 3.1 of procedure 4.3)
- the reference to peg offsets (paragraph 2.2 of procedure 4.5);

1 May 2013

Consultation Closes: Monday 20 May 2013

Consultation on the Proposed Amendment of the Chi-X Operating Rules: Procedures

1. Introduction

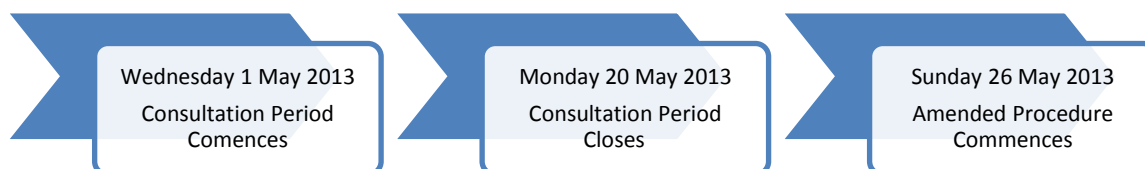
1.1.1 Participants will be aware that amendments to the pre-trade transparency requirements contained in the Market Integrity Rules (Competition in Exchange Markets) (MIRs) will come into force on 26 May 2013¹. The new MIRs will change the permitted categories of off market trade reports and impose new requirements on hidden orders. Participants will also be aware that it was announced in Market Operations Notice 0012/13 that as a result of the amendments to the MIRs, pegged order offsets will not be available from 26 May.

1.1.2 Accordingly, Chi-X is proposing to amend the Operating Rules: Procedures (“Procedures”) in the following ways:

- (a) Amend paragraph 3.1(c) of Procedure 4.3 by deleting the trade report category of “Trades at or within the spread” and replacing it with the new category of “Trade with price improvement”;
- (b) Amend paragraph 2.2 of procedure 4.5 to delete the reference to “peg offset” as Chi-X will no longer offer this attribute on pegged orders.

1.1.3 The proposed amendments are very minor in nature and participants are already aware of the forthcoming changes, which were set out in Market Operations Notice 0012/13. The consultation period is open until **Monday 20 May 2013** and participants are invited to provide comments on or before that date on any aspect of the proposals or any related topic. All submissions will be treated confidentially unless a submitting entity expressly states otherwise. The basis of each of the proposed amendments is outlined in the following section. Versions of the relevant Procedures marked up to indicate the proposed amendments are at **attachment one** and **attachment two**.

1.1.4 It is proposed that the amendments will take effect for the commencement of trading on **Monday 27 May 2013**.



¹ The amendments to the MIRs, in particular that to rule 4.2.3, can be accessed at <http://www.comlaw.gov.au/Details/F2012L02250>.

2. The Proposed Amendments

2.1 The Proposed Amendment - Procedure 4.3: Trade Reporting

2.1.1 Rule 4.3 of the Operating Rules states that:

- (a) a participant may report, to the Chi-X market, an off market transaction that has not already been reported to another licence market; and
- (b) that the report must comply with the Procedures.

2.1.2 Paragraph 2.1. of Procedure 4.3 requires participants to report transaction in accordance with the requirements in the MIRs. Paragraph 3.1 of Procedure 4.3 lists the categories of off market trades that must be specified in the trade report. This list is taken from chapter 4 of the MIRs. As the MIRs coming into force on 26 May have deleted the category of “trades at or within the spread” and introduced a new category of “trade with price improvement”, this procedure must now be updated.

2.1.3 The proposed amendment to procedure 4.3 and rule 4.3 are set out in **attachment one**.

2.2 The proposed Amendment – Procedure 4.5: Orders and matching

2.2.1 In Market Operations Notice 0012/13, Chi-X announced to participants that the pegged order offset functionality would be discontinued on the commencement of the new MIRs. As the inclusive list of order attributes in paragraph 2.2 of Procedure 4.5 specifies “peg offset” as a possible attribute, it is necessary to remove this term from the list.

2.2.2 The proposed amendments to procedure 4.5 and rule 4.5 are reproduced at **attachment two**.

3. Responses

3.1.1 Emailed submissions and any queries concerning this consultation should be directed to:

Michael Somes
Head of Compliance and Regulatory Counsel
+ 61 2 8078 1718
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3.1.2 Posted submissions should be addressed to:

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Head of Compliance and Regulatory Counsel
Chi-X Australia Pty Ltd
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Attachment One

PROPOSED AMENDMENT TO PROCEDURE 4.3 ON TRADE REPORTING

In the following text:

- (i) a dotted line indicates that text appears in the Procedure at this point but is not relevant to the proposed amendment;
- (ii) strikethrough indicates current text that it is proposed be deleted; and
- (iii) underlining indicates text that it is proposed be inserted.

P4.3: Trade Reporting

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2. Reporting Process

- 2.1 The executing **participant** (which is typically the seller under the **Market Integrity Rules (Competition in Exchange Markets)** but not in all cases) is to report the **relevant transaction** in accordance with and at the times specified in the **Market Integrity Rules (Competition in Exchange Markets)**.

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3. Categories of off market trade to be specified on trade report

- 3.1 On each trade report submitted to the **Chi-X market**, **participants** must specify the details required in the **Chi-X** technical specifications, including one of the following pre-trade transparency exceptions under the **Market Integrity Rules (Competition in Exchange Markets)** that is relied upon for the **off market transaction**:
- (a) Block trades;
 - (b) Large portfolio trades;
 - (c) Trades ~~at or within the spread~~ with price improvement;
 - (d) Permitted trades during the post-trading hours period;
 - (e) Permitted trades during pre-trading hours period; and
 - (f) Out of hours trades.

RELEVANT RULE FOR THE PROPOSED AMENDMENT TO PROCEDURE 4.3

The following rule is not being amended but is included to provide context for the above amendment to Procedure 4.3.

4.3 Trade reporting

A **participant** may report to the **Chi-X market** an **off market transaction** that has not already been reported to another licensed market. The report must comply with the **procedures**.

Attachment Two

PROPOSED AMENDMENT TO PROCEDURE 4.5 ON ORDERS AND MATCHING

In the following text:

- (i) a dotted line indicates that text appears in the Procedure at this point but is not relevant to the proposed amendment;
- (ii) strikethrough indicates current text that it is proposed be deleted; and
- (iii) underlining indicates text that it is proposed be inserted.

P4.5: Orders and Matching

2. Order Attributes

2.1 **Orders** submitted to the **Chi-X market** must comply with the technical specifications.....

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2.2 **Orders** submitted to the **Chi-X market** must comply with the technical specifications. Those specifications provide an exhaustive list of optional attributes, which include:

- (a) undisclosed quantity;
- (b) iceberg;
- (c) hidden provided the order value is above \$0;
- (d) minimum executable quantity;
- ~~(e) peg offset;~~
- (e)(f) time in force, including:

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RELEVANT RULE FOR THE PROPOSED AMENDMENT TO PROCEDURE 4.5

The following rule is not being amended but is included to provide context for the above amendment to Procedure 4.5.

4.5 Orders and matching

- (a) A **participant** may submit the following **order** types to the **Chi-X market**:
 - (i) limit **orders**; or

- (ii) pegged **orders** that are referenced to a source specified in the **procedures**.
- (b) An order submitted to the **Chi-X Market**:
 - (i) must have the mandatory attributes specified in the **procedures**; and
 - (ii) may have the optional attributes specified in the **procedures**.
- (c) All orders entered into the **Chi-X market**:
 - (i) are firm and available for execution, subject to **rule 4.6**;
 - (ii) will be **matched** based on price/visibility/time priority, subject to the exceptions set out in the **procedures**; and
 - (iii) must otherwise comply with the **procedures**.
- (d) If a **client** places an **order** with a **participant** and expressly or implicitly instructs the **participant** to only use the **Chi-X market** in relation to the **order**, then the **participant** must make a record of this and retain the record for seven years and produce it to **Chi-X** upon request.
- (e) **Chi-X** may impose restrictions and limits in relation to the entry of **orders** or the execution of **relevant transactions**.
- (f) The **matching** of buy and sell **orders** in the **Chi-X market** results in a contract between the **participants** responsible for the entry of those **orders** for the acquisition and sale of the relevant **financial products** at the price and volume that has been **matched**, subject to these **rules** and the **procedures**.