



Consultation Paper 2/2012 on:

- **the referencing of pegged orders to a national best bid and offer (paragraph 1.1 of procedure 4.5);**
- **minor amendments to paragraph 3.2 of procedure 4.3.**

28 May 2012

Consultation Closes: Friday 22 June 2012

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

1. Introduction

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

- (i) Amend paragraph 1.1 of procedure 4.5 so that pegged orders on the Chi-X Market reference a consolidated national best bid and offer rather than the best bid and offer on the Central Limit Order Book of the ASX’s TradeMatch venue;
- (ii) Make minor amendments to paragraph 3.2 of procedure 4.3 to (a) use consistent terminology in the Procedures when referring to trading phases and (b) clarify that relevant transactions executed after the end of the post-trading administration phase (currently 18:55) must be reported no later than the time specified in the Market Integrity Rules (Competition in Exchange Markets).

1.1.2 The consultation period is open until **Friday 22 June 2012** 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**.

1.1.3 It is proposed that the amendments will take effect from **Monday 2 July 2012**.



2. The Proposed Amendment

2.1 The Proposed Amendment - Procedure 4.5: Orders and Matching

2.1.1 Rule 4.5(a)(ii) of the Operating Rules states that pegged orders submitted to the Chi-X market are referenced to a source specified in the Procedures. Paragraph 1.1 of procedure 4.5 currently states that pegged orders will reference the best bid and offer on the Central Limit Order Book of the ASX's TradeMatch venue.

2.1.2 Earlier this year, Chi-X consulted with participants on the removal of the \$20,000 minimum value requirement on hidden orders (see CP 1/12). ASIC agreed to this proposal being implemented on the basis that, among other things:

- from 4 May 2012 until 30 June 2012, the reference price for fully hidden limit and pegged order types will continue to be the price on ASX's TradeMatch venue;
- from 1 July 2012 until the changes cease to apply, the reference price for fully hidden limit and pegged order types will be the consolidated best bid and offer (also known as the national best bid and offer or NBBO).

2.1.3 The removal of the minimum value requirement on hidden orders has since been implemented and took effect from 4 May 2012 (see Compliance Notice 3/12). Accordingly Chi-X is now consulting on the amendment of paragraph 1.1 of procedure 4.5, so that the reference price for fully hidden limit and pegged order types will be the NBBO. Chi-X does not propose legislating its methodology for calculating the NBBO in the Operating Rules, Procedures or technical specifications issued by Chi-X. The proposed amendment will make clear, however, that the NBBO has been mandated as a reference price by ASIC and that it may be the subject of guidance and /or other requirements issued by ASIC¹.

2.1.4 The proposed amendments to procedure 4.5, together with a copy of rule 4.5, are at **attachment one**.

2.2 The proposed Amendment – Procedure 4.3: Trade Reporting

2.2.1 In August 2011 Chi-X consulted on a change to the hours of its post-trading administration phase. The proposal was to change the end of the post-trading administration phase from 17:50 to 18:55. The changes were subsequently effected by amending the Trading Phase table in paragraph 1.1 of procedure 4.2. Unfortunately a reference to the timing of the end of the post-trading administration phase in paragraph 3.2(b) of procedure 4.3 was not also amended to reflect this change. Therefore paragraph 3.2(b) of procedure 4.3 currently states that transactions executed after 17:50 must be reported no later than the time specified in the Market Integrity Rules (Competition in Exchange Markets). Paragraph 3.2(b) should state that this obligation applies to transactions executed after the end of the post-trading administration phase (currently specified as 18:55 in the Trading Phase table). Accordingly Chi-X now proposes to amend paragraph 3.2(b) by deleting the reference to a time (17:50) and inserting a reference to the end of the post-trading administration phase.

¹ See, for example, FAQ A2 and A11 at <http://www.asic.gov.au/asic/asic.nsf/byheadline/Markets+FAQs+--+pre-trade+transparency?openDocument>.

2.2.2 Chi-X is also proposing to amend paragraph 3.2(a) in the following ways to ensure consistency of terminology throughout procedure 4.2 and 4.3:

- (i) replacing the word “period” with the word “phase”;
- (ii) replacing the term to “Post-Trade” with “Post-Trading”.

2.2.3 The proposed amendments to procedure 4.3 are 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 Affairs
+ 61 2 8078 1718
michael.somes@chi-x.com

3.1.2 Posted submissions should be addressed to:

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

Attachment One

PROPOSED AMENDMENT TO PROCEDURE 4.5 ON ORDERS AND MATCHING

In the following text, strikethrough indicates current text that it is proposed be deleted and double underlining indicates text that it is proposed be inserted.

P4.5: Orders and Matching

1. Pegged Orders

1.1 For the purposes of **rule** 4.5(a)(ii), pegged orders on the **Chi-X market** will reference a national ~~the~~ best bid and offer ~~on the Central Limit Order Book of the ASX's TradeMatch venue~~ (NBBO). The NBBO has been mandated as a reference price by ASIC and may be the subject of guidance and/or other requirements issued by ASIC.

.....

RELEVANT RULES 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**.

Attachment Two

PROPOSED AMENDMENT TO PROCEDURE 4.3 ON TRADE REPORTING

In the following text, strikethrough indicates current text that it is proposed be deleted and double underlining indicates text that it is proposed be inserted.

P4.3: Trade Reporting

.....

3.2 Relevant transactions executed:

- (a) during the Post-Trading Administration ~~period~~phase must, if reported to the **Chi-X market**, be reported immediately on the **business day** on which they are transacted; and
- (b) after ~~17:50~~ the end of the Post-Trading Administration phase must, if reported to the **Chi-X market**, be reported by no later than the time specified in the **Market Integrity Rules (Competition in Exchange Markets)**.