



# ASX Market Management

**Response to consultation on the management  
of the ASX Market**

**CONSULTATION RESPONSE**

**SEPTEMBER 2018**



## Contacts

For general enquiries, please contact:

**Ben Jackson** - General Manager,  
Market Operations  
T 02 9227 0897  
E Ben.Jackson@asx.com.au

**Gary Hobourn** - Senior Economic  
Analyst, Regulatory and Public  
Policy  
T 02 9227 0930  
E Gary.Hobourn@asx.com.au

Media enquiries, please contact:

**Mr Matthew Gibbs**  
Media and Communications  
Executive  
T 02 9227 0218  
E Matthew.Gibbs@asx.com.au

# Contents

<a href="#">Consultation Process</a>	3
<a href="#">Consultation Feedback and ASX responses</a>	4
Trading sessions states during a market disruption.....	4
Cancel orders on disconnect functionality.....	4
Notification of a delay to the market open.....	5
Notification of a resumption to market trading.....	5
Opening Rotation.....	5
Unavailability of a subset of securities for trading.....	6
Order behaviour for ASX Trade code change.....	7

## Consultation Process

On 21 March 2018, ASX released a consultation paper seeking comment from market stakeholders on the management of the ASX Market ([link](#)).

This consultation paper followed on from the ASX and ASIC reviews into the September 2016 outage of the ASX trading platform (ASX Trade). The ASX review identified areas where some enhancements could be made to how the ASX Market is managed during technical issues or outages. Further to this, ASIC identified some areas where ASX could enhance its incident management processes, including the implications of ASX's decisions on stakeholders and their dependencies on ASX's systems and processes ([link](#)).

The consultation paper sought feedback on the following topics:

- the application of session states (e.g. Enquire and Adjust);
- the management of orders during incidents;
- communication with the Market during incidents;
- the current ASX market practice of staggered group openings; and
- action when only a subset of securities are available for trading.

ASX also took the opportunity to consult on the management of orders following a code change for an ASX listed entity.

ASX received 18 responses to the consultation paper. Some follow-up discussions have subsequently taken place with some parties to better understand their views.

A summary of the ASX actions from the consultation paper is below:

Question	ASX action	Time frame to implement
Proposal to move to Adjust during a trading disruption	ASX will move ASX Trade to the Adjust session state during a technical issue or outage once certain conditions are satisfied	Effective September 2018
Proposal to remove the 'Cancel on Disconnect' functionality during the Enquire session state	No change to existing functionality. ASX to investigate options to meet participant requirements.	Update to be provided in Q1 2019.
Proposal to give 30 minutes notice of a delay to market open.	When possible, ASX will provide at least 30 minutes notice should the market open need to be delayed.	Effective September 2018
Proposal to give notification prior to market resumption.	When possible, ASX will give 20 minutes notice prior to Pre-Open and 20 minutes of Pre-Open prior to resumption of trading.	Effective September 2018.
Proposal to remove the staggered opening process.	No change to existing opening process at this time. ASX to further investigate how the opening process can be simplified.	Update to be provided in Q1 2019.
Action when a subset of securities is unavailable.	If an equity subset has an error the ASX will halt the entire market.	Effective September 2018.

	However, each issue will be assessed as to the appropriate action to take.	
Action for active orders following a code change.	ASX to continue transferring orders from the old code to the new code.	No change.

## Consultation Feedback and ASX responses

### Trading sessions states during a market disruption

Nearly all respondents were supportive of the proposal, in the event of a disruption, to move ASX Trade from the Enquire session state to the Adjust session state if ASX determines that it will not be detrimental to the resolution of the technical problem or delay the reopening of the ASX market.

The purpose of the change is to allow participants to modify existing orders (including cancellations) during an outage and prior to the Pre-Open period.

Effective immediately ASX will move ASX Trade to the Adjust session state during a technical issue or outage once the following conditions are satisfied:

- a locked static order book is no longer critical for technical diagnosis and/or recovery of the trading system; and
- allowing order cancellations or modifications will not be detrimental to the timely resolution of the technical or operational issue or compromise the trading system; and
- the proposed recovery schedule offers participants sufficient time to manage existing orders during a period of Adjust prior to the Pre-Open period.

### Cancel orders on disconnect functionality

In the consultation paper ASX proposed that the 'Cancel Orders on Disconnect' functionality be removed from the Enquire session state. This is to ensure the order book is locked whilst an investigation into an operational or technical issues is performed.

The majority of participants that use 'Cancel Orders on Disconnect' responded that they would like to see this functionality present in all ASX session states. Participants that oppose the change noted that having this functionality was an important safety mechanism for the market. It allows a high degree of confidence on what will happen with orders should a disconnect event occur, regardless of the session state of the market or an individual security.

ASX understands the significance a change to the existing functionality could have on participants that use 'Cancel Orders on Disconnect'. However, the key reason for the proposal to remove this functionality remains. That is, the Enquire session state should lock the order book whilst investigation into a possible technical or operational issue is performed. Allowing orders to be inactivated does not achieve this and may be detrimental to the timely resolution of the issue or compromise ASX Trade.

As a result, further investigation will be performed into options that will meet the requirements of participants, as well as provide the optimal state for investigating an operational or technical issue. Solutions to be considered may include a change that will queue cancel messages during the Enquire session state.

At this stage, ASX will not proceed with the proposal to remove 'Cancel Orders on Disconnect' from the Enquire session state. Further information will be provided in due course.

### Notification of a delay to the market open

All respondents were supportive of the proposal for the ASX to notify the market, where possible, by 9:30am should it become aware of a technical issue that that may not be resolved and may require a delay to the normal market opening.

The aim of this is to assist market users by providing more notice to make alternative trading arrangements and to consider their trading options.

Effective immediately, ASX will endeavour to notify the market by 9:30am should it become aware of an issue that may require a delay to the normal market opening. Notification of the delay will be published via the ASX Trade market message facility as well as the ASX System Status webpage ([link](#)).

### Notification of a resumption to market trading

Nearly all respondents were supportive of ASX continuing the existing practice of giving the market 40 minutes notification prior to trading resuming following a market outage. The 40 minute period will generally consist of a minimum of 20 minutes notice prior to transitioning into Pre-Open followed by a 20 minute Pre-Open period.

ASX will continue the established practice outlined in the paragraph above. Notification of market resumption timers will be published via the ASX Trade market message facility as well as the ASX System Status webpage ([link](#)).

### Opening Rotation

The question on removing the staggered open for the equity market and what impact this may have on the market, participant systems and operational processes prompted varied feedback from respondents.

Eight respondents were in favour of removing the staggered open and six respondents would like to see the existing opening process maintained. Four respondents did not give a view either for or against.

The eight respondents in favour of removing the staggered open provided a number of reasons for their position including that a single opening will:

- have a positive impact on the pricing of indices and derivatives priced off those indices and underlying equities;
- reduce volatility and increase liquidity from the open; and
- bring ASX into line with other global exchanges and reduce confusion for international investors.

The feedback noted that some system and process changes would be required by participants, however, it was thought the cost of these would be outweighed by the benefits to the market of moving to a single open.

Furthermore, in the ASIC review of the market outage, feedback was received from some stakeholders that due to changing market dynamics and to reduce complexity, the staggered open should be replaced by a single ASX equity market opening auction. These views were published in the ASIC review into the ASX Trade Outage ([link here](#)).

One respondent to the ASX consultation suggested that the open could occur at a single, randomised, time for all equity groups.

Conversely, the six respondents in favour of keeping the existing staggered open process noted that:

- removing the staggered open would create additional demands on traders looking to manage their orders on the open;
- changing to a single open would disadvantage participants not utilising algorithmic trading; and

- participants would incur a cost due to changing systems and processes.

ASX believes a single opening time reduces technical and operational complexity when resuming the market from an outage event. A single opening time will also simplify operational processes for stakeholders on a daily basis and is the globally accepted method for opening the equity market.

ASX has considered the feedback for and against the staggered open, as well as acknowledging the impact on market practice and the effort required by participants to implement a change. In response ASX will defer any plans to change the opening rotation at this stage. However, ASX will further investigate how the current opening rotation process can be simplified.

ASX will consult further with customers who provided feedback on the removal of the staggered open. Following these discussions ASX will provide an update on the proposed plan, as well as relevant technical details, on how to move to a more efficient market opening process. ASX aims to publish this update by Q1 2019.

### Unavailability of a subset of securities for trading

ASX received a variety of responses to the question on whether it is appropriate to open the ASX market in circumstances where trading is only available for some, but not all, securities because of a technical issue.

In the consultation paper ASX raised two options:

- in particular circumstances the market could remain open while a subset of securities is unavailable; or
- trading to be halted for the entire market should a subset of securities become unavailable.

Five respondents supported the ASX market remaining open where only a subset of securities were unavailable. These submissions raised two main points:

1. Wherever possible ASX should seek to minimise the disruption on securities not impacted by technical issues.
2. If a technical issue occurs on an Exchange Traded Option (ETO) expiry day ASX should endeavour to keep a subset of the market open. In these instances the respondents would like to be given the opportunity, if available, to manage ETO positions even though a set of securities would be unavailable.

Seven respondents supported the entire ASX market being halted should a subset of securities become unavailable. These submissions raised the following points:

1. Concerns were raised about the confusion it may create to investors as to whether the market is open or not.
2. Respondents also noted concerns around the pricing of listed products that derived their value from ASX indices. This could include XJO options as well as Exchange Traded Funds and Warrants.

Taking into account the feedback received, ASX's view remains, that if an equity subset (Group or Partition) fails due to a technical error, the entire ASX equity market should be halted as soon as possible to avoid investor/participant uncertainty and to enable system recovery.

ASX would consider all circumstances of the particular disruption prior to deciding on the appropriate action. For example, should a Group become unavailable for a short period due to an operational issue, as occurred during the September 2016 ASX Trade outage, ASX may consider resolving the issue with the single group of equities and leave the remaining groups in their normal state.

With regards to the concerns raised around a market outage event on an ETO expiry day ASX would like to remind participants of the notice which explains the actions ASX would take in these circumstances ([link](#)).

### Order behaviour for ASX Trade code change

There were wide ranging views submitted on whether ASX should continue with the established process of transferring orders as a result of a change in code of an ASX listed security.

The question asked in the consultation paper was, in the event of a code change for an ASX listed security, should active orders be:

- transferred to the new security and not purged, as per the current process; or
- automatically purged.

There were four respondents who supported the established process. They indicated that their trading and associated systems are able to handle ASX code changes without issue. Another reason given for not changing the established process is that a code change of an ASX listed security is not a change to the basis of quotation, therefore the securities order book should not be purged. Should the order book be purged this would result in investors losing their current queue position and result in orders needing to be re-entered.

There were four respondents whose preference was for the process for code changes to be changed so that orders would be automatically purged. The main reason raised by participants in favour of this option was the fact that when an ASX code change occurs it causes issues with their systems. These issues subsequently cause problems for their customers when managing existing orders.

The remaining 10 respondents did not give a view on this question.

ASX has taken into consideration all responses and at this time will not be making any changes to the existing process. That is, ASX will continue to transfer orders from the old security code to the new security code for ASX-listed code changes.

Through the consultation process, ASX has developed a better understanding of the impact code changes have on our participants and their operations. As such we will contact participants who have raised concerns with the existing process and to assist where possible.