ASX submission to ASIC Consultation 168

10 February 2012

CONTENTS

Executive Summary		3
Table 1:	Detailed Policy Responses	5
Appendix 1:	Australian Market Structure – Comparison of Regulatory Standards for Licensed Lit and Dark Venues and Unlicensed Dark Venues	13
Table 2:	Recommended Amendments to ASIC Market Integrity Rules	14

ASX Contact

To discuss any aspects of this submission, please contact:

Mr Gary Hobourn
Senior Policy Analyst

Phone: +61 2 9227 0930
Email: Gary.Hobourn@asx.com.au

Executive Summary

ASX's submission in response to ASIC's CP 168 identifies two key matters with the potential to impact the role and efficient operation of Australia's capital markets:

1. A regulatory standard should be put in place that safeguards the role of licensed "lit" markets as the main venue for price formation for Australian equities. It is important that ASIC establishes a standard that ensures a balance is struck between competing interests so that the price formation process, which is of fundamental importance to the Australian economy, is not undermined.

- ASX recommends that ASIC puts in place the $50 000 threshold proposed to apply to trading on unlicensed unlit "dark" venues below block special size from the outset rather than wait until after a trigger point has been reached where ASIC would have concerns that there could be a detrimental effect on the price formation process.

- The price improvement benefits claimed by unlicensed unlit venues (which are only accessible to some users) come at the expense of a detrimental effect on price formation and bid/offer spreads in licensed lit markets (which are accessed by all users).

- Maintaining liquidity (limit orders) in lit markets also acts as an important buffer against extreme price movements, such as occurred during the 'flash crash' when significant selling pressure emerged from unlicensed dark pools exacerbating already volatile market conditions.

- ASX believes that Australia's policy makers have the opportunity to, and should, set standards that control the way, and the rate at which, trading in unlicensed dark liquidity develops, in advance of observing changes that raise concerns. Market behaviour can change quickly and setting standards after liquidity has shifted to dark pools will be problematic, potentially more costly for participants, and likely to be ineffective (as evidenced in overseas markets).

- ASX submits that a delay in setting the threshold will mean that it is more difficult to eventually introduce such a threshold, and that it will create regulatory uncertainty. Organisations that have built businesses based on a zero threshold will voice stronger demands for their interests to be given a higher weighting over the "long-term public good". Once data is observed indicating there has been a detrimental impact on price formation it becomes difficult to introduce new standards that aim to change market behaviour.

- Price formation occurs when orders from buyers and sellers interact on a fair basis and in a transparent manner, with the resulting trades acting as robust price signals that facilitate capital formation, resource allocation and valuations. These price signals drive flows of capital between domestic and international investors, and provide a sound basis for managing individual and systemic risks.

- ASX supports ASIC's commitment to ensuring that the price formation process on Australia's public equity markets is not undermined by the unchecked growth of dark liquidity that has occurred in other jurisdictions, particularly Europe. ASX urges Australia's policy makers to act now to prevent this from occurring.

- ASIC's CP 168 sets out the competing interests that need to be balanced when setting the standards for pre-trade transparency. These are "the short-term advantages for a subset of the market of trading in dark venues" and "the long-term public good of contributing to the price formation process, which gives investors confidence and promotes the interests of issuers and the broader community through an efficient secondary market for equities". It is only public "lit" markets – such as those operated by ASX and other markets licensed under the *Corporations Act* - that are required to meet the regulatory standard of fair, orderly and transparent markets – a standard that puts the public interest first.

2. "Flash crash" controls have recently been implemented for the equity market. ASIC should observe how these controls work before introducing further complexity and cost for all market users.

- Order limits, which went live in November 2011, and extreme cancellation range controls, introduced in October, provide protection against a flash crash occurring in the most liquid stocks traded on Australia's equity market. ASX has some suggestions on how these existing controls can be strengthened.

- ASX supports ASIC's proposal to extend "flash crash" controls to the ASX SPI 200, which is the leading equity futures contract tracking the S&P/ASX 200.

ASX's detailed policy responses are set out in Tables 1 and 2. A comparison of regulatory standards for licensed lit and dark venues and unlicensed dark venues is in Appendix 1 to Table 1.

TABLE 1: Detailed Policy Responses

Pre-trade transparency and price formation

$50 000 threshold and other exceptions to block size

ASIC Proposal	ASX Response
Meaningful price improvement (MPI) exception	Regulatory standards, in the form of Market Integrity Rules, should be put in place that safeguard the role of lit markets (which are licensed and overseen by ASIC) as the main venue for price formation for Australian equities. • The substance of the ASIC proposals in CP168 (tiered block thresholds and the introduction of the Meaningful Price Improvement (MPI) exception for off-market trading below block level) offers the opportunity to set a clear, balanced and certain framework for dark pool activity going forward. • Licensed lit markets open to many buyers and sellers, and based on price-time priority, are generally accepted as the most efficient mechanism for price formation in equity markets, as they maximise the interaction of orders from a diverse set of users (retail and institutional investors) and provide fairness of treatment for this wide range of investors. • As fragmentation of markets extends beyond lit venues to unlicensed dark pool (off-market) activity, through the proliferation of 'closed' markets and the growth of the activity conducted away from licensed markets, these accepted principles are diluted. See Appendix 1, for a comparison of key regulatory standards imposed on licensed lit and dark and unlicensed dark venues in Australia. • In many overseas jurisdictions increased dark pool activity has already created greater uncertainty about the efficiency of price formation and the fairness of equity markets. Regulators are now seeking solutions to restrict or reverse the movement of liquidity to dark pools. • Pricing inefficiency can potentially have measurable macroeconomic impacts. Recent RBA research[1] showed that equity market mispricing can have statistically significant but modest impacts on household and business decision making. • Australia is in the fortunate position to be able to evaluate what has happened overseas, look at the specific concerns that have arisen and put in place a policy framework that will moderate the growth of unlicensed dark pools and preserve the efficiency and fairness of licensed markets. • It remains an anomaly that unlicensed dark pool trading - which often mirrors the matching of orders which define a licenced market - has not been accompanied by a move to a more appropriate licensing regime (including requiring transparency of rules and procedures) and regular oversight of these activities. This would not only help to protect the price formation process but would also ensure licenced lit markets and dark pools are both held to appropriate regulatory standards overseen by ASIC and operate as fair, orderly and transparent markets.

[1] Hansen, J: *Does Equity Mispricing Influence Household and Firm Decisions?*, Reserve Bank of Australia Discussion Paper, December 2011

ASIC Proposal	ASX Response
	Suggested modification to the proposed new exemption • ASX agrees the MPI requirement improves the existing 'at-or-between the spread' exception by ensuring that (at a minimum) those who trade off-market are required to obtain meaningfully better pricing than is available in licensed markets. • However, even though the MPI requirement is a better outcome than the existing exception for off-market trading below block size it still needs to be recognised that 'price improvement' has long been delivered by lit markets to all users through the narrowing of bid/offer spreads. The price improvement offered by dark pools is only achieved by a small group of users and comes at the expense of the large number of users of lit markets, through the loss of liquidity and the generation of wider spreads in those lit markets. In this sense, the concept of 'price improvement' is a significantly narrower ideal and could even be illusory (particularly in illiquid stocks) if the general widening in spreads in lit markets exceeds the private price improvement offered in dark pools. • The benchmark when measuring price improvement should be top-of-order book pricing. A volume weighted BBO is too complex to administer and monitor (for participants and market operators) and may be susceptible to manipulation (particularly for illiquid stocks) through the entry of orders away from the NBBO. Other matters • ASX believes pegged order types should not be required to be based on the NBBO, but could be based on a venue's own BBO – if that BBO itself is based on liquid trading. Requiring pegged orders to be based on the NBBO is unwarranted and would result in unnecessary technology changes at this stage. • If fully hidden orders are allowed in lit books then they should not have any time priority at the same price point. It is not appropriate for those order types to be required to meet the MPI criteria.
The minimum size for dark orders subject to the MPI exception should be set at $0 initially, moving to $50,000 should the level of dark trading below block size grow by more than 50%	Order threshold for the MPI exception should be applied immediately to unlicensed dark pools • While the initial growth in unlicensed dark pools has mostly involved proprietary and institutional trading, increasing client order flows (including retail) are now being directed through these dark pools. These dark pools are not regulated to appropriate regulatory standards compared to licenced lit and dark markets: see Appendix 1. • ASX believes a small order threshold for orders on unlicensed dark pools should be applied immediately at $50,000, with the overall impact of the changes to dark orders to be monitored over a period of time for its impact on trading, before considering whether it might be reduced or tiered (say $50,000/$20,000 based on size/liquidity of the security). • The threshold should apply equally to both passive and aggressive orders. In practice, differentiating between the two as a mechanism to determine what orders are required to meet the threshold will, as a practical matter, be difficult. It is only ex-post that it can be determined that the order was immediately executed given the speed at which order changes occur and prices can move. Having a minimum size threshold for aggressive orders may also act to ameliorate the use of the 'pinging' of small orders in dark pools to detect liquidity. • Stakeholders will invest in new technology and develop new trading models to take advantage of an initial zero threshold. If a higher threshold is sought to be imposed later, those models could well become uneconomic. Organisations that have built businesses based on a zero threshold will voice stronger demands for their interests to be given a higher weighting over the "long term public good".

ASIC Proposal	ASX Response
	Aggregation and stub quotes • ASX supports not allowing aggregation of client orders to meet the $50,000 threshold as it would undermine the policy intent. • ASX supports not applying order thresholds to any remaining quantity of a dark order that receives a partial fill. It would be impractical for participants and the benefit to lit venues of stubs being re-routed from unlicensed dark to licensed markets would be marginal.
Alternative Option (minimum resting period for orders at the NBBO)	Option should not be pursued • ASX agrees with ASIC that this option should not be pursued. Any minimum display period would be arbitrary: it neither offers price improvement nor does it achieve ASIC's stated concern to protect the priority of lit orders.
Replace the existing single block trade threshold with a three tiered alternative ($1m, $500,000, and $200,000)	ASX supports tiered block thresholds • ASX has long supported tiering the block thresholds on the basis the policy intent is to approximate the tipping point where orders of a particular size begin to incur significant market impact costs if conducted in a transparent market. • ASX's trading system is configured to handle up to three block tiers so there would be no systems build required but end to end testing would be necessary to ensure internal systems work properly. Level at which tiers should be set • We note the tiers ASIC has chosen are not applied consistently, particularly in the case of the most liquid securities where previous ASX analysis (supported by the University of Sydney) indicated a more appropriate tiering of thresholds would be $2.5m for about the top dozen stocks, then $1m and $500,000 for the further tiers. These tiers are designed to approximate the point where market impact costs are incurred. • While CP168 is silent on client order aggregation (for the purposes of the block thresholds), ASX believes the significant decline in the threshold (over 80% for most stocks) would suggest that client order aggregation (on one side) by participants should no longer be allowed.
Review of other existing pre-trade transparency exceptions previously available under the ASX operating rules	ASX supports ASIC proposals • ASX supports the extension of the existing waivers from pre-trade transparency requirements for a range of order types (Volume Match, ETF special trades, and crossings of derivative/cash combinations). We believe these continue to offer a useful service to the market without raising any associated market integrity concerns. • The other order types identified in CP168 by ASIC for removal are little used and the existing waivers could be removed if participants raise no objections. • ASX supports ASIC confirming that pre-trade transparency obligations do not apply to primary market or stock lending transactions.
Market participants and market operators must have systems and controls in place to verify and validate that trades reported by them or to them, meet the criteria for the relevant pre-trade exception	Verification by participant • Where a dark pool operator (whether a participant or market operator) offers a trade execution service consistent with the exception then ASX agrees the operator's trading system functionality should meet the requirements for ensuring the exception conditions are met.

ASIC Proposal	ASX Response
	Verification by market operator • While ASX believes that the responsibility for submitting valid off-market transactions rests with market participants ASX is willing to play a role in real time 'validation' of off-market trades reported to it as market operator. However, the arrangements need to be simple to build and administer and provide an effective cross-check to the obligation placed on the participant to ensure any off-market trades comply with the exceptions. • The current tolerances built into the existing market operator validation requirements to allow for timing differences have proved to be complex to implement and do not provide an effective cross-check to participant obligations. • Real time validation by a market operator of trades reported to it can impose significant costs (particularly with regard to systems complexity) for limited benefit if the exception conditions are overly complex (for example being required to calculate a volume weighted NBBO) or allow a margin or tolerance for error. A much simpler and more effective system would involve a validation process based on the top of order book NBBO at the time of reporting of the trade.

Extreme Price Movements – Flash Crash Controls

ASIC Proposal	ASX Response
Extreme Price Movements – Equity Market – Flash Crash Controls	ASX suggests simpler solution to meet ASIC objective • ASX supports the objective of volatility controls, however considers the complexity of the CP168 limit up-limit down proposal adds little additional control and imposes significant costs. The existing order limit controls came into effect for ASX on 28 November 2011 for S&P/ASX 200 shares and domestic ETFs. These controls (which prevent orders that are 10% away from a dynamic reference price), combined with a dynamic ECR reference price, should achieve ASIC's volatility control objectives without the cost and complexity of a limit up-limit down control. ASIC's proposal is based on the US/Canadian model where the order limit controls are not utilised. • If ASIC introduces a dynamic ECR reference price, which ASX supports, trades will not execute beyond the ECR. This solution is more cost and time efficient and less complex for ASX and Participants. • Concurrent with introducing the new order limit controls and ECR, ASX also removed the ability for participants to enter unpriced or 'market' orders into the order book. Together, these developments represent a significant enhancement in the level of controls aimed at addressing the risk of a flash crash occurring in Australia. • ASX's recommendation, above, to introduce ASIC's $50,000 limit on internalisation immediately is also a significant tool to address the risks of a flash crash and is further supported by ASX for this reason. The high levels of internalisation in the US have been identified as a key factor in contributing to participant behaviour and the subsequent significant selling pressure in markets during the flash crash. The SEC-CFTC Advisory Committee on emerging regulatory issues, formed after the flash crash, made the following observations: "… the impact of the substantial growth of internalizing and preferencing activity on the incentives to submit priced order flow to public exchange limit order books deserves further examination… Notable in the trading activity of May 6 was the redirection of order flow by internalizing and

ASIC Proposal	ASX Response
	preferencing firms to Exchange markets during the most volatile periods of trading. While these firms provide significant liquidity during normal trading periods, they provided little to none at the peak of volatility."[2] US trading firm, Themis Trading LLC has also made the following observations: "Internalizers cherry picked which orders to "price improve" internally, and which ones to flood the public markets with. As the tape was plunging, buy orders were kept in house, with the internalizers shorting them to the other side, before those orders ever saw the public markets. Sell orders were routed out to the public markets as limit orders, pegged to a slow data feed, and kicked back to the internalizers. There, they were then re-routed out with new limits and kicked back again, in a vicious systematic cycle, contributing even further to data-flooding delay issues."[3] • If ASIC proceeds with its proposed volatility control a detailed technical specification is required from ASIC before ASX can estimate cost but the proposed implementation date does not appear achievable. Clarification of ECR cancellations outside continuous trading is also required. • ASX considers the proposed single source volatility reference price has the potential for market manipulation in the absence of a VWAP component. It is also different from the currently used order entry reference price which adds to the complexity.
Equity Market - Extension of Order Entry Controls (Anomalous Order Threshold)	ASX supports ASIC proposals • ASX agrees order entry controls should extend to the market operators referred to in CP168. • ASX has no objection to extending the ASX order entry controls. However it needs to be recognised that for the more illiquid products, interest rate products and those products not currently covered (including shares outside the S&P/ASX 200 for which ASX has a waiver), it is more difficult to determine a dynamic reference price and meaningful order entry limit. The extension of order entry controls should also have a corresponding dynamic ECR reference price.
Equity Market – Review of current ECR reference price and levels	ASX welcomes a dynamic ECR reference price and review of ECR levels • ASX welcomes this review. ASX requested a dynamic ECR reference price as part of CP 145. The use of a static reference price for ECR cancellation has meant that the Regulatory Halt session state had to be created to impose a trading halt when the dynamic order limit meets the static ECR price which has added complexity and technical and operational overhead. It also means that stocks are placed into trading halts which has caused concern to listed companies. ASIC proposes that for products without volatility controls that the static ECR reference price remains. This can mean legitimate trading results in cancellations which is not ideal. If order limits are extended to other products a dynamic ECR reference price should also be used. ASX has already introduced an ECR for all products in its own cancellation policies. • The review of ECR limits is also welcome as there has been a significant number of enforced cancellations of shares priced under 10 cents as the MIR range is too narrow. Participants have not requested these cancellations which is contrary to the policy of the ECR being a measure of last resort and has hampered legitimate market activity.

[2] http://www.sec.gov/spotlight/sec-cftcjointcommittee/021811-report.pdf
[3] What's Changed Since the Flash Crash? A Themis Trading LLC Analysis, By Sal Arnuk, Joseph Saluzzi and R. T. Leuchtkafer at: http://www.themistrading.com/stories/0000/0028/042511_Analysis.pdf

ASIC Proposal	ASX Response
ASX 24 Market – Flash Crash Controls	ASX suggests simpler solution to meet ASIC objective • ASX agrees that 'flash crash' controls should be extended to the ASX SPI 200 contracts traded on ASX 24. The ASX 24 controls ought to be consistent with the ASX equity controls for ease of understanding and implementation. • There are no order entry limits or volatility controls currently in place for any ASX 24 product so this capacity will need to be developed for ASX Trade24, including a dynamically calculated reference price. These systems changes will require extensive planning and development work by ASX and are unlikely to be deliverable before April 2013, assuming all final technical specifications are known by May 2012. The proposed timetables are not realistic for these proposals. • Order entry controls along with a dynamically determined ECR reference price is both a more appropriate volatility control for the futures market and less complex than both order entry controls and a limit up – limit down control. This will keep the ASX 24 control in line with the equity market controls.

Other Proposals

ASIC Proposal	ASX Response
Market making in the cash equity market	ASX supports equity market making • ASX supports a regulatory regime for genuine market makers in equity markets with contractual obligations to meet minimum bid requirements, which affords them the necessary naked short selling relief. • There are particular benefits in facilitating market making for less liquid mid-cap securities. • ASIC may need to clarify the scope of this proposal. Some products covered by the MIRs already have market making arrangements in place (eg warrants, ETFs). Liquidity provisions • HFT "liquidity providers" are not market makers, because they are not bound by contractual obligations to meet minimum bid requirements designed to enhance market quality. • HFT liquidity providers should not automatically qualify for short selling relief. • HFT liquidity providers have the ability to become "official" market makers by obtaining an AFSL and entering into an appropriate contract with a market operator to meet minimum bid obligations. Their entitlement to short sale relief should be conditional on these conditions being satisfied. • ASIC's recent approach to AFSLs and market making has resulted in some uncertainty and confusion. ASX and market participants generally would welcome clarity. In particular, we note that ASX 24 proprietary trading participants have acted as market makers for many years without ASIC obliging them to hold an AFSL. It is not clear if this policy is to change.

ASIC Proposal	ASX Response
Market operator systems and controls	• ASX would welcome the opportunity to comment on ASIC's proposed new guidance in relation to the existing market operator obligations. • ASX does not support the new MIRs proposed. These are unnecessary. The existing legislative requirements are well understood and form part of the Corporations Act framework.
Synchronised clocks	• ASX is able to meet the proposed synchronisation obligations with minor additional work. • ASX already offers both GPS and PTP timing services to Participants, so no additional work is required to facilitate Participant synchronisation from ASX's co-location facility.
Data to assist ASIC with surveillance, including FIX feed	Need to consider practical consequences • ASX has initiated a project to provide a solution for the provision of real-time trading data to ASIC in FIX format. • The impacts of the FIX requirement on ASX are potentially significant, with major software upgrades needed to provide the capability to capture the required information. • These changes will involve an extensive amount of work by ASX which can only be properly scoped when detailed technical specifications are available. • While ASX is progressing the project and has commenced the vendor selection process ahead of finalisation of the technical specification ASIC's implementation timeframe of mid-2012 is very tight, given the amount of work involved. • The proposed major FIX release every 12 months could concentrate risk and heighten the prospect of a market outage because all major developments would be occurring simultaneously, across all market operators. This will need to be assessed as more detailed information becomes available.
AOPs Remove requirement for Participant AOP confirmation from ASIC and replace with annual attestation	• ASX supports this initiative.
Best Execution New rule to extend Participant best execution obligation to the following products: interest rate securities, options, warrants, and AQUA products	• The effectiveness of imposing best execution obligations on specific products (or asset classes) traded on an exchange but where most of the trading activity currently occurs in OTC markets is questionable.

Comments applicable to all ASIC proposals

ASIC Proposal	ASX Response
IT Changes	• Acknowledging the issue of technology resource contention for both participants and market operators, ASIC should release detailed technical specifications before implementation timetables begin to run and before Market Integrity Rules are finalised. • ASX's observation, based on implementation of the 2011 controls, was that a lack of technical specifications and policy shifts (through Regulatory Guides, FAQs etc) from ASIC, after Market Integrity Rules had been finalised, and while systems development was in train, added to the costs and complexities of implementation. These shifts complicated the processes for implementing the first round of MIRs in relation to NBBO crossings, anomalous order thresholds and the extreme cancellation policies. Significantly, they also led to suboptimal outcomes, for example in relation to the extreme cancellation range, where ASIC's aim of harmonisation across markets has not been achieved to date.

APPENDIX 1: Australian Market Structure – Comparison of Regulatory Standards for Licensed Lit and Dark Venues and Unlicensed Dark Venues

Type of Market	Licensed Lit Venues		Licensed Dark Venues		Unlicensed Dark Venues	
Examples	ASX Trade & PureMatch	Chi-X	ASX CentrePoint	ASX VolumeMatch	LiquidNet	Broker Internalisation (eg UBS Pin, Goldman Sachs Sigma-X, Credit Suisse Crossfinder)
Licence required	Market	Market	Market	Market	AFSL	AFSL
Pre-trade transparency	√	√	X	X	X	X
Post-trade transparency	√	√	√	√	√	√
Minimum order size	X	X	X	√	X	X
Access	Open	Open	Open	Open	Closed – Buy-side	Closed - Clients
Order matching process transparency	√	√	√	√	√	X
ASIC rule approval	√	√	√	√	X	X
ASIC assessment	√	√	√	√	X	X
Transparency of fees	√	√	√	√	X	X

TABLE 2: Recommended amendments to ASIC Market Integrity Rules (Competition)('MIRs')

Subject and Proposed MIR	Issues identified by ASX	ASX recommended amendments to proposed MIRs
Pre-trade transparency and price formation $50,000 threshold and other exemptions to block size		
Minimum size for dark orders subject to the MPI exception 4.1.8 (Pre-Trade Threshold)	• The small order threshold for orders on unlicensed dark pools subject to the MPI exception should be applied immediately.	In these Rules, *Pre-Trade Threshold* means $50,000. See also amendments to rule 4.2.3(1)(b) below.
Application of the threshold to passive orders 4.1.5 (Partly Disclosed Orders)	• The small order threshold should apply equally to both passive and aggressive orders. • Differentiating between the two as a mechanism to determine what orders are required to meet the threshold will, as a practical matter, be difficult.	(1) In these Rules, Partly Disclosed Order means an Order on an Order Book in relation to which: (a) the Operating Rules of the Market require the Pre-Trade Information referred to in the Table in Rule 4.1.4 to be made available, with the exception of: (i) item 4 (volume) but not item 6 (price); or (ii) item 6 (price) but not item 4 (volume); and (b) ~~where the Order is a Passive Order,~~ the consideration for the Order is greater than or equal to the Pre-Trade Threshold. (2) 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 parts 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. (3) A Participant may not aggregate an Order for which the consideration is less than the Pre-Trade Threshold with one or more other Orders for the purposes of meeting the criteria in paragraph (1)(b).

Subject and Proposed MIR	Issues identified by ASX	ASX recommended amendments to proposed MIRs
4.2.3 (Exception – Trades with Price Improvement)	• The small order threshold for orders on unlicensed dark pools subject to the MPI exception should be applied immediately. • See above concerning passive orders. • ASX believes pegged order types should not be required to be based on the NBBO, but could be based on a venue's own BBO – if that BBO itself is based on liquid trading. Requiring pegged orders to be based on the NBBO is unwarranted, and would result in unnecessary technology changes at this stage.	(1) In these Rules, a Transaction is a Trade with Price Improvement where: (a) if the Transaction is entered into other than by matching of an Order on an Order Book, it is executed at a price per Equity Market Product which is: (i) higher than the Best Available Bid and lower than the Best Available Offer by one or more Price Steps; or (ii) at the Best Mid-Point; and (b) if the Transaction is entered into by matching of an Order on an Order Book, it is executed at a price per Equity Market Product which is: (i) higher than the Reference Bid and lower than the Reference Offer by one or more Price Steps; or (ii) at the Reference Mid-Point. (c~~b~~) if the Transaction is entered into other than by matching of an Order on an Order Book, ~~for a transaction that results from a Passive Order~~ the consideration for the Transaction is greater than or equal to the Pre-Trade Threshold; and (d~~c~~) if the Transaction is entered into other than by matching of an Order on an Order Book, the Participant acts: (i) on behalf of both buying and selling clients to that Transaction; or (ii) on behalf of a buying or selling client on one side of that Transaction and as Principal on the other side. (2) For the purposes of this Rule, the Best Mid-Point and Reference Mid-Point are ~~is~~ not limited to standard Price Steps for the Equity Market Product. (3) A Participant may not aggregate an Order for which the consideration is less than the Pre-Trade Threshold with one or more other Orders for the purposes of meeting the criteria in paragraph (1)(c~~b~~).

Subject and Proposed MIR	Issues identified by ASX	ASX recommended amendments to proposed MIRs
Replace the existing single block trade threshold with a three tiered alternative 4.2.1 (Exception – Block Trades)	• A more appropriate threshold for Block Trade tiers would be of the order of $2.5m for about the top dozen stocks. • Client order aggregation (on one side) by participants should no longer be allowed.	(1) In these Rules, *Block Trade* means a Transaction where: (a) the Participant acts: (i) on behalf of both buying and selling clients to that Transaction; or (ii) on behalf of a buying or selling client on one side of that Transaction and as Principal on the other side; (b) the Equity Market Products are issued by the same issuer, in the same class, with the same paid-up value; and (c) the consideration for the Transaction is: (i) $~~1,0~~2,500,000 or more for Tier 1 Equity Market Products; (ii) $~~5~~1,000,000 or more for Tier 2 Equity Market Products; (iii) $5~~2~~00,000 or more for Tier 3 Equity Market Products. (2) For the purposes of paragraph (1)(b), Equity Market Products that differ only in relation to the amount of dividend or distribution payable are in the same class. (3) For the purposes of paragraph (1)(c): (a) Tier 1 Equity Market Products means those Equity Market Products notified by ASIC under these Rules and in accordance with subrule (4); (b) Tier 2 Equity Market Products means those Equity Market Products notified by ASIC under these Rules and in accordance with subrule (4); and (c) Tier 3 Equity Market Products means all Equity Market Products that are not Tier 1 or 2 Equity Market Products. (4) For the purposes of subrule (3), the notification given by ASIC: (a) will be published on its website; and (b) takes effect from 10 Business Days following the notification. (5) A Participant may not aggregate an Order for which the consideration is less than the amounts set out in paragraph 1(c) for the purpose of meeting the criteria in paragraph (1)(c).

Subject and Proposed MIR	Issues identified by ASX	ASX recommended amendments to proposed MIRs
Extreme Price Movements – Flash Crash Controls		
Extreme Price Movements – Equity Market – Flash Crash Controls Part 2.4 (Volatility Controls)	• The order limit control combined with a dynamic ECR reference price (see below) should achieve ASIC's volatility control objectives without the cost and complexity of a limit up-limit down control. • The proposed single source volatility reference price has the potential for market manipulation in the absence of a VWAP component. • ASIC's proposed volatility reference price is different from the currently used order entry reference price which adds complexity. • Note that ASX's suggested $50,000 limit on internalisation (see Rule 4.1.8) is also a significant tool to address the risks of a flash crash.	ASX submits that the proposed new Part 2.4 (Volatility Controls) and related MIR amendments are not required.

<table>
<tr><th>Subject and Proposed MIR</th><th>Issues identified by ASX</th><th>ASX recommended amendments to proposed MIRs</th></tr>
<tr><td>Equity Market – Review of current ECR reference price and levels

2.2.1 (Extreme Cancellation Range for Equity Market Products)</td><td>
ASX recommends use of a dynamic ECR reference price instead of a static reference price.
ASX supports the review of ECR limits as there has been a significant number of enforced cancellations of shares priced under 10 cents as the MIR range is too narrow.</td><td>The Extreme Cancellation Range for an Equity Market Product means all prices which are greater than or equal to:
(a) the number of Price Steps set out in the following Table; or
(b) the percentage amount set out in the following Table,
as the case may be, away from the Reference Price for the Equity Market Product.
<table>
<tr><th>Where Reference Price for Equity Market Product is in the following price range:</th><th>Tick</th><th>Extreme Cancellation Range (Price Steps or percentage away from Reference Price)</th></tr>
<tr><td>0.1–9.9 cents</td><td>0.1 cent</td><td>≥~~2~~61 Price Steps</td></tr>
<tr><td>10–99.5 cents</td><td>0.5 cent</td><td>≥61 Price Steps</td></tr>
<tr><td>100–199.5 cents</td><td>0.5 cent</td><td>≥101 Price Steps</td></tr>
<tr><td>200–499 cents</td><td>1 cent</td><td>≥50.1%</td></tr>
<tr><td>500–699 cents</td><td>1 cent</td><td>≥40.1%</td></tr>
<tr><td>700–999 cents</td><td>1 cent</td><td>≥35.1%</td></tr>
<tr><td>1000–1999 cents</td><td>1 cent</td><td>≥30.1%</td></tr>
<tr><td>2000–4999 cents</td><td>1 cent</td><td>≥25.1%</td></tr>
<tr><td>5000 cents</td><td>1 cent</td><td>≥20.1%</td></tr>
</table></td></tr>
<tr><td colspan="3">Other Proposals</td></tr>
<tr><td>Best Execution

3.1A.1 (Application of Best Execution)</td><td>
Best execution obligations may not be practicable for some products where the bulk of trading currently occurs OTC in wholesale markets.</td><td>This Chapter applies to Financial Products that are AQUA Products, Equity Market Products, Interest Rate Securities, Options Market Contracts and Warrants.

[ASX suggests that ASIC consider if any carve-outs are required where most of the trading occurs on OTC markets.]</td></tr>
</table>

Subject and Proposed MIR	Issues identified by ASX	ASX recommended amendments to proposed MIRs
Terminology		
Definitions 1.4.3 (Definitions) – AQUA Quote Display Board	• ASX informally lodged amendments to the ASX Operating Rules on 25 November 2011 relating to the ASX Managed Fund Service, which included changing the name 'AQUA Quote Display Board' to 'ASX Price Display'. We request that this change be reflected in the proposed Market Integrity Rules.	*AQUA Price Display~~Quote Display Board~~* means the facility provided by the Listing Market Operator for AQUA Product Issuers and Participants to advertise their interest in acquiring or disposing of AQUA Products. Also consequential amendments eg ETF Security definition
1.4.3 (Definitions) – Passive Order	• The distinction between passive and aggressive orders is not required (see comments on Rules 4.1.5 and 4.2.3 above). Therefore no definition of Passive Order is required.	Omit 'Passive Order'.
1.4.3 (Definitions) – Reference Bid, Reference Mid-Point, Reference Offer	• See the comments in relation to Rule 4.2.3 above	Retain the definitions of 'Reference Bid', 'Reference Mid-Point' and 'Reference Offer'