

Facilitating Equity Sector Futures Roll Business on ASX Trade 24

CONSULTATION PAPER

DECEMBER 2015



Invitation to comment

ASX is seeking submissions on Equity Sector Futures trading with respect to roll business activity on ASX Trade 24.

Submissions should be sent to:

E: regulatorypolicy@asx.com.au

Office of General Counsel ASX Limited
20 Bridge Street Sydney NSW 2000

Attention: Dawn Lay

ASX prefers to receive submissions in electronic form. Submissions not marked as 'confidential' will be made publicly available on ASX's website.

If you would like your submission, or any part of it, to be treated as 'confidential', please indicate this clearly in your submission. ASX is available to meet with interested parties for bilateral discussions on this consultation paper.

Contacts

For general enquiries, please contact:

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Introduction

Background

ASX's Equity Sector futures contracts, covering A-REITS, Resources and Financials, are the "little cousins" of the flagship Equity Futures product – the SPI 200™. The Equity Sector futures contracts have an appointed market maker providing continuous 2-way bids and offers during the day.

Current off-market trading volume in Equity Sector Futures contracts consist of:

- A REITS over 90% currently traded via Block Trading
- Resources and Financials currently less than 50% traded via Block Trading

ASX is aiming to enhance trading and to bring new clients to the market by promoting on-market trades in the Equity Sector futures contracts rather than through the block trade facility.

A number of trading participants have approached ASX requesting a review of the roll market structure for the equity sector futures contracts to create an environment that will facilitate greater trading in the products and reduce the costs associated with rolling these contracts at expiry. Participants identified some specific options that should be considered through this process, including changing the tick size of the contracts in the last week before an expiry so as to allow more granular pricing or to permit block trading of spreads over the roll period.

The primary focus of these participants was on the A-REIT futures contract which moved from the ASX Trade platform to ASX Trade24. This transition involved significant changes to the market as different operational rules apply between these platforms. In short when the A-REIT futures contract traded on ASX Trade participants were allowed to transact "roll business" using a block trade reporting mechanism. When the contract moved to ASX Trade24, the equivalent block trade mechanism was not permitted under the ASX 24 Operating Rules or the ASIC ASX 24 Market Integrity Rules (refer to Appendix).

On 11 September 2015, in response to an application from ASX, ASIC provided a limited "No action position" permitting participants to continue to use the block trade facility to execute roll business in the A-REIT futures contract during the September 2015 and December 2015 expiries "to avoid any risk of market disorderliness"¹.

It is the intention of the ASX to keep the ASX 24 Operating Rules consistent for roll business across all ASX 24 futures products.

¹ See http://www.asic.gov.au/about-asic/corporate-publications/newsletters/market-integrity-update/market-integrity-update-issue-64-september-2015/#sp_asx_200.



Options

Trading Participants have identified a number of options that could be used to facilitate roll business in the equity sector futures contracts although there is no consensus about what is the preferred option:

1. Change the tick size of the contracts from 1pt to 0.1pt in the last week of an expiry to allow more granular pricing in both the outright contracts and spread markets;
2. Introduce a change to ASX 24 Operating Rule Procedure 4820.13 to allow block trade reporting for roll business on A REIT futures contracts. This would also require a change to the *ASIC Market Integrity Rules (ASX 24 Market) 2010*. Under this option, the ASX would approach ASIC to propose such a change.
3. Allow a combination of the above methods for different Equity Sector futures contracts.

Please note: Option 3 only considers a change to the A-REIT futures contract and is based on the current off-market Block trade volume percentage occurring in this contract versus the other sector futures.

Each one of the options supplied above contain pros and cons that centre around a number of themes:

- Pricing granularity
- Pricing certainty
- Ease of process
- Fairness
- Consistency across execution methodology for Sector futures

ASX would also like to hear views on the current pre-negotiation rules ([ASX Operating Rule Procedure 4401](#)) that are applicable to sector futures contracts and whether any changes should be made in order to enhance trading conditions.



ASX's Preferred Proposal

ASX is aiming to enhance trading and to bring new clients to the market by promoting more on-market trades in the Equity Sector futures contracts.

With this aim in mind ASX believes that the best option is to introduce a change to the equity sector futures spread market by changing the tick size from 1pt to 0.1pt. This change would enable more granular and accurate pricing during the roll period for all sector futures contracts. ASX believes this option would also be the fairest to a wide range of market users and the preferred solution to attracting new users to the product. This option also retains consistency across all sector futures with respect to trade execution rules.

However, based on preliminary feedback from some participants ASX understands that the above solution will not provide the same price and execution certainty that the existing block trade facility offers. It is thought that this particular proposal falls down on obtaining pricing certainty for users and ASX would like to understand if this uncertainty will have any consequences on the roll price of the futures contracts.

Invitation to comment and make a submission

ASX invites submissions from market users on ASX's proposal and the options contained in this paper or any alternative approaches respondents may wish to raise. Your views are important in assisting ASX to best meet the requirements of all stakeholders. Where possible, ASX will also be arranging a series of consultation meetings to explore the issues in more depth. If you, or your company, would like to discuss this topic further please refer to the contacts listed above.

We are interested in hearing your views on the preferred process for dealing with changes to the current methodology, and identifying the impact of the various options on the broad range of affected stakeholders. This would include the direct system costs and other costs of particular choices for Trading Participants and their customers. Respondents are asked to provide estimates of direct and compliance cost impacts associated with the options.

ASX would ideally like all responses to be submitted by 29 January 2016.

Comments:



Appendix

ASX 24 Operating Rule Procedure 4820.13

Aggregation of Orders and Roll Business

As per ASIC Market Integrity Rules, Trading Participants cannot aggregate smaller orders to make up a Block Trade Order, thereby satisfying the Minimum Volume Threshold. Block Trade Orders may only be aggregated where each individual order meets or exceeds the Minimum Volume Threshold. This does not preclude an order from one client being allocated to several accounts in volumes less than the Minimum Volume Threshold. For instance, a fund manager may place an order that satisfies the minimum volume threshold and is executed as a Block Trade, but it may then be allocated to several sub-accounts under the fund manager's control. It is prohibited to use the Block Trade Facility to execute Roll business. For strip trading involving the spot month is not deemed to be Roll business.

ASIC ASX 24 Market Integrity Rules Part 3.4 Trading principles for Block Trades

3.4.2 Prohibitions

(2) Market Participants must not use the Block Trade Facility to execute Roll Business.

Maximum penalty: \$100,000

