REGULATION IMPACT STATEMENT

Competition in exchange markets

April 2011

About this Regulation Impact Statement

This Regulation Impact Statement (RIS) addresses ASIC’s proposals to create a new regulatory framework to mitigate the regulatory issues resulting from the introduction of competition in exchange markets for trading in equity market products.

What this Regulation Impact Statement is about

1 This Regulation Impact Statement (RIS) addresses ASIC's proposals to introduce a new regulatory framework to mitigate any potential risks relating to market integrity, quality and regulatory issues arising from the introduction of competition in exchange markets.

2 The proposals apply to Australian market licensees that offer trading services in shares, interests in managed investment schemes (including exchange-traded funds), rights to acquire shares or interests in managed investment schemes under a rights issue, and CHESS Depository Interests (CDIs) admitted to quotation on the ASX and participants of such markets.

3 In developing our final position, we have considered the regulatory and financial impact of our proposals. We are aiming to strike an appropriate balance between:

- maintaining, facilitating and improving the performance of the financial system and entities in it;
- promoting confident and informed participation by investors and consumers in the financial system; and
- administering the law effectively and with minimal procedural requirements.

4 This RIS sets out our assessment of the regulatory and financial impacts of our proposed policy and our achievement of this balance. It deals with:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Contents

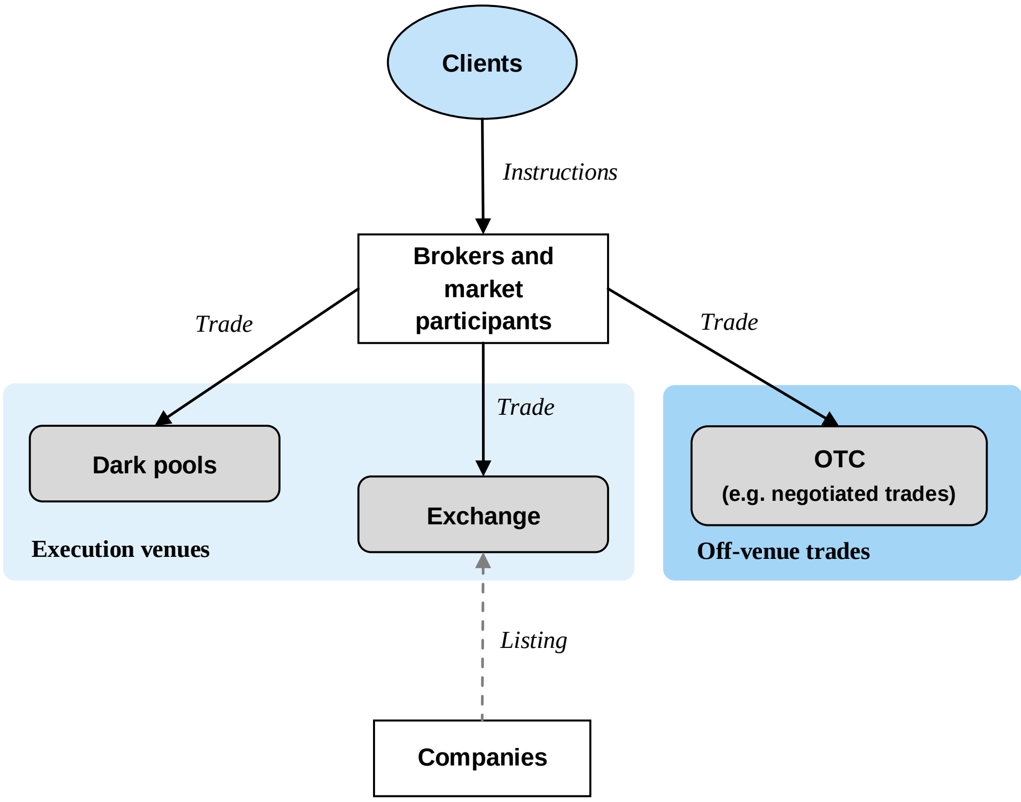
A Introduction

Background

Purpose of exchange markets

5 Exchange markets are a type of execution venue[1] that enables trading in listed products, including via a 'central limit order book' (CLOB). Many exchange markets also offer listing services for companies. They play an important role in business capital formation and household allocation of savings, as do other financial markets, intermediation services and internal finance. Trading also occurs in dark pools[2] and on over-the-counter (OTC) markets:[3] see Figure 1.

Figure 1: Australian equity market



[1] An execution venue is a facility, service or location on or through which transactions in equity market products are executed and includes each individual order book maintained by a market operator, a crossing system and a participant executing a client order against its own inventory otherwise than on or through an order book or crossing system.
[2] These can be categorised as non-pre-trade transparent electronically accessible pools of liquidity.
[3] Over-the-counter markets are bilateral negotiated transactions.

[Figure 1 illustrates some of the key parties in the Australian equity market and their roles. Clients give instructions to brokers and market participants. Brokers and market participants then execute the trade via an execution venue (which are exchanges and dark pools) or execute the trade as an off-venue trade as an over-the-counter trade (for example, as a negotiated trade). Companies list on exchanges.]

6 We view the principal function of exchange markets as offering a cost-effective mechanism for companies to raise funds[4] and a venue for fair, orderly and transparent trading of listed securities after they are issued.

7 These fundraising and trading functions are most successfully achieved by exchange markets that embody certain characteristics. Successful exchange markets minimise transaction costs and the costs of search and verification of title, and minimise inherent information asymmetries between issuers, investors and their agents that can provoke distrust and a reluctance to participate. For instance, investors and market participants fear a lack of information and, especially, the risk of being traded against by someone with superior information or with a manipulative intent.

8 A deep and liquid exchange market creates opportunities to raise funds for listed companies and opportunities to invest for savers. It also embodies active and efficient price formation through trading, quickly pricing in changing news and perceptions and assessments of risk. The structure and performance of the market matters not only for the quality of price formation, but also for ongoing access to fundraising for companies and for portfolio choices for investors.

9 Deep and liquid markets in securities listed on exchange markets—with high-quality, efficient and transparent price formation, readily available and affordable data to inform market participants, and strong fundraising capacity and low transaction costs—are thus a public good, which needs to be protected as the market changes, including as a result of competition.

Current Australian equity market structure

10 The Australian equity market is currently dominated by the Australian Securities Exchange (ASX). It is currently the main operator of an exchange market for trading in securities issued by ASX-listed entities.[5]

[4] Not all exchange markets or execution venues offer primary listings services. For example, ASX, Asia Pacific Exchange and the National Stock Exchange of Australia provide this service, but Chi-X does not intend to provide this service.
[5] There are currently four other licensed market operators that list equities—however, these exchange markets only cater for small or micro-capitalisation companies. The proposals associated with this RIS focus only on the equity exchange market structure and competition for trading in securities issued by ASX-listed entities.

11 Further information on the structure of the Australian equity market is contained in our economic report on Australian equity market structure, Report 215 *Australian equity market structure* (REP 215).

Government's policy to introduce competition for exchange market services

12 On 31 March 2010, the Australian Government announced its support for competition between exchange markets for trading in ASX-listed products in Australia and its in-principle support for granting an Australian market licence (market licence) to Chi-X Australia Pty Limited (Chi-X).[6, 7] Chi-X intends to offer trading services in products in the S&P/ASX 200 Index and will compete directly with ASX in respect of these securities.

13 The Government announced that competition is an important step in ensuring that Australia's financial markets are innovative and efficient, as well as for the development of Australia as a leading financial centre. The decision was commensurate with Recommendation 4.5 of the Johnson Report,[8] which encourages competitive, efficient and innovative equity markets.

14 The Government has confirmed that competition is still its policy subject to an appropriate regulatory framework being put in place by ASIC.

Benefits of competition for exchange market services

15 Based on the experience overseas, the introduction of competing exchange markets is expected to result in:

(a) more innovation in products and services, more choice in trading venues, and maintained or improved market quality (including market depth, liquidity and price formation). This should attract new players, trading strategies and liquidity;

(b) a faster and more efficient trading experience resulting from developments in technology; and

(c) a reduction in the overall costs of execution, due to tighter spreads and lower transaction costs.

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[6] The Hon Chris Bowen MP, Minister for Financial Services, Superannuation and Corporate Law, Media Release No. 032, *Government announces competition in financial markets*, 31 March 2010, http://mfsscl.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/032.htm&paragraphsID=003&min=ceba&Year=&DocType=0.
[7] The *Corporations Act 2001* (Corporations Act) requires that a person must only operate a financial market in Australia if they have a market licence or are exempt from the requirement to hold a market licence.
[8] Australian Financial Centre Forum, *Australia as a financial centre: Building on our strengths* (Johnson Report), November 2009, www.treasury.gov.au/afcf/content/final_report.asp.

16 Further information on the potential benefits of competition is contained in REP 215.

ASIC's approach to responding to policy of introducing competition

17 On 4 November 2010, we released a consultation package on enhancing regulation of Australia's equity markets, including the introduction of competition between exchange markets. The consultation package included a detailed consultation paper, Consultation Paper 145 *Australian equity market structure: Proposals* (CP 145), draft market integrity rules and REP 215.

18 The consultation package dealt with two sets of issues:

(a) those that relate to market competition; and

(b) those that relate to recent market developments.[9]

19 At this stage, we are proposing a regulatory framework to address issues raised by the introduction of competition in market services only. We intend to implement our proposed new regulatory framework by making market integrity rules.[10,11] These would supplement the existing ASIC Market Integrity Rules (ASX Market) 2010, which came into effect on 1 August 2010, and would supplement any market integrity rules created for new market operators such as Chi-X.

20 The proposed market integrity rules that are the subject of this RIS do not address issues arising from market developments. We intend to further consult on a number of issues related to market developments,[12] with the aim of settling additional market integrity rules in early 2012 (with sufficient lead time for transition and implementation). These proposed market integrity rules will be the subject of an additional RIS in due course.

International precedents

21 We have looked closely at arrangements overseas to better understand the impact competition has had in those markets and to learn from experiences of other regulators in terms of developing an appropriate framework to deal with issues arising from competition.

[9] Equity markets globally are undergoing considerable change. They are now overwhelmingly electronic and automated. Technology has increased the speed, capacity, automation and sophistication of trading for market operators and market participants. It has also opened the door for new types of market participants with innovative trading strategies. High-speed traders are becoming more prevalent. These trends are driving market structure, irrespective of whether competition between market operators is introduced. Further information on recent market developments is contained in REP 215.

[10] This is a rule-making power that ASIC received as a result of its new supervisory function under the *Corporations Amendment (Financial Market Supervision) Act 2010*.

[11] Some of the issues would require regulations to be made to broaden the scope of ASIC's power to make market integrity rules.

[12] These issues include automated electronic trading, direct electronic access, volatility controls for extreme price movements, best execution reporting, enhancements to data for ASIC surveillance and exceptions to pre-trade transparency.

22 Regulatory reforms in the United States (US), Canada and Europe[13] have resulted in substantial competition for trading services in these markets. There has been a proliferation of new execution venues. In the US there are around 50 execution venues, in Europe over 100 venues and in Canada nine venues. In Europe and the US many of these venues are dark pools. The growth in new venues and dark trading has resulted in significant fragmentation of order flow. Table 1 provides a summary of lessons learnt from overseas experience.

Table 1: Lessons from overseas experience with competing exchange markets

Issue	Lesson from overseas experience
Fragmentation of liquidity	Too much fragmentation and non-pre-trade transparent trading can reduce the quality of price formation on public pre-trade transparent markets. It is important to incentivise for trading in pre-trade transparent execution venues and to limit the volume of dark trading.
Fragmentation of prices	Market forces will not necessarily lead to consolidation of prices across all markets. At a minimum, investors and listed companies should be able to access best bid and ask prices for each pre-trade transparent market and all post-trade information at reasonable cost, and regulators should play a role in delivering this outcome.
Best execution	With more choice and incentives for order flow, it is important to have a clearly defined best execution rule, which ensures client interests are protected. Investors must have sufficient access to information to allow them to monitor their broker's execution performance, and regulators must be able to monitor and enforce the best execution rules.
Consistent treatment	It is important that there is equivalent treatment for parties undertaking similar activities. This will limit opportunities for regulatory arbitrage.
Surveillance and risk controls	Surveillance across multiple markets increases the complexity of monitoring. Regulators need sufficient information, including about the origin of orders and trades. Standardised market integrity risk controls, such as circuit breakers, and cooperation are essential.
Reduction in trading fees	The growth in new execution venues has led to significant competition for order flow overseas, resulting in aggressive fee reductions for trading. New pricing models have been implemented to attract different types of order flows and there are frequent fee changes and fee 'specials' aimed at attracting order flow.

[13] Regulation National Market System (Reg NMS) and Regulation Alternative Trading System (Reg ATS) in the US, the ATS regime in Canada and Markets in Financial Instruments Directive (MiFID) in Europe.

Issue	Lesson from overseas experience
Significant reductions in bid–ask spreads	In Canada, bid–ask spreads fell from 15 basis points (bps) in early 2008—when competition really began—to 10 bps by mid-2010.[14] These benefits started with the larger stocks and are flowing through to smaller stocks. In the US, 'reduced transaction costs have enabled a mutual fund investor to reasonably expect an investment balance that is perhaps 30% higher than what they could have expected only a decade ago'.[15] However, in some markets this has been offset by increased search costs. This is true in Europe where fragmentation is compounded by a lack of consolidated data. Retail clients benefit from improved prices as a result of tighter spreads and greater execution certainty offered by higher trading volumes.
Innovation	There has been considerable investment in technology throughout the entire trading cycle, which has improved the efficiency of markets and provided investors with new instruments and order types that may better serve their needs.
Clear regulatory framework	Regulators should set the full regulatory framework at the outset of the introduction of competition to maximise market integrity and to reduce the impact for industry of system changes.

23 In many instances, the proposed Australian regulatory framework draws on precedents adopted by international regulators. While intermarket comparisons need to be made with care because industry structures and regulations differ between countries, the international experience nonetheless highlights the types of concerns that have become pressing in equity markets that have faced significant competition.

24 The proposed regulatory framework also draws on guidance issued by the International Organization of Securities Commissions (IOSCO).[16]

Changing competitive dynamics of Australia's equity market

25 The proposed new regulatory framework must be understood in the context of the changing competitive dynamics of Australia's equity market.

26 Historically, Australia's equity market has been dominated by ASX. In general terms, ASX's cash equity market evolved around trades done on the CLOB and in the ASX 'crossing market'.[17] Further information about the current Australian equity market structure is available in REP 215.

[14] Investment Technology Group (ITG) Review, *Canadian market microstructure review second quarter 2010: Have some new HFT strategies come to town?*, ITG, 20 July 2010, www.itg.com/news_events/papers/ITG-Canada-Market-Microstructure-Q2-2010.pdf. We note that it is unclear how much of this reduction was due to competition rather than other market developments.
[15] SEC, *Statement of George U Sauter*, Managing Director and Chief Investment Officer, The Vanguard Group, Inc., SEC Market Structure Roundtable, 2 June 2010, www.sec.gov/comments/4-602/4602-5.pdf.
[16] IOSCO is an international cooperative body of securities regulators. IOSCO is recognised as setting the standard for the regulation of securities markets and regularly publishes advisory documents on key technical and regulatory issues.
[17] Very large trades that might cause a material impact on the CLOB are executed off the CLOB in the crossing market. These trades have no pre-trade transparency, but must be reported to the market immediately or prior to market opening.

27 The numbers and types of execution venues for trading in equities have already begun to change and are expected to change significantly if competition between Australian equity markets is introduced. REP 215 discusses issues arising from likely changes to Australia's equity market structure and foreshadows likely developments in Australian equity markets.

28 Australia's current regulatory framework for the equity market is largely tailored towards regulating ASX's cash equity market.

How the Australian market will work with multiple exchange markets

29 Based on overseas experience and domestic industry soft soundings, it is likely that the Australian market will have the following features should competition eventuate:

(a) There will be more than one execution venue offering trading services in equity market products. Therefore, investors and market participants will need to make order transmitting decisions. This order transmitting decision is not completely new because there is already a choice between ASX's order book, VolumeMatch and CentrePoint, as well as a number of broker crossing systems.

(b) Market participants will need to develop policies and procedures to reflect the new environment (e.g. how to deliver best execution for their clients).

(c) Systems will be required to identify the market with the best prices and volume. We expect data vendors (e.g. IRESS and Bloomberg) to offer system solutions to assist (e.g. smart order routers). These systems may encourage new forms of traders and strategies.

(d) There will need to be a means for investors to obtain timely and cost effective consolidated data.

(e) There will be new connectivity between markets, market participants and ASIC for trading services and information sharing.

(f) There will need to be coordination between market operators (e.g. relating to trading halts).

(g) We expect there to be limited changes to the retail investor experience. Investors will look to their brokers to provide services and to take account of the new multimarket environment.

(h) We will need to enhance our use of information technology (IT) systems to supervise market conduct across the whole market.

What this RIS is about

30 ASIC has authority to make market integrity rules. This is a rule-making power that ASIC received as a result of its new supervisory function under the *Corporations Amendment (Financial Market Supervision) Act 2010*. ASIC requires Ministerial consent before making any rules and any rules are subject to Parliamentary disallowance.

31 This RIS assesses the regulatory impact of our proposals to create a new regulatory framework for equity markets to address risks associated with potential competition between exchange markets for trading in ASX-listed products in Australia. It does not deal with the Government's decision to introduce competition between exchange markets. Rather, this RIS assesses the regulatory impact of those decisions within our discretion that are necessary for the introduction of competition.

32 This RIS only deals with the market integrity rules that we identified in CP 145 as being necessary for the introduction of competition, as well as a few rules that we did not consider mandatory at the time of consultation. However, after consultation, we now consider these rules fundamental to the integrity of a multimarket environment.

33 The proposed market integrity rules that are aimed at addressing some of the regulatory issues resulting from market developments will be the subject of an additional RIS at the time we propose to implement those market integrity rules.

34 Further information about CP 145 and responses to the consultation is contained in Section C and in our report *Response to submissions on CP 145 Australian equity market structure: Proposals* (REP 237).

Cost recovery regime

35 This RIS does not deal with proposals for a cost recovery regime to cover our additional market supervision costs. The Government will need to amend the fees regulations in order to levy competing market operators, and will consult separately on the costs that need to be recovered and the basis for their recovery, including from whom and over what time period.

Assessing the problem

36 The Government has already expressed its support for competition between exchange markets for trading in ASX-listed products in Australia and its in-principle support for granting a market licence to Chi-X.

37 The current regulatory framework surrounding exchange markets trading in listed products in Australia does not facilitate competition, nor does it

facilitate the introduction of Chi-X as a new Australian market licensee. The current regulatory framework does not provide appropriate and effective protections in a multimarket environment. It relies on ASX's own operating rules which only apply to its market to govern trading in ASX-listed products.

38 With the introduction of Chi-X (and potentially other Australian market licensees), the current regulatory framework that applies to ASX and its market participants will not necessarily apply to trading on other markets. Inconsistent rules may affect the normal functioning of the markets and compromise investor protection. A regulatory framework that extends common market integrity rules to new market operators and their market participants is necessary to enable competition to occur in Australia.

39 We also need to put in place measures to mitigate issues that arise as a result of multiple exchange markets and the consequential fragmentation of trading and information. The potential risks associated with fragmentation include the possibility of:

(a) deterioration in the quality of pre-trade and post-trade transparency;

(b) transfer of regular trading in equities from pre-trade transparent markets to dark pools, thereby limiting pre-trade transparency;

(c) erosion of liquidity in pre-trade transparent markets;

(d) deterioration in the efficiency and effectiveness of price formation;

(e) uncertainties over order protection and best execution, and the absence of a single source of pre-trade and post-trade information; and

(f) problems in achieving effective surveillance. The current regulatory framework is not designed to enable ASIC to supervise and regulate an equity market in which multiple market operators compete.

40 Together, these problems may indirectly create impediments to capital raising for some issuers.

41 Realistically, we think it is unlikely that competition in equity market trading could effectively occur under the current regulatory framework. This is, in part, due to the monopolistic nature of the market at present. Chi-X may face difficulty operating a market without rules to enable it to obtain information and cooperate with the existing market operator. If competition is unable to occur in Australian equity markets, the Australian economy and equities industry will miss out on the benefits of competition.

42 If competition did eventuate in the absence of an appropriate regulatory regime, we are of the view that the proper functioning of the Australian equity market may be affected, which may affect investor confidence and Australia's reputation as a financial market that functions well.

Objective of government action

43 The objective of making changes to the current regulatory framework is to ensure that the Government's policy to introduce competition in exchange market services for trading in ASX-listed products in Australia can be realised.

44 We have been guided by ASIC's priorities to:

(a) build confidence in the integrity of Australia's capital markets;

(b) protect retail investors; and

(c) facilitate international capital flows.

B Options and impact analysis

Options

45 We consider the options to meet the objectives are:

Option 1: Create a new regulatory framework for equity markets to allow for the introduction of competition in exchange markets (preferred option).

Option 2: Maintain the current regulatory framework for equity markets before allowing competition in exchange markets (status quo).

46 We have only considered two possible options because the core elements of Option 1 are interlinked and can only be assessed as a total package, rather than as a range of individual market integrity rules assessed in isolation. In this RIS, we examine the individual proposed market integrity rules in isolation from an impact and benefit perspective. However, we recognise that regulatory change needs to be considered as a total package implemented concurrently, rather than as a number of discrete market integrity rules. This is to ensure there is an appropriate framework to implement efficient competition. All of the proposals are required for ASIC to be confident that the benefits of competition will outweigh the potential costs.

47 In developing the proposed new regulatory framework we consulted on a range of options for the individual market integrity rules that form part of the package of rules required for implementation of competition in exchange markets. We have formed our view on the individual final proposed market integrity rules that form this regulatory framework package by taking into account feedback on the possible options. For each market integrity rule, a brief summary of industry feedback and the way in which we have consequently amended the proposals is outlined in Table 6 in Section C.

48 Further information on how we have formed the final package taking into account feedback is contained in Section C.

Impact analysis

Option 1: Create a new regulatory framework for equity markets to address regulatory issues resulting from the introduction of competition in exchange markets (preferred option)

49 Under this option, we are not proposing fundamental changes to existing market practices; rather, we are proposing to maintain the status quo in the majority of instances.

50 In effect, we have built on the current regulatory framework that regulates trading on ASX; however, we have applied it on a cross-market basis so that all market operators and market participants are subject to the same common rules. In addition, we propose to implement a small number of reporting, coordination and cooperation arrangements to address issues that arise from fragmentation of trading and data across multiple markets. We also propose some additional new market integrity rules to enable ASIC to effectively regulate a multimarket environment.

51 Table 2 summarises the market integrity rules we propose to implement under the new regulatory framework. CP 145 provides detailed discussion about the preliminary proposed market integrity rules, the rationale behind each proposal, and an explanation of the options that were considered.

Table 2: Summary of proposed new regulatory framework—Competition in exchange markets

Issue	Proposed market integrity rules
Best execution	We are proposing a best execution rule to supplement existing conflict management obligations. Under this rule, a market participant must take reasonable steps to obtain the best outcome for its clients. A market participant that deals with clients must: • have policies and procedures in place; • disclose details of the policy to clients; and • be able to evidence compliance with the policy. For 12 months, market participants can meet this obligation through solely participating on ASX, which allows for a transitional period for market participants.
Pre-trade transparency	A market participant must display orders on a pre-trade transparent market subject to certain exceptions. We propose to retain ASX's existing exception arrangements, but apply the same exceptions to all markets. A market operator must make pre-trade information available immediately on a continuous basis. Market operators and market participants operating dark pools must periodically report to ASIC on the nature and activity of trading on the pool. This will enable ASIC to monitor developments. Market operators must provide data to all users on reasonable, commercial non-discriminatory terms.

Issue	Proposed market integrity rules
Post-trade transparency	A market participant must immediately report all trades to a market operator and a market operator must publish the information immediately. The party that should report is the executing or selling party. We propose to permit delayed publication in accordance with the current regulatory framework. Data must be provided by market operators on reasonable, commercial non-discriminatory terms, and must be available for free after 20 minutes. Market operators must provide data to all users on reasonable, commercial non-discretionary terms.
Market operator: cooperation	A market operator must comply with rules that govern arrangements relating to trading halts and suspensions, common symbology and sharing of information.
Extreme price movements	Market operators must have pre-trade controls to prevent the entry of anomalous orders. ASIC will set extreme cancellation ranges. Market operators must have a clear and transparent trade cancellation policy and procedures for implementing or giving effect to the extreme cancellation ranges.
Synchronised clocks	A market operator must synchronise its clocks to a clock nominated by ASIC.
Tick size	A market operator must implement common tick sizes (we propose to retain the existing ASX tick sizes).
Trading to be on licensed market	Market participants must not transact by means other than under the rules of a market operator, subject to certain exceptions.
Trading during a trading halt	A market participant must not trade during a market-integrity-related trading halt or suspension.
Trade confirmations	If a single client order is executed in multiple fills and across multiple markets, a market participant may accumulate transactions into a single confirmation provided that the client has authorised the accumulation.

52 The core elements are interlinked and should therefore be considered as a package rather than in isolation. It will be important for there to be a mechanism to ensure orders are transmitted to the venue with the best outcome, for market efficiency and investor protection reasons. It is equally important that there are sufficient and complementary incentives in place for investors to display limit orders because limit orders drive the price formation process on market, which is important for capital allocation decisions and capital raising. The price in the underlying market may also feed back into the non-transparent market as part of the pricing process.

53 As part of our consultation process we sought feedback about the likely impact of the proposed obligations. On the whole, respondents did not provide detailed information on the likely costs associated with implementing the proposed market integrity rules. Where respondents indicated costs would be significant, we have taken steps to reduce the

potential impact. In response to feedback from the consultation paper, our aim has been to maintain status quo obligations, but impose the existing obligations across the whole market. We are of the view that this will minimise the impact on market operators, market participants and the industry in general.

Impact on industry

54 We expect that the proposed new regulatory framework will affect:

(a) market participants, ASX and prospective operators of markets in equity market products because the proposals apply to them directly;

(b) persons who access exchange markets through a market participant's infrastructure because certain proposals relate to the relationship between them and market participants, including the way they access exchange markets; and

(c) frequent investors in and issuers of equity market products—the proposals relate to how equity markets in Australia will function, including protections for investors and the efficiency of the price formation process on exchange markets, which will have a potential impact on asset valuation and capital raising.

55 ASX is currently the main operator of a market in equity market products.[18] This is likely to change with the introduction of competition and the commencement of Chi-X operating a market in equity market products.

56 At present there are approximately 100 market participants, and around 150 indirect market participants that use market participants' authority to trade on behalf of their clients as a substantial part of their business model. The market is relatively concentrated. The largest 12 ASX market participants accounted for 81% of the value of equities traded in 2009–10. The five largest market participants currently account for around half of the total volume of trades. The concentration of trading in the equity exchange market has changed very little over the past decade, with the majority of the top 12 market participants servicing institutional clients.

57 We expect that the proposed market integrity rules will impose a range of additional direct (one-off and ongoing) costs on market operators and market participants. In the main, these costs comprise compliance costs. Some of these costs may be immediately identifiable, in terms of investment in additional IT and staffing requirements; others will take the form of additional management or supervisory resources. Overall, this investment is likely to contribute to the performance of the Australian market and our competitiveness internationally.

[18] There are also a small number of exchanges which cater for small and micro capitalisation companies.

58 Although the various compliance costs arising for market participants and market operators can, in principle, be quantified, they will likely vary significantly across the parties. In particular, costs will vary depending on the nature and size of market operators' and market participants' business activities, the extent to which they have already adopted the proposed requirements (many of which reflect international 'best practice'), and other factors.

59 Table 3 indicates the possible impacts of the proposed regulatory framework on market operators and market participants in relation to technology, human resources and compliance policies and procedures.

Table 3: Possible impacts of the proposed regulatory framework on market operators and market participants

Area	Possible impacts—market operators	Possible impacts—market participants
Technology	Market operators will need systems to: • control order entry into matching engines; • halt trading; • identify trades that need to be cancelled; • capture and on route additional data for publication and for ASIC surveillance; and • synchronise clocks in trading, reporting and supervision systems to a Universal Time Clock.	Market participants will need systems (either their own or those of third parties) that: • can process market data, determine to which execution venue to route orders based on predefined parameters and then route the orders; and • capture and on route additional data for trade publication and for ASIC surveillance.
Human resources	Market operators will need staff to: • consider the implications of the proposals, including the impact on technology; • cooperate with ASIC and other market operators; • provide investor education about the consequential changes to their market; and • provide training to other staff.	Market participants will need staff to: • consider the implications of the proposals, including the impact on technology; • monitor compliance with best execution arrangements and review the arrangements; • make best execution disclosures to clients; and • provide training to other staff.
Compliance policies and procedures	Market operators will need to: • review existing policies and procedures and amend where necessary; • put in place new policies and procedures for trading halts and trade cancellations; and • have procedures for ensuring clocks remain synchronised.	Market participants will need to: • review existing policies and procedures and amend where necessary; and • put in place new best execution policies and procedures.

60 Some clients of market participants will also be affected. They may need to:

(a) be educated about the implications of the proposals for them;

(b) receive market participant disclosures about best execution;

(c) interpret consolidated market data; and

(d) consent to receiving accumulated trade confirmations.

61 In CP 145, we sought feedback on the likely impact of each proposed market integrity rule.

62 Table 4 outlines the main impacts of each proposed market integrity rule on industry and provides a summary of stakeholder responses on the likely costs associated with each proposal both from an implementation and ongoing perspective. We have only considered the impact on existing market operators and market participants. Any new market operators or market participants will need to comply with the proposed market integrity rules.

Table 4: Possible impacts of each market integrity rule on industry

Market integrity rule	Impact on whom	Possible impact	Benefits
Best execution A market participant must take reasonable steps to obtain the best outcome for its clients. A market participant that deals with clients must: • have policies and procedures in place; • disclose details of the policy to clients; and • be able to evidence compliance with the policy.	Market participants	Market participants that deal with clients will need to develop an execution policy, disclose details of the policy to their clients and execute client orders on the basis of the policy. They will also need to demonstrate compliance with the policy. For 12 months, market participants can meet this obligation through solely participating on a single market, which allows for a transitional period for market participants. Reponses to the consultation paper indicate that this proposal would impose significant costs on market participants due to changes required for monitoring controls, technological changes, re-documentation, communication and reporting, and implementing new policies and procedures. These costs would be both initial and ongoing. One large participant indicated that it would cost between $100,000 and $200,000 to develop systems (not including infrastructure), $100,000 in ongoing operational costs and $40,000 in implementing new policies and procedures. Two market participants felt that there would be higher costs for smaller participants. These costs, while significant, were deemed necessary by one market participant. Another participant felt that the benefits would outweigh the costs. One large market participant estimated that disclosure requirements would involve the following costs: • cost of mailing out: $1–$5 per client; and • cost of positive consent: $10–$15 per client. One respondent indicated that it already has the systems in place to ensure compliance with this market integrity rule.	Best execution obligations promote efficiencies by ensuring orders are directed to the venue offering the best result. It is also an important investor protection mechanism because it ensures that market participants do not place their own interests ahead of those of their client (e.g. by exploiting information asymmetries between themselves and their clients) and that clients receive the best result. Best execution obligations are relevant in a single market environment; however, they become more important when there are multiple execution venues because market participants have more choice in where and how they execute client orders. Comprehensive and robust internal policies and procedures relating to best execution, and ongoing review of these policies and procedures, will help to ensure market participants with a best execution obligation are successful in delivering the best result to their clients. Disclosure of certain execution arrangements to clients will enable those clients to better assess whether they are likely to receive best execution. It is important that this disclosure is made to all clients that are owed a duty of best execution so they can assess the quality of the execution they receive.

Market integrity rule	Impact on whom	Possible impact	Benefits
Pre-trade transparency A market participant must display orders on a pre-trade transparent market subject to certain exceptions.	Market participants	We propose to retain ASX's existing exceptions, but apply the same exceptions to all markets. No impact.	Pre-trade transparency refers to information (bids and offers) being made publicly available before trades occur. Together with post-trade information, it is generally regarded as central to both the fairness and efficiency of a market, and in particular to its liquidity and quality of price formation. Pre-trade transparency enables investors to identify trading opportunities, contributing to investor confidence that they will be able to execute a trade. Investor confidence in a market can provide incentives for other investors to participate, contributing to liquidity and stimulating more competitive pricing. It also plays an important role for listed companies in valuing their assets and their ability to raise further funds, and it contributes to market participants' ability to achieve and evidence best execution. There are some circumstances where pre-trade transparency can adversely affect a market and the investor in terms of price volatility and higher execution costs. Our proposal to retain existing exception arrangements recognises this.
Pre-trade transparency A market operator must make pre-trade information available immediately on a continuous basis.	Market operators	No change from current arrangements. No impact.	As above.

Market integrity rule	Impact on whom	Possible impact	Benefits
Pre-trade transparency A market participant operating dark pools must periodically report to ASIC on the nature and activity of trading on the pool. This will enable ASIC to monitor developments.	Market participants	New reporting requirement. Market participants will need to capture and on route additional data on the nature and activity of trading in dark pools. Responses to CP 145 indicate that this proposal will require initial costs associated with system changes and ongoing costs of data collection and reporting. One large market participant indicated that these costs can be significant. Another large market participant estimated the cost of implementing the changes to be $500,000.	New technologies and trading strategies, together with the exceptions to pre-trade transparency, have resulted in significant growth in the number of dark pools domestically and globally and the volume of trading done away from CLOBs. We are concerned about the impact of this shift away from trading on public pre-trade transparent markets into non-pre-trade transparent 'venues' and the impact this is having on the price formation process. Given this concern, we intend to monitor the development of dark pools in Australia closely. The proposed reporting requirements enable ASIC to monitor developments in dark pools and to continue our analysis of the impact of non-pre-trade transparent matching mechanisms on the price formation process on public markets. It will also inform our further consultation on expectations to pre-trade transparency.
Pre-trade transparency A market operator must provide data to all users on reasonable, commercial non-discriminatory terms.	Market operators	New requirement. Minimal impact. Market operators already provide data to users at a cost. This rule does not restrict market operators from charging users for data.	An environment with competing market operators introduces a need to ensure investors have a complete view of pricing via consolidated information. This rule will enable parties to access data from market operators to facilitate data consolidation.

Market integrity rule	Impact on whom	Possible impact	Benefits
Post-trade transparency A market participant must immediately report all trades to a market operator and a market operator must publish the information immediately. The party that should report is the executing or selling party. We propose to permit delayed publication in accordance with the current regulatory framework.	Market operators Market participants	No change from existing arrangements. No impact. This is supported by responses to CP 145, which indicate no significant costs for all stakeholders. Several participants stated that they already have the systems in place to comply with the proposal.	Access to timely market information is imperative to enable market participants to find liquidity and fulfil best execution obligations. Post-trade transparency is generally regarded as central to both the fairness and efficiency of a market, and in particular to its liquidity and quality of price formation. There are some circumstances where immediate disclosure of executed trades can have negative market impacts, particularly where the transaction relates to only one element of a large portfolio trade or where the market participant executed the transaction as principal and needs to off-load the position it acquired. We propose an exception where a publication delay is permitted. This is in accordance with existing arrangements. Harmonisation of post-trade transparency arrangements across markets prevents the possibility of regulatory arbitrage. Harmonisation of data fields also facilitates the data consolidation process.
Post-trade transparency A market operator must make data available for free after 20 minutes.	Market operators	ASX has traditionally provided this information after 20 minutes. No impact.	Data is a valuable good for all investors.
Post-trade transparency A market operator must provide data to all users on reasonable, commercial non-discriminatory terms.	Market operators	New requirement. Minimal impact. Market operators already provide data to users at a cost. This market integrity rule does not restrict market operators from charging users for data. Responses to CP 145 indicate that for the majority of stakeholders this will not impose any significant costs. It may require minor system changes for the incumbent market operator.	An environment with competing market operators introduces a need to ensure investors have a complete view of pricing via consolidated information. This market integrity rule will enable parties to access data from market operators to facilitate data consolidation.

Market integrity rule	Impact on whom	Possible impact	Benefits
Market operator cooperation A market operator must comply with market integrity rules that govern arrangements relating to trading halts and suspensions, common symbology and sharing of information.	Market operators	Market operators will need to: • change systems and procedures to comply with these market integrity rules; • provide order, trade and stock status data to each other to facilitate consolidation and reference pricing; • design systems to ensure trading halts across all markets are synchronised; • agree procedures for assigning market-wide stock and participant codes; • agree protocols around facilitating testing environments for participants; and • provide ASIC with future system upgrade plans. Responses to CP 145 indicate that the proposed market integrity rules will not impose any significant cost for any stakeholder.	Cooperation and coordination in a multimarket environment will be imperative to upholding the integrity of the market. We expect that in a multimarket environment, market operators will need to share information relating at least to real-time orders and executed trades. This will enable market operators to take account of market-wide events and may assist them in meeting their own regulatory obligations to operate a fair, orderly and transparent market. In order to facilitate the consolidation of market data, ease of trading across markets and cross-market supervision, it will be important that there are common identifiers in place for market participants and equity market products. This will minimise duplication and the cost associated with users having to carry and map differing codes.
Extreme price movements A market operator must have pre-trade controls to prevent the entry of anomalous orders.	Market operators Market participants	Chi-X already has this functionality available. No impact on Chi-X. New requirement for ASX. It will require system change; this development had been considered for ASX prior to consideration as part of this proposed regulatory framework. Responses to CP 145 indicate the general opinion that there would be no material impact on market participants. One large participant already has systems in place and another participant stated that it would require significant but necessary one-off implementation costs.	Pre-trade controls at the market operator level ensure a level playing field between market participants (in terms of speed) and minimal entry into the market of anomalous orders that may subvert the price formation process.

Market integrity rule	Impact on whom	Possible impact	Benefits
Extreme price movements ASIC will set extreme cancellation ranges. Market operators must have a clear and transparent trade cancellation policy and procedures for implementing or giving effect to the extreme cancellation ranges.	Market operators Market participants	Existing requirement for ASX. Chi-X had anticipated implementing cancellation policy. No material impact. No material impact on market participants. One market participant is of the view that the costs associated with the changes to limits and filters are necessary.	Transparency about the circumstances when trades will be cancelled will assist in minimising cancellations because market participants will have certainty about the point at which trades will be cancelled. Certainty will increase investor confidence and participation in the market, especially in instances of extreme price movements.
Synchronised clocks A market operator must synchronise its clocks to a clock nominated by ASIC.	Market operators	Market operators will need to develop and make changes to their trading, supervision and reporting systems to amend the precision and accuracy of time stamps for pre-trade and post-trade information. There will be an initial cost to market operators to embed synchronised clocks into market operator systems. One market operator estimates the development cost to be $200,000. The connection to the clock nominated by ASIC is free. These initial costs are associated with internal market operator system changes. There will be some ongoing costs to market operators to ensure the clocks remain synchronised. Data vendor responses to CP 145 outline the cost of the equipment. One estimated that this would be $10,000, while another estimated that the cost would be $25,000 plus ongoing costs.	In today's market, orders are being entered, modified, cancelled and executed at extraordinary speed. This applies pressure on market operators and market participants' clocks to be more granular in their measurement of time, especially in trade and reporting data systems. In a multimarket environment, investors, market participants and ASIC will require access to consolidated trading information from the various venues. It will be important that the consolidated view is (as far as possible) in the sequence in which orders were entered and trades executed to ensure accurate data analysis. Market operators will also need to coordinate their activities (e.g. trading halts) based on consistent and accurate time.

Market integrity rule	Impact on whom	Possible impact	Benefits
Tick size A market operator must implement common tick sizes.	Market operators Market participants	We propose to retain the existing ASX tick sizes; therefore, there is no change to the current arrangements. No impact. In general, responses to CP 145 indicate that the proposed rule will not result in significant costs.	Tick sizes play an important role in transaction costs and in order transmitting decisions. There are strong incentives for market operators to undercut tick sizes on competing markets—to offer execution priority. In order to prevent a 'race to the bottom' on tick sizes and to provide investors with confidence in the market, we consider it is important that there not be competition in tick sizes and to instead harmonise them across markets.
Trading to be on licensed market A market participant must not transact by means other than under the rules of a market operator, unless the trade is pursuant to a primary market action (e.g. takeover bid).	Market participants	No change to current arrangements. Market participants are already required to transact on a licensed market. With competing exchange markets, there will be more choice of licensed markets. No impact. This is supported by responses to CP 145, which indicate no significant costs for all stakeholders.	The aim of this market integrity rule is to ensure clients can access the full compensation entitlements on a licensed market and limit the sources of pre-trade and post-trade data, which will facilitate data consolidation.
Trading during a trading halt A market participant must not trade during a market-integrity-related trading halt or suspension.	Market participants	No change to current arrangements. Market participants are currently restricted from trading during a trading halt or suspension. No impact. This is supported by responses to CP 145, which indicate no significant costs for all stakeholders.	Trading halts and suspensions that are in place for market integrity reasons on one market should be applied across the Australian market to minimise regulatory arbitrage opportunities.

Market integrity rule	Impact on whom	Possible impact	Benefits
Trade confirmations If a single client order is executed in multiple fills and across multiple markets, a market participant may accumulate transactions into a single confirmation provided that the client has authorised the accumulation.	Market participants	Market participants are already required to provide confirmations of transactions to retail clients. This market integrity rule extends the existing requirement by requiring the market to be identified; however, it enables market participants to accumulate transactions into one single confirmation. In general, responses to CP 145 indicate that the proposed market integrity rule will not result in significant costs. An exception to this is one large retail market participant who is of the view that this would impose a significant cost.	In a multimarket environment, it will be important for trade confirmations to identify the market on which client orders are executed. Additionally, given it will be possible that a single client order may be executed across more than one market, there will need to be clear and consistent arrangements in place for disclosing such circumstances to clients.

63 The benefits to the economy and the equities industry from competition are likely to outweigh the costs associated with the introduction of competition. The net benefit will be positive if competition is introduced with an appropriate regulatory framework.

64 To some extent, the beneficial influence of competition has already started in Australia. The theory of contestable markets shows how, in some cases, just the threat of competition may be enough to compel incumbents to adopt a less monopolistic stance. Indeed, the possibility of competition in Australia has arguably prompted ASX to reduce some transaction costs, invest in technology and innovate in the provision of exchange market facilities. In July 2010, ASX reduced trade execution fees and discontinued the large market participant rebate to ensure that 'all customers, big or small, receive the pricing benefit up front'.[19] The exchange operator is also investing in new technology (including allowing low-latency trading facilities) and creating new execution venues to cater for the needs of specific types of investors.

65 These benefits, however, may only be maintained as long as the threat of competition remains. If the idea of competition is discarded, a rational reaction for any incumbent market may be to return to monopolistic profitability by raising fees and reducing investment in research and innovation.

66 We expect competition between exchange markets, under an appropriate regulatory framework, will bring benefits to the Australian economy and the equity market, including innovation, maintained or improved market quality (e.g. depth, liquidity and price formation) and more choice in execution venues, as well as lower costs (i.e. tighter spreads and lower transaction costs) for investors.

67 However, it has been, and remains, hard to quantify the gross benefits and gross costs, and to arrive at an estimate of net benefits. Most studies of the benefits and costs of competition have shortcomings because the introduction of competition in most countries came around the time when market volatility was beginning to rise in the lead-up to the global financial crisis. It is almost impossible to control for the effect of the crisis on spreads and depths, and isolate the changes caused by competition alone.

68 Similarly, it is difficult to separate out the impact of technological improvements. For instance, in Canada—a jurisdiction in many respects similar to Australia—brokerage firm ITG found that bid–ask spreads fell

[19] A Bell, 'ASX cuts fees as trading volumes soar', *The Age*, 3 June 2010, news.theage.com.au/breaking-news-business/asx-cuts-fees-as-trading-volumes-soar-20100603-x4qk.html; M Mcnamara, 'ASX cuts fees as Chi-X prepares to enter the market', *Business Review Australia*, 3 June 2010, www.businessreviewaustralia.com/blogs/finance/asx-cuts-fees-chi-x-prepares-enter-market.

from 15 bps early in 2008 (when competition really began) to 10 bps by mid-2010, despite the global financial crisis.[20] It is unclear how much of this cost reduction was due to competition rather than technology and other market pressures.

69 One of the more useful studies is Foucault and Menkveld (2008) because it precedes the global financial crisis by a few years.[21] They studied the introduction of competition in Dutch index stocks listed on Euronext when London Stock Exchange (LSE) began offering trading services in these stocks in October 2003. It is relevant for Australia because it studied a single electronic exchange market facing competition from a new electronic exchange market, and it studied an exchange market that did not impose trade-through restrictions. However, there was limited use of smart order routers at the time, so the benefits of competition are potentially understated.

70 Looking at bid–ask spreads and depth for a short period of time before and after this event, and controlling for factors that are known to influence spreads and depth, such as volume and volatility, the authors show significant increases in depth at both the best prices and up to four price steps away from the best prices. Depth at best prices increased by between 35% and 50%, and at the best four prices, between 35% and 78%. Spreads were unchanged, except for in the most active stocks where they fell by about 15%. These results suggest competition had a positive effect on overall liquidity.

71 One quantification to that conclusion is that, at the same time, Euronext reduced its trading fees by 50% (driven by the commencement of competition). This change would therefore also have contributed to the growth in depth.

72 Based on this and the experience in other countries, we expect bid–ask spreads to narrow and market depth to improve in Australia. It is difficult to gauge the balance between pricing and depth, or the extent of the likely improvements.

73 All of these benefits are only likely to eventuate with the implementation of competition in trading services in equity markets. Without an appropriate regulatory framework in place to facilitate competition, these benefits are unlikely to eventuate.

[20] ITG Review, *Canadian market microstructure review second quarter 2010: Have some new HFT strategies come to town?*, Investment Technology Group, 20 July 2010, www.itg.com/news_events/papers/ITG-Canada-Market-Microstructure-Q2-2010.pdf.

[21] T Foucault & A Menkveld, 'Competition for order flow and smart order routing systems', *Journal of Finance*, vol. 63, 2008, pp. 119–58.

Impact on consumers

74 For the purposes of this RIS, retail investors are categorised as consumers. Retail investors consistently represent between 15% and 20% of equity market turnover.

75 Based on experience overseas, we expect that retail investors will see little change to their trading experience. Retail investors will not be required to implement any changes to systems or processes to facilitate the proposed new regulatory framework. Retail investors will rely on their brokers to provide services that take into account new markets and the proposed new regulatory framework. A consolidated view of prices from all markets will be available and retail clients should expect a single trade confirmation, even if an order is executed across multiple markets.

76 Competition can potentially bring a number of benefits to retail investors and the economy in general. Overseas jurisdictions that have adopted competition in cash equity exchange markets have seen significant reductions in exchange market fees as new exchange markets compete for market share. This can translate into lower brokerage fees if market participants pass on the reductions in exchange market fees as execution venues compete for volume. There is already a reasonable level of competition among retail market participants in Australia and, therefore, it is reasonable to expect that cost savings will be passed on to clients—at least partially. Overseas jurisdictions have also experienced reductions in bid–ask spreads (as discussed earlier), which reduce the costs of trading for retail investors.

77 To the extent that some of the costs to industry are passed on to clients (such as institutional or retail market investors), indirect cost impacts will arise. However, the expected increase in competition may limit the extent to which costs are passed on to customers.

78 Like other investors, retail clients may also benefit from the development of new technologies. For instance, it is possible that some market participants may extend to retail clients the technologies that allow fast computerised trading on exchange markets. For the time being, these technologies are still expensive and accessible only to large institutional clients. However, as is usually the case, the cost of new technologies may decline over time and their adoption may proliferate.

79 The greatest benefits for retail investors are likely to accrue indirectly through their investments in superannuation and other managed funds. Retail investors' direct exposure to shares is relatively small by comparison with their indirect exposure. As at mid-2010, retail investors had around

$230 billion in directly held shares.[22] This compares with around $670 billion that retail investors held in equities through superannuation alone—excluding non-super managed funds.[23] In addition to reductions in spreads, these funds will potentially benefit from increased depth, leading to lower market impact costs.[24]

80 All the benefits described above will make the link between savers and borrowers more efficient. By improving the allocation of capital from investors to companies that seek funds for projects, competition among exchange markets in the long run may facilitate economic growth.

Impact on Government

81 The proposed market integrity rules will impose a range of direct (one-off and ongoing) costs on ASIC. In the main, these costs are supervisory and surveillance costs, which include additional IT and staffing requirements.

Other impacts

82 There are many other ways of assessing the characteristics and motives of participants in the equity market. However, for the purpose of this RIS it is important to understand that for the market in aggregate, trading is a zero-sum game since the combined gains and losses for buyers and sellers always sum to zero. The aim of the proposed market integrity rules is not to make individual investors or market participants better or worse off, but to enhance the integrity and efficiency of the equity market as a whole, and to maintain and enhance the wider public benefit that arises from it.

83 An appropriate regulatory framework that facilitates the introduction of competition is likely to enhance Australia's reputation as a financial services centre. It may increase confidence in the Australian equity market and its competitiveness compared to international markets.

Option 2: Maintain the current regulatory framework for equity markets before allowing competition in exchange markets

84 Option 2 is the status quo under which we would not alter the current regulatory framework for equity markets before allowing competition in

[22] Household's holdings of shares and equity other than units in trusts (Australian Bureau of Statistics, '5323.0—Australian National Accounts: Financial Accounts, Jun 2010', Table 20, www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5232.0Jun%202010?OpenDocument).

[23] Superannuation and life office equity holdings, excluding units in non-financial investment funds and money market funds (Australian Bureau of Statistics, '5323.0—Australian National Accounts: Financial Accounts, Jun 2010', Table 20, www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5232.0Jun%202010?OpenDocument) plus listed and unlisted share holdings of self-managed superannuation funds (ATO Statistical Report, *Self managed super fund statistical report—June 2010*, Australian Taxation Office, 25 August 2010).

[24] The cost incurred when the price of execution is different from the target price.

exchange markets. This is therefore the base for which any regulatory change is measured against.

85 We recognise that the Australian Government has already announced its support for competition between exchange markets for trading in listed products in Australia and its in-principle support for granting a market licence to Chi-X.

86 The Johnson Report discussed the potential benefits of competition between exchange markets. The potential lack of competition may lead to undesirable flow-on effects.

Impact on industry

87 If competition does not eventuate because the current regulatory framework does not adequately accommodate new entrants, there may be an impact on costs to industry (e.g. an increase in trading fees or uneconomic fees for access ASX infrastructure and market data information). Industry may also be disadvantaged due to the reduced incentive for the incumbent market operator to innovate.

88 If competition were to materialise under the current regulatory framework, there is a risk that the normal functioning and integrity of the market may be compromised. A lack of consistent rules may result in regulatory arbitrage, industry uncertainty, market distortions and disorderliness.

89 Without an appropriate regulatory framework in place, we will not be able to effectively and efficiently manage and mitigate the risks associated with the introduction of new market operators. If these risks are not adequately addressed, a range of adverse outcomes may occur, which will affect the normal functioning and integrity of our market to the detriment of investor confidence. Table 5 lists the potential adverse effects on the normal functioning and integrity of the market.

Table 5: Potential adverse effects on normal functioning and integrity of the market

Topic	Description
Best execution	Under the current regulatory framework (and with only one market), the best bid and ask price displayed in the ASX CLOB are the best price available in the market for each stock. Any trading conducted away from the CLOB needs to be conducted at the best price or provide price improvement, consequently providing a net benefit to investors.[25] If competition were allowed without enhancements to the regulatory framework, there would be no guarantee that the price paid by investors is the best price in the market. The current obligation on brokers requires market participants to avoid conflicts between their interests and those of their clients—that is, to deal fairly and in due turn for their clients. However, when there are multiple execution venues, there can be more difficulties in determining what constitutes best execution, and order handling procedures take on greater significance. Without a clear and objective market integrity rule on order execution, a cost may be borne by investors if their orders are directed to markets with poor pricing. There is therefore a need for a best execution policy for brokers to ensure that principal/agent problems do not arise in the execution of investors' orders.
Tick sizes	Competition among execution venues may lead to competition in tick sizes (the minimum allowable price increment between orders). There are strong incentives for market operators to undercut the tick sizes on competing markets, to offer execution priority. This may create a 'race to the bottom'. While competition in tick sizes can reduce the bid–ask spread by enabling price improvement on-order books, this may discourage investors from placing limit orders because their order is offered little protection from other traders stepping ahead. Alternatively, if tick sizes are large, stepping ahead is more expensive, which may encourage trading to move off-order book, reducing price formation, and increasing the cost of on-order book trading. Therefore, there is a trade-off between minimising transaction costs and ensuring that the tick size is sufficiently large to encourage investors to post limit orders. Without a regulatory framework that ensures that tick sizes are harmonised across markets, competition based on economically insignificant tick sizes may lead to added costs to investors.
Code harmonisation	Code harmonisation reduces the cost of data gathering and consolidation across markets. The current regulatory framework does not require cooperation between market operators and therefore code harmonisation may not occur. The provision of accurate and timely data should boost confidence in the market, increase liquidity and decrease the cost of trading. Code harmonisation would cover market data like stock codes, broker IDs and trade flags.

[25] There is an exemption regarding price matching/improvement for off-order book trades providing it is sufficiently large ('block special crossings', 'portfolio special crossings' or 'facilitated special size block special crossings'). To be eligible for this exemption, trades in a single stock must exceed $1 million or be part of a portfolio of at least 10 stocks totalling more than $5 million. If these conditions are met, a trade can take place at any price.

Topic	Description
Fragmentation of data	If competition between exchange markets develops, data may be only available in a fragmented form. Fragmentation of data, both pre-trade and post-trade, adds to the cost of trading because search costs increase and liquidity is more difficult to find. The current regulatory framework does not indicate the format, timeliness or accessibility of market data. This may mean that market participants cannot gain an accurate view of the market, or that it becomes too costly to ensure that trades are executed at the best price. Amending the current regulatory framework to ensure that market operators provide their data on reasonable and non-discriminatory terms should enable market information to be consolidated and distributed more efficiently.

Impact on consumers

90 If competition does not eventuate because the current regulatory framework does not adequately accommodate new entrants, there is the potential for consumers to be disadvantaged. This may result from the incumbent market operator reversing already introduced fee reductions. It may also result from a reduced incentive for the incumbent market operator to innovate.

91 If competition is established under the current regulatory framework, it is anticipated that some benefits would still arise for consumers (e.g. reductions in spreads and brokerage commissions). However, it is also likely that consumers would face a number of challenges in this environment. There may be uncertainty about whether consumers have obtained the best cost of trading in the market, what venue their order was executed on, and their orders may lose price priority if tick sizes are different across execution venues. If this leads to a lack of confidence in the equity market, a reduction in liquidity and consumer participation in the market may result.

92 Without adequate transparency from market participants and market operators, it will be far more difficult for ASIC to ascertain the efficiency, effectiveness and integrity of the equity market. Providing an environment with certain transparency requirements will allow ASIC to monitor the market to ensure the integrity and confidence in the equity market remains high.

Impact on Government

93 The Government has confirmed that competition is still its policy *subject to* an appropriate regulatory framework being put in place by ASIC. Accordingly, we are of the view that competition is unlikely to eventuate in the terms envisaged by the Government unless an appropriate regulatory framework is in place.

94 If effective competition is not established, the Australian Government's commitment to developing Australia as a financial services hub and driver of

economic efficiency may be questioned, and might appear somewhat contradictory to the transfer of supervision to ASIC in 2010. Furthermore, it would severely limit the prospect of introducing credible competition for the foreseeable future.

95 If we maintain the current regulatory framework instead of implementing the proposed new regulatory framework, the Australian Government could also face criticism for enabling competition without a proper regulatory framework in place.

Other impacts

96 If competition does not eventuate, the flow-on effects may be costly in economic terms but may also harm Australia's reputation as a financial services centre. The introduction of competition in exchange markets overseas has resulted in a more efficient market (reduction in the bid–ask spread and increased depth of market) and a reduction in the explicit costs associated with trading (exchange and brokerage fees).

C Consultation

CP 145 and related documents

97 On 4 November 2010, we released a consultation package on enhancing regulation of Australia's equity markets, including proposals to address risks associated with the introduction of competition between exchange markets and from recent market developments.

98 The consultation package includes a detailed consultation paper, CP 145, an overview summary document (reproducing Part 1 of the consultation paper), draft market integrity rules and a supporting economic report on Australian equity market structure (REP 215).

99 REP 215 looks at recent and likely trends in global and Australian equity markets, including the lessons from other jurisdictions that have introduced competition between market operators.

100 The consultation paper proposes market integrity rules to address:

(a) some of the regulatory issues resulting from market developments; and

(b) the additional regulatory issues resulting from the introduction of competition.

101 This RIS only considers the market integrity rules that are aimed at addressing the regulatory issues resulting from the introduction of competition. The market integrity rules that are aimed at addressing some of the regulatory issues resulting from market developments will be the subject of an additional RIS at the time we propose to implement those rules.

Additional consultation and advisory assistance

102 Before releasing CP 145 we spoke to domestic and international market operators, market participants and industry associations to better understand market and technology developments. We also spoke to a selection of buy-side, sell-side, retail groups, high-frequency traders, research houses, data/ technology providers and regulators in the US, Canada, the United Kingdom (UK), France and Germany to broaden our understanding of overseas market structure issues and the impact competition has had in those jurisdictions.

103 An industry advisory group to the Commission has been in place throughout the entirety of the competition project, which has helped inform the policy development and now informs implementation and practical issues.

104 To develop the proposed regulatory framework, we engaged a market microstructure specialist. We also engaged a consultant with significant experience in the business and technical requirements that were necessary for the introduction of competition in Canada and seconded a Canadian regulator to guide us in policy formation in light of experience in Canada.

105 The ACCC and the Department of Treasury (Treasury) were actively engaged with us throughout the policy development process.

106 We have had 60 meetings with stakeholders since the consultation paper was published. As part of the consultation process, the Australian Financial Markets Association, the Stockbrokers Association Australia and Financial Services Council also hosted ASIC information sessions for their memberships.

Overview of responses to CP 145

107 We received 40 written submissions to CP 145 from a broad range of stakeholders, including market operators, market participants, fund managers, high-frequency trading firms and others from the research, data vendor and technology sectors.[26] REP 237 provides detailed information about the responses to CP 145 and outlines our response to the feedback.

108 Respondents were generally appreciative of our holistic approach to consulting on the proposed regulatory framework. There was widespread support for ASIC to focus on the market integrity rules necessary for competition to quickly enable the entry of Chi-X and allow the industry more time to engage on the remaining proposals that aim to address market developments.

109 Comments were received on each of the specific proposals in CP 145. REP 237 and Table 6 of this RIS outline the specific topics where respondents expressed concerns with the proposed regulatory framework and explain how we have tried to address those concerns.

110 The ACCC stated in its submission that it is aware of a number of access-related issues, including clearing and settlement services and market data. The ACCC has concerns that the success of competition may be threatened by difficulties faced by potential new entrants in accessing certain ‘essential’ services operated by ASX.

111 The submissions provided valuable feedback and suggestions. As a result of the submissions, we decided to only implement those market integrity rules that are necessary for competition at this time. We intend to further consider

[26] Copies of the non-confidential submissions to CP 145 are on our website at www.asic.gov.au/cp under CP 145.

market integrity rules that deal with market developments and implement those rules at another time. Some proposals related to competition were amended to take into account industry feedback where appropriate. These are detailed in Table 6. This table should be read in conjunction with Table 4, which outlines the benefits and the possible impacts of each of the proposed market integrity rules.

Table 6: Industry feedback on individual issues and our proposed amended approach

Issue	Industry feedback	Our proposed amended approach
Best execution	Submissions broadly supported our proposals to apply best execution at the broker level, and that market participants should have adequate policies and procedures in place, but suggested a distinction between 'wholesale' and 'retail' clients.	We have taken many of the comments on board and intend to make a market integrity rule requiring market participants that deal with clients to take a more holistic approach to best execution by obtaining the 'best possible outcome' for their clients. We intend to distinguish between 'wholesale and retail' clients, rather than 'professional and non-professional' clients.
	While there was support for applying the best execution disclosure obligation to all clients, there was a strong preference for this to only be a one-way notification.	We intend to make a market integrity rule requiring market participants to make disclosures to all clients.
	In relation to the proposed order transmitting and execution quality reporting, there were questions raised about its relevance in an Australian context.	We intend to introduce the order transmitting and execution quality periodic reporting after further consultation with industry. We intend to further consult with the aim of settling these rules in early 2012 (with sufficient lead time for transition and implementation).
	There was general support for transitional arrangements to explicitly limit the best execution obligation so that entities can choose to be a participant of a single market and can do so for a transitional period without immediate pressure to connect to new markets.	As proposed in CP 145, for a period of 12 months, market participants will be able to meet their best execution obligation solely on one market.
Pre-trade transparency	There was considerable opposition to the proposals on exceptions to pre-trade transparency. Respondents urged ASIC to do further consultation on the mechanism for promoting pre-trade transparency, particularly after further analysis of the impact of dark pools on price formation in the Australian marketplace.	We remain of the view that the quality of price formation on public markets continues to be an important issue. As a matter of priority, we will continue to work with the industry on this issue, monitoring developments in our market and internationally, and further consult later in 2011 taking into account the range of alternative options canvassed in the submissions to ASIC.

Issue	Industry feedback	Our proposed amended approach
		In the interim, we intend to harmonise across all markets some of the current ASX exceptions to pre-trade transparency. This will ensure consistent standards across competing markets on from the commencement of competition.
	Responses to our proposal for dark pool operators to report periodically to ASIC were mixed. Some respondents supported the proposal and suggested we should go further and apply the full market licensing obligations. Some respondents suggested it is excessive.	We intend to enhance the reporting we consulted on for market participant operators of dark pool venues. We would like to start receiving the reports as early as possible this year to facilitate our market analysis and consideration of alternative options.
Post-trade transparency	There was universal support for the approach.	We intend to make market integrity rules as proposed in CP 145.
Consolidation of data	There was acknowledgement of the importance of ensuring there is a consolidated view of pre-trade and post-trade information in a multimarket environment. Respondents overwhelmingly preferred a multiple consolidator model.	We intend to proceed with a model where consolidated market data is provided by more than one consolidator. In order to ensure market data is accessible and easily consolidated, we intend to require: • market operators to ensure that all pre-trade and post-trade information is complete, accurate and up-to-date and to take reasonable steps to identify and correct any errors; • market operators to make all pre-trade and post-trade information available on a non-discriminatory and reasonable commercial basis to anyone who wants access to it; and • consolidators to comply with ASIC's best practice standards.
Market operator: cooperation	There was strong support for clear obligations that do not allow competitors to impede competition, with general support for rules instead of a protocol.	We intend to implement obligations through a set of market integrity rules instead of through a protocol, with agreed procedures between market operators sitting behind market integrity rules.
Extreme price movements	Submissions generally supported that market operators: • have order entry controls that prevent anomalous orders from being entered; and • provide certainty and transparency around trade cancellations in the event of extreme market movements.	We intend to make market integrity rules as proposed in CP 145.

Issue	Industry feedback	Our proposed amended approach
	Respondents requested more time to engage on volatility controls.	We intend to further consult on volatility controls with the aim of making relevant market integrity rules in early 2012 (with sufficient lead time for transition and implementation).
Synchronised clocks	There was agreement from the existing market operator and prospective market operator to connect to a clock nominated by ASIC.	We intend to make market integrity rules as proposed in CP 145. We intend to adopt a synchronisation standard based on Network Time Protocol (NTP). We will monitor and review these arrangements.
Tick size	There was majority support of common tick sizes across markets based on the current regulatory framework. There was some support for competition in tick sizes. There was also support for an industry committee to review and set tick sizes.	We intend to make market integrity rules as proposed in CP 145. We intend to review the arrangement on an ongoing basis and continue consulting with the industry.
Trading to be on licensed market	There was general support for this proposal.	We intend to make market integrity rules as proposed in CP 145.
Trading during a trading halt	There was general support for this proposal.	We intend to make market integrity rules as proposed in CP 145.
Trade confirmations	Although there was general support for this proposal, the client consent aspect was considered too onerous.	We intend to make market integrity rules as proposed in CP 145. We also intend to enable flexible client consent arrangements.

D Conclusion and recommended option

112 We recommend Option 1. In order to introduce competition in Australian exchange markets in line with the Government's announcement, it is important that an appropriate regulatory framework is in place to allow market competition facilitating multiple market operators and mitigating the risks and issues that arise from fragmented trading and data. Without an appropriate regulatory framework, it is unlikely that competition in exchange markets could result in net benefits.

113 We believe that Option 2 is not supportable because it does not address the problems that we identified, discussed in Section A. Should competition be allowed to occur without the necessary regulatory framework in place, it is likely to adversely affect the proper functioning of the market and investor protection.

E Implementation and review

114 We intend to implement our proposals through market integrity rules.[27] This is a rule-making power that ASIC received as a result of its new supervisory function under the *Corporations Amendment (Financial Market Supervision) Act 2010*. Market integrity rules are legislative instruments. ASIC requires Ministerial consent before making any rules and any rules are subject to Parliamentary disallowance.[28]

115 The proposed market integrity rules would supplement the existing ASIC Market Integrity Rules (ASX Market) 2010, which came into effect on 1 August 2010, and will supplement any new market integrity rules that are created for new market operators such as Chi-X.

116 We expect that certain proposals that form part of the new regulatory framework will take time and investment to implement. However, we have taken into account feedback from consultation and have limited the set of rules we are proposing to implement at this time to those required for competition, rather than rules required for competition along with those rules required to address market developments. We have tried not to deviate from current market practice where possible.

117 We have sought feedback on whether transitional arrangements are necessary and have tailored our proposals to take into account feedback. For example, we are proposing specific transitional arrangements for connectivity required for best execution designed to reduce the burden of implementation for market participants and enable competition to commence sooner than if all market participants were required to connect to Chi-X from day one.

118 An industry advisory group to the Commission has been in place throughout the entirety of the competition project, which has helped inform the policy development and now informs implementation and practical issues. We also intend to establish a wider implementation focus group with representation from market operators, market participants, system vendors, data vendors and data standards organisations to consider practical implementation issues, testing arrangements, and to assist in the development of criteria to assess industry readiness for the commencement of competition.

[27] Some of the issues would require regulations to be made to broaden the scope of ASIC's power to make market integrity rules.
[28] A House of Parliament may disallow a market integrity rule within 15 sitting days after it is tabled in the House if a motion to disallow has been given and, within the 15 days, a resolution to disallow is passed, the motion is not withdrawn or the motion is not acted upon.

Regulatory guidance

119 We propose to publish a regulatory guide to assist industry to comply with the proposed new regulatory framework.

Education

120 We intend to engage industry about the best mechanism to educate the wider marketplace on the issues raised in relation to the proposed new regulatory framework. Education for retail investors may be required about the changing market landscape, proposed new investor protections (e.g. best execution), what the changes mean and where to get advice. It may be communicated, for example, through:

(a) our consumer website (MoneySmart);

(b) articles in relevant financial and industry association magazines; and

(c) specific ASIC publications.

Review of regulatory framework

121 On an ongoing basis, we intend to review the regulatory framework to make any adjustments as a result of developments in the market and the international regulatory environment. We expect to comprehensively consult on any future proposed amendments.

Key terms

Term	Meaning in this document
ACCC	Australian Competition and Consumer Commission
AFS licensee	A person who holds an Australian financial services licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
agency	Where a market participant acts on behalf of a client
aggregate consideration	The combined price of a basket (or portfolio) of products acquired and/or sold in a transaction
algorithm/algorithmic trading	Electronic trading activity whose parameters are set by predetermined rules aimed at delivering specific execution outcomes
allowable tolerance	A permitted margin of difference between the time on an entity's clock and the time on the Universal Time Clock
AOP (automated order processing)	Orders generated by an electronic system
arbitrage	The process of seeking to capture pricing inefficiencies between related products or markets
ASIC	Australian Securities and Investments Commission
ASIC Market Integrity Rules (ASX)	ASIC Market Integrity Rules (ASX Market) 2010—rules made by ASIC under s798G of the Corporations Act for trading on ASX
ASIC Market Integrity Rules (Chi-X)	ASIC Market Integrity Rules (Chi-X Australia Market) 2011—rules made by ASIC under s798G of the Corporations Act for trading on Chi-X
ASX	ASX Limited (ACN 008 624 691) or the exchange market operated by ASX Limited
ASX 24	The exchange market formerly known as Sydney Futures Exchange (SFE), operated by Australian Securities Exchange Limited
Australian market licence	Australian market licence under s795B of the Corporations Act that authorises a person to operate a financial market
best available bid and offer	The highest bid (best buying price) and the lowest offer (best selling price) for an equity market product that is available across all pre-trade transparent order books at the time of the transaction. The best bid and best offer may not necessarily be on the same order book. It may be that the best bid is on the order book of Market X and the best offer is on the order book of Market Y

Term	Meaning in this document
best bid or offer	The best available buying price or selling price
best execution	Where a market participant achieves the best trading outcome for its client
bid–ask spread	The difference between the best bid and the best offer
block special crossing	An off-order book crossing which may be agreed at any price, where the consideration is at least $1 million
block trade	A crossing where the consideration for the transaction is not less than $1 million (pre-trade transparency exception in competition market integrity rules)
bps	Basis points
bundling	The practice of market participants and other service providers providing other services, such as advice, research and analytical tools, in conjunction with trade execution
buy-side	A term referring to advising institutions typically concerned with buying, rather than selling, assets or products. Private equity funds, mutual funds, unit trusts, hedge funds, pension funds and proprietary trading desks are the most common types of buy-side entities
capital formation	A method for increasing the amount of capital owned or under one's control, or any method in utilising or mobilising capital resources for investment purposes
CDI (CHESS Depository Interest)	An instrument used by non-Australian companies to support electronic registration, transfer and settlement of their products listed on ASX
CentrePoint	An ASX-operated execution venue that references the midpoint of the bid–ask spread on ASX's CLOB
CHESS	Clearing House Electronic Subregister System
Chi-X	Chi-X Australia Pty Limited
circuit breaker	A mechanism that pauses trading in a product if it exhibits extreme price movement in a defined period of time. Circuit breakers can either apply to individual products or can be market-wide, based on an index's movement
clearly erroneous trade	A transaction that deviates so substantially from current market prices that it is considered to be executed in error
CLOB (central limit order book)	A central system of limit orders, where bids and offers are typically matched on price–time priority
compensation scheme	Compensation arrangements in place under the Corporations Act to meet certain claims arising from dealings between investors and market participants

Term	Meaning in this document
competition market integrity rules	ASIC Market Integrity Rules (Competition in Exchange Markets) 2011—rules made by ASIC under s798G of the Corporations Act that are common to markets dealing in equity market products quoted on ASX
consolidator	See data consolidator
Corporations Act	*Corporations Act 2001* (Cth), including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
CP 145	ASIC consultation paper *Australian equity market structure: Proposals*, released 4 November 2010
crossing system	An automated service provided by a market participant to its clients which matches or executes client orders with orders of the market participant (i.e. against the participant's own account) or with other clients of the market participants. These orders are not matched on a pre-trade transparent order book.
crossing/crossed transaction	A type of transaction where the market participant for both the buyer and seller are the same. The market participant may be acting on behalf of buying and selling clients, or acting on behalf of a client on one side of the transaction and as principal on the other side of the transaction
dark liquidity/hidden liquidity	Non-pre-trade transparent orders
dark pool	Non-pre-trade transparent electronically accessible pools of liquidity
dark trading	see off-order book trading
data consolidator	An entity that combines data from various execution venues to produce a consolidated view of order and/or transaction information for use by investors
DEA (direct electronic access)	Electronic access to markets via the electronic infrastructure of a market participant
ELP (electronic liquidity provider)	Typically, HFTs or algorithmic traders who attempt to profit by providing continuous two-sided quotes for liquid securities on an unofficial basis to capture the bid–ask spread of a product
equity market	The market in which shares are issued and traded, either through exchange markets or OTC markets
equity market products	Shares, managed investment schemes, the right to acquire by way of issue shares and managed investment schemes, and CDIs admitted to quotation on ASX

Term	Meaning in this document
exchange market	A market that enables trading in listed products, including via a 'central limit order book'. Note: Not all exchange markets offer primary listings services.
exchange-traded fund special trade (ETF special trade)	Has the meaning given to the term 'ETF Special Trade' by the operating rules of ASX
execution venue	An execution venue is a facility, service or location on or through which transactions in equity market products are executed and includes each individual order book maintained by a market operator, a crossing system and a participant executing a client order against its own inventory otherwise than on or through an order book or crossing system. This includes an order book and other matching mechanisms.
facilitated specified size block special crossing	An existing ASX exception from post-trade reporting permitting a delay for transactions above $15 million, $10 million, $5 million or $2 million, depending on the product
financial market	As defined in s767A of the Corporations Act. It encompasses facilities through which offers to acquire or dispose of financial products are regularly made or accepted
financial product	Generally a facility through which, or through the acquisition of which, a person does one or more of the following: • makes a financial investment (see s763B); • manages financial risk (see s763C); and • makes non-cash payments (see s763D) Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.
FIX protocol	Financial Information eXchange protocol. A messaging standard for communication of financial information
fragmentation	The spread of trading and liquidity across multiple execution venues
FSG	Financial Services Guide
fully hidden order	An order on an order book that is not pre-trade transparent
HFT (high-frequency trading)	While there is not a commonly agreed definition of HFT, we characterise it in this document as: • the use of high-speed computer programs to generate, transmit and execute orders; • the generation of large numbers of orders, many of which are cancelled rapidly; and • typically holding positions for very short time horizons and ending the day with a zero position
HFTs	High-frequency traders

Term	Meaning in this document
high-speed trading	A specialised form of algorithmic trading characterised by the use of high-speed computer programs
indirect market participant	A broker that is not itself a market participant, but that accesses the market through a market participant
internalisation	Where a client order is transacted against a market participant's own account
IOSCO	International Organization of Securities Commissions
IRESS	IRESS Market Technology Limited
issuer	A company that has issued shares
large portfolio trade	A transaction that includes at least 10 purchases or sales, the market participant acts as agent for both the buyer and seller of the portfolio or as principal buys from or sells to the client, and the consideration of each is not less than $200,000 and the aggregate consideration is not less than $5 million
latency	An expression of how much time it takes for data to get from one point to another
limit order	An order for a specified quantity of a product at a specified price or better
liquidity	The ability to enter and exit positions with a limited impact on price
managed investment scheme	As defined in s9 of the Corporations Act
market impact	The cost incurred when the price of execution is different from the target price
market integrity rules	Rules made by ASIC, under s798G of the Corporations Act, for trading on domestic licensed markets
market licence	An Australian market licence
market maker	An entity that provides a required amount of liquidity to a market, and takes the other side of transactions when there are short-term buy and sell imbalances in customer orders in return for rebates and/or various informational and execution advantages
market manipulation	As defined in Pt 7.10 of the Corporations Act
market operator	A holder of an Australian market licence that is the operator of a financial market on which equity market products are quoted
market order	An order at the best price currently available

Term	Meaning in this document
market participant	An entity that is a participant of a financial market on which equity market products are quoted
NMI	The National Measurement Institute division of the Commonwealth Department of Innovation, Industry, Science and Research.
non-professional client	A person who is not a professional investor
NTP	Network Time Protocol
off-order book trading	Transactions that take place away from a CLOB and that are not pre-trade transparent. It is often referred to as 'dark liquidity' or 'upstairs trading'. It includes bilateral OTC transactions and transactions resulting from a market participant matching client orders or matching a client order against the participant's own account as principal. When this type of trading is done in an automated way and is part of a pool of liquidity, it is referred to as a 'dark pool'
operating rules	As defined in s761A of the Corporations Act
order book	An electronic list of buy orders and sell orders, maintained by or on behalf of a market operator, on which those orders are matched with other orders in the same list.
origin of order	A type of order category that identifies trading capacity and, if relevant, the type of client
OTC	Over-the-counter
partly disclosed order	An order on an order book that is pre-trade transparent with the exception of either price or volume
pegged order	A specified quantity of a product set to track the best bid or offer on the primary market
post-trade transparency	Information on executed transactions made publicly available after transactions occur
pre-trade transparency	Information on bids and offers being made publicly available before transactions occur (i.e. displayed liquidity)
price formation	The process determining price for a listed product through the bid and offer trading process of a market
price sensitive information	Information about a company that will have, or can be expected to have, an impact on the price of that company's products
price step	The difference in price of one tick size
price–time priority	A method for determining how orders are prioritised for execution. Orders are first ranked according to their price; orders of the same price are then ranked depending on when they were entered

Term	Meaning in this document
priority crossing	A type of crossing on ASX's CLOB that is transacted at or within the spread with time priority
professional client	A professional investor as defined in s9 of the Corporations Act
professional investor	As defined in s9 of the Corporations Act
Reg ATS (Regulation Alternative Trading System)	Section 242.3 of US 17 Code of Federal Regulation. It governs the operation of alternative trading systems in the US
Reg NMS (Regulation National Market System)	New substantive rules designed to modernise and strengthen the regulatory structure of the US equities markets
REP 215	ASIC report *Australian equity market structure*, released 4 November 2010
RG 214 (for example)	An ASIC regulatory guide (in this example numbered 214)
Rule 2.1.2 (for example)	A rule of the ASIC Market Integrity Rules (Competition in Exchange Markets) 2011 (in this example numbered 2.1.2), unless otherwise specified
S&P/ASX 200 Index	An index of the largest 200 shares listed on ASX by market capitalisation
s912 (for example)	A section of the Corporations Act (in this example numbered 912), unless otherwise specified
sell-side	A term that describes firms that sell investment services to the buy-side, or corporate entities, including broking–dealing, investment banking, advisory functions and investment research
settlement	The exchange of payment and delivery for purchased securities
SFE	The market formerly known as Sydney Futures Exchange (now ASX 24)
short sales	The practice of selling financial products that are not owned by the seller, with a view to repurchasing them later at a lower price. Short sales can be naked or covered
SOR (smart order router)	An automated process of scanning various execution venues to determine which venue will deliver the best outcome on the basis of predetermined parameters
spread	The difference between the best bid and offer prices
stub	The residual volume from a partly filled order
synchronised clock	A system time clock that matches a reference source clock
tick size	The minimum increment by which the price for an equity market product may increase or decrease

Term	Meaning in this document
total consideration	For a buy order, the purchase price paid by a client in respect of performance of a client order, plus transaction costs; or For a sell order, the sale price received by a client in respect of performance of a client order less transaction costs.
trade confirmation	A legal document provided to clients which sets out the terms of an executed transaction
trade report	An electronic message created when a transaction is executed, detailing the terms of the transaction
trade-through	A model and rule that embeds price–time priority across multiple pre-trade transparent venues to protect displayed bids and offers from being bypassed
trading halt or suspension	A temporary pause in the trading of a product for a market-integrity-related reason, such as when an announcement of price sensitive information is pending (does not include a halt or suspension caused by a technical problem (including a power outage) affecting a market operator's trading system.
two-sided quote	A quote to buy and sell
undisclosed order	A non-pre-trade transparent order
Universal Time Clock	A clock that is referenced to UTC(AUS)
UTC(AUS)	The output of the caesium atomic clock designated by the NMI as UTC(AUS)
volatility	Fluctuation in a product's price
volatility control/collar	A set price limit whereby a product can only trade at or above (or at or below) that level for a period of time. These controls can limit the disruptive effect of anomalous trades
VolumeMatch	An ASX-operated execution venue that facilitates the matching of anonymous large orders with reference to the last price on ASX's CLOB