



ASX 24 Trade Cancellation Policy:

Proposals for Change (Options and 20 Year Bond Futures) ASX Consultation Paper

January 2020



Invitation to comment

ASX is seeking submissions in response to this consultation paper by 28/02/2020. Submissions should be sent to:

E regulatorypolicy@asx.com.au

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

PO Box H224
Australia Square NSW 1215

Attention: Ben Jackson
ASX prefers to receive submissions in electronic form.

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly. All submissions will be provided to regulators on request. Submissions may also be published on the ASX website, unless they are clearly marked as confidential or ASX considers that there are reasons not to do so.

ASX is available to meet with interested parties for bilateral discussions on ASX 24 Trade Cancellation Policy.

Contacts

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Executive Summary

ASX is consulting on two potential changes to the ASX 24 Cancellation Policy, being

- The removal of the No Cancellation Ranges (NCR) for all exchange traded options (ETOs), including the Single Session Options.
- The Extreme Trade Range (ETR) for the 20 Year Bond Futures product.

ASX is also seeking feedback on the current cancellation ranges for all other ASX 24 products.

ASX proposes, subject to feedback received through consultation, to:

- Remove the NCR for ETOs to provide greater flexibility for market participants. This is in line with Trading Participant feedback and will further align the ASX 24 and ASX Trade Operating Rules Procedures.
- Amend the ETR range of the 20 Year Treasury Bond Futures from 50 basis points to 25 basis points to reduce the likelihood of an error trade causing a negative impact on a participant. The reduced ETR price level will provide a balance between allowing a reasonable range where erroneous trades will be cancelled whilst not unnecessarily impacting trading activity on days with high levels of market volatility.
- Assess whether the current cancellation ranges for all ASX 24 products are appropriate.

ASX welcomes comments in response to the above proposals and encourages market participants to provide feedback.

Following the completion of the consultation, ASX will provide market participants with further information on any agreed changes and the timeline for implementation.

Written responses should be addressed to ASX by no later than 28 February 2020.

1. Removal of the NCR Range for ETOs

1.1. Background and Purpose of this Proposal

The ASX 24 Trade Cancellation Policy (TCP) provides a mechanism for cancelling and removing trades executed at erroneous prices. These trades can detract from the integrity of the price information process and may not be a genuine reflection of supply and demand.

ASX is proposing to update its TCP by removing the NCR from all ETOs trading on ASX 24. ASX believes this will:

- Provide greater flexibility for market participants to request the cancellation of erroneously priced trades.
- Address Trading Participant feedback in relation to User Defined Combination option trades whereby one leg may not be cancelled if it falls into the NCR.
- Increase the alignment of the ASX Trade and Trade 24 Operating Rules Procedures for option products.

1.2. Proposed Changes for ASX 24 Operating Rules Section 3 – Trading Rules

Currently, the TCP allows a participant to notify ASX Trading Operations of an erroneous trade. Providing timing and notification procedures have been met, ASX will determine a reference price for the contract and assess whether the trade qualifies for cancellation. Currently, for each ETO cancellation request, there are three possible outcomes:

Range	Outcome
At or within the NCR (No Cancellation Range)	The trade will not be cancelled.
At or within the QCR (Qualifying Cancellation Range)	The trade will only be cancelled if the participant counterparty to the trade consents within 5 minutes of the request.
At or within the ETR (Extreme Trade Range Range)	The Market Operator will cancel the trade subject to any exception under Rule 3210. If a participant has requested a cancellation and the trade is determined by the Market Operator to be within the ETR, Rule 3200 ceases to apply and Rule 3210 applies.

ASX is proposing that the above decision table for option contracts only be amended to only two possible outcomes:

Range	Outcome
At or within the QCR (Qualifying Cancellation Range)	The trade will only be cancelled if the participant counterparty to the trade consents within 5 minutes from contact by ASX Trading Operations.
At or within the ETR (Extreme Trade Range)	ASX will cancel the trade subject to any exceptions. If a participant has requested a cancellation and the trade is determined by ASX to be within the ETR, Rule 3200 ceases to apply and Rule 3210 applies.

1.3. Procedure 3200.9 – Reference Price and Cancellation Ranges for Contracts not subject to the ASIC Competition Market Integrity Rules (ASIC Competition MIRs)

The changes if implemented will result in the lower limit on the QCR to be amended to zero and the ETR unchanged. The specific change for each option contract is shown below in mark-up:

Option Contracts	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Interest Rate Option Products				
Australian 90 Day Bank Bills	5-Basis-Points -N/A	5.5 0 Basis Points	19.5 Basis Points	20 Basis Points
Australian 30 Day Inter Bank	5-Basis-Points -N/A	5.5 0 Basis Points	19.5 Basis Points	20 Basis Points
NZ 90 Day Bank Bills	5-Basis-Points -N/A	5.5 0 Basis Points	19.5 Basis points	20 Basis Points
Australian 3 Year Treasury Bond	5-Basis-Points -N/A	5.5 0 Basis Points	19.5 Basis Points	20 Basis Points
Australian 10 Year Treasury Bond	5-Basis-Points -N/A	5.5 0 Basis Points	19.5 Basis Points	20 Basis Points
Australian 3 Year Treasury Bond SSO	3-Basis-Points -N/A	3.5 0 Basis Points	7.5 Basis Points	8 Basis Points
Australian 10 Year Treasury Bond SSO	3-Basis-Points -N/A	3.5 0 Basis Points	7.5 Basis Points	8 Basis Points
Equity Option Products				
SPI 200	25.0-Points -N/A	25.5 0 Basis Points	99.5 Points	100.0 Points
Commodity Option Products				
Eastern Australia Wheat	\$5.00 -N/A	\$5.10 -\$0.00	\$19.90	\$20
NSW Wheat	\$5.00 -N/A	\$5.10 -\$0.00	\$19.90	\$20
WA Wheat	\$5.00 -N/A	\$5.10 -\$0.00	\$19.90	\$20
Eastern Australia Feed Barley	\$5.00 -N/A	\$5.10 -\$0.00	\$19.90	\$20
Energy Option Products				
Australian Average Rate Base Load Electricity	25-Cents N/A	26 0 Cents	99 Cents	100 Cents
NZ Average Rate Base Load Electricity	25-Cents* -N/A	26 0 Cents*	99 Cents*	100 Cents*
Australian Base Load Electricity Strip	25-Cents -N/A	26 0 Cents	99 Cents	100 Cents
NZ Base Load Electricity Strip	25-Cents* -N/A	26 0 Cents*	99 Cents*	100 Cents*

*NZ dollars

2. Amendment of the QCR and ETR for the 20 Year Bond Future (LT) Contract

2.1. Background and Purpose of this Proposal

The 20 Year Bond Future was introduced in September 2015 to provide the market with a long dated contract for risk management and trading purposes, and to add to the suite of Treasury Bond Futures offered by ASX.

In April 2018, ASX received a trade cancellation request in the 20 Year Bond contract, caused when an order intended for the 3/10 Year Bond Spread functionality was entered into the 10/20 Year Spread product in error. The 20 Year Bond leg of the spread trade was determined to be in the QCR. In accordance with the trade cancellation rules and procedures, counterparty approval was sought but not received, which resulted in the trade standing.

Following this error trade, a review of order book liquidity for the 20 Year Bond Futures has been undertaken by Trading Operations. The analysis indicated that the order book depth in the 20 Year Bond Future was significantly lower than that of the 3 and 10 Year Bond Futures order books. As a consequence, an erroneous order is more likely to trade through the depth of the market and transact at an erroneous price level, but may not reach the Extreme Trade Range (ETR) of 50 points. Providing timeframes are met, trades that transact in the ETR are automatically cancelled by ASX, regardless of counterparty consent.

In considering this analysis together with participant feedback, ASX is proposing to reduce the ETR of the 20 Year Treasury Bond Future contract from 50 basis points to 25 basis points.

2.2. 5.1 Procedure 3200.9 – Reference Price and Cancellation Ranges for Contracts not subject to the ASIC Competition Market Integrity Rules (ASIC Competition MIRs)

The changes if implemented will result in a lower ETR for the 20 Year Treasury Bond Future compared to the 3 and 10 Year Bond Futures contracts. The proposed changes to the TCP is provided below in mark-up:

Ranges for Interest Rate Futures Products

Futures Contracts	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Australian 3 Year Treasury Bond	5 Basis Points	5.5 Basis Points	49.5 Basis Points	50 Basis Points
Australian 10 Year Treasury Bond	5 Basis Points	5.5 Basis Points	49.5 Basis Points	50 Basis Points
Australian 20 Year Treasury Bond	5 Basis Points	5.5 Basis Points	49.5 24.5 Basis Points	50 25 Basis Points

3. Questions for Feedback

ASX is seeking written replies to this consultation paper and specifically to the questions below:

Removal of the NCR Range for ETOs

1. Should ASX remove the NCR for all Exchange Traded Options trading on ASX 24? (Please tick)

- YES
- NO

2. If you answered YES to Question 1, is the QCR currently appropriate? (Please tick)

- YES
- NO – Please specify what the ranges should be:

3. If ASX was to remove the NCR, to what transactions should this apply? (Please tick)

- All ETOs
- Only some ETOs – Please specify:

4. If the ASX proceeds with this proposal, is a 6-month notice period sufficient from the implementations date?

- YES
- YES – Only a 3-month notice period is required
- NO – A 12-month notice period is required

5. Please provide any other comments below:



Amendment of the QCR and ETR for the 20 Year Bond Future (LT) Contract

ASX is seeking written replies to this consultation paper and specifically to the questions below:

- 1. Should ASX amend the Extreme Trade Range so that the range starts at 25 basis points rather than the current 50 basis points? (Please tick)

- YES
- NO

- 2. If you answered NO to Question 1, is the ETR for the 20 Year Treasury Bond Future appropriate? (Please tick)

- YES
- NO – Please specify what the ranges should be:

- 3. If the ASX proceeds with this proposal, is a 6-month notice period sufficient from the implementations date?

- YES
- YES – Only a 3-month notice period is required
- NO – A 12-month notice period is required

Seeking feedback for cancellation ranges for all ASX 24 products

- 4. Are the trade cancellation ranges for all ASX 24 products appropriate? (Please see Appendix A for current cancellation ranges.)

- YES
- NO – Please specify what the ranges should be per product:

- 5. Do you have any additional comments regarding the ASX Cancellation Ranges?

4. Appendix A

ASX 24 Current Trade Cancellation Ranges

Ranges for Interest Rate Futures Products

Futures Contracts	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Australian 30 Day Inter Bank	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
Australian 90 Day Bank Bills (Ranges are applied to the individual legs of Pack and Bundles Strip Orders)	5.0 Basis Points	6.0 Basis Points	49.0 Basis Points	50.0 Basis Points
Australian 3 Year Treasury Bond	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
Australian 10 Year Treasury Bond	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
Australian 20 Year Treasury Bond	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
Australian 3 Year Interest Rate Swap	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
Australian 10 Year Interest Rate Swap	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
NZ 30 Day Official Cash Rate	5.0 Basis Points	5.5 Basis Points	49.5 Basis Points	50.0 Basis Points
NZ 90 Day Bank Bills (Ranges are applied to the individual legs of Pack and Bundles Strip Orders)	5.0 Basis Points	6.0 Basis Points	49.0 Basis Points	50.0 Basis Points
NZ 3 Year Government Bond	5.0 Basis Points	6.0 Basis Points	49.0 Basis Points	50.0 Basis Points
NZ 10 Year Government Bond	5.0 Basis Points	6.0 Basis Points	49.0 Basis Points	50.0 Basis Points

Amended 28/11/11, 27/02/12, 31/03/13, 01/12/14, 21/09/15, 20/03/17, 28/11/17

Ranges for Volatility Index Futures Products

ASX VIX Futures Contracts % means distance from Reference Price	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
S&P/ASX 200 VIX Futures Contract	5% DP	> 5% DP	≤ 30% DP	> 30% DP

Introduced 21/10/13

Ranges for Commodity Futures Products

Futures Contracts	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Eastern Australia Wheat	\$5.00	\$5.10	\$14.90	\$15
NSW Wheat	\$5.00	\$5.10	\$14.90	\$15
WA Wheat	\$5.00	\$5.10	\$14.90	\$15
Eastern Australia Feed Barley	\$5.00	\$5.10	\$14.90	\$15
Australian Sorghum	\$5.00	\$5.10	\$14.90	\$15
Eastern Australia Canola	\$5.00	\$5.10	\$14.90	\$15

Amended 24/10/11, 28/11/11, 31/03/13, 12/10/15

Ranges for Energy Futures Products

Futures Contracts % means distance from Reference Price	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Base Load Electricity	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
Peak Load Electricity	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
Base Load Electricity Strip	1.5% DP	> 1.5% DP	≤ 12% DP	> 12% DP
Peak Load Electricity Strip	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
Base Load Electricity Cap	3% DP	> 3% DP	≤ 15% DP	> 15% DP
Base Load Electricity Cap Strip	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
VIC Gas	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
VIC Gas Strip	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
NZ Gas	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP
Wallumbilla Gas	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP

Amended 24/10/11, 28/11/11, 31/03/13, 07/04/15, 08/08/16

Ranges for Environmental Futures Products

Futures Contracts % means distance from Reference Price	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Renewable Energy Certificates (REC's)	1.5% DP	> 1.5% DP	≤ 15% DP	> 15% DP

Amended 28/11/11, 31/03/13

Ranges for Options Contracts

Option Contracts	NCR	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
Interest Rate Option Products				
Australian 90 Day Bank Bills	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
Australian 30 Day Inter Bank	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
NZ 90 Day Bank Bills	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
Australian 3 Year Treasury Bond	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
Australian 10 Year Treasury Bond	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
NZ 3 Year Government Bond	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
NZ 10 Year Government Bond	5 Basis Points	5.5 Basis Points	19.5 Basis Points	20 Basis Points
Australian 3 Year Treasury Bond SSO	3 Basis Points	3.5 Basis Points	7.5 Basis Points	8 Basis Points
Australian 10 Year Treasury Bond SSO	3 Basis Points	3.5 Basis Points	7.5 Basis Points	8 Basis Points
Equity Option Products				
SPI 200	25.0 Points	25.5 Points	99.5 Points	100.0 Points
Commodity Option Products				
Eastern Australia Wheat	\$5.00	\$5.10	\$19.90	\$20
NSW Wheat	\$5.00	\$5.10	\$19.90	\$20
WA Wheat	\$5.00	\$5.10	\$19.90	\$20
Eastern Australia Feed Barley	\$5.00	\$5.10	\$19.90	\$20
Australian Sorghum	\$5.00	\$5.10	\$19.90	\$20
Eastern Australia Canola	\$5.00	\$5.10	\$19.90	\$20
Energy Option Products				
Australian Average Rate Base Load Electricity	25 Cents	26 Cents	99 Cents	100 Cents
NZ Average Rate Base Load Electricity	25 Cents*	26 Cents*	99 Cents*	100 Cents*
Australian Base Load Electricity Strip	25 Cents	26 Cents	99 Cents	100 Cents
NZ Base Load Electricity Strip	25 Cents*	26 Cents*	99 Cents*	100 Cents*
VIC Gas Strip	5 Cents	6 Cents	24 Cents	25 Cents
Environmental Option Products				
Renewable Energy Certificates	25 Cents	26 Cents	99 Cents	100 Cents

* New Zealand Dollars (NZD)

Determined Price of Option (determined by ASX 24)	% of Options NCR and ETR
5 Minimum Tick Increments and below	20%
Between 5.1 and 20 Minimum Tick Increments	40%
Between 20.1 and 50 Minimum Tick Increments	60%
Between 50.1 and 100 Minimum Tick Increments	80%
Greater than 100 Minimum Tick Increments	100%

Amended 01/03/11, 24/10/11, 28/11/11, 31/03/13, 12/09/13, 09/12/13, 20/01/14, 12/10/15

Futures Contracts	Spot AOT/ NCR	Spot +1 AOT/ NCR	Spot +2 AOT/ NCR	Spot +3 AOT/ NCR	Spot +4 AOT/ NCR	Spot +5 AOT/ NCR	Spot +6 AOT/ NCR	Spot +7 AOT/ NCR
SPI 200	0.50%	0.50%	0.50%	0.50%	0.90%	0.90%	1.00%	1.00%
Adjustment Factor Basis Points	25	25	25	25	45	45	50	50
Mini SPI 200	1.00%	1.00%	1.00%	1.00%	-	-	-	-
Adjustment Factor Basis Points	25	25	25	25	-	-	-	-
S&P/ASX 200 Gross Total Return Index Futures Contract	0.50%	0.50%	0.50%	0.50%	-	-	-	-
Adjustment Factor Basis Points	25	25	25	25	-	-	-	-
S&P/ASX 200 Resources Index Futures Contracts	1.00%	1.00%	1.00%	1.00%	-	-	-	-
Adjustment Factor	50	50	50	50	-	-	-	-
S&P/ASX 200 Financials –x-A-REIT Index Futures Contracts	1.00%	1.00%	1.00%	1.00%	-	-	-	-
Adjustment Factor	50	50	50	50	-	-	-	-
S&P/ASX 200 A-REIT Index Futures Contracts	1.00%	1.00%	1.00%	1.00%	-	-	-	-
Adjustment Factor	50	50	50	50	-	-	-	-

Ranges for Equity Index Futures Products subject to the ASIC Competition MIRs

Futures Contracts	NCR/AOT	QCR (Lower Limit)	QCR (Upper Limit)	Start of ETR
SPI 200	See table above	>0.5%	< 5%	5%
Mini SPI 200	See table above	>0.5%	< 5%	5%
S&P/ASX 200 Gross Total Return Index Futures Contract	See table above	>0.5%	< 5%	5%
S&P/ASX 200 Resources Index Futures Contracts	See table above	> 1%	< 5%	5%
S&P/ASX 200 Financials –x-A-REIT Index Futures Contracts	See table above	> 1%	< 5%	5%
S&P/ASX 200 A-REIT Index Futures Contracts	See table above	> 1%	< 5%	5%

Introduced 26/05/14 Amended 27/10/14, 01/06/15, 12/10/15, 08/08/16, 20/03/17, 03/06/19