

ASX and ASX 24 Cancellation Policy Notification Timing

CONSULTATION PAPER AND
RESPONSE TO ETO CONSULTATION

NOVEMBER 2016



Invitation to comment

ASX is seeking submissions on the proposals in this paper by **23 December 2016**.

Submissions should be sent to:

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

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

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Introduction

Overview

In 2016 ASX consulted on the timing for Participants to request cancellations of ETO transactions under the cancellation regime prescribed in the ASX Operating Rules. As a result of the feedback received ASX proposes to increase the time to advise ASX by telephone of the initial cancellation request in ETOs from 10 minutes to 30 minutes.

A summary of submissions received to that earlier consultation and ASX's proposed response is at Attachment A. So that as much consistency as possible is maintained across cancellation processes ASX is seeking further customer feedback on whether to extend the application of this 30 minute period to advise ASX by telephone of the initial cancellation request to all products traded on ASX Trade and ASX 24.

Consultation

Current ASX and ASX 24 Cancellation Processes

The cancellation processes are prescribed in Operating Rule and Procedure 3200 of both the ASX and ASX 24 Operating Rules and include a Qualifying Cancellation Range (QCR) where there is cancellation by multilateral agreement of the participants when notified in time to ASX and an Extreme Trade Range (ETR) where there is trade cancellation by unilateral action of ASX where ASX becomes aware of the trade in time or where mandated by the Competition Market Integrity Rules (MIRs).

The cancellation processes are broadly aligned but differ depending on whether automated volatility controls are applied to a particular product under the ASIC Market Integrity Rules (Competition) (MIRs); whether the trade is part of a contingent strategy trade; or the trade is subject to a specific exemption.

ASX considers that the consistency and certainty under the prescribed cancellation regime achieves a better overall market management outcome than a policy that has a greater focus on individual user outcomes.

The current objectives of the prescribed cancellation regime are to:

- provide market users with certainty as to when trades will and will not be cancelled;
- minimise the impact of cancellations on the market while providing a reasonable opportunity for participants to identify errors and request a trade cancellation;
- streamline the cancellation process and provide quicker response times to cancellation requests by reducing to the greatest extent practicable ASX exercise of discretion.



The current cancellation process is summarised as follows:

Summary of Cancellation Regimes across ASX and ASX 24						
Products	Market Integrity Rules (Competition) (MIRs) apply	Automated Anomalous Order Threshold (AOT) based on dynamic price	Extreme Trade Range (ETR) – based on Static price (ETR ranges in MIRs and ASX ORs)	Is there a No Cancellation Range (NCR)?	Time to notify ASX by telephone if trade in Qualifying Cancellation Range (QCR)	Time to notify ASX if trade in ETR or ASX to be aware of ETR trade
ASX						
Equities	✓	✓	✓	✓	10 min*	Mandatory cancellation under MIRs
ETFs	✓	✓	✓	✓	10 min*	Mandatory cancellation under MIRs
Index Options	✗	✗	✗	✗**	10 min	30 min
Equity Options	✗	✗	✗	✗**	10 min	30 min
Warrants	✗	✗	✗	✗**	10 min	30 min
ASX 24						
Index Futures	✓	✓	✗***	✓	10 min*	Mandatory cancellation under MIRs
Interest Rate Futures	✗	✗	✗	✓	10 min	30 min
Energy Futures	✗	✗	✗	✓	10 min	30 min
Agricultural Futures	✗	✗	✗	✓	10 min	30 min
NZ Energy and Interest Rate Futures	✗	✗	✗	✓	10 min	30 min

* The automated AOT will reject orders a trade in the QCR cannot occur unless it is the first trade of the day.

** There is only a QCR/ETR

*** Note MIR waiver granted to use a dynamic ETR reference price



Proposed ASX and ASX 24 Cancellation Processes

It is proposed that the time to initially notify ASX via telephone that the trade is in the QCR and a cancellation is requested be increased from 10 minutes to 30 minutes for all products.

ASX Trading Operations regularly receives feedback from participants on their frustration with the short notification time for trades on ASX Trade and ASX 24 in the QCR, particularly when the erroneous trade has a large financial impact or where the counterparty has agreed to cancel - but the initial notification was outside the 10 minutes.

Of 141 cancellation requests (the majority of them involving ETO trades) processed during 2015 and 2016 across the ASX trading platforms, approximately 20% of the notification calls from participants were received after 10 minutes and therefore not eligible to be considered for cancellation.

Since the introduction of Anomalous Order Thresholds (AOT) in 2011 there has been a significant reduction in the number of trade cancellation requests from Participants in the relevant Equity Market products. Trading Operations process less than five cancellation requests a year with those received limited to the first trade of the day.

The introduction of AOT into Index futures on ASX 24 has also reduced the number of cancellation requests in these products. The AOT rejection of orders means that a trade in the QCR is not likely to occur unless it is the first trade of the day.

Given this overall reduction in trade cancellation requests, an extension in the period for notification should not have a material impact on the number of cancellation requests received, while providing some additional time for cases where the claimed errors may be significant. ASX reminds participants that they should have in place appropriate systems and processes to identify potential trade errors in a timely fashion.

Note that for those products that are subject to the automated volatility controls prescribed under the MIRs the additional time is likely to only apply to the first trade of the day as the AOT will reject all subsequent orders.

There will be no change to any other timing including the subsequent email information that must be provided and the existing limits on processing of cancellations at the end of an open trading session.

Participants will also continue to be able to provide standing instructions to ASX Trading Operations to not be contacted by ASX where they are a counterparty to a trade in the QCR.

Submissions should be made by 23 December 2016.

If feedback indicates that the initial telephone notification to ASX should extend to 30 minutes then ASX will make this change at the same time as the changes to ETO notifications are brought into effect. If feedback does not support the extension of time for all products then ASX will only proceed with the increase in time for ETO cancellation requests.



Questions

1. In regards to the times authorised representatives have to notify ASX by telephone of trades in the Qualifying Cancellation Range (QCR) which are sought to be cancelled under the prescribed cancellation regime, your preference is
 - a. No change to the current 10 minutes
 - b. Extend time to 30 minutes

Note: the above times would not affect the end-of-day cut-off for cancellation requests which will be within 10 minutes of the open session state closing.

Please provide any relevant factors in regards to your selection:



Attachment A

Summary of responses received to ASX's consultation on ETO cancellation processes

ASX received 14 submissions to the consultation paper from market makers, institutional and retail brokers, and an industry body. The respondents represented approximately 75% - 80% of the volume traded in the ETO market.

ASX also held a number of meetings and roundtables with interested stakeholders to discuss the proposals.

The consultation process confirmed that there were a range of differing views across the market on the appropriate policy around error notifications.

At a high level, half of the market makers supported no change to the existing cancellation processes but all brokers supported some change, although views on the nature of that change differed between parties.

Of the responses received:

- 10 submissions supported an increase in the time period for notifying errors in the Qualifying Cancellation Range from 10 minutes to either 30 minutes or 60 minutes.
- 8 submissions supported the time period for notifying errors in the Extreme Cancellation Range to remain unchanged at 30 minutes with the remaining 6 submissions supported an increase in the period.
- 10 submissions supported the introduction of a 'large error' threshold, whereby errors above a certain monetary value could be notified over an extended period of time. Views on the preferred value of the threshold ranged between \$25,000 and \$500,000. Of those who supported this extended cancellation period, all thought the additional period should be between 30mins and 90mins.

ASX Policy Response

Balancing the views of different groups of stakeholders, and the impact of the trade cancellation arrangements on fair and orderly trading in, and the efficient operation of, the ETO market ASX has decided to:

- align the time to notify errors in Qualifying Cancellation Range and Extreme Cancellation Range for ETOs to ASX at 30 minutes;
- not proceed with the proposal to introduce a 'large error' threshold because no consensus was reached on the parameters and it further reduced the consistency of the cancellation process across products.

