Trade Cancellation Policies

Version 1.1

27 October 2011

1. Introduction

1.1.1 This document outlines the trade cancellation policies of Chi-X Australia and is set out as follows:

(i) Section 2 – Principles underpinning the Chi-X Trade Cancellation Policies;

(ii) Section 3 - Unintended Wash Transactions;

(iii) Section 4 - Order Entry Controls;

(iv) Section 5 – Relevant Market Integrity Rules (Competition in Exchange Markets) ('MIRs') and Operating Rules.

1.1.2 Participants are reminded that time can be of the essence when the cancellation of transactions is in issue and that any queries on the cancellation of transactions on the Chi-X market should be addressed to au.ops@chi-x.com.

2. Principles underpinning the Chi-X Trade Cancellation Policies

2.1.1 Chi-X is committed to working with participants on an ongoing basis to develop and deliver controls that effectively address unwarranted volatility and minimise the occurrence and impact of erroneous trading on the Chi-X market. Chi-X seeks to achieve this underlying policy goal by preventing aberrant or erroneous orders from entering the market in the first place. In addition, Chi-X has developed policies, outlined in this paper, to provide the market with certainty concerning the manner in which Chi-X will deal with trade cancellations.

3. Unintended Wash Transactions

3.1.1 An unintended wash transaction is a clearly erroneous transaction and therefore can be cancelled under Operating Rule 5.6(b). Clearly erroneous transactions that may fall under this rule must be brought to the attention of Chi-X as soon as possible by completing a CSV file in the form of the worksheet at **attachment one** and sending it to au.ops@chi-x.com. The CSV file must be received prior to 5pm for the transactions concerned to be considered by Chi-X for cancellation. Further information on how to cancel unintended wash transactions will be published in a Market Operations Notice in the week commencing 24 October 2011.

3.1.2 An unintended wash transaction may also amount to an error transaction under Operating Rule 5.6(a). However, it should be noted that paragraph 2.1 of Procedure 5.6 requires participants to notify Chi-X within 15 minutes of the transaction in order for it to be cancelled under rule 5.6(a). For this reason we will treat requests to cancel wash transactions as coming under Rule 5.6(b) and therefore participants **are not required to notify Chi-X of unintended wash transactions within 15 minutes**.

3.1.3 The Chi-X Trade Interface Specification enables participants to tag specified orders with a *NoSelfTrade* key, which was explained in more detail in Market Operations Notice 0015/11. In short, if the *NoSelfTrade* key is set to the same value on two orders from the same

participant, the incoming aggressive order will be rejected. Participants are encouraged to use this facility (see below on order entry controls).

3.1.4   In the event that an unintended wash transaction has not been identified to Chi-X prior to 5pm then a participant may bring the matter to the attention of Chi-X and request that Chi-X consider using its discretionary powers to cancel the transaction (these powers are outlined below). However, participants should not base their systems and controls in this area on the potential use of this discretionary power. It is important for participants to prioritise:

(i)   using the *NoSelfTrade* key to avoid unintended wash transactions being possible;

(ii)   completing a CSV file in the form of the worksheet at **attachment one** and submitting it prior to 5pm to enable Chi-X to cancel the transaction prior to 6pm.

4.   Order Entry Controls

4.1.1   Chi-X operates and implements order entry controls for all products quoted on its market. The details of the anomalous order entry thresholds are accessible here: http://www.chi-x.com/australia/sub_pages.asp?pid=64.

4.1.2   As stated above, Chi-X also provides participants with the option of tagging orders on the Chi-X market with a "*NoSelfTrade*" key. The details of this field (Tag 8174) are contained in the FIX 4.2 Trading Interface Specification.

4.1.3   As stated in rule 4.6 of the Operating Rules, Chi-X also purges unexecuted orders at the end of each trading day. This means that any unexecuted orders remaining in the order book at the end of the post trading administration phase will be removed from the market and, if appropriate, should be re-entered on the next trading day. This ensures that there are no "stale" orders remaining in the Chi-X order book that reflect out-dated market conditions. This helps to minimise the possibility of erroneous trades.

5.   Relevant MIRs and Operating Rules

5.1   Relevant MIRs and Operating Rules - Overview

5.1.1   Provisions relating to the cancellation of transactions are contained in the MIRs and the Operating Rules and Procedures of the Chi-X Market[1]. As outlined in the MIRs, Chi-X will cancel transactions that take place outside the boundaries established by the "extreme cancellation range" and have been identified by or to Chi-X within 30 minutes of execution and no later than 10 minutes after the end of continuous trading[2]. These cancellations will take place, as appropriate, pursuant to Operating Rules 5.6(a) or (b). Chi-X expects that due

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[1] A table listing the rules discussed herein is at **attachment two**.
[2] This range is defined by ASIC in rule 2.2.1 of the MIRs to mean all prices which are greater than or equal to a number of specified price steps or percentage points away from the reference price for that equity market product. The price steps/percentage points are specified in a table in rule 2.2.1 and 'reference price' is defined in rule 2.2.2(4).

to its order entry controls there will only be very limited circumstances in which a transaction in the extreme cancellation range will take place on its market.

5.1.2   The Operating Rules of the Chi-X market also allow for transactions to be cancelled in the following situations:

(i)   To maintain an orderly market – rule 5.1(c);
(ii)   Following a market dispute – rule 5.4(d)(i);
(iii)   Where a participant submits a request to Chi-X to cancel an error trade – rule 5.6(a);
(iv)   Where a clearly erroneous trade has taken place – rule 5.6(b);
(v)   When a relevant transaction is rejected by the designated or alternative central counterparty – rule 6.5.

5.1.3   It is not possible to exhaustively state the circumstances in which a transaction may be cancelled under each of these rules but some guidance is set out in the Operating Rules and Procedures.

5.2   Relevant MIRs and Operating Rules - Timing

5.2.1   The cancellation of a transaction must take place on a timely basis in order to ensure the continued operation of a fair, orderly and transparent market. It is for this reason that a clearly erroneous transaction will be cancelled under rule 5.6 prior to 6pm on the business day on which the relevant transaction is executed or reported (see paragraph 3.3 of Procedure 5.6). The time requirements in respect of error transactions cancelled under rule 5.6(a) are set out in section 2 of Procedure 5.6.

5.2.2   The relevant time limits in the market disputes process in rule 5.4 are outlined in paragraph 2.1 of Procedure 5.4. There is no time requirement specified for the cancellation of transactions under the fair, orderly and transparent power in rule 5.1 or the clearing power in rule 6.5. When considering whether to exercise its powers under these rules, Chi-X will be conscious of the underlying policy goal of cancelling transactions on a timely basis so as not to prejudice the fair, orderly and transparent operation of the market.

5.3   Relevant MIRs and Operating Rules - Communications

5.3.1   The Procedures outline how Chi-X will communicate with participants on trade cancellations. Chi-X will usually verbally inform participants to the relevant transaction of any intended decision to cancel or amend a clearly erroneous transaction unless that is not required given the circumstances of the transaction (eg the participant has followed the established procedure for notifying Chi-X of the need to cancel an unintended wash transaction).

5.3.2   Chi-X will also inform the parties to a market dispute of any decision to cancel a transaction. As outlined in Rule 5.5 and the applicable Procedures, a participant has the right to apply for a review of a decision made by Chi-X in respect of a market dispute. As outlined in paragraph 8.1 of Procedure 1.6, an application under rule 5.5 to review a decision by Chi-X

under rule 5.4 in respect of a market dispute, will not impact on the decision made by Chi-X. Hence a transaction that is cancelled by Chi-X pursuant to rule 5.4 will remain cancelled notwithstanding that is the subject of a review. This will remain the case unless and until a decision is made by the Review Committee in respect of that cancellation.

5.3.3   Chi-X may publish the details of transactions that have been cancelled in a Market Operations Notice. It will be the usual practice of Chi-X not to publish a cancelled transaction until any possible review processes attached to the cancellation decision are finalised.

Attachment One

Wash Trade Report Worksheet

Buyer ExecBroker (FIX tag 76)	TransactID (FIX tag 6807)

Attachment Two

MIRs and Operating Rules

Rules/Procedures Rule References	A brief summary of some of the main requirements

MIRs Part 2.1 Order Entry Controls for Anomalous Order Thresholds	Chi-X is required to have anomalous order thresholds that take into account:
	(a) the price at which a single order deviates substantially from:
	    (i) prevailing market conditions for the product;
	    (ii) historical trading patterns;
	(b) the tick size for the security.
	
	The thresholds must be publicly available.
	
	Chi-X must have adequate controls to prevent anomalous orders from entering the market

MIRs Part 2.2 Extreme Cancellation Range	Chi-X must notify participants if a transaction is beyond the boundaries established by the extreme cancellation range. Chi-X must publish the details of the "prices and times" at which transactions in the extreme cancellation range are executed. Chi-X must notify ASIC, other market operators that trade that product, of the price and time the transaction was executed.
MIRs Part 2.3 Transparent cancellation policies	Chi-X must have adequate polices/procedures for cancelling transactions entered on Chi-X.
Operating Rules Rule 5.1	Chi-X may take any action it consider necessary to ensure the market is fair, orderly and transparent, including cancelling or amending transactions.
Operating Rules Rule 5.4	Trade disputes – Chi-X may take any action it considers appropriate, including the cancellation of a transaction, in relation to a dispute.
Procedure 5.4	Sections 1 and 2 of Procedure 5.4 outline the procedures that will be followed upon receipt of notification of a market dispute.
Operating Rules Rule 5.5	Appeal of trade disputes – a participant may apply to review a decision made by Chi-X in respect of a market dispute.
Operating Rules Rule 5.6(a)	A participant can submit a request to cancel an error trade.
Procedure 5.6 Sections 2 and 4	If the participants to a transaction agree then an error transaction may be cancelled under rule 5.6(a). If the participants do not agree than Chi-X may cancel or amend the transaction under its fair, orderly and transparent powers.
Operating Rules Rule 5.6(b)	Chi-X may cancel or amend a clearly erroneous trade.
Procedure 5.6 Sections 3 and 4	Chi-X may modify or cancel clearly erroneous transactions in a timely fashion and in all cases no later than 6pm on the business day on which the transaction as executed. Section 3 also sets out notification

Rules/Procedures Rule References	A brief summary of some of the main requirements
	procedures and matters that may be taken into account when deciding whether to cancel or amend a transaction.
Operating Rules Rule 6.5	Chi-X may cancel a transaction rejected by the designated or alternative central counterparty.