



Consultation Paper 1/2012 on the proposed amendment of the procedure relating to:

- **the attributes of a hidden order.**

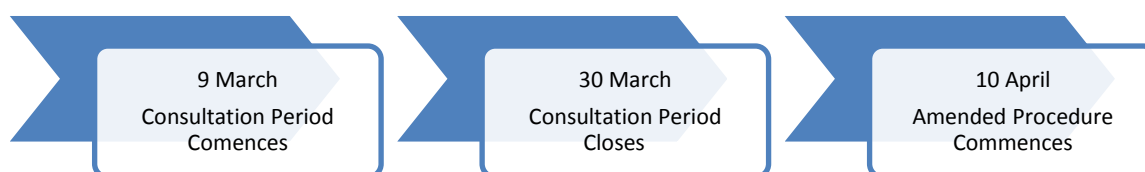
9 March 2012

Consultation Closes: 30 March 2012

Consultation on the Proposed Amendment of the Chi-X Operating Rules: Procedures

1. Introduction

- 1.1.1 Chi-X is proposing to amend Procedure 4.5 in the Operating Rules: Procedures (“Procedures”). The proposed change is to amend the \$20,000 minimum value threshold that currently applies to hidden orders and is contained in paragraph 2.2(c) of procedure 4.5. It is proposed to set the minimum value requirement at \$0, which is the minimum value for hidden orders that is specified in the Market Integrity Rules (Competition in Exchange Markets).
- 1.1.3 The consultation period is open until **30 March 2012** and participants are invited to provide comments on or before that date on any aspect of the proposal or any related topic. All submissions will be treated confidentially unless a submitting entity expressly states otherwise. The basis of the proposed amendment is outlined in the following section. A version of the procedure marked up to indicate the proposed amendment is at **Attachment One**.
- 1.1.2 It is proposed that the amendment will take effect from Tuesday **10 April 2012**. As participants are aware, ASIC is currently reviewing the requirements on pre-trade transparency and any amendment to the Procedures will have to be consistent with any new requirements imposed by ASIC. Section 2 outlines how the proposed amendments are consistent with the current requirements in the Market Integrity Rules (Competition in Exchange Markets). In Section G of the Chi-X Australia submission on ASIC’s CP168 (see http://www.chi-x.com/australia/sub_pages.asp?pid=70) there is further commentary on the application of the existing requirements to dark orders entered on one of the ASX dark pools, Centre Point, where the average trade size for a matched transaction is \$3,715¹.



¹ See paragraph 296 of ASIC Consultation Paper 168: Australian equity market structure: Further Proposals – accessible at <http://www.asic.gov.au/asic/asic.nsf/byheadline/Consultation+papers?openDocument>

2. The Proposed Amendment

2.1 The Proposed Amendment - Procedure 4.5: Orders and Matching

- 2.1.1 Rule 4.5 states that a participant may submit limit or pegged orders into the Chi-X market and that those orders must/may have the mandatory/optional attributes, respectively, that are specified in the Procedures. Paragraph 2.2(c) of procedure 4.5 states that an order may include the hidden attribute provided that the order value is above \$20,000. Chi-X is proposing to reset the \$20,000 value so that a hidden order is subject to a minimum value of \$0.
- 2.1.2 Removing the current \$20,000 minimum value requirement will apply the same threshold to the Chi-X hidden order as currently exists for hidden orders on other exchange platforms. Rule 4.2.3(1)(d) of the Market Integrity Rules (Competition in Exchange Markets) permits a hidden order to execute at or within the spread subject to a minimum value threshold of \$0. Amending the Procedures as proposed will align the Procedures with Market Integrity Rule 4.2.3. All orders on the Chi-X market will continue to be subject to the price/visibility/time priority set out in rule 4.5(c) of the Operating Rules.
- 2.1.3 The proposed amendment to Procedure 4.5, together with a copy of rule 4.5, is at **Attachment One**.

3. Responses

- 3.1.1 Responses and any queries concerning this submission should be directed to:

Michael Somes
Head of Compliance and Regulatory Affairs
+ 61 2 8078 1718
michael.somes@chi-x.com

- 3.1.2 Any posted submissions should be addressed to:

Michael Somes
Head of Compliance and Regulatory Affairs
Chi-X Australia Pty Ltd
Level 23 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Attachment One

PROPOSED AMENDMENT TO PROCEDURE 4.5 ON ORDERS AND MATCHING

In the following text, strikethrough indicates current text that it is proposed be deleted.

P4.5: Orders and Matching

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2. Order Attributes

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2.2 **Orders** submitted to the **Chi-X market** must comply with the technical specifications. Those specifications provide an exhaustive list of optional attributes, which include:

.....

- (c) hidden provided the order value is above ~~\$20,000~~;

.....

RELEVANT RULES FOR THE PROPOSED AMENDMENT TO PROCEDURE 4.5

The following rule is not being amended but is included to provide context for the above amendment to Procedure 4.5.

4.5 Orders and matching

- (a) A **participant** may submit the following **order** types to the **Chi-X market**:
 - (i) limit **orders**; or
 - (ii) pegged **orders** that are referenced to a source specified in the **procedures**.
- (b) An order submitted to the **Chi-X Market**:
 - (i) must have the mandatory attributes specified in the **procedures**; and
 - (ii) may have the optional attributes specified in the **procedures**.
- (c) All orders entered into the **Chi-X market**:
 - (i) are firm and available for execution, subject to **rule 4.6**;
 - (ii) will be **matched** based on price/visibility/time priority, subject to the exceptions set out in the **procedures**; and
 - (iii) must otherwise comply with the **procedures**.

- (d) If a **client** places an **order** with a **participant** and expressly or implicitly instructs the **participant** to only use the **Chi-X market** in relation to the **order**, then the **participant** must make a record of this and retain the record for seven years and produce it to **Chi-X** upon request.
- (e) **Chi-X** may impose restrictions and limits in relation to the entry of **orders** or the execution of **relevant transactions**.
- (f) The **matching** of buy and sell **orders** in the **Chi-X market** results in a contract between the **participants** responsible for the entry of those **orders** for the acquisition and sale of the relevant **financial products** at the price and volume that has been **matched**, subject to these **rules** and the **procedures**.