



## Compliance Notice

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Friday 21<sup>st</sup> December 2018

Reference Number: 0006/18

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### **Subject: the 2019 Participant Assessment Programme**

Participants are advised that updated versions of the following documents, amended to accommodate the launch of the market for Transferable Custody Receipts (TraCRs), are now available on the Chi-X website:

Participants are advised that in 2019 Chi-X will initiate a new Participant Assessment Programme that will involve targeted interaction with a subset of Participants, aimed at providing a narrative on the life of a client order that is executed on the Chi-X market.

The purpose of the assessment is to develop a holistic model of order execution that will assist Chi-X and Participants to identify any issues in that process that may impact on the fair, orderly and transparent operation of the Chi-X market. For example, the model of order execution may identify how different connectivity models and the speed of execution and market data feeds, impact on the operation of the Australian market, including the Chi-X order book.

Chi-X will examine the life of a client order in as many different scenarios as possible, for example:

- (a) a retail investor placing an order over the internet with their financial adviser which is then placed with a broker, routed to the Chi-X market through a third party vendor order management service, and ultimately executed on Chi-X;
- (b) a retail investor placing an order with a retail broker using proprietary market data and order management systems;
- (c) a proprietary trader that is a client of a Chi-X participant and uses low latency trading strategies to provide liquidity on the Chi-X market; and

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(d) an institutional order that is sliced into multiple execution lots allocated between ASX and Chi-X platforms by in house sell side algorithms.

Chi-X welcomes input from Participants on the proposed 2019 Participant Assessment Programme at any time prior to the end of February at which time the initial planning for the 2019 Programme will be completed.

### **The 2017-2018 Participant Supervision Process**

Participants are also advised that in 2018, Chi-X finalized the analysis and liaison with ASIC and participants on the information it had received from the 2017 Self-Assessment process. Chi-X is grateful to all participants for their responses and further assistance in this process. Chi-X spent considerable time reviewing the responses and liaising with participants and ASIC in relation to the information and material gathered. The following themes arose out of the participant responses.

#### **1. Supervision and Monitoring of Activity – Best Execution**

Some participants do not have total connectivity to the Chi-X market (eg a retail arm may not be able to trade on Chi-X). This raises issues for Chi-X Compliance as to whether there are any compliance or other regulatory reasons that may explain why a firm fails to connect to or prioritise execution on the Chi-X market when Chi-X provides the best price. In this regard Chi-X notes that whereas in the initial years after the Chi-X market launch, signaling and latency risks were given as reasons for not connecting to or prioritising execution on the Chi-X market, that is no longer the case. Chi-X acknowledges that some firms and data vendors do have to manage, in their trading strategies, the variable execution speeds provided by some connectivity products at the ASX Liquidity Centre.

#### **2. Supervision and Monitoring of Activity - Trade Monitoring**

The systems used by participants to monitor trading activity for market misconduct are mostly comprehensive. In particular, relevant participants have improved their systems to address the erroneous submission to the Chi-X market of orders that have been priced to obtain queue priority in the ASX auction. Chi-X does, however, have a query about the accuracy of time stamping and alert triggers for 'trade through' or 'best execution violation' alerts and is exploring this with service providers.

#### **3. Collegiate Based Approach to the Ongoing Supervision of Chi-X Participants**

Participants again raised the overlap of supervisory responsibility between ASIC, ASX and Chi-X. As a result, Chi-X will continue to seek a more collegiate approach with ASX and ASIC to issuer and participant supervision. The single Market Integrity Rule book is a significant step forward in this process.

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The logo for Chi-X, featuring the text "chi-x" in a bold, lowercase, sans-serif font. The "chi" is in black and the "x" is in red.

#### 4. Compliance with the Chi-X Operating Rules - Regulatory Notifications

Chi-X continues to work with participants to ensure compliance with the obligation to notify Chi-X of regulatory events under Chi-X Operating Rule 3.1<sup>1</sup>. Responses indicate that participants have improved their controls in this area.

Any queries on the proposed 2019 Assessment Programme or the 2017 Questionnaire should be addressed to:

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<sup>1</sup> See, for example, [Compliance Notice 01/18](#) issued on 26 March 2018.