Buy-Back Trading on Chi-X

With reference to recent ASIC communications (ASIC infringement notice MDP01/21 - "the ASIC Notice") around buy-back trading events, Chi-X would like to clarify the mechanisms available to Chi-X Participants which may help ensure market buy-backs executed on Chi-X are in the ordinary course of trading.

This clarification focuses on broker preferencing (referred to as 'participant preferencing' in the ASIC Notice) and self-trade protection.

The MDP in the ASIC Notice stated that the use of participant preferencing on ASX CentrePoint by a participant does not of itself result in trading that is not in the ordinary course of business, because the relevant question is whether it actually conferred a preference on the participant for a particular order or transaction.

This clarification sets out how a Chi-X participant may take steps to ensure orders submitted to Chi-X are executed in the ordinary course of trading for buy-back purposes.

BROKER PREFERENCING

Broker Preferencing logic allows participants to preference their own hidden orders where they have price but not time priority.

Broker Preferencing is set OFF by default on Chi-X trading logins unless Participants request Chi-X Market Operations to set Broker Preferencing **ON, per trading login**, as its default.

If a login is set as Broker Preferencing ON by default then Participants are still able to override this logic to set Broker Preferencing **OFF**, **per order**.

Turning Broker Preferencing off for an order, or set of orders, may therefore assist in ensuring that trading pursuant to those orders is in the ordinary course of trading for buy-back purposes.

Technical Specification Details

If a login is set as Broker Preferencing ON as a default then Participants are still able to override this logic , per order, by populating the **Order Restrictions** field:

- FIX **tag 8182,** or
- OUCH (CHIXOE) field offset 112,

with the value "I" to turn Broker Preferencing OFF for that order.

Please refer to section 9 of the Order Type Overview document for full details.

INTEGRATED ORDER BOOK

Chi-X operates an integrated order book. This means that an incoming lit or dark order will automatically match with the best price regardless of whether the resting order is lit or dark.

For example, entering a lit order on Chi-X may match with dark and lit orders under normal price/time priority and the unexecuted remainder will rest as lit (ie visible to the market).

Some background, to compare with ASX order books:

- ASX CentrePoint orders are dark, anonymous and interact only with CentrePoint orders
- ASX Lit orders interact with lit orders
- ASX Sweep orders interact with CentrePoint orders and lit orders. Remaining quantity rests as lit, to interact with lit orders.

Source: https://www2.asx.com.au/markets/trade-our-cash-market/asx-equities-trading/order-controls

Accordingly, trading on the Chi-X integrated order book with Broker Preferencing turned off, may

ensure trading on Chi-X is in the ordinary course of business for buy back purposes, in the same way that turning off 'participant preferencing' for ASX order books may ensure that outcome for trading on ASX (as outlined by the MDP in the ASIC Notice).

SELF-TRADE PROTECTION

Chi-X also provides Self Trade Protection to avoid buy and sell orders from the same Participant matching, where both orders have:

- the same first three digits of the Trading PID, and
- the same *NoSelfTrade* key

Participants may choose from the following 3 Self Trade Protection outcomes per order:

- **Cancel Newest** - passive order remains unchanged.

- **Decrement & Cancel** - largest order is decremented and smallest order is cancelled.

- **Booking Purpose** – orders are matched but the trade is converted to a Booking Purpose trade report.

This tool may also ensure broker preferencing does not apply for an order or set of orders, resulting in the order(s) being in the ordinary course of trading.

Technical Specification Details

FIX tag **8174** *NoSelfTrade*: orders with matching *NoSelfTrade* key from the same Participant ID (as determined by the first three digits of the Trading PID), will result in 'Cancel Newest' unless FIX tag **7713** *NoTradeFeat* is populated to instruct Chi-X systems to handle as follows:

- N = Cancel Newest
- D = Decrement & Cancel
- X = Booking Purpose

The OUCH (CHIXOE) specification has equivalent fields to handle self-trade protection.

Note that Booking Purpose trades are not disseminated on public market data feeds.

Please refer to section 10 of the Order Type Overview document for full details.

IN SUMMARY

The ASIC Notice highlights that orders matched otherwise than in price / time priority are not in the ordinary course of trading. This raises issues in relation to the priority principle for orders which use Broker Preferencing: price / visibility / broker / time. Paragraph 13 in the ASIC Notice makes reference to the use of Broker Preferencing in combination with Buy Back events as problematic, but it is also clear that Participants using broker preferencing can use the above tools to ensure their trading on Chi-X is in compliance with ordinary course of business.

Participants must of course always satisfy themselves that their trading is in compliance with all local regulatory requirements.

Please contact your Chi-X Technical Account Manager with any queries.