



4 May 2018

Mr Ben Jackson
Office of the General Counsel
ASX Limited
20 Bridge Street
Sydney NSW 2000

By email: regulatorypolicy@asx.com.au

Dear Mr Jackson

ASX Market Management - Consultation Paper

AFMA welcomes the opportunity to comment on the ASX's Consultation Paper – *ASX Market Management – Consultation Paper on the Management of the ASX Market*.

We note with thanks ASX's active engagement with AFMA members throughout the consultation process and in particular the presentation to members on the 18th of April. We note also the ongoing engagement of ASX on questions of design related to the proposed status server, a process we have confidence will result in a sound outcome for the market.

The Market Management consultation is the third in the series of consultations that have flowed from the September 2016 market outage and is perhaps the most significant. Together the consultations address the issues that arose on the day from the perspective of participants and have the potential to contribute to an improved outcome the next time there is a technology related outage.

We note that there are a range of views among AFMA members on a number of matters in the consultation. As a result we have limited our responses with recommendations to where there is a consensus position or there are consensus preferences.

In addition to the questions raised, AFMA members have suggested that perhaps there should be a stated policy on the minimum trading day allowed, for example a policy could be adopted that the latest the market would open might be 2 pm (time an example only). This would prevent ongoing uncertainty, provide a clear deadline for technical fixes, and avoid disorderly markets caused by too short a trading day, and avoid the situation where some stocks do not open.

The reestablishment of a governance committee with participant representation might also be appropriate to consider similar to the former Market Governors Committee to advise participant views on dealing with market outages on the day or other incidents that might occur from time to time.

We would be pleased to continue to assist ASX with its work in this area.

Yours sincerely

A handwritten signature in black ink that reads "Damian Jeffree". The signature is written in a cursive, slightly slanted style.

Damian Jeffree

1. Do you have any views on ASX sessions states and the proposal to move the Market to the Adjust session state if ASX determines that it will not be detrimental to the resolution of the technical problem or delay the reopening of the ASX market? Please provide reasons for your answer including the practical impact on your operations of being unable to amend or cancel standing orders whilst the market is in an Enquire session state.

All market participants and operators are aligned in efforts to ensure that the next technical outage that occurs on ASX is as well-prepared for and dealt with as smoothly as possible.

The industry recognises the generally very high level of ASX infrastructure “up time”. When there are outages such as that which occurred in September 2016 the industry is keen to ensure that any risk of damage to the reputation of Australia’s markets and the confidence of users of the markets is minimised. In this regard it is critical that the session states are managed in a clear and optimised way for the market as a whole, in order to create the best outcome for the national interest.

AFMA members are understanding of the desire of ASX to hold systems in a ‘no change’ Enquire session state in the first instance while it determines whether moving to an Adjust state will not be detrimental to the resolution of the technical problem.

While the integrity and security of the ASX trading system is a high priority, it is not clear how the proposed procedure would have produced any different outcome during the September 2016 or would have facilitated the orderly transfer of trades from one market venue to another.

Minimizing the impact of the next technical outage depends on how well ASX is prepared and on ASX’s ability to make good decisions under pressure. We recognise that these decisions are difficult to make in the context of incomplete information and the confusion of systems not performing in their expected manner.

As a result, ASX must ensure its processes and responsibility mappings are fit for purpose to ensure these decisions are made as efficiently and accurately as possible. These systems and associated policies must also appropriately manage the conflict of interest that may arise as a result of leaving securities in an Enquire state (which has the potential to deter the use of other trading venues, due to the risk of duplicate fills). For example, if Participants will not have the ability to cancel orders in an Enquire state, ASX should prioritise moving to an Adjust state.

As presented in the paper the process appears subjective – for example, it is not clear how long it would take and on what basis ASX would conclude “there is no further risk to ASX Trade”, as this would be entirely related to the causes of the outage if they were even known at the time. Often times it can take weeks for root causes to be determined.

For this reason we would encourage ASX to consider the following:

- That Enquire while perhaps the initial state in the event of an outage should not be considered the default state during an outage;
- That determining whether the market can be moved to Adjust in an outage be given a high priority;
- 'Cancel on Disconnect' function availability in Enquire reduces the impact of Enquire; and
- In the event the market was left in Enquire for more than a brief period (perhaps up to 20 minutes) that on a later day ASX undertake to provide information to the market on why this was done.

The effect of a frozen order book

Being unable to remove orders has different impacts for different market participants. Those that are not connected to other venues are least affected. For these participants the impact is limited to being unable to respond to requests from clients to remove market orders. The longer orders are in the order book the more chance there is for some to represent stale pricing. Risks of error and loss for these participants are increased by having stale orders in the order book that may be missed on market restart. Moving promptly to Adjust will assist these participants manage these risks and address client requests.

For participants that are connected to other venues these issues are also present, plus there is great reluctance to place duplicate orders on another venue while orders are still on ASX. This is because there is a risk of duplicate fills/errors on resumption on ASX, and the risk of confusion as to which order should be deleted from ASX if some have been trading on other venues. As a result many participants will not move order flows unless and until they are able to be certain that there will not be any risk of duplication of orders.

Market outages create confusion for participants, their systems and clients and as a general rule the more that can be done to reduce the confusion the better. Moving as soon as possible to Adjust without risking further issues goes part of the way to achieving this outcome.

2. Do you have any views relating to the impact on participants of a proposal to remove the 'Cancel on Disconnect' functionality during the Enquire session state?

AFMA notes concerns raised by some members on the removal of 'Cancel on Disconnect' functionality for the Enquire session state. While the removal of this functionality affects participants differently, for those that wish to redirect electronic trading in the event of an outage it is likely to prevent those participants from doing so as the risk exposure would remain uncertain.

'Cancel on Disconnect' is an important safety mechanism for markets and it may be appropriate to have it functional in all market states and particularly those that are associated with outages such as Enquire. When an outage occurs during the continuous matching session a participant may be uncertain about the true state of open orders as there is often an impact time interval where the exchange matching activity and electronic messaging was not behaving in a predictable or confirmed way.

Removing 'Cancel on Disconnect' from Enquire would result in compromise to the functionality of the safety mechanism and will increase risks for electronic trade management systems in dealing with the market.

Having noted this, members are open to discussion on when the orders are actually cancelled. If members can have full confidence that orders from disconnected systems will definitely in all circumstances be cancelled then it may be possible to queue these requests for deletion until the Adjust state is entered. Such a mechanism must be absolutely reliable even in the event of a system malfunction.

For clarity, immediate cancellation is preferable as it gives full confidence to participants their orders will not be duplicated. Recognising the genuine desire for system stability during analysis, a queueing system may be an acceptable compromise.

3. Is 30 minutes a sufficient notification period to advise the market that there is a technical issue that may delay the market opening? If not, please provide reasons.

AFMA supports the 30 minute notification period.

4. Is the proposal to provide 20 minutes notification prior to the transition into the Pre-Open session state (price discovery) and a further 20 minutes of Pre-Open period prior to the resumption of trading sufficient? Please provide reasons for your response.

AFMA supports the proposed timing notification periods as appropriate. They appear to strike the right balance between allowing enough time to get orders ready or removed, and not taking an excessive amount of potential trading time away from the market.

5. Do you support the proposed removal of the staggered opening auction process and move to a single open for the ASX equity market? 6. What impacts do you think this will have on the operation of the market? 7. Will it require you to make systems/operational changes to implement?

There are a range of views on the desirability of moving away from a staggered opening auction for the ASX equity market.

Some participants note additional demands on traders and systems a change would create along with other issues, and would prefer the status quo. While others note the issues associated with index and option products and partially opened markets and the non-alignment with Chi-X and would prefer the proposed change.

There are less concerns about moving to a non-staggered opening for resumption of trading from outages as if the market has already been open for some time and there is enough of the trading day left these are less likely to be significant liquidity events.

8. When a subset of securities are unavailable for trading, what is your opinion as to whether ASX market trading should continue in the other securities available for trading

or should trading be halted across the entire ASX market? Please provide the rationale for your view.

AFMA notes concerns around opening subsets of securities for trading given the issues it creates for index products, dollar neutral baskets, the potential exclusion of significant stocks, and difficulties in treatment of the event under legal documentation with the 'partly open' approach. Several AFMA members had reservations about opening of selected partitions because of the confusion it creates with clients as to whether the market is open or not.

9. When there is a code change for an ASX-listed security, should active orders be: - transferred to the new security code and not purged, as per current process; or - automatically purged as the result of a code change Please specify your preference and provide any reasons to support your position.

There are a range of views on this proposal.