



23 August 2022

Mr Ben Jackson
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Attention: ASX Consultations

By email: consultations@asx.com.au

Dear Mr Jackson

Market Management Consultation

The Australian Financial Markets Association (AFMA) welcomes the opportunity to comment on ASX's Market Management Consultation.

AFMA has a long history of contributing to the development of the market including in its responses to outages. We support ASX's review of its practices in relation to outages particularly in the context of changed regulator expectations. We recognise that the second market management consultation scheduled for September will be the forum for the consideration of more substantial changes but have flagged some potential directions in this paper.

Please find attached our responses to selected questions from the consultation paper.

We note that there are a range of views within the AFMA membership on a number of the questions ASX raises, our submission endeavours to highlight areas of consensus and note where views vary.

We value ASX's engagement on these issues including recent discussion with our committees and look forward to continuing the dialogue.

Yours sincerely

Damian Jeffree
Senior Director of Policy

Responses to consultation questions

2. Certainty about trade and order status

2.3 Matching engine impacts

Question 2.3: If circumstances arise such that all orders in ASX Trade are lost, to what extent are you able to act on a formal notification from ASX (e.g. an ASX Notice or an update to the ASX SSP) that all orders have been deleted without systematic messaging through the normal channels?

Please detail any technical, operational or compliance challenges you might experience?

AFMA will leave this question to individual firms as technical arrangements will vary.

2.4 Market data and private data impacts

Question 2.4: What views do you have on the benefits and risks of ASX unfreezing the ASX market where doing so would result in the publication of erroneous ASX market data and/or private data?

If you see benefits, how will you accommodate the uncertainty that unfreezing the ASX market in such circumstances would create?

AFMA agrees that the market should be frozen for a period of time in the event of an outage to assist ASX diagnose and address underlying issues in a more stable environment.

AFMA understands that the regulator now attaches a high value to the ability to remove orders from the CLOB during an outage so that trading can commence on an alternative venue:

ASIC Expectation E2:

ASX should explore alternatives to the Enquire session state for mitigating risks to its trading system and market data from order amendments during market outages, and assess options that allow participants to manage their orders. This may involve purging some (i.e. good-for-day) or all orders submitted on the day after a specified checkpoint time, or developing additional session states, and will require further consultation with participants.

Increasing the “options that allow participants to manage their orders” in line with ASIC Expectation E2 would suggest future arrangements should allow more amendment capability than is available in ENQUIRE mode be made available sooner than has been the case.

Some members have suggested a cancel-only mode (‘CANCELONLY’). This mode would not allow amendment of orders but would allow cancellation of orders. This mode would not involve the creation of new or split orders or changes in price and volume of existing orders. There are a range of views on this proposal.

AFMA supports greater certainty around order states. Members report that manual reconciliation is difficult for firms with significant number of orders. Members caution that any reliance by brokers on different mechanisms and inconsistent data could result in inconsistent status across different Market participants.

3. Session states, intraday cut-offs and checkpoint times

3.2 Incident management: Freezing the ASX market

Question 3.2: What views do you have about ASX freezing ASX Trade in circumstances where an issue has been assessed to result in uncertainty on the status of ASX Trade and/or the data disseminated by ASX Trade?

Please provide reasons why you believe this is or isn't the correct course of action?

What are some of the challenges a freeze presents?

AFMA supports using ENQUIRE as the initial session state during an incident to enable ASX to undertake an initial assessment in a reasonably stable data environment.

AFMA supports moving the market as soon as safely possible, in terms of data and order status, during an outage to more flexible modes in order to meet the regulatory expectations of ASIC.

Please see our comments in relation to 2.4 for more discussion.

3.3 ENQUIRE

Question 3.3: What benefits and risks do you think arise when using ENQUIRE as the initial session state during an incident? If not, what alternative session state would you propose and why?

ENQUIRE is an appropriate initial state to use during an incident.

Given the changed regulatory expectations noted above, the risk of the use of ENQUIRE for an extended period is that market operators and participants may not be able to meet the expectations to move trading to alternative venues in a timely manner.

Participants report that they and their clients are unlikely to move orders where a risk of double execution remains due to orders being unable to be deleted.

3.4 Use of cancel on disconnect in ENQUIRE

Question 3.4: What benefits and risks arise if ASX discontinues the availability of cancel on disconnect functionality in ENQUIRE? If cancel on disconnect was to remain, how will

you accommodate the potential unreliability of the data that the cancel on disconnect could create?

There are a range of views on the Cancel on Disconnect (CoD) functionality.

Some firms that do not use the functionality support its removal from ENQUIRE.

For firms that use the functionality some note that making CoD a less certain mechanism that will not work in some circumstances (where connection is lost during ENQUIRE) would not be compatible with the emergency risk minimisation nature of the functionality, and the typical functionality for this type of feature internationally.

For these firms, continuation of CoD has the benefit of increasing certainty around which orders are at risk of being double executed. In doing so it facilitates the movement of orders to secondary markets and the continuation of trading. In their view the risk of some partially incorrect fill information for a short period of time is justified to so that cancels can be processed to allow resumption of trading on the secondary venue.

3.5 Use of ENQUIRE in the equity options market

Question 3.5: What benefits and risks arise by removing ENQUIRE from the closing sequence of the Equity Option Market? Does this change, to restrict the Enquire session state to incident management only, create any operational concerns. How does replacing the ENQUIRE Session State with a new session state 'ADJUST_OPTIONS' for the closing sequence of the Equity Options Market impact your systems/operations?

No concerns raised.

3.7 Considerations for the use of ADJUST in incident management

Question 3.7: What are the benefits and risks of moving to ADJUST (or any other session state) that permits deletion or amendment, when there is no certainty that ASX market data and private data are correct?

More data is produced in ADJUST and this data may also be in error during an incident. Members share ASX's concern around unnecessarily creating data via amends in ADJUST mode.

States like ADJUST allow retail customers to remove holds on stock and cash on trading platforms and prepare for the replacement of these orders on an alternate venue.

3.8 Incident management: unfreezing the ASX market

Question 3.8: Do you consider the tests above are appropriate and sufficient to determine if ASX can unfreeze the ASX market? If not, what additional tests should be considered?

There are a range of views on these questions.

Question 3.9: Do you consider 45 minutes to be an appropriate period between each assessment of the feasibility of resuming the ASX market? If not, what period do you consider appropriate and why?

AFMA supports the proposed period.

3.10 Assessment of the backstop time for resuming the ASX market

Question 3.10.1: Do you consider the current minimum timings for the resumption sequence to be sufficient? If not, what periods do you consider appropriate for notice and for PRE-OPEN and why?

A variety of times ranging from 40 minutes to 60 minutes were reported as sufficient to cover the restart of the systems.

Question 3.10.2: What are the benefits and risks if ASX does NOT change the timing of the closing auction sequence as a result of an incident? What system changes would be required for you, if the closing auction time was extended? What would be the latest time for the closing auction sequence to commence?

AFMA recommends that ASX does not change the timing of the closing auction sequence as a result of an incident. Participants report that changes to the timing of the closing auctions presents challenges in relation to session state management and execution challenges for systems given the associated change to volume profiles. Changes to the closing auction risk creating operational issues to due flow on impacts to batch processes and global systems and processes.

Question 3.10.3: Taking into consideration the resumption session state sequence what would you consider an appropriate backstop time for the final determination of the resumption of the ASX market and why?

There are a wide range of views on the appropriate backstop timing.

ASX should endeavour to ensure that following a call of down for day the market has firm confirmation of trades executed and that cancels received have been (or will be) processed.

4. Incident communications

4.2 Feedback identified in REP 708

Question 4.2: Do you consider half-hourly updates are appropriate? If not, what frequency would you propose?

Yes. We support current arrangements.

4.4 Content of the system status page updates

Question 4.4: Do you consider that the proposed scope of content of updates to the SSP is sufficiently comprehensive? If not, what other items of information would you propose are included?

AFMA supports the proposed additional information.

Members also suggest the following information:

- A summary of the nature of the issue.
- A note of which gateways and services are impacted e.g. ITCH, OUCH, OMnet, Signal B.
- Status of clearing services and settlement services.
- Flexibility be maintained to supply additional information as appropriate to the circumstances of an outage.

AFMA would support RSS or API feeds to allow better connectivity with the information on the System Status Page, and the establishment of an open conference line.

5. Dependencies

5.2 ASX Participants and ASX subscribers

Question 5.2.1: To what extent are you able to manage orders in your systems where the current state of orders in ASX Trade is uncertain?

Question 5.2.2: To what extent are you able to manage orders in your systems where the state of orders in ASX Trade is certain but there is no systematic messaging from ASX Trade? Do you have procedures for such circumstances?

Question 5.2.3: To what extent are you able to rely on the certainty that no trades will execute on the ASX market during an incident?

Question 5.2.4: To what extent are you able to rely on the certainty that you will be able to delete or otherwise manage all orders on the ASX market before trading resumes on the ASX market?

Question 5.2.5: Aside from the points in the preceding questions, what other factors prevent you from managing orders in your systems during an incident on the ASX market?
ASX would encourage stakeholders to provide additional feedback on topics which they feel to be of relevance and which may not been specifically referenced to in this first consult paper.

AFMA defers to individual firms as technical arrangements will vary but notes that systemic messaging is preferred.