

# Equity Trading

It's *VolumeMatch* & *CentrePoint* in the ASX trading game

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# Agenda



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AUSTRALIAN SECURITIES EXCHANGE

- 1. Global Developments - Equities**
- 2. Drivers of Change - Australia**
- 3. ASX Response - Technology**
- 4. ASX Response - Functionality**

# Global Developments

Equities 2004 - 2009



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1. **Technology**
2. **Buy-side influence & sophistication**
3. **Broker prop trading**
4. **DMA/Algo v. Large Order Execution**
5. **Demand for anonymous trading**
6. **Capacity, latency, cost, functionality**
7. **Regulatory reforms - RegNMS, MIFID**
8. **Proliferation of alternate trading venues – alternate functionality**

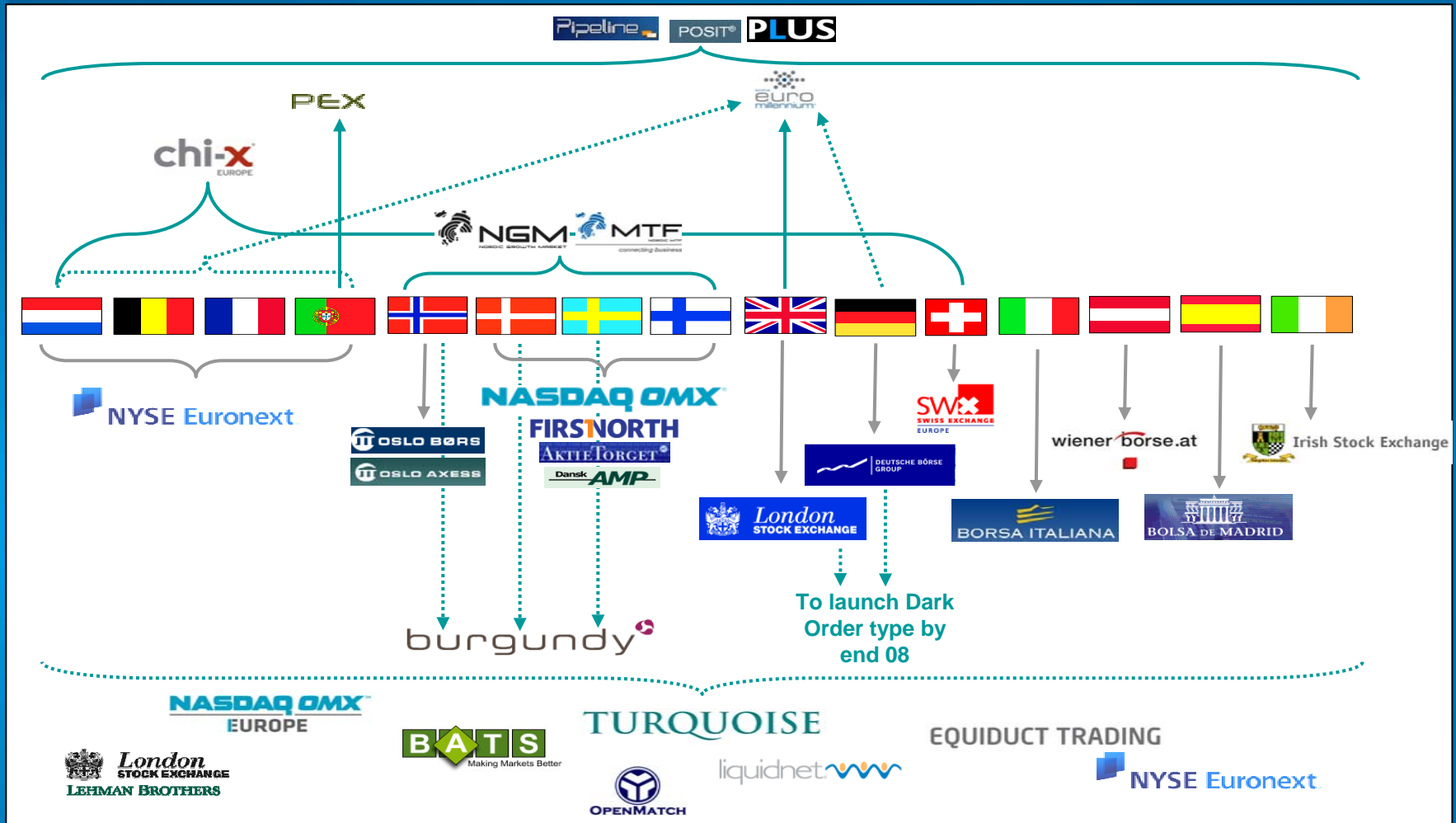


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# European Primary Venues



# Alternative venues for trading are increasing...



Source: UBS

# Drivers of change

## ADV - Cash Equities



Average Daily Value Total



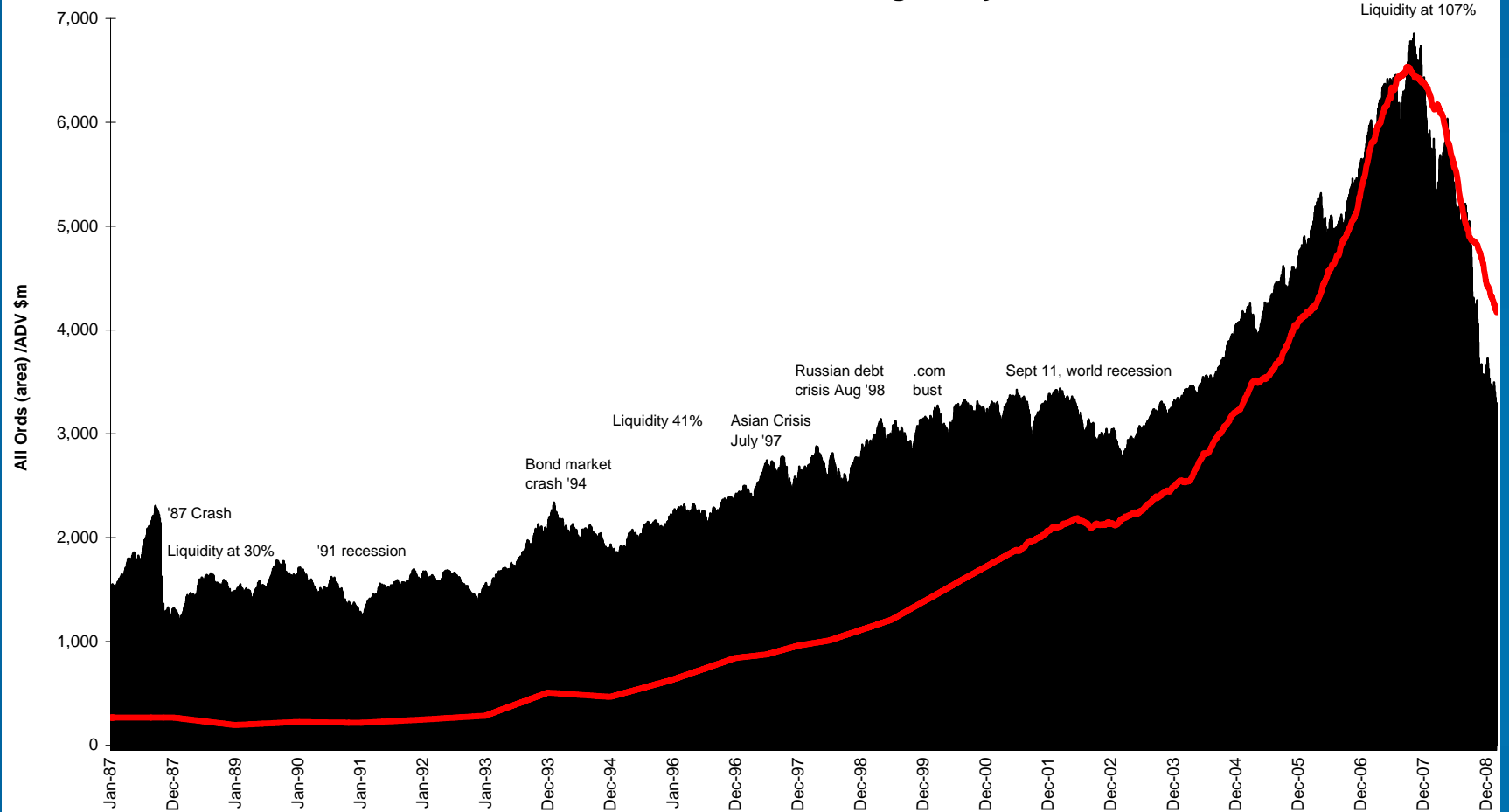
Note: Total of Equities, Interest Rate Markets and Warrants

# Drivers of change

ADV - Longer Term



### S&P/ASX All Ordinaries and average daily value



ADV is a 252 day moving average. Pre-2002 ADV is linear interpolation of annual data.

# Drivers of Change

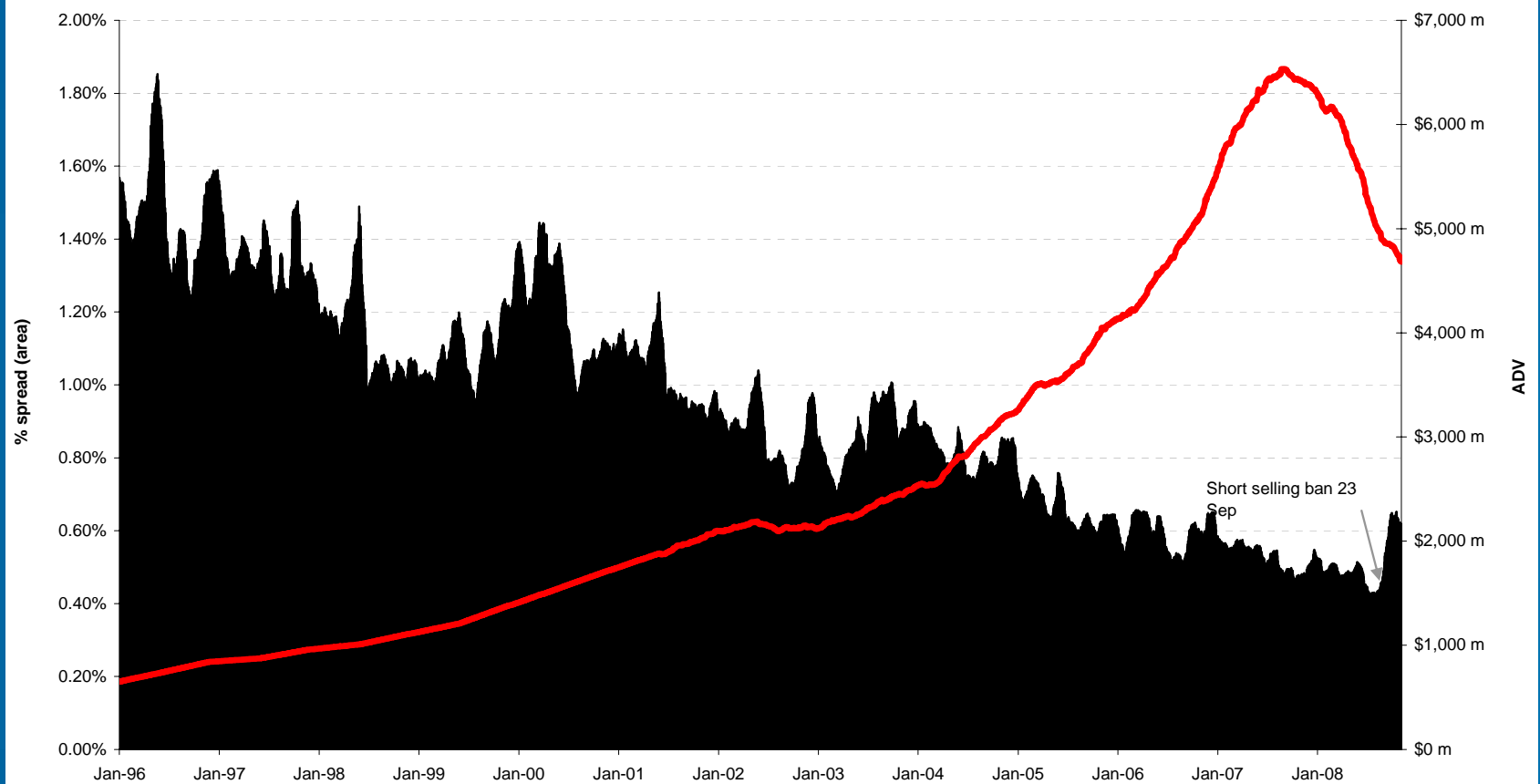
ADV growth equates to lower spreads



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### Spreads and average daily value



% spread is monthly average spread for all equities. ADV is a 6-month moving

# Drivers of Change

DMA/Algo - average trade size



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### Trade Count vs Average Trade Size



Note: Total of Equities, Interest Rate Markets and Warrants

Trade Count (LHS)

Average Trade Size (RHS)

# ASX Response

Capacity, Latency & Throughput



## Faster Systems, Higher Volumes

- ITS Upgrade I - May 08
  - 1m tpd
- ASX Network Upgrade - Nov 08
  - 2meg lines
- ITS Upgrade II - 16 May 09
  - Itanium hardware
  - 2m tpd
  - Messages per second - *5k to 20kps*
- Co-Location Hosting – Nov 08
  - Network latency
  - 20 Brokers & Market Makers
  - Co-Lo in ASX Bondi facilities
  - Sub 1ms network latency
  - Co-Lo II – SYCOM & beyond – *2009/10*

# ASX Response

## Trading Functionality



### – Execution

- Functionality: Undisclosed, Icebergs, Portfolio Crossings
- Functionality: Centre Point & Centre Point Crossings
- *'VolumeMatch'* - Large Order Execution service

### – Block Special Threshold, 3 Tiers

- Why do we have a limit at all?
- Do we need a BSC?
- Why three levels?
- RegNMS v MIFID

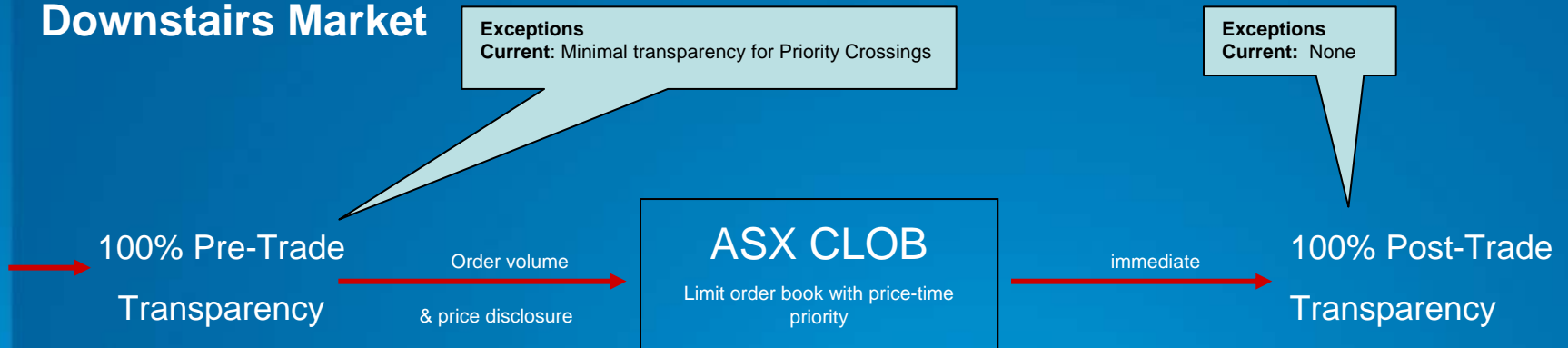
### – Ten Second Rule

- Removing the 10 sec element of ACE
- Removing ACE in a later release
- Centre Point Priority Crossings – No ACE

# Cash Equity Microstructure - Current

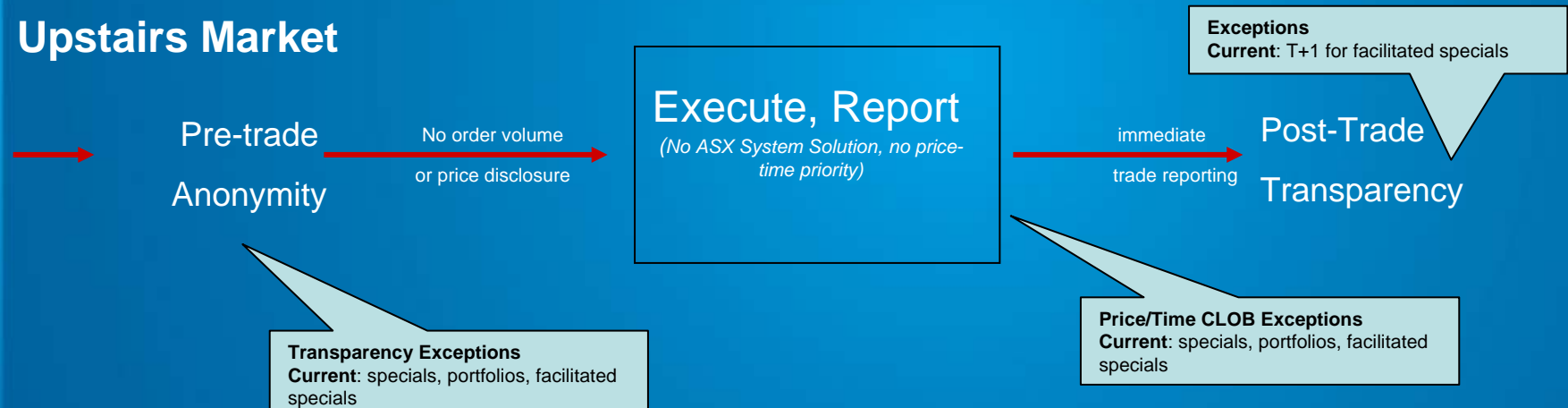


## Downstairs Market



BSC Threshold \$1m

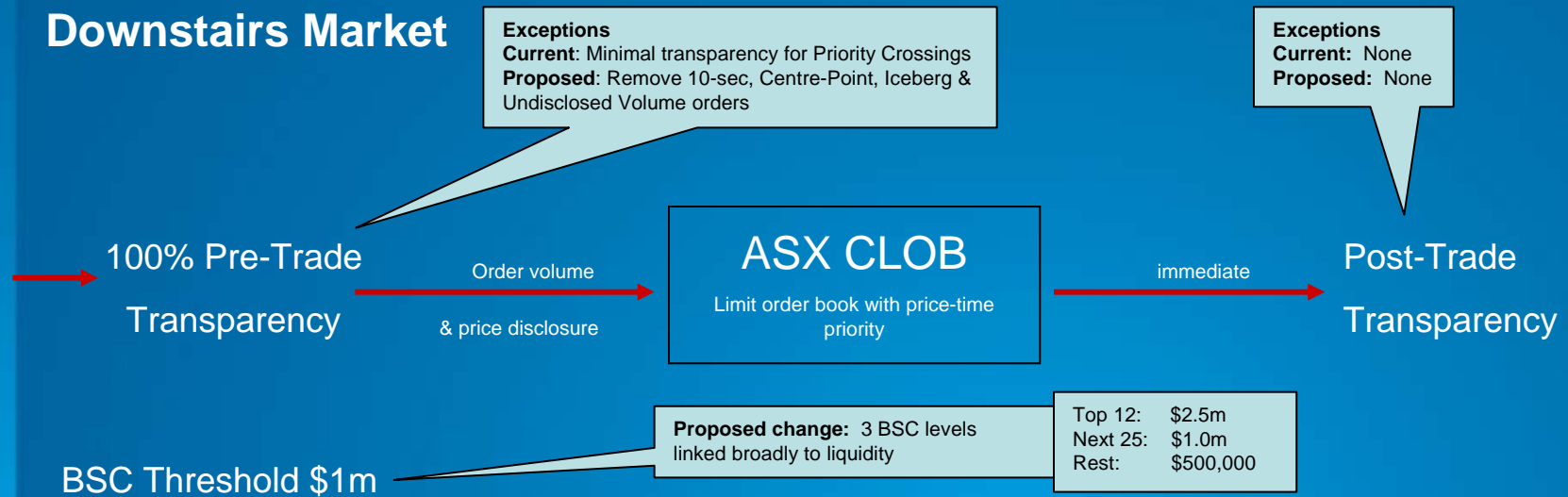
## Upstairs Market



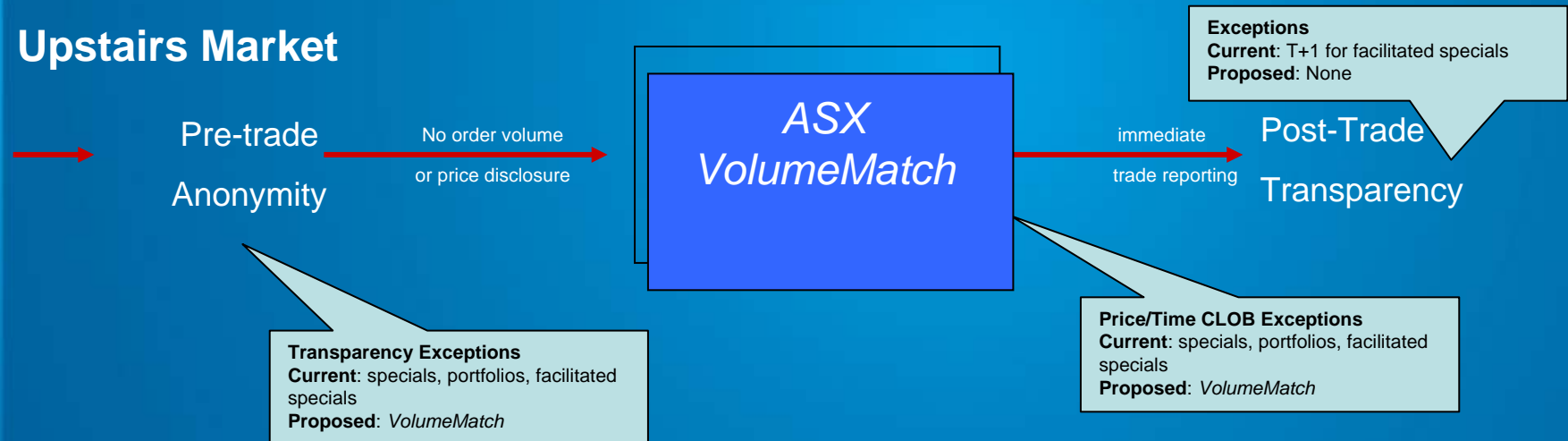
# Cash Equity Microstructure - Proposed



## Downstairs Market



## Upstairs Market

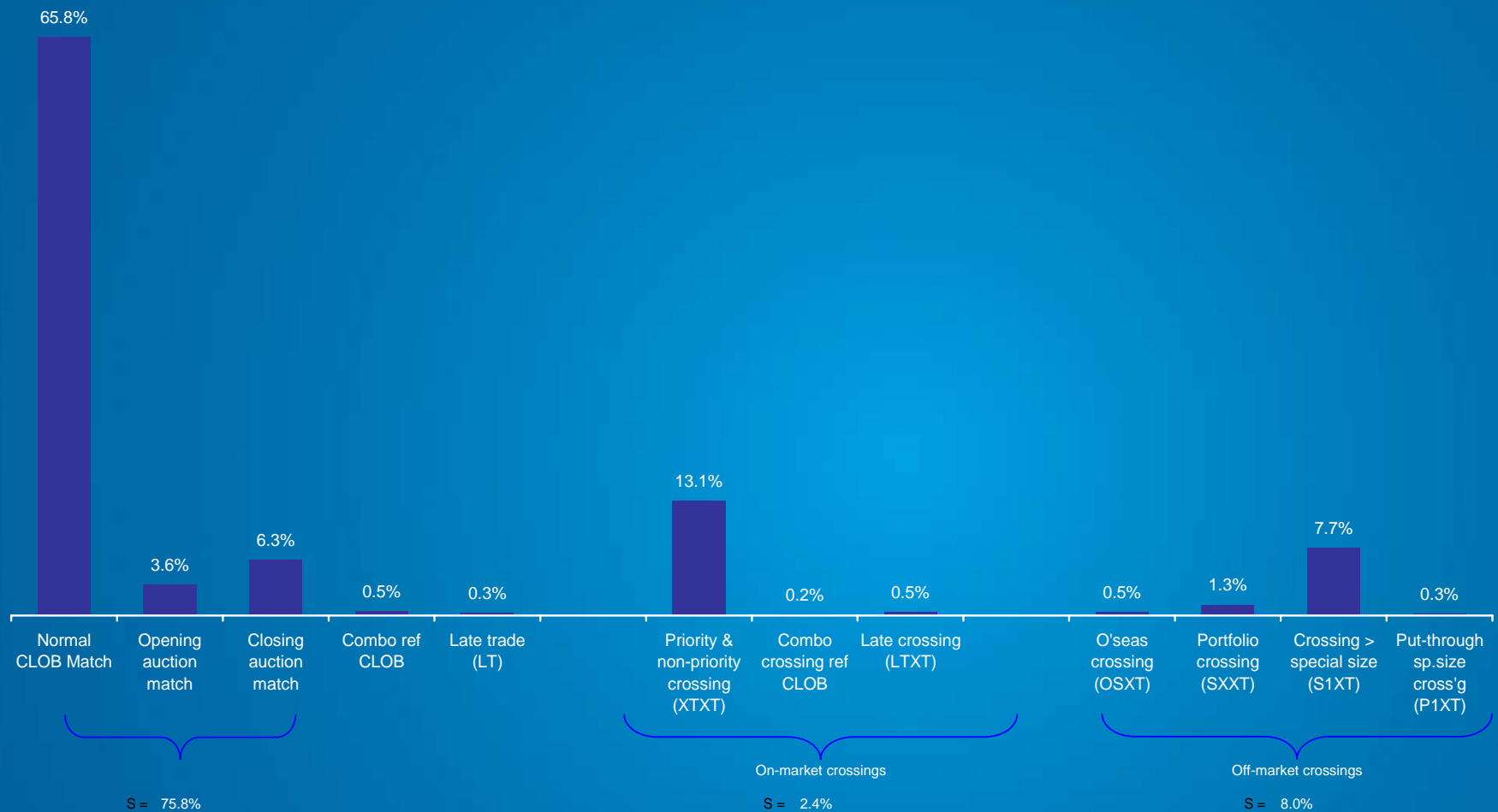


# CLOB v Crossings

Relativities of the upstairs to downstairs markets



ASX Traded Value by Condition Code: Apr-09

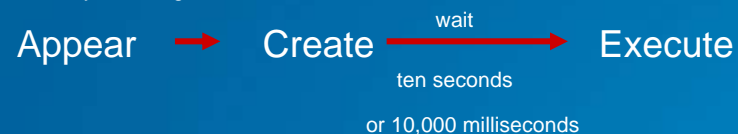


# Functionality Changes



## Ten Second (or ACE) Rule

Priority Crossings



## Icebergs

Partially hidden order

Order: 5,000,000 BHP @ \$34.50

CLOB: 5,000 BHP @ 34.50

Hidden Vol: 4,995,000 BHP @ 34.50

Max ratio disclosed : total = 100

## Undisclosed Order

Partially hidden order

Order: 5,000,000 BHP @ \$34.50

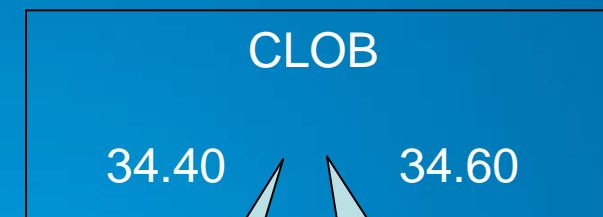
CLOB: u/ BHP @ 34.50

Min Order size: \$500k

## Centre Point Orders

Anonymous Orders at the CP Price

Order: 5,000 BHP @ \$34.50



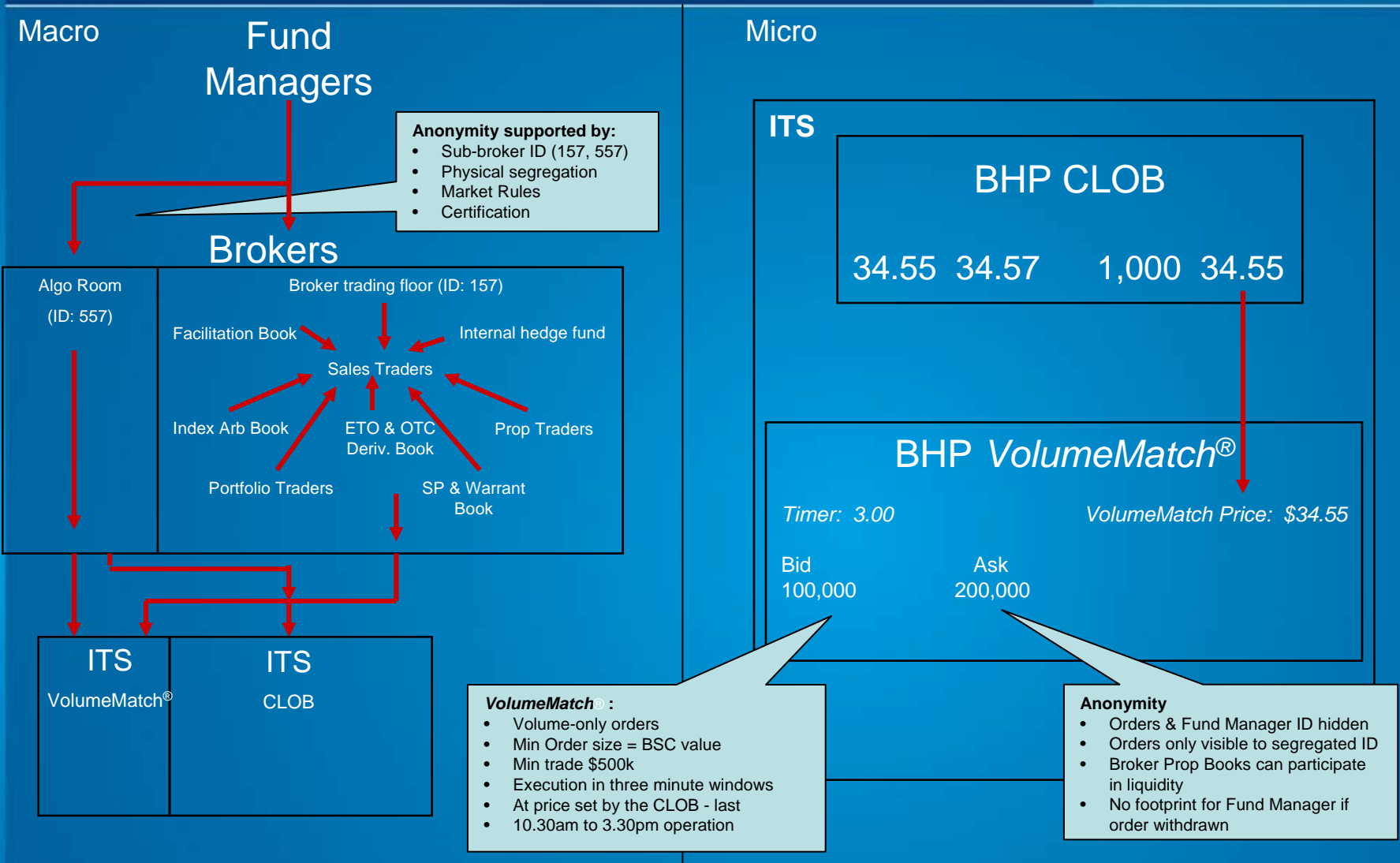
### Centre Point Crossings:

- Priority Crossings at the CP price
- No ACE or 10 second rule
- Once engaged – can hold CP price for 30 sec to allow negotiation

### Centre Point Price: \$34.50

- Un-priced, volume-only orders
- Only interact with other CP orders
- Anonymous book sitting between the spread
- Market & Market to Limit options

# VolumeMatch®



# Order Segregation for *VolumeMatch*<sup>®</sup>



- Why?
  - It won't work otherwise
  - Needs to be seen to work by the buy-side
  
- What?
  - Agency & Prop Houses
    - Full separation of client *VolumeMatch*<sup>®</sup> activities
  - Agency-only, Prop-only - no need
  - Separate broker Ids
  - Designated OI devices
  - Operational and physical segregation
  - No disclosure across client/prop segregation
  - Management and exec responsibility
  
- How?
  - Broker responsibility - before access
  - Initial & Annual Independent Certification
  - ASXMS actions for Breach:
    - Name & shame
    - Minimum 3 month *VolumeMatch*<sup>®</sup> ban