



Consultation Paper 03/2016 on the proposed amendment of the Operating Rules: Procedures to:

- **Changes to the trading time for warrants.**

4 November 2016

Consultation Closes: 25 November 2016

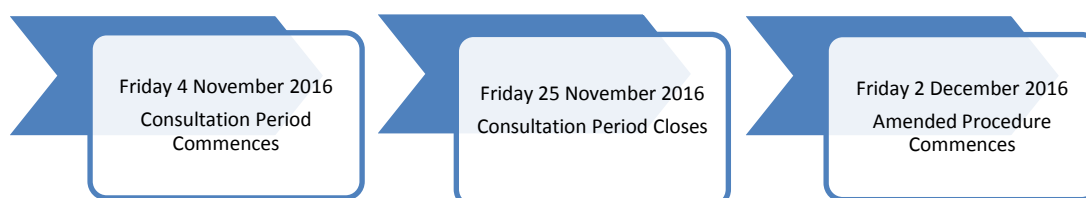
Chi-X Australia Pty Ltd

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Consultation on the proposed Amendment of the Chi-X Operating Rules: Procedures

1. Introduction

- 1.1.1 Chi-X Australia Pty Ltd (Chi-X) is proposing minor changes to the continuous trading phase for warrants. The proposed changes will enable Chi-X to align the trade execution possibilities for warrants on the Chi-X and ASX warrant markets.
- 1.1.2 The continuous trading phase for all securities and warrants traded on the Chi-X warrant market currently runs from 10.00 to 16.12. Under the proposed changes, it will be possible for participants to trade warrants during a warrants only continuous trading phase that will run from 09.50 to 16.30. Participants will be able to submit, amend, or delete orders for warrants during this time.
- 1.1.3 Section 2 below outlines the rationale for and outcomes of the proposals. Section 3 sets out the amendments to the table in paragraph 1.1 of Procedure 4.2 that are required to extend the continuous trading phase for warrants only from 09.50 to 16.30. No other rule or procedure changes are required. The trading phases for all non-warrant products will remain unchanged. The proposed changes to the Chi-X Operating Rules: Procedures (Procedures) are set out in **attachment one**. While the proposed changes will involve a minor extension to warrant trading times, the continuous trading phase will still run for a period less than most global markets – see **attachment two**.
- 1.1.4 Feedback is sought from all interested stakeholders on the proposed amendments to the Procedures.
- 1.1.5 The consultation period is open until 25 November 2016. Participants are invited to provide comments on or before that date on any aspect of the proposal or any related topic. All submissions will be treated confidentially unless a submitting entity expressly states otherwise.
- 1.1.6 It is proposed that the amendments will take effect from Friday **2 December 2016**. There will be no technological impact for brokers in that no systems upgrade will be necessary to accommodate the changed trading phases.



2. The proposed change

2.1.1 The following trade execution possibilities are currently available on other warrant trading platforms in Australia but not on Chi-X:

- (i) Order book trading is available between 09:50 and 10:00 in warrants based on commodities, currencies and indices;
- (ii) Hedging and order completion trading is available between 16:12 and 16:42.

2.1.2 The proposed changes to the Chi-X continuous trading phases seeks to ensure Chi-X offers equivalent execution possibilities in these areas.

2.2 The 09:50 commencement

2.2.1 The ASX currently commences trading at 09:50 in ASX commodity, currency and index underlying warrants.

2.2.2 Chi-X would like the Continuous Trading phase for Chi-X warrants to start 10 minutes earlier at 09.50 so it can compete at the start of the trading day on a level playing field with ASX currency, commodity and index warrants. This will align the execution possibilities available on Chi-X and ASX markets in these products.

2.2.3 Chi-X is of the view that there is merit in a single continuous trading session applying to all warrants trading and is proposing that rather than split warrant trading hours, all warrant products will commence continuous trading at 09:50am. This will mean that Chi-X warrants based on ASX listed stocks will open at least 10 minutes before underlying assets are available for trading. Chi-X expects there to be limited trading during this period given the restrictions the lack of trading in the underlying may pose for the hedge of the product. As a hedge in the underlying assets may be unavailable at this time, Chi-X is not proposing to extend the market making obligations into the 09:50am to 10:00am period.

2.3 The 16:30 close

2.3.1 The ASX offers participants the ability to complete one sided trade reports¹ during the period 16:12 to 16:42. This enables participants to:

- (i) close out hedging positions at that day's closing price;
- (ii) complete trades that did not match during the closing single price auction;

¹ A 'one sided trade report' is so called because two participants each submit their own side of the off market transaction as a trade report. The two reports are matched and validated by the operator. Some market participants refer to these as two sided trade reports.

- (iii) complete trades which narrowly missed the execution during the closing single price auction; or
- (iv) amend trades or cancel unwanted trades.

2.3.2 The Chi-X trading system does not have the same functionality with respect to one sided trade reports. This limits the ability of participants to execute off market transactions in Chi-X quoted warrants after 16.12. Extending the closing time for trading warrants from 16.12 to 16.30 will allow Chi-X participants to execute trades that represent the same execution outcome as the one sided trade reports.

2.3.3 It will also be possible for normal trading to occur in this period but Chi-X expects there to be little or no trading other than hedging transactions at the ASX closing price given the limited ability of market makers to warrant transactions during the 16:12 to 16:30 period

2.4 Risk of extending warrant trading hours

2.4.1 Registered market makers are required to ensure a reasonable bid and volume is maintained for 90% of the time for all warrants from 10:15 until 16:00. Chi-X is not proposing to extend the time during which liquidity must be maintained by a market maker, notwithstanding the extension of the continuous trading phase for warrants. This may increase the risks of aberrant trading/orders being submitted by participants in the absence of market making quotes. Chi-X is of the view that these risks are largely theoretical and can be mitigated by the existing systems and controls of the Chi-X market.

3. The proposed amendments – Procedure 4.2

3.1.1 Rule 4.2 of the Operating Rules (Rules) states that Chi-X will determine and set out in the Procedures the hours of operation of the Chi-X market and that participants may only submit, amend, or delete orders during the times specified in the Procedures.

3.1.2 The table in paragraph 1.1 Procedure 4.2 currently states that:

- (a) the Chi-X market is in continuous trading from 10.00 to 16.12; and
- (b) the post trading administration phase runs from 16:13 to 18:55.

3.1.3 Chi-X is proposing to introduce a new:

- (a) Continuous Trading phase for warrants only that will run from 09.50 to 16.30; and
- (b) post administration phase for warrants only that will run from 16:30 to 18:55.

3.1.4 Apart from some minor clarifications proposed to make it clear that some phases operate in parallel, the table in paragraph 1.1 of Procedure 4.2 will otherwise remain the same. The supported functions during the specified phases are unchanged.

- 3.1.5 The proposed amendments to the table in paragraph 1.1 of Procedure 4.2 are set out in **Attachment One**.
- 3.1.6 Chi-X is not proposing any other amendments to the Procedures.
- 3.1.7 In addition, participants have noted that international warrant markets trade for longer hours than that offered in Australia. For example, the Frankfurt and Stuttgart stock exchanges, two of the world's largest warrant market places, offer warrant trading from 09.00 to 20.00 each trading day. A comparison of international warrant market trading hours can be found in **Attachment Two** below.

4 Responses

- 4.1 Responses and any queries concerning this submission should be directed to:

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- 4.2 Any posted submissions should be addressed to:

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ATTACHMENT ONE

PROPOSED AMENDMENT TO PROCEDURE 4.2 ON THE HOURS OF OPERATION

In the following text, double underlined red text indicates text that it is proposed be inserted and ~~strikethrough~~ indicates text that it is proposed be deleted.

Section 4: TRADING

P4.2: Hours of Operations

1. Trading phases

1.1 The trading phases for the **Chi-X market** are set out below:

Phase	Time AEST	Supported Functions
Technical Connectivity	06:00	<ul style="list-style-type: none"> Commencement of technical connectivity to the Chi-X market. Participants may login to the Chi-X technical infrastructure.
Pre-Market	06:35 until 10:00 ^{09:59}	<ul style="list-style-type: none"> Participants may check connectivity and details concerning securities available for trading but will <u>not</u> be able to enter orders into the Chi-X market; The Chi-X trading system will not match orders <u>except for warrants from 09.50 to 10.00</u>; Participants may report trades under the rules by the time specified in the Market Integrity Rules (Competition in Exchange Markets).
<u>Continuous Trading (warrants only):</u>	<u>09.50 until 16:30</u>	<ul style="list-style-type: none"> <u>Participants may only enter warrant orders into the Chi-X market;</u> <u>Warrant orders are matched in accordance with the rules;</u> <u>Trade reporting is supported in accordance with the rules;</u> <u>Until 10am, this phase operates in parallel with the Pre-Market phase for all products that are not warrants.</u>

<p>Continuous Trading (<u>non-warrants</u>):</p>	<p>10.00 until 16.13²</p>	<ul style="list-style-type: none"> • Participants may enter orders into the Chi-X market, including hidden but not visible MOC orders; • Orders are matched in accordance with the rules; • Trade reporting is supported in accordance with the rules; • <u>This phase operates in parallel with the continuous trading phase (warrants only)</u>;
<p>@Last</p>	<p>16:12 until 16:20</p>	<ul style="list-style-type: none"> • Participants may only enter visible and hidden MOC orders into the Chi-X market in this phase; • MOC orders are matched in accordance with the rules; • <u>This phase operates in parallel with the Post Trading Administration (non-warrants) and Continuous Trading (warrants) phases.</u>
<p>Post-Trading Administration (<u>non-warrants</u>)</p>	<p>16:13 until 18:55</p>	<ul style="list-style-type: none"> • This phase initially operates in parallel with the @Last Trading phase. The following applies <u>during this phase</u>, to non-MOC orders for financial products other than warrants during this phase: <ul style="list-style-type: none"> ○ Participants cannot enter or amend orders but may cancel orders; ○ The Chi-X trading system does not match orders in this phase; ○ Participants may report trades under the rules; ○ All orders remaining in the Chi-X market at the end of this phase will automatically be cancelled. • <u>This phase initially operates in parallel with the @Last and the Continuous Trading (warrants only) phases.</u>

² The trading phases table does not go to seconds and so to align the end of the Continuous Trading phase with the start of the Post-Trading Administration (non-warrants) phase, we are going to set the end of the Continuous Trading phase to 16.13.

<p><u>Post-Trading Administration (warrants only)</u></p>	<p><u>16:30 until 18:55</u></p>	<ul style="list-style-type: none"> • <u>The following applies to warrant orders during this phase:</u> <ul style="list-style-type: none"> ○ <u>Participants cannot enter or amend orders but may cancel orders:</u> ○ <u>The Chi-X trading system does not match orders in this phase:</u> ○ <u>Participants may report trades under the rules:</u> ○ <u>All orders remaining in the Chi-X market at the end of this phase will automatically be cancelled.</u> • <u>This phase operates in parallel with the Post-Trading Administration phase.</u>
<p>Technical Connectivity Ends</p>	<p>19:00</p>	<ul style="list-style-type: none"> • All participant connections to Chi-X are closed. • Intraday trade cancellations no longer possible.

ATTACHMENT TWO

INTERNATIONAL WARRANT TRADING HOURS

	Country	Open	Close	Reference
1	Switzerland	9:15	17:15	https://www.six-swiss-exchange.com/shares/trading/trading_hours_en.html
2	Frankfurt	9:00	20:00	http://www.xetra.com/xetra-en/trading/trading-information/trading-hours
3	Stuttgart	9:00	20:00	https://www.boerse-stuttgart.de/en/company/all-about-trading/trading-times/
4	Copenhagen	9:00	16:55	http://www.nasdaqomxnordic.com/tradinghours
5	Stockholm	9:00	17:25	http://www.nasdaqomxnordic.com/tradinghours
6	Helsinki	10:00	18:25	http://www.nasdaqomxnordic.com/tradinghours
7	Milan	9:00	17:25	http://www.borsaitaliana.it/borsaitaliana/pubblicazioni/pubblicazioni/sedex.en.pdf
8	Madrid	9:00	17:30	http://www.bolsamadrid.es/ing/Inversores/Agenda/HorarioMercado.aspx
9	Singapore	9:00	17:00	http://www.sgx.com/wps/portal/sgxweb/home/products/securities/structured-warrants
10	Hong Kong	9:30	16:00	https://www.hkex.com.hk/eng/market/sec_trading/tradcal/tradcal_1.htm
11	Taiwan	9:30	16:00	http://www.twse.com.tw/en/products/trading_rules/trading_hours.php
12	Thailand	10:00	16:30	http://www.set.or.th/en/products/trading/equity/tradingsystem_p2.html
13	Malaysia	9:00	16:50	http://www.bursamalaysia.com/market/securities/equities/trading/trading-sessions/