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Attention: Ms Diane Lewis

Via email: regulatorypolicy@asx.com.au

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Dear Ms Lewis

IMC PACIFIC PTY LTD – RESPONSE TO ASX ETO CONSULTATION PAPER

Thank you for this opportunity to provide comment on ASX's Consultation on automatic exercise.

On behalf of IMC Pacific Pty Ltd (IMC), a company within the global IMC Financial Markets group, we provide below:

- a) a brief overview of IMC (Section A); and
- b) IMC's views in response to the Consultation Paper (Section B).

A. IMC PACIFIC PTY LTD

1. IMC Pacific Pty Ltd, trading as IMC Financial Markets, is a wholly-owned subsidiary of IMC Financial Markets, a Netherlands based global proprietary trading firm established in Amsterdam in 1989. Since its establishment, IMC has specialised in making a market for a range of financial products, including derivatives, equities and ETFs, on exchanges around the world. In addition to Amsterdam, IMC presently has subsidiaries or offices in Chicago, Hong Kong, Zug and Sydney. Collectively, IMC trades across markets in Europe, the United States and the Asia Pacific region, including Hong Kong, Japan and Korea. IMC trades on the ASX and ASX 24 market platforms, and is a registered market maker of Exchange Traded Options (ETOs).
2. The comments provided below reflect IMC's experience of over 20 years trading in these various markets and our observations of both regulatory and technological developments in these jurisdictions.

B. RESPONSE TO THE CONSULTATION PAPER

Automatic exercise for in-the-money cash settled ETOs

Q1. Do you agree that ASX Clear should change its current policy and provide for automatic exercise as the default position for all **in-the-money** cash settled option contracts on the expiry date? Please set out your reasons.

A1. Yes. IMC believes that this change will reduce the number of instances where clearing participants might choose not to exercise an in-the-money cash settled option contract in error.

Q2. If ASX Clear were to implement the proposal for automatic exercise as the default position for all **in-the-money** cash settled options contracts, do you support ASX Clear providing the ability for clearing participants **to exclude automatic exercise** for a specific option position? Please set out your reasons.

A2. Yes. IMC believes that in some situations a market participant may not want to exercise an in-the-money cash settled option contract, and as such a clearing participant should have discretion to exclude automatic exercise for a specific position. Such situations would include where an option is in-the-money, but the fee for exercising that option exceeds the value of the position.

Automatic exercise for in-the-money deliverable ETOs

Q3. Do you agree that ASX Clear should change its current policy and provide for the automatic exercise as the default position for all **in-the-money** deliverable option contracts on the expiry date? Please set out your reasons.

A3. Yes. As with the change for cash settled contracts, IMC believes that this change will reduce the number of instances where clearing participants might choose not to exercise an in-the-money deliverable option contract in error.

Q4. If ASX Clear were to implement the proposal for automatic exercise as the default position for all **in-the-money** deliverable options contracts, do you support ASX Clear providing the ability for clearing participants **to exclude automatic exercise** for a specific option position? Please set out your reasons.

A4. Yes. As with cash settled option contracts, there may be situations where a market participant would want to avoid exercising an in-the-money deliverable option contract. In these circumstances, clearing participants should be able to exclude these option contracts from automatic exercise.

IMC would also note that for consistency, and in order to further reduce operational risk, if ASX decide to provide clearing participants with discretion to exclude in-the-money deliverable option contracts from automatic exercise, it should also provide the same discretion for cash settled option contracts.

ASX Clear approach for exercise errors

Q5. *Do you agree that ASX Clear should change its current approach to addressing participant exercise errors notified to ASX Clear? Please set out your reasons.*

A5. Yes. Within the consultation paper, ASX notes that the current ASX Clear Operating Rules do not provide for any remedy in the event of an error in exercise, but that ASX Clear has (at its discretion) previously taken steps to facilitate an error being addressed.

The current policy of ASX Clear in exercising this discretion is unclear and should instead be clearly set out in the Operating Rules. By clearly defining the role of ASX Clear in such situations, clearing participants can have greater certainty in the process.

Q6. *Should ASX Clear change its current approach so that it does not in any circumstances take steps which may facilitate the correction of exercise errors? Please set out your reasons.*

A6. No. IMC believes that there may be circumstances which warrant action by ASX Clear to address an error that has occurred in relation to a clearing participant's decision to exercise, or refrain from exercising, an option contract.

In these cases, IMC believes that ASX Clear should act as a facilitator for an agreement between the relevant clearing participants. However, IMC does not believe that ASX Clear should take any action to address an error, or perceived error, without the consent of both clearing participants.

Q7. *Should ASX Clear impose a notification cut-off time in order for a participant to be able to seek that an erroneous exercise or failure to exercise be addressed, and if so what time should apply? Please set out your reasons.*

A7. Yes. A cut-off time would provide greater certainty to the process. IMC does not have a view as to what cut-off time should apply.

Q8. *Should ASX Clear identify the counterparty participant to the requestor regardless of whether the counterparty participant has consented to their identity being revealed? Please set out your reasons.*

A8. No. Consistent with our view that any action taken to address an error should only be taken with the express consent of both counterparties, IMC believes that a counterparty's identity should not be revealed without consent.

Thank you again for this opportunity to respond to the Consultation Paper. IMC would be pleased to discuss the matters raised in this response further at the convenience of ASX.

Yours sincerely



Brian Hitchcock
Managing Director