

ASX-Listed Company Announcements

Processes for Advising of Changes to Security Status

CONSULTATION PAPER

SEPTEMBER 2017



Invitation to comment

ASX is seeking submissions on the issues canvassed in this paper by 6 October 2017. Submissions should be sent to:

E regulatorypolicy@asx.com.au

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ASX Limited
PO Box H224
Australia Square NSW 1215

ASX prefers to receive submissions in electronic form

If you would like your submission, or any part of it, to be treated as 'confidential', please indicate this clearly in your submission.

Submissions not marked as 'confidential' may be made publicly available on ASX's website

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Executive Summary

The ASX Trade outage in September 2016 provided ASX with an opportunity to review how certain aspects of the equity market infrastructure work. The review identified areas where some operational and technical improvements could be made. ASX is now consulting on one of those areas – the link between ASX listing operations and trading in securities.

This paper is the second of three consultations. The first paper addressed ASX market closing and ASX Clear settlement price calculations. The third paper, to be released later this year, will focus on a review of market management actions during technical issues or outages, including the application of session states (e.g. Enquire and Adjust) and a review of the current ASX market practice of staggered group openings.

This paper deals with the removal of interdependencies between the ASX listing operation and ASX's trading platform for the cash market, ASX Trade. Specifically the dissemination of individual security status changes around the release of price sensitive announcements. The security status determines when participants are able to execute on and off market trades. Currently, this information is sent from listing operations via the ASX Market Announcements Platform to ASX Trade. ASX Trade then disseminates, on behalf of ASX listing operations, a change in security status to other market operators, participants and other stakeholders. This is achieved by altering the individual session state of the security to indicate that a price sensitive announcement has been received. If ASX Trade is unavailable, the ability to advise other market venues and crossing systems of changes in security status is compromised. This can, in turn, affect the ability to conduct trades or report crossings on these venues during the outage.

ASX proposes to introduce a new solution to disseminate information about changes to the security status associated with price sensitive announcements to remove this interdependency. The changes will not affect the way the announcements themselves are disseminated.

ASX and other markets trading in ASX-listed securities, crossing system operators, market participants and vendors will be able to connect to a new gateway to receive changes in security status via a FIX message directly from the ASX listing operation. While ASX anticipates that all market operators, crossing system operators and a number of participants will choose to connect through this new gateway, users can continue to receive the security status through ASX Trade. However, users such as participants receiving session state changes via ASX Trade will need to ensure they have in place appropriate arrangements to only conduct and report crossings when trading is permitted. In the longer term, ASX is considering whether to continue to make session state changes relating to security status available via ASX Trade.

ASX is interested in feedback on the proposed FIX solution via direct feed from ASX listing operations, in particular if there are any practical matters that need to be considered in the design of the new FIX gateway and on the proposed timeframe for implementation.

In addition to consulting on the solution, ASX is also seeking feedback on:

- extending the period during which security status changes are processed in response to price sensitive announcements; and
- simplifying the different periods during which trading is not permitted after a price sensitive announcement is released or a trading halt or suspension is lifted.

Written submissions should be made by 6 October 2017. ASX is also open to arranging meetings with interested parties to discuss the issues raised. Subject to issues identified through our consultation process, ASX expects that the new technology solution should be in place in March 2018.



ASX Listing Operations

Disseminating market announcements

ASX is the primary listing market in Australia. The processing and publication of market announcements is an important service that ASX provides to enable listed entities to meet their periodic and continuous disclosure obligations, and to ensure that the market is properly informed.

ASX's Market Announcements Office (MAO) is part of the listing operation and is responsible for receiving, categorising, processing, releasing and storing market announcements by ASX listed entities. The announcement headline is published from the Market Announcements Platform to ASX Trade and ComNews. A full copy of the announcement is published in PDF format to the ASX ComNews data service and the ASX website.

If ASX receives a market announcement which it considers to be price sensitive, it may temporarily halt trading in the listed entity's securities.

Security Status and Session States

Security status is determined by ASX listing operations and applies to all trading activity in each ASX listed security, on any venue for both on-market and off-market transactions. Trading is either permitted or not permitted.

Session states are determined by the particular market operator and have a range of values which reflect both the security status and other functional aspects of the operation of that market. If a price sensitive announcement is received, ASX halts trading for that security and changes its session state to "PRE__NR" (i.e. pre-notice received). For a full list of ASX Sessions States please refer to ASX Operating Rules.¹

Trading is temporarily halted in order to allow the details of the announcement to be disseminated before trading recommences. ASX provides at least 10 minutes notice to the market prior to the resumption of trading (or 60 minutes for announcements relating to takeovers and schemes of arrangement).

ASX listing operations must immediately notify other operators and participants who operate crossing systems that quote those securities that trading is not permitted. During this period they are required to take action to ensure there is no trading in those securities for an equivalent period. Trading recommences in accordance with the market's operating rules.

ASX/ASIC Review of the ASX Trade Outage

Background

The ASX Trade outage in September 2016 provided ASX with an opportunity to review the infrastructure and technical interactions used to disseminate changes to a security status related to price sensitive announcements. The review identified potential changes to current processes.

A consequence of the ASX Trade outage was that ASX was unable to disseminate changes in security status to participants and other market operators.

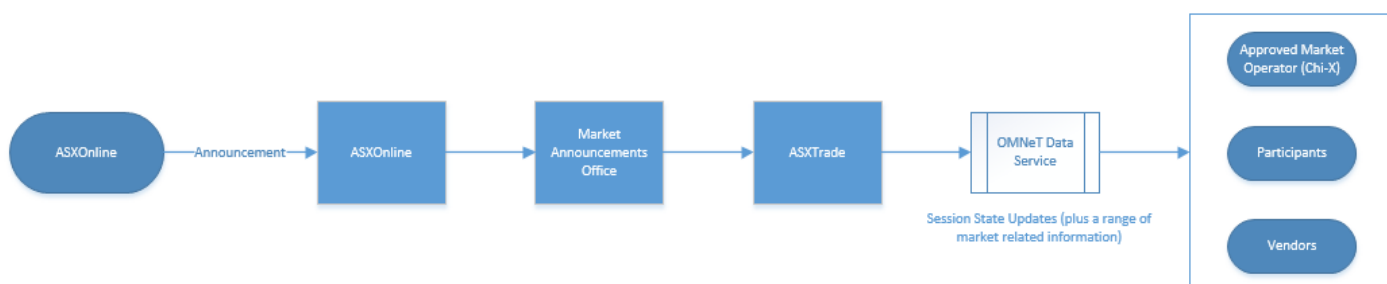
¹ ASX Session States – ASX Operating Rules, Section 4, Appendix 4013 http://www.asx.com.au/documents/rules/asx_or_appendices.pdf



Following the outage, ASIC conducted a review and issued a report² with a series of recommendations. One recommendation of this review was the removal of existing dependencies on ASX Trade in the dissemination by ASX of changes in security status.

Current arrangements for disseminating change in security status

Currently, information about session state changes that result from a change in security status associated with a price sensitive announcement is sent from ASX Trade via the OMNeT protocol. The diagram below sets out the existing technology architecture for disseminating session states.



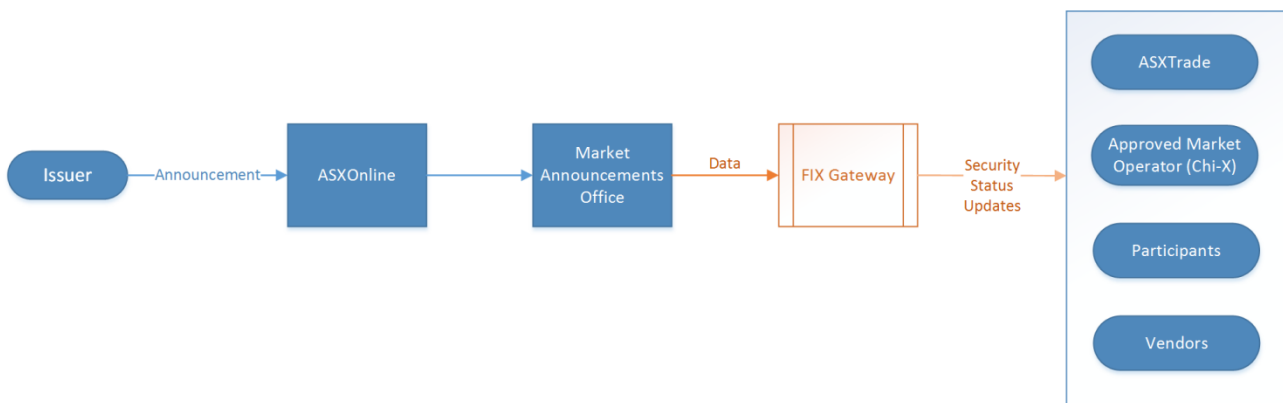
ASX Proposed Solution

ASX proposes to remove this dependency on ASX Trade for the dissemination of security status change. This would occur by ASX listing operations disseminating security status changes via an independent FIX message broadcast through a gateway that is independent of ASX Trade

ASX Trade, participants, market operators and vendors connected to the gateway will simultaneously receive information relating to a change in security status from ASX listing operations via the FIX gateway. The information provided will include the security to be halted, the reason for the change in trading status, the time from which trading is not permitted and, where applicable, the time at which trading is again permitted.

With the new FIX gateway provided directly by ASX listing operations, any disruption to ASX Trade will no longer impact on users receiving updates to the status of individual securities. This will allow them to continue trading or to cease trading in those securities with confidence that they have the appropriate trading status.

² <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2016-releases/16-454mr-asic-reports-on-asx-equity-market-outage-in-september-2016/>



The changes to the existing network architecture and market procedures will remove system dependencies and provide clarity to participants responding to market announcements.

ASIC also recommended that market participants review their procedures for dealing with market outages, for example their arrangements for undertaking crossings, to ensure that transactions do not occur in securities where trading is not permitted.

If market operators and participants operating crossing systems connect to the new FIX gateway to receive changes in security status from ASX listing operations, they will be able to ensure that they have the current status of individual ASX listed securities should any disruption occur on ASX Trade.

Those who do not connect to the new gateway can continue to receive session state changes from ASX Trade. However, should an outage occur on ASX Trade, they should be aware that it is possible that the most recent session state broadcast by ASX Trade may not accurately reflect the correct security status as defined by ASX listing operations. In the longer term, ASX is considering whether to continue to make session state changes relating to security status available via ASX Trade.

Technical solution

ASX will develop a technical solution that will enable market users to receive security status changes via a FIX message broadcast. This FIX message broadcast will flow directly from a gateway linked to the Market Announcements Platform. All market operators, crossing system operators and participants who choose to connect through to this new gateway will need to develop to this new solution.

Dependent on feedback from this consultation, ASX anticipates providing stakeholders with a **technical specification for the new FIX gateway by the end of October 2017** and subsequently a customer testing environment. ASX will provide customer readiness support where required to answer questions around development and testing for users.

Confirmation of go-live strategy is subject to the outcomes of this market consultation. ASX proposes to **deliver the technical solution early next year**, following which stakeholders will be able to connect and receive FIX messages directly from ASX listing operations.

The proposed solution means that the ASX Trade platform will also become a recipient of updates to security status which will be broadcast by the ASX listing operations FIX Gateway. ASX Trade will receive broadcast information about security status at the same time as all other users subscribing to this solution.

The ASX FIX Gateway will only publish changes in security status related to price sensitive market announcements.



ASX Trade will continue to publish all other trading session state changes such as OPEN, CLOSE and REG_HALTS (trading pauses relating to extreme price movements) that reflect the operational aspects of ASX's market.

Current Procedure	New Procedure
An issuer lodges their announcement via ASX website.	No change.
The announcement is categorised by the Market Announcements Office (MAO) within ASX listing operations.	No change.
If price sensitive and received and processed during market open hours listing operations will advise ASX Trading Operations of the change in the security status.	Listing operations will provide security status to the Fix gateway
A change in session state is actioned on ASX Trade to reflect the change in security status (from 'permitted' to 'not permitted').	A single FIX message is broadcast from the ASX FIX gateway to all stakeholders in relation to both the immediate change in security status (to not permitted), the reason for the change and the time of the next change in security status (to permitted).
ASX Trade immediately broadcasts a session state change that reflects the change in security status and the reason why is broadcast via the OMNeT data service.	No change. (In the longer term, ASX is considering whether to continue with this process).
The announcement is released to ComNews and the ASX Online website.	Once confirmation is received that the FIX message has been broadcast the announcement is released to ComNews and the ASX Online website.
An ASX Trade text message notifies ASX Trade users when trading will resume.	No change.
At the appropriate time, ASX Trade broadcasts a session state change that reflects the change in security status (from 'not permitted' to 'permitted') via the OMNeT data service.	No change.

Business continuity support model

The technology solution and associated workflows will reduce the current points of failure as a result of the updated network architecture and the introduction of a FIX Gateway via a separate channel to disseminate messages. The technology solution will allow the gateway to recover quickly and efficiently in the event of an outage by incorporating automated reconnection and recovery methodologies and manual restart options should fatal errors occur. The existing manual process via ASX Trade will be invoked in the event of an outage. FIX message recovery is performed using standard FIX recovery methods.

Questions

1. ASX seeks feedback on any practical implications of using a FIX gateway to disseminate security status updates.
2. Details of the technology solution will be published in October and ASX will deliver the technical solution by March 2018. ASX seeks feedback on the proposed timeline.

Other proposed changes to market announcement processing

ASX announcement processing hours

The redesign of this process presents an opportunity to review the period within which listing operations issue changes to the security status in response to price sensitive announcements.

The ASX Market Announcements Office currently processes market announcements between 7:30am and 7:30pm (8:30pm during daylight saving). Announcements received after that time or on a non-trading day are queued for review and release on the morning of the next trading day.

Currently the hours for processing security status changes associated with price sensitive announcements align with the ASX trading hours of 10:00am to 4:12pm. That is, ASX only changes the security status of securities into a non-matching session state of Pre-Notice Received (PRE-NR) between 9:50am and 4:12pm. This covers the period when the equity market is open.

Any announcements, even those including price sensitive information, that are received outside of 9:50am to 4:12pm are released immediately to the market and there is no change in security status.

ASX recognises that other markets can have different opening hours and participants can execute and report off-market trades outside of the ASX equity market operating hours. Participants have obligations when undertaking crossings to ensure that transactions do not occur where trading is not permitted. An extension to the hours that security status changes are processed will assist with their compliance with their regulatory obligations in this regard.

ASX proposes to extend the hours for processing changes to security status associated with price sensitive announcements from 7:30am to 7:00pm to accommodate any (on and off-market) trading that occurs outside of ASX core trading hours.

On occasion listed entities can release price sensitive information just prior to the opening or closing price auctions and this can have the effect of excluding these securities from the auction process. ASX continues to work with issuers to ensure they are aware of the impact of the timing of their market announcements around the opening and closing of the market.



Questions

3. Do you have any specific concerns or issues in extending the period during which ASX Market Announcements Office process changes to security status to 7:30am - 7:00pm (from 10:00am - 4:12pm)?

Standardising notice periods before trading is permitted

At present there are a range of different periods (10, 20, 40 and 60 minutes) when trading is not permitted following a price sensitive market announcement, or the lifting of a trading halt or suspension.

ASX has received periodic feedback from participants that these different notice periods can be confusing, particularly for overseas investors.

In developing the new market announcement process it was considered timely to also review these arrangements to consider if it would be appropriate to standardise a number of different periods where trading is not permitted.

ASX is seeking feedback from participants about whether they believe there would be a benefit in simplifying some of these timings. For example, standardising the timeframes for the recommencement of trading following a price sensitive announcement or the lifting of a trading halt or suspension to a single period, for example 10 minutes, in line with the current period for price sensitive announcements.

The current and proposed processes are:

Scenario	Current Trading Pause	Proposed Trading Pause
Price Sensitive Announcement	10min Pre NR	10min Pre NR
Trading Halt lift	20min Pre NR	10min Pre NR
Reinstatement from Suspend	20min Pre NR	10min Pre NR
Intraday reinstatement from Suspend	40min Pre NR	10min Pre NR
Take Over / Scheme of arrangement	50min Adjust 10min Pre NR	60min Pre NR

There is no standard process used by major equity exchanges for managing market announcements. Practices vary across other exchanges, in particular the timing and channels for release.

Most exchanges allow for the publication of price sensitive information throughout a trading day, although some only allow for announcements to be published outside of official trading hours or during a specified publication window.

Many major exchanges halt trading for the dissemination of price sensitive announcements to allow time to consider and respond to the information, but they do not apply standard timeframes deciding instead on a case-by-case basis. The New Zealand Stock Exchange, Singapore Stock Exchange and ASX are exceptions, applying standard timeframes for trading halts when price sensitive announcements are received. Some other exchanges do not normally halt trading when an entity releases a price sensitive announcement.



Trading resuming after the release of a price sensitive announcement about a takeover or scheme

When an ASX-listed entity announces that it is making or has received a takeover or is pursuing a merger by way of scheme of arrangement, it is placed in a non-matching state for 60 minutes. This additional time is deemed necessary for investors to review and digest the detail of the takeover or scheme documentation.

On the ASX market, this 60 minutes involves two separate periods;

- **50 minutes** in the 'adjust' session state (order entry not permitted but existing orders can be cancelled or amended provided their price/time priority is not improved) followed by;
- **10 minutes** in the 'pre-notice received' session state (a price discovery period where order entry, cancellation and amendment is permitted while retaining existing price/time priority).

The 50 minute 'adjust' session state was initially introduced to allow ASX Trading Operations to enter orders for on-market takeover bids on behalf of market participants who were acting on behalf of the bidder. This practice is no longer in place as participants are now responsible for entering their own orders.

There remains a clear policy rationale for maintaining a longer trading pause period following the announcement of a takeover or scheme of arrangement, given the complexity of the information involved. However, the 'adjust' session state applied on ASX Trade could be removed and replaced with a single 60 minute trading pause in a 'pre-NR' session state.

Questions

4. Do you have any concerns regarding the proposal to standardise timeframes for the continuation of trading following all trading pauses to 10 minutes (with the exception of takeover scenarios)?
5. Do you support the proposal to replace the existing '50/10' arrangement for takeover and scheme of arrangement announcements with a single 60 minute trading pause, where the security would be in a price discovery period or 'pre-NR' session state on ASX? Please provide reasons for your position.

Next Steps

ASX seeks feedback on the proposed changes to the market announcements process. Submissions should be made by Friday 6 October 2017.

ASX welcomes the opportunity to discuss these proposals with interested parties (Please refer the contact details on page 2).

Subject to feedback and regulatory clearance, ASX intends to implement the abovementioned proposals in March 2018.

