



ASX Trade Cancellation Ranges:

Proposals for Change to ETO cancellation ranges and QCR process - ASX Consultation Paper

December 2021



Invitation to comment

ASX is seeking submissions in response to this consultation paper by 18 February 2022. Submissions should be sent to:

E regulatorypolicy@asx.com.au

Office of General Counsel
ASX Limited
20 Bridge Street
Sydney NSW 2000

PO Box H224
Australia Square NSW 1215

Attention: Brendan Sweeney
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. All submissions will be provided to regulators on request. Submissions may also be published on the ASX website, unless they are clearly marked as confidential or ASX considers that there are reasons not to do so.

Contacts

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Executive Summary

This consultation paper outlines a number of potential changes to the cancellation ranges and cancellation process that ASX is currently reviewing for the management of the ASX Trade market. In summary ASX will be looking for feedback on:

- Cancellation ranges that are currently prescribed under section 3200 of the ASX Operating Rules Procedures for Exchange Traded Option products
- The consent time for Qualifying Cancellation Range (QCR) across all ASX Trade products being extended from 5 minutes to 10 minutes
- The timing for requests to cancel and re-price Tailor Made Combinations (TMC's) be incorporated into the current timeframes used for Request for Cancellation in Operating Rule Procedure 3200
- Any additional aspects of the Cancellation Process that Participants are looking to raise with ASX

ASX invites submissions on the questions set out in this paper as well as any alternative approaches that market users may wish to raise for consideration. ASX welcomes feedback on the individual questions and in combination.

Following the completion of the consultation, ASX will provide market participants with further information on any agreed changes and the timeline for implementation.

If you or your organization would like to discuss this topic further, please contact ASX (see contact details on page 2)

Written responses should be addressed to ASX by no later than 18 February 2022.

1. Change the ETR range for Exchange Traded Options

1.1 Background and Purpose of this Proposal

As part of the obligations under the ASIC Market Integrity Rules (MIRs), ASX maintains under its own operating rules a series of prescribed ranges related to determining if executed trades fall into either the Qualifying Cancellation Range (QCR) or the Extreme Trading Range (ETR).

ASX regularly reviews these cancellation ranges to determine if they are appropriate and identify if any changes are required.

The current ETR is tied closely to Market Maker spread requirements. A recent change to these requirements has reduced the maximum spread for shorter dated options and increased the maximum spread for longer dated options. This has reduced the requirement for the ETR calculation methodology to differ between shorter dated and longer dated options. In addition spread requirements for very low premium options are small. ASX is asking for feedback on implementing a minimum threshold for ETR before market maker quoting schedules are used.

Current ranges

Cancellation Ranges for ETOs	<p>ETO Cancellation Ranges (for Equity and Index ETOs)</p> <p>The QCR will be the difference between the ETO Reference Price and the ETR.</p> <p>The ETR is based on the Market Maker spread requirements as per the ETO class quoting schedules which are available at http://www.asx.com.au/documents/products/asx_eto_market_making_scheme.pdf</p> <p>For ETOs due to expire within or equal to 12 months from the trade date, the ETR will be calculated as:</p> <p style="padding-left: 40px;">ETR Lower Limit = ETO Reference Price - (Market Maker quoting schedule spread x 1.0)</p> <p style="padding-left: 40px;">ETR Upper Limit = ETO Reference Price + (Market Maker quoting schedule spread x 1.0)</p> <p>For ETOs due to expire greater than 12 months from the trade date, the ETR will be calculated as:</p> <p style="padding-left: 40px;">ETR Lower Limit = ETO Reference Price - (Market Maker quoting schedule spread x 2.0)</p> <p style="padding-left: 40px;">ETR Upper Limit = ETO Reference Price + (Market Maker quoting schedule spread x 2.0)</p> <p>The ETR for a Derivatives Combination Trade which has one counterparty on each side may be determined by either the higher of the Combination as a net price or the higher of one of the component series which make up the Combination.</p> <p>For Equity LEPOs the ETR for Equity Market and Cash Market Products will be used. There will be no NCR for LEPOs.</p> <p>For a LEPO only Combination the ETR for Equity Market and Cash Market Products will be used and not the ETO only Combination ETR.</p> <p>For Index LEPOs the following ranges apply:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Index LEPO Contracts</th> <th style="text-align: left;">QCR</th> <th style="text-align: left;">Start of ETR</th> </tr> </thead> <tbody> <tr> <td>S&P/ASX 200 Index LEPO</td> <td>26 – 249 Points</td> <td>250 Points</td> </tr> </tbody> </table>	Index LEPO Contracts	QCR	Start of ETR	S&P/ASX 200 Index LEPO	26 – 249 Points	250 Points
Index LEPO Contracts	QCR	Start of ETR					
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Proposed new ranges

Cancellation Ranges for ETOs	<p>ETO Cancellation Ranges (for Equity and Index ETOs)</p> <p>The QCR will be the difference between the ETO Reference Price and the ETR.</p> <p>The ETR is based on the Market Maker spread requirements as per the ETO class quoting schedules which are available at http://www.asx.com.au/documents/products/asx_eto_market_making_scheme.pdf</p> <p>For all ETOs, the ETR will be calculated as:</p> <p style="margin-left: 40px;">ETR Lower Limit = ETO Reference Price – ((the higher of 10c (for single stock options) / 5 points (for XJO) or Market Maker quoting schedule spread) x 1.0)</p> <p style="margin-left: 40px;">ETR Upper Limit = ETO Reference Price + ((the higher of 10c (for single stock options) / 5 points (for XJO) or Market Maker quoting schedule spread) x 1.0)</p> <p>The ETR for a Derivatives Combination Trade which has one counterparty on each side may be determined by either the higher of the Combination as a net price or the higher of one of the component series which make up the Combination.</p> <p>For Equity LEPOs the ETR for Equity Market and Cash Market Products will be used. There will be no NCR for LEPOs.</p> <p>For a LEPO only Combination the ETR for Equity Market and Cash Market Products will be used and not the ETO only Combination ETR.</p> <p>For Index LEPOs the following ranges apply:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Index LEPO Contracts</th> <th style="text-align: left;">QCR</th> <th style="text-align: left;">Start of ETR</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>S&P/ASX 200 Index LEPO</td> <td>26 – 249 Points</td> <td>250 Points</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Index LEPO Contracts	QCR	Start of ETR				S&P/ASX 200 Index LEPO	26 – 249 Points	250 Points			
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To illustrate the impact of the changes a table comparing the current scheme versus the newly proposed scheme is provided:

Example:

Assume today is Monday 1 November 2021. Looking at some TLS ETOs that are listed the following table highlights the difference in upper and lower pricing levels of ETR under the current and proposed rule procedures.

Option Series	Strike	Expiry Date	Exercise Type	Style	TV	Current ETR Reference Price		Proposed ETR Reference Price	
						Lower Level	Upper Level	Lower Level	Upper Level
TLSYM7	4.08	4-Nov-21	European Put	Weekly	\$0.22	\$0.14	\$0.30	\$0.14	\$0.30
TLSFK9	3.47	18-Nov-21	American Call	Monthly	\$0.40	\$0.31	\$0.49	\$0.31	\$0.49
TLSFU9	3.97	18-Nov-21	American Call	Monthly	\$0.04	\$0	\$0.08	\$0	\$0.14
TLSR79	2.98	20-Jun-24	American Call	Monthly	\$0.98	\$0.70	\$1.26	\$0.84	\$1.12

1.2 Potential impacts:

The proposal will result in changes to where the ETR levels will be set. In general, the new proposal will reduce the ETR lower and upper levels in the longer dated options, which had increased as a result of the changes introduced in the new ETO Market Maker scheme that came into effect in October 2021. It will however increase the ETR range in small premium options whereby the new minimum range is triggered.

1.3 Potential benefits:

The proposal now better reflects the term of an option contract into the calculation whilst also bringing in a floor for low value option series. It also adapts to the new ETO Market Making scheme and offers a more uniform approach.

2 Amendment of the QCR consent timeframe from 5 minutes to 10 minutes

2.1. Background and Purpose of this Proposal

Consideration has been given to the appropriate timeframe for consent to cancel a trade identified as being in the Qualifying Cancellation Range (QCR) under Procedure 3200. Some market feedback has been that the current 5 minute cut off period to consent to a QCR request is too short a timeframe to be able to effectively contact underlying clients and confirm their intentions.

There is a need for the timely processing and communication to the market of the outcome of a cancellation request. Previous consultation (feedback) has indicated the need for quick trade certainty. However that is also balanced by the

need to provide to participants a practical amount of time to speak to clients and obtain consent to cancel trades when a trade has been identified by ASX as being in the QCR.

Currently the cut off for consent to cancel a trade in the QCR range is 5 minutes. Based on market feedback, ASX is proposing to amend the time to 10 minutes in order to better facilitate participants communications with clients around their intentions when an error is claimed. This change would apply for all markets and products traded on ASX Trade.

Current wording of ASX Operating Rule 3200:

Cancellation Ranges	On receipt of the email request, ASX will refer to the Reference Price for that product and then assess whether the trade qualifies for cancellation during continuous trading as follows:	
	Shares, Company Options, ETFs, Managed Fund Products, CDIs, CGS, Interest Rate Securities and Futures	
	Range	Outcome
	At or within the NCR (No Cancellation Range)	The trade will not be cancelled.
	At or within the QCR (Qualifying Cancellation Range)	The trade will only be cancelled if the Participant counterparty to the trade consents within 5 minutes from contact by ASX Trading Operations.
	At or within the ETR (Extreme Trade Range)	ASX will cancel the trade subject to any exceptions. If a Participant has requested a cancellation and the trade is determined by ASX to be within the ETR, Rule [3200] ceases to apply and Rule [3210] applies.
	Warrants, Structured Products and ETOs	
	Range	Outcome
	At or within the QCR (Qualifying Cancellation Range)	The trade will only be cancelled if the Participant counterparty to the trade consents within 5 minutes from contact by ASX Trading Operations.
	At or within the ETR (Extreme Trade Range)	ASX will cancel the trade subject to any exceptions. If a Participant has requested a cancellation and the trade is determined by ASX to be within the ETR, Rule [3200] ceases to apply and Rule [3210] applies.
The cancellation ranges and Reference Prices are set out below.		
ASX will not accept the financial loss incurred by a Participant as grounds for cancellation.		

2.2 Potential benefits:

- Gives participants more time to contact clients and confirm their intentions
- Allows for more accurate outcomes in relation to QCR cancellation requests, which will likely lead to more requests being agreed to
- Allows for more time to confirm when multiple trades have been identified as QCR that could have multiple underlying clients

2.3 Potential impacts :

- Pushing out the cut off delays the communication of the decision to the market by a further 5 minutes

- Participants wishing to hedge an error position if the cancellation is not agreed to could potentially be delayed a further 5 minutes

3 Incorporation of TMC cancellation and re-pricing requests in the Request for Cancellation

3.1 Background and Purpose of this Proposal

Consideration has also been given to the appropriate timeframe for Market Participants to request a re-pricing of an executed Tailor Made Combination (TMC). This can occur where the [ASX Trading Platform allocates](#) leg prices that are [not a true reflection](#) of the current market levels, [as determined by ASX](#). The Participant can request ASX to cancel and re-book the [trade where the net price is maintained and there are only two counterparties to the trade](#). For consistency, ASX is proposing to follow the timeframes permitted for this process to the current Request for Cancellation timeframes, which is 30 minutes from the time of execution and within 10 minutes of market close.

The primary purpose of the change would be to ensure ASX has sufficient time to action the request, which is a manual process, so it can be submitted through the ASX Trade system in a timely manner and without impacting end of day processing.

There have been occasions where expiring LEPO products have been traded as part of a TMC that was requested to be re-priced close to end of day. Whilst ASX is looking to introduce time requirements, given the potential margin impact of a one sided expiring LEPO position, ASX will continue to have the discretion to give consideration to re-pricing via the Clearing System in the circumstance where re-pricing is not available in the Trading System.

3.3 Potential impact:

- Re-pricing requests are more likely to be denied as Market Participants are required to meet the new cut off times.

3.4 Potential benefits:

- Allows ASX time to accommodate re-pricings that have large numbers of underlying legs.
- Reduces the likelihood of errors in the re-pricing process, particularly coming into and during the market close.

4 Questions for Feedback

ASX is seeking written replies to this consultation paper and specifically to the questions below:

Change the ETR range for Exchange Traded Options

1. Should ASX amend the ETR upper and lower calculation to a 1 x calculation for ALL ETO series? (Please tick)

- YES
 NO (Please specify)

2. Should ASX introduce a minimum range of +/- 10c (Single Stock) or +/- 5pts (Index) for the ETR upper and lower calculation? (Please tick)

- YES
 NO – Please specify

3. If the ASX proceeds with this proposal, is a 6-week notice period sufficient from the implementations date?

- YES
 NO – A 3-month notice period is required

Change the QCR consent time from 5 minutes to 10 minutes

4. Should ASX amend the time given to consent to a cancellation that has been identified as being in the QCR from 5 minutes to 10 minutes? (Please tick)

- YES
 NO – Please specify if the current 5 minutes is appropriate, or if there is a different amount of time that would be appropriate.

5. If the ASX proceeds with this proposal, is a 6-week notice period sufficient from the implementations date?

- YES
- NO – A 3-month notice period is required

Incorporation of TMC cancelation and re-pricing requests in the Request for Cancellation

6. Should ASX include requests for a re-pricing of TMC trades in the standard cancellation timeframes (Please tick)

- YES
- NO

7. If you answered NO to Question 1, is a 4:30pm cut off appropriate? (Please tick)

- YES
- NO – Please specify what cut off time would be appropriate:

8. If the ASX proceeds with this proposal, is a 6-week notice period sufficient from the implementations date?

- YES
- NO – A 3-month notice period is required

Additional feedback on the Cancellation Process

9. Are there any other aspects of the Cancellation Process that you would like to raise with ASX?
