

KEY TOPICS

1. Automated Order Processing
2. Certification

ASX Market Rules

1. 13.3.4
2. 13.3.5

Cross-reference

1. ASX Guidance Note 22 – Automated Order Processing: Operational Requirements
2. ASX Guidance Note 21 – Automated Order Processing: Authorised Persons

Guidance Note History

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ASX Guidance Note 11/02 “SEATS Automated Order Processing: Certification” dated 6 December 2002

AUTOMATED ORDER PROCESSING: CERTIFICATION

Purpose

The purpose of this Guidance Note is to elaborate ASX’s expectations in relation to Trading Participants’ compliance with the Automated Order Processing (“AOP”) requirements.

Background

This Guidance Note is one of a series relating to Automated Order Processing (“AOP”).

The philosophy behind requiring the certification of AOP systems is to provide Trading Participants with maximum flexibility in the way that they structure their systems while at the same time providing ASX with comfort that compliance issues have been addressed.

For the avoidance of doubt, the requirement to certify compliance with Automated Order Processing Requirements under the Market Rules is distinct from any qualification process required to permit connectivity to the Trading Platform pursuant to an Access Agreement.

Certification

Before using a system for AOP, a Trading Participant must provide to ASX a certification by appropriately qualified persons in relation to that system. Each certification after the date of this Guidance Note must be in the form set out in Appendix 13.3.4 to the ASX Market Rules Procedures.

ASX will not accept a qualified certification.

In addition, ASX may request that a Trading Participant provide other information regarding its compliance with the AOP Requirements.



ASX

AUSTRALIAN SECURITIES EXCHANGE

ASX recognises that some AOP systems are developed internally by Trading Participants and others are developed by independent service providers. In many cases, one or more Trading Participants use an AOP system provided by a common independent service provider. Many elements of a system will be common to all its users and many will be unique to the environment in which it is implemented. The fact that one Trading Participant has certified a third party provided AOP system does not imply that other Trading Participants using that third party provider's system are not required to certify that system. However, documentation and other materials provided by that third party provider to a number of Trading Participants may assist each one to certify their systems.

The fact that an AOP system has been certified does not absolve the Trading Participant of its underlying compliance responsibility in relation to ensuring the conduct of an orderly market and that they do not knowingly assist or facilitate manipulative trading.

Trading Participants should continually evaluate the effectiveness of their systems used to comply with the various requirements for access to the relevant Trading Platform and to ensure that the Trading Participant will be in a position to satisfy ASX that it complies with the Market Rules.

The form of the certification is set out in ASX Market Rules Procedure 13.3.4 and Appendix 13.3.4 to the Procedures.

Nature and Scope of Certification

The nature and scope of a particular certification will depend largely on the specific business operations of the Trading Participant and the features of the AOP system utilised.

The version of the AOP system that has been certified must be clearly stated in each certification. For each new version of the system that is materially changed from the most recently certified version, ASX must (unless it agrees otherwise) be provided with either a new certification or confirmation that the material change does not detract from the previous certification immediately prior to implementation of that new version.

Appropriately Qualified Persons

ASX does not intend to publish a list of persons who are appropriately qualified, or specify minimum qualifications. It is the responsibility of the directors of the Trading Participant to satisfy themselves that the persons signing the Certification are appropriately qualified. Directors may wish to rely upon different appropriately qualified persons signing each of Schedules A, B and C for the purpose of Rule 13.3.4. Directors may also wish to have more

than one person sign a Schedule depending upon their qualifications. Ideally, a Responsible Executive should be a signatory to the Certification.

However, Trading Participants and systems providers should consider the following qualifications when relying upon one or more persons to sign a schedule:

- (a) relevant experience in broking operations, systems design, operational management and systems security;
- (b) familiarity with relevant Rules of ASX (eg provisions relevant to AOP and dealing rules, in particular, orderly markets issues) and applicable law (eg market manipulation provisions); and/or
- (c) technical qualifications – due to the technological nature of some compliance related systems, some indication of the person’s qualifications in this regard (eg Certified Information Systems Auditor issued by the Information Systems Audit and Control Association or its equivalent, “Systems Assurance Partner” of an accounting organisation, tertiary qualification in computer science or a similar academic discipline and a minimum number of years experience in information systems audits).

Material Changes

The Market Rules set out certain requirements prior to implementation of any proposed material changes to an AOP system.

The term “material” is a broad concept and must be considered in the context of the size and nature of the business being conducted by each Trading Participant. Broadly, a “material change” is considered to be a change to the system that may increase the potential for the Trading Participant to fail to comply with its obligations under the Market Rules. Trading Participants and systems providers will need to take a pragmatic approach when determining whether a particular modification (or series of modifications) to their AOP systems constitutes a “material” change.

Factors to be considered when assessing the materiality of a change include (but are not limited to):

- (a) the ability of the Trading Participant to meet the Operational Requirements of the Market Rules;
- (b) the potential for a change to interfere with the efficiency and integrity of the market provided by ASX;
- (c) the potential for a change to result in a breach of ASX Market Rule 13.4 (manipulative trading); and
- (d) the potential for a change to interfere with the proper functioning of the relevant Trading Platform.

For example:

- (a) Changes to upgrade from a “basic” system to a “complex” system (eg from a single market to a multi-markets system; from an automated principal order processing system to an ACOP system) would be considered a material change.
- (b) Changes to upgrade the functionality made available to clients and which may impact upon the types of orders passed into the market would be considered a material change.
- (c) A series of incremental changes to a system over a period of time may, when considered together, constitute a “material” change from the system at the time of its last certification.
- (d) A change that increases the risk of orders being entered or amended which could create a disorderly market or manipulative trading would be considered a material change.
- (e) A change to permit clients to utilise more complex trading strategies would be considered a “material” change.
- (f) Changes in the Trading Participant’s staff will not normally be considered “material” provided the change does not adversely affect the Trading Participant’s ability to comply with the Rules (eg the absence of a designated compliance person).
- (g) A mere change to the appearance of the computer screen used to access the relevant Trading Platform would not be considered material.

A change from a third party provided system to a system provided by a new third party would be considered to be a new system (rather than a material change) requiring certification pursuant to Rule 13.3.4.

To monitor a Trading Participant’s ongoing compliance with the AOP Requirements, ASX requires immediate notification of “material” changes to the organisational and technical resources employed to ensure compliance in accordance with the Market Rules relating to AOP. Given the important market integrity role served by the certification of a Trading Participant’s compliance capabilities in the AOP environment, ASX must be informed of any change which may adversely affect these capabilities.

Trading Participants should ensure that change management procedures are implemented for any changes made to AOP software. Inadequately tested software, software implemented in error or software that is implemented without proper authorisation may result in orders entering the market which have by-passed filters or have been “modified” in error by the software.

Trading Participants should have procedures in place such that:

- (a) software changes are adequately tested before implementation;
- (b) only authorised changes can be implemented;
- (c) new software can only be implemented into the production environment after sign off by a person of authority; and
- (d) filters and filter parameters can only be changed in the production environment after sign off by a person of authority.

If a Trading Participant forms the view that there is no material change to the AOP organisational and technical resources employed to comply with Rule 13.3.1 (having regard to the factors referred to above) then it will form the view that it is not obliged to notify ASX of any changes to its AOP system.

If the Trading Participant forms the view that there is a material change to the AOP organisational and technical resources employed to comply with Rule 13.3.1 (having regard to the factors referred to above), then:

- the Trading Participant will form the view that it is required to notify ASX that it has made material changes. The notification should include a broad functional description of the material changes to the AOP system. This may be an internally drafted description or a description provided by the third party supplier of the AOP system. If the product release notes address all the material changes this may be sufficient to satisfy this requirement.
- the Trading Participant will also be required to provide either:
 - confirmation, in the form set out in Procedure 13.3.5 and Appendix 13.3.5(a) to Rules, that the material change does not detract from a certification previously provided under Rule 13.3.4; or
 - further certification of the material changes, in the form set out in Procedure 13.3.5 and Appendix 13.3.5(b) to Rules, concerning compliance with Rule 13.3.4.

Trading Participants should discuss the requirement for confirmation or further certification with their internal compliance teams.

If requested to form a view on whether a change to an AOP system is material or not ASX will, in general, recommend that notification of a material change be provided and confirmation or further certification in the form set out in Procedure 13.3.5 and Appendix 13.3.5(a) or (b) to Rules be provided.

ASX also has the right to request a further certification of AOP systems at any time.

Security

A non-exhaustive list of the factors which ASX would expect to be included considered in assessing the security of its AOP systems and to be reflected in the Certification methodology for an AOP system include:

- Encryption
 - Is encryption used?
 - If so, detail components using encryption

- **Perimeter Security**
 - Does the system interact with public networks such as the Internet?
 - Are firewalls used to isolate the AOP system from other networks?
 - Is the system a part of an existing secure network?
 - If yes above, discuss how long has the existing network been in place and what security measures are in place.
 - Are the AOP systems located in physically secure location?

- **Security Patching**
 - Is there an effective security patching process in place?
 - Are regular audits undertaken to ensure appropriate patch levels?
 - Is regularly updated virus protection software running on the AOP systems?

- **System Access**
 - Is access to the AOP systems restricted?
 - What authentication methods are in place for access to the AOP system?
 - Are the AOP systems located in physically secure location?
 - Who has access to the AOP system

- **Change Management**
 - Is there a change management process in place for the AOP systems?
 - Who has access to make system configuration changes?

- **Review**
 - Is the AOP system part of an internal audit schedule?
 - Is the AOP subject to external audit schedule to ensure security of the system is regularly assessed?

- **Architecture**
 - Provide a high level diagram of the components that make up the AOP system.
 - Outline how components interact with each other and ASX systems.

Qualification

ASX has published this note to promote commercial certainty and to assist Market Participants. Nothing in this note necessarily binds ASX in the application of the Rules in a particular case. In issuing this note ASX is not providing legal advice and market participants should obtain their own advice from a qualified professional person in respect of their obligations. ASX may replace this Guidance Note at any time without further express notice to any particular person. Readers may contact ASX to ensure they have the latest version.