

Automated Trading

Practice Note 19

Issued: 2021



Automated Order Processing (AOP)

Practice Note #19

The purpose of this Practice Note

This practice note outlines the requirements that Participants must follow in order to enable automated order processing (AOP) on their systems and to provide automated client order processing (ACOP) to their clients.

This practice note assumes the reader understands the concepts of AOP, ACOP, the general terminology and concepts surrounding automated trading.

The main points

- Overview
 - NSX Business Rules
 - ASIC Market Integrity Rules (Securities Market) 2017
 - Capital Adequacy Requirements
 - ASIC Regulatory Guide
 - Accreditation by NSX
 - Certification of AOP/ACOP system
 - Technical Overview to Connect
 - Further Information
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Related materials

- NSX Business Rules
 - ASIC Market Integrity Rules (Securities Market) 2017
 - ASIC Market Integrity Rules (Securities Markets – Capital) 2017
 - ASIC Regulatory Guide 241 – Electronic Trading
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Guidance

NSX issues Practice Notes to promote commercial certainty, reduce costs to business and assist market participants. Practice Notes are not intended to be prescriptive but are intended to act as a guide to NSX practice. Applicants and users of AOP/ACOP are advised to contact NSX to discuss their particular circumstances and the application of the listing rules. NSX cannot provide legal advice and recommends that they consider taking advice from a qualified professional.

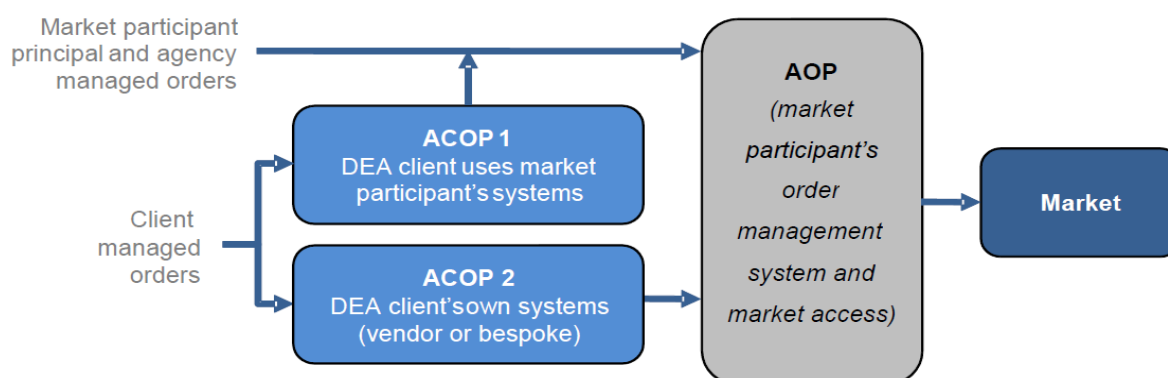
NSX may update or replace practice notes at any time. Issuers should refer to NSX website to ensure that they have the latest version of a Practice Note.



Section 1 – Overview

1. This Practice Note is for Participants wishing to provide automated order processing (AOP) and automated client order processing (ACOP) using either an internal system or a vendor supplied system.
2. Automated trading allows participants to place orders on the NSX Trading Platform without re-keying of orders and with minimal or no intervention depending on the parameters or rules set by the Participant within its systems.
3. Automated client order processing is also known as Direct Electronic Access (DEA) or Direct Market Access (DMA).

Figure 1: Interaction of AOP, ACOP and the Market (Source ASIC RG 241)



4. The participant authorises a person to enter orders into its systems. This person may be a Client of the participant, an Authorised Representative of the participant or the designated trading representative of the participant (authorised person). Under AOP orders are not re-keyed by the designated trading representative (DTR) of the participant.
5. If a DTR exercises discretion or has to key or re-key an order then this order is no longer AOP.
6. Participants must ensure that they have in place pre-trade filters configured to ensure that all order flow passes through these filters.
7. Filters are crucial in ensuring the orders do not create a disorderly market. Participants should configure filters taking into consideration the participant's obligations under the NSX Business Rules and ASIC Market Integrity Rules.



Section 2 – NSX Business Rules

1. The relevant NSX Business Rule is Part C 9.1. It allows participants to appoint authorised persons to enter orders into their system and have that system process the orders direct to the market. The system may also redirect that order to the relevant designated trading representative (DTR) for approval if the participants filters are triggered or otherwise.
2. The majority of rules concerning the operation of AOP and ACOP, however, are incorporated within the ASIC Market Integrity Rules and are not duplicated within the body of the NSX Business Rules.
3. The NSX Business Rules require that orders are submitted either by a DTR or an authorized person. Participants are reminded that they are responsible for all orders entered into the market, regardless of how they were entered.
4. As per ASIC Regulatory Guide 172, NSX has requirements placed on it for its systems and controls¹

Section 3 – ASIC Market Integrity Rules (Securities Market) - 2017

1. These rules are available from both the NSX website and ASIC website. They dictate what requirements participants must follow in order to enable AOP and ACOP on their system and reporting to ASIC².

Section 4 – Capital Adequacy Requirements

1. Participants requiring to establish an AOP facility must at all times maintain an increased level of market capital or surplus liquid funds as per Section E 1.8 of the NSX Business Rules and ASIC Market Integrity Rules (Securities Market - Capital) 2017³, or such capital requirements as imposed by the Exchange or ASIC from time to time.

¹ Copy of ASIC RG 172: <https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-172-financial-markets-domestic-and-overseas-operators/>

² Copy of Market Integrity Rule legislation: <https://www.legislation.gov.au/Details/F2018C00334>

³ Copy of Markets Capital Rule legislation: <https://www.legislation.gov.au/Details/F2017L01476>



Section 5 – ASIC Regulatory Guide

1. ASIC provides regulatory guides to help participants understand their obligations. Available from the ASIC website the relevant Regulatory Guide for AOP and ACOP is RG 241 Electronic Trading⁴. Participants are asked to review this guide in preparation for commencement of automated trading.

Section 6 – Accreditation by NSX

1. Application needs to be made to NSX by a Participant wishing to connect to NSX using an AOP system. NSX requires that Participants wishing to provide ACOP must notify NSX in writing stating:
 - a) The basis under which the participant will be providing ACOP.
 - b) Whether provision will be via a third-party supplier or an in-house system.
 - c) The participant will need to provide evidence of the initial certification and ongoing annual review of its system.
 - d) Provision to NSX of relevant policies and procedures that the participant intends to use.
 - e) A copy of ASIC's acknowledgement of the Participant's self-certification⁵.

Section 7 – Certification of AOP/ACOP System

1. Rule 5.6 of the ASIC Market Integrity Rules (Securities Market) 2017 relate to automated order processing. The following topics are discussed:
 - a) Responsible use of system for automated order processing
 - b) Authorised persons for automated client order processing
 - c) Automated order processing system requirements
 - d) Review of documentation and systems prior to use of automated order processing system
 - e) Representations as to organizational and technical resources, trading management arrangements and security arrangements, prior to use of automated order processing system
 - f) Certification of automated order processing system
 - g) AOP Material Change Review
 - h) AOP Annual Review

⁴ Copy of Regulatory Guide: <https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-241-electronic-trading/>

⁵ See ASIC RG 241



- i) AOP Annual Notification to ASIC
 - j) Further Certification
 - k) Limitations on automated order processing
2. Participants should note that while they may already have an AOP system certified for one market eg. ASX or CHIX, should they wish to make a new connection of that system to a new market, eg. NSX, the Participant will need to undertake a new initial certification of the system for use on the NSX market.
 3. Participants are required to provide a copy of the initial certification provided to ASIC along with ASIC's acknowledgement. In addition, Participants are required to provide NSX a copy of the annual review/notification and ASIC's acknowledgement.

Section 8 – Technical Overview to Connect

1. NSX provides two Application Programming Interfaces (API) that enable trading in an automated fashion. The first is the native X-Stream format and the second is the FIX protocol. Vendors or participants wishing to utilise these APIs should contact NSX for further information including documentation and connectivity requirements.

Section 9 – Further Information

1. For further information, please contact:

Market Operations

National Stock Exchange of Australia Limited

Email: trading@nsx.com.au