

Guidance Note: Dealing Procedures

References: Chapter 6, CMAEC Business Rules Guidance

Introduction

This guidance note has been issued to assist Exchange brokers to comply with their obligations under the CMAEC Business Rules in relation to trading on the market.

Regulatory Objectives

Chapter 6 of the CMAEC Business Rules regulates dealing on the market. The Rules are aimed at ensuring that trading takes place in a fair and efficient way on the market.

Authorised Trading Representatives

Exchange brokers are required under CMAEC Business Rule 6.3 to appoint one or more authorised trading representatives to deal on their behalf on the market.

This is to ensure that Exchange brokers appoint appropriately experienced staff and that it is clear who in an Exchange broker's office has authority to trade on their behalf.

See Guidance Note on Approved Representatives for further information about authorised trading representatives.

Making Bids and Offers

The Exchange will need to be satisfied that the organisation's dealing arrangements will have a sufficiently high level of integrity. In particular, to satisfy CMAEC Business Rule 6.11, the Exchange broker will need to demonstrate that at all times they can determine the origin of all orders, bids and offers including:

- a) the different stages of processing of each order;
- b) the identity and capacity of the person placing the order; and
- c) whether the order was submitted as principal or for a client.

If required, the Exchange will take appropriate action to ensure an Exchange broker continues to comply with these requirements on an ongoing basis.

Orders are placed on a 'good until cancelled' basis. At the end of each business day, brokers will receive an email listing all trades to which the broker was party and all unfilled or open orders.

Minimum Bids

Business Rule 6.17 enables the Exchange to specify the minimum bid for a listed security. The table below specifies the current minimum bids on the equity security markets:

Market Price	Minimum Bid
Up to 10c	0.1 cents
Over 10c up to 50c.	0.5
cents Over 50c up to	
\$998.99	1
cent	
\$999 or greater	\$1

Crossings (Negotiated Deals)

The CMAEC Business Rules specify that while crossings are permitted, no persons with orders in the price range of the crossing or negotiated deal may be disadvantaged. This means that where the bids on the market are higher than the sell side of the crossing then all bids up to (but not including) this price must be taken out by the sell side of the crossing before the crossing may be approved. (Note that this will affect the volumes of the negotiated deal or crossing). Similarly, where offers are lower than the bid side they must also be satisfied on market before the deal can be approved.

Where the price of the negotiated deal is higher than the highest bid and lower than the lowest offer, then the deal may go ahead as is.

Off Market Trading

CMAEC Business Rules specifically prohibit off market trades by Exchange brokers.

Trading Phases

The market has three key trading phases – pre-opening, opening and trading. These are outlined below. Exchange brokers, and particularly their authorised trading representatives, are expected to be familiar with the trading phases and the trading algorithm.

Pre-Opening Phase

The pre-opening phase operates from 9.30am to 11.00am.

During this phase bids and offers can be entered, amended or cancelled but will not be matched (CMAEC Business Rule 6.23). Only orders at a price limit can be made.

Opening Phase

The opening phase operates from 11.00am to 11.01am.

During this phase no new bids or offers may be entered and no existing bid or offer may be amended or cancelled (CMAEC Business Rule 6.24(a)).

Bids and offers are matched according to the opening algorithm and any bids and offers not matched will be carried through to the normal trading phase (CMAEC Business Rule 6.24(d)).

Trading Phase

The normal trading phase operates from 11.01am to 11.30am.

During this phase bids and offers may be entered, amended or cancelled and will be matched on a price time basis in accordance with CMAEC Business Rule 6.22 (see CMAEC Business Rule 6.25). It is only during this phase that orders ‘at market’ can be placed.

Outside of these hours orders may only be viewed.

Key Trading Responsibilities

Chapter 6 of the CMAEC Business Rules contains a range of responsibilities Exchange brokers have while trading on the market.

The key responsibilities of Exchange brokers may be summarised as follows:

- ensure the conduct of an orderly market (Rule 6.12);
- not make bids and/or offers with the intention of creating a false market (Rule 6.13);

- not engage in transactions that involve no change in beneficial ownership (Rule 6.14);
- not trade off market in securities quoted on CMAEC (Rule 6.15);
- not short sell other than in accordance with the Corporations Act (Rule 6.18);
- not trade in securities that are subject to a trading halt (Rule 6.28).

These responsibilities are in addition to an Exchange broker's obligations under the Corporations Act and at common law.

Exchange Powers in Relation to Trading

The Exchange has several important powers in relation to trading on the market.

The Exchange has an obligation to conduct an orderly market. Under Business Rule 6.12A the Exchange may undertake any or all of a number of actions to maintain an orderly market. These actions include trading halts or suspensions of particular securities or suspension of the market.

if the Exchange considers it necessary to do so in order to ensure the ongoing efficiency and integrity of the market. The Exchange also has power to cancel a transaction in certain circumstances under CMAEC Business Rules 6.34 and 6.35.

See Guidance Note on Cancellation of Transactions by the Exchange for details on how and when the Exchange may exercise this power.

Trading Halts and Suspensions

The Exchange may institute a trading halt as an autonomous decision or at the behest of a listed entity. See the Listing Rules Guidance Note entitled Trading Halts.

Exchange brokers and the issuers of securities may be subject to suspension by the Exchange. In the case of Exchange brokers, this means that all orders for which the broker is responsible will be withdrawn from the trade engine and not reinstated when the suspension is lifted. Similarly, all orders relating to the issuer's securities will be withdrawn and not reinstated following the lifting of the suspension.

It is therefore the Exchange broker's responsibility to reinstate any orders withdrawn following suspension if that is requested by the client.

Scope of Guidance Note

This guidance note is intended to assist Exchange brokers to comply with obligations under the CMAEC Business Rules. It is not exhaustive, does not in any way act as a substitute for any CMAEC Business Rules and is not binding on the Exchange in its application of the Rules in any particular case.

This guidance note does not constitute legal advice by the Exchange. Where appropriate, Exchange brokers should obtain their own professional advice about compliance with their obligations under the CMAEC Business Rules.