Cboe Australia

CXA Pegged Nearpoint Enhancements

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Contents

1. Existing Pegged Order Functionality

Cboe Australia (CXA) provides Pegged (hidden) orders, otherwise known as Price Improvement orders, which are priced dynamically against the NBBO (National Best Bid Offer) prices.

Pegged orders may be entered using one of the pricing preferences below.

- **Midpoint** orders are priced at the price tick at the arithmetic mid of the NBBO and can be priced at the half-tick increment.
- **Nearpoint** (Primary peg) orders are priced one price tick in from the national best price but no further than the Midpoint price.
- **Farpoint** (Market peg) orders are priced one price tick in from the opposing national best price but no closer than the Midpoint price.

2. Enhancements to Pegged Nearpoint Orders

2.1 Background

Following participant feedback, Cboe will make enhancements to pegged order handling to better reflect the intentions that underly peg instructions. Specifically, Cboe will provide additional optional functionality to users of Nearpoint orders, with the introduction of the Focused Nearpoint variant, such that these orders may only trade against opposing Farpoint orders. In Cboe's view, this reflects the competitive pricing intention that underlies Nearpoint orders (i.e., to trade against Farpoint orders). Cboe anticipates, and intends that, the Focused Nearpoint variant will attract further hidden resting order flow.

2.2 Additional Nearpoint Enhancement

There will be two options for Nearpoint Orders:

- **Existing Nearpoint** (Primary peg) orders which are priced one price tick in from the national best price but no further than the Midpoint price and are eligible to trade with lit (Limit) or dark (Pegged) orders.
- **Focused Nearpoint** (Primary peg) orders which are priced one price tick in from the national best price but no further than the Midpoint price and are eligible to **trade with opposing Farpoint orders only**.

2.3 Rationale for Introducing Focused Nearpoint

CXA seeks to enhance the usability of pegged (hidden) orders by taking the following points into consideration.

- CXA has noted the significant number of orders seeking price improvement in the dark do not successfully execute because of insufficient resting liquidity.
- Focused Nearpoint reflects the participant's intention to not trade with opposing Midpoint or Nearpoint or Limit orders, hence attracting more resting hidden liquidity strategies.
    - This is an important innovation where the NBBO is two ticks or less (meaning that the Nearpoint, Midpoint and Farpoint are pegged at the same price), which is prevalent in the top 300 symbols.
- Focused Nearpoint provides enhanced deterministic outcomes for hidden resting liquidity trading strategies in a similar manner as Post-Only Limit orders enhance lit resting liquidity.

- CXA seeks to align pegged order user expectations and outcomes with ASX's recognised orderbooks whereby the hidden Centrepoint orderbook and lit orderbook are distinct. This will enable CXA to better compete with ASX hidden order liquidity.
    - CXA's hidden orderbook, however, is integrated with the lit orderbook and has more sophisticated variants with Nearpoint and Farpoint. Hence, it requires this more detailed solution.
- Focused Nearpoint orders are available to all participants.

2.4 Trading Priority

Focused Nearpoint is designed to be compatible with the planned pegged order trading priority refinements. Upon the introduction of Focused Nearpoint, the trading priority will be as follows.

- Price, then
- Visibility (Lit then Hidden), then
- Own broker (if broker preferencing is enabled), then
- Pegged Intention
    - Farpoint then
    - Midpoint then
    - Nearpoint (including standard existing Nearpoint and Focused Nearpoint), then
- Time

2.5 Nearpoint Examples

The worked examples below illustrate the differences between Nearpoint and Focused Nearpoint order handling.

With the **Existing Nearpoint** functionality, a resting Nearpoint sell order [E] is matched against incoming Midpoint buy order [F], leaving qty 20 on Nearpoint sell.

NBB: 9.50 NBO: 9.52

Buy			Sell		
Time	Qty (shares)	Price ($)	Price($)	Qty (shares)	Time
[F] 10:17:00	80	*(Midpoint)* 9.51	(*Nearpoint*) 9.51	100	[E] 10:16:00
[C] 10:14:00	20	9.50	9.52	40	]D] 10:15:00
[B] 10:12:00	20	9.48	9.54	50	[A] 10:11:00

A subsequent Farpoint buy order [G] is entered and trades quantity 20 against the resting Nearpoint sell [E]

NBB: 9.50 NBO: 9.52

Buy			Sell		
Time	Qty (shares)	Price ($)	Price($)	Qty (shares)	Time
[G] 10:17:00	70	*(Farpoint)* 9.51	(*Nearpoint*) 9.51	20	[E] 10:16:00
[C] 10:14:00	20	9.50	9.52	40	[D] 10:15:00
[B] 10:12:00	20	9.48	9.54	50	[A] 10:11:00

Focused Nearpoint functionality, however, attracts more hidden resting flow strategies.

A resting Nearpoint sell order [E] does not match against incoming Midpoint buy order [F] because it is only eligible to trade against opposing Farpoint orders.

NBB: 9.50 NBO: 9.52

Buy			Sell		
Time	Qty (shares)	Price ($)	Price($)	Qty (shares)	Time
[F] 10:17:00	500	*(Midpoint)* 9.51	(*Focused Nearpoint*) 9.51	100	[E] 10:16:00
[C] 10:14:00	20	9.50	9.52	40	]D] 10:15:00
[B] 10:12:00	20	9.48	9.54	50	[A] 10:11:00

A subsequent Farpoint buy order [G] is entered and trades with quantity 70 against the resting Focused Nearpoint sell [E].

NBB: 9.50 NBO: 9.52

Buy			Sell		
Time	Qty (shares)	Price ($)	Price($)	Qty (shares)	Time
[G] 10:17:00	~~70~~	*(Farpoint)* 9.51	(*Focused Nearpoint*) 9.51	~~100~~ 30	[E] 10:16:00
[F] 10:17:00	500	*(Midpoint)* 9.51	9.52	40	[D] 10:15:00
[C] 10:14:00	20	9.50	9.52	40	[D] 10:15:00
[B] 10:12:00	20	9.48	9.54	50	[A] 10:11:00

Three Tick NBBO Example. This scenario helps illustrate how standard existing Nearpoint orders are handled in wider spread scenarios where Farpoint, Midpoint and Nearpoint are priced at different ticks.

In this example the NBBO is 9.50 – 9.53, hence:

- buy Nearpoint is 9.51, Midpoint is 9.515 (half tick) and buy Farpoint is 9.52, and
- sell Nearpoint is 9.52, Midpoint is 9.515 (half tick) and sell Farpoint is 9.51,

Note that Midpoint buy [F] does not trade due to price, whereas the Farpoint buy [G] does.

The use of Focused Nearpoint in the earlier two tick NBBO example aligns with the dynamics between Farpoint and Nearpoint in this wide spread example, and provides a more deterministic outcome.

NBB: 9.50 NBO: 9.53

Buy			Sell		
Time	Qty (shares)	Price ($)	Price($)	Qty (shares)	Time
[F] 10:17:00	500	*(Midpoint)* 9.515	(*Nearpoint*) 9.52	100	[E] 10:16:00
[C] 10:14:00	20	9.50	9.53	40	]D] 10:15:00
[B] 10:12:00	20	9.48	9.54	50	[A] 10:11:00

NBB: 9.50 NBO: 9.53

Buy			Sell		
Time	Qty (shares)	Price ($)	Price($)	Qty (shares)	Time
[G] 10:17:00	~~70~~	*(Farpoint)* 9.52	(*Nearpoint*) 9.52	~~100~~ 30	[E] 10:16:00
[F] 10:17:00	500	*(Midpoint)* 9.515	9.53	40	[D] 10:15:00
[C] 10:14:00	20	9.50	9.54	50	[A] 10:11:00
[B] 10:12:00	20	9.48			

3. Technical Specification Impact

There are no mandatory technical specification changes relating to the enhancement of Pegged Nearpoint order functionality

- **Reference Data Files**

  There are no changes to CXATSL or CXALSL reference data files.

- **Order Entry FIX and BOE**

  There is an additional option to FIX and BOE order entry messages.

	Description	Order Type / FIX tag 40	Exec Inst / FIX tag 18	Routing Inst / FIX tag 9303
Current	**Pegged Midpoint order.**	OrdType = P	ExecInst = **M** (Midpoint)	n/a
Current	**Pegged Legacy Nearpoint order.**	OrdType = P	ExecInst = **R** (Nearpoint)	n/a
Additional Option	**Pegged Focused Nearpoint order.** Only eligible to trade with contra Farpoint orders	OrdType = P	ExecInst = **R** (Nearpoint)	**RoutingInst = F**
Current	**Pegged Farpoint order.**	OrdType = P	ExecInst = **P** (Farpoint)	n/a

- **Listeners (FIX Drop, ODROP)**

  Existing fields will continue to be populated with existing Exec Inst values (FIX tag 18) in ODROP execution report messages relating to **order updates**.

  The RoutingInst (FIX tag 9303) will be present on FIX execution report messages relating to Focused Nearpoint **order updates**, however the processing of this field is optional for FIX ODROP applications.

  Existing fields will continue to be populated with existing Last Market values (FIX tag 30) in ODROP execution report messages relating to **trade updates**.

- **Market Data (PITCH and TOP)**

  There are no changes to public market data feeds. The MIC codes in the **Trade Designation field** of the Trade Message will continue to be populated with "**N**" including all trades where the resting order was a Nearpoint order or Focused Nearpoint order.

4. Order Conversion Service

CXA plans to add to the OCS functionality library to accommodate the conversion of standard existing Nearpoint orders to Focused Nearpoint orders. Participants can request CXA to 'Switch ON' OCS functionality per FIX or BOE port then per Symbol and per Account. Further information will be provided in an upcoming update of the Order Conversion documentation.

Contact us for more information

Trade Desk
+612 8078 1701
tradedeskau@cboe.com

Sales
au.sales@cboe.com