



Cboe Australia

CXA

**Pegged Order
Trading Priority**

Version 1.0 April 2026



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1. Existing Pegged Order Overview

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 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. Refinement of Pegged Order Trading Priority

CXA is refining the trading priority of Pegged order executions to better meet participant expectations and requirements.

2.1 Trading Priority Comparison

The following table compares legacy trading priority to the proposed trading priority of CXA's integrated order book.

Current Legacy Trading Priority	Proposed Trading Priority
1 - Price	1 - Price
2 – Visibility (Lit then Hidden)	2 – Visibility (Lit then Hidden)
3 - Time	3 – Pegged Intention (Farpoint then Midpoint then Nearpoint)
	4 - Time

2.2 Trading Priority Comparison – Broker Preferencing Variant

The following table compares legacy trading priority to the proposed trading priority of CXA's integrated order book, where Broker Preferencing logic is applied.

Current Legacy Trading Priority	Proposed Trading Priority
1 - Price	1 - Price
2 – Visibility (Lit then Hidden)	2 – Visibility (Lit then Hidden)
3 – Own Broker	3 – Own Broker
4 - Time	4 – Pegged Intention (Farpoint then Midpoint then Nearpoint)
	5 - Time

2.3 Rationale for Reviewing Trading Priority

Following participant feedback, Cboe will make changes to its matching priority logic to better reflect the intentions that underly peg instructions. The changes will become effective whenever the NBBO spread is two price steps or less, which frequently occurs in the majority of the top 300 symbols. Currently, when the NBBO spread is 2 ticks or less, all Farpoint, Midpoint, and Nearpoint orders are considered to have equal price priority, and the next priority (typically time) applies. In Cboe's view, this outcome does not best reflect the intention of participants when they choose among far, mid, and near instructions.

For example, a Farpoint instruction reflects an intention by the participant to be willing to offer a superior price than a Midpoint instruction. Whenever the NBBO is three price steps or more, the Farpoint order will be higher in (price) priority than the Midpoint order. The proposed changes will ensure the same outcome occurs whenever the NBBO is two price steps or less and the orders occupy the same price step, thereby promoting consistency in matching logic at all price steps, and better reflecting the intentions that underly peg instructions.

3. Examples of Pegged Order Trading Priority

CXA is refining the trading priority of Pegged order executions to better meet participant expectations and requirements.

3.1 Example of Current Trading Priority

In the example below the **NBBO is 5.01 – 5.03**. The number in square brackets [] represents the order ID and hence the age of the order with respect to time priority, with [1] being the oldest order and [15] being the most recently added resting order. The pricing for Nearpoint and Farpoint are relevant to Bid orders in this example. If an **incoming aggressing ask order at 5.01**, is entered then the following trading priority is executed:

1. **[Price]** The most competitive bid price is 5.02
2. **[Visibility]** There are only Pegged hidden orders at the 5.02 price.
3. **[Time]** All Pegged orders at Nearpoint and Midpoint and Farpoint are at the same price and same visibility and therefore all are collectively included in time priority logic, as highlighted in the blue box below.

Order ID [3] has top time priority because it is the oldest order, then [4] and so on, such that the two Farpoint orders [13] and [15] are toward the end of the trading priority queue, timewise.

Cboe Lit BID	Cboe Nearpoint BID	Cboe Midpoint BID	Cboe Farpoint BID	Cboe Lit ASK
[1] 5.01	[12] 5.02	[3] 5.02	[13] 5.02	Incoming [16] 5.01
[5] 5.00		[4] 5.02	[15] 5.02	[2] 5.03
		[7] 5.02		[6] 5.03
		[9] 5.02		[8] 5.04
		[10] 5.02		
		[11] 5.02		
		[14] 5.02		

3.2 Example of Proposed Trading Priority

The same order book example is repeated below noting again that the number in square brackets represents the order ID and the age of the order with respect to time priority, with [1] being the oldest order and [15] being the most recently added resting order. If an **incoming aggressing ask order at 5.01**, is entered which overlaps price-wise and volume-wise with the resting Pegged orders, then the [Price / Visibility / **Pegged Intention** / Time] trading priority resolves as set out below.

1. **[Price]** Orders at 5.02 are the first price priority.
2. **[Visibility]** There are only Pegged hidden orders at the 5.02 price.
3. **[Pegged Intention]** In summary, Pegged Intention will execute in Farpoint then Midpoint then Nearpoint order:
 - a. the Farpoint bids shown in light blue are most competitive, hence the two Farpoint orders [13] then [15] are 1st and 2nd priority to be traded.
 - b. the Midpoint orders highlighted in mid blue will next trade in their time priority, followed by
 - c. the Nearpoint orders highlighted in dark blue in their time priority.
4. **[Time]** Time priority applies to each Pegged order intention has described above.

Cboe Lit BID	Cboe Nearpoint BID	Cboe Midpoint BID	Cboe Farpoint BID	Cboe Lit ASK
[1] 5.01	[12] 5.02	[3] 5.02	[13] 5.02	Incoming [16] 5.01
[5] 5.00		[4] 5.02	[15] 5.02	[2] 5.03
		[7] 5.02		[6] 5.03
		[9] 5.02		[8] 5.04
		[10] 5.02		
		[11] 5.02		
		[14] 5.02		

3.3 Technical Specification Updates Relevant to Trading Priority

There are no technical specification changes relating to the refinement of trading priority.

- **Reference Data Files**

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

- **Order Entry FIX and BOE**

There are **no changes** to FIX and BOE specification messages for order entry. Participants continue to populate orders with the **ExeInst** field as per normal and the refined trading priority will take effect within CXA systems.

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

There are **no changes** to drop copy listener messages.

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

There are **no changes** to public market data feeds.

Contact us for more information

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