TMX AUSTRALIA EXCHANGE

Focused Nearpoint

Version 1.1

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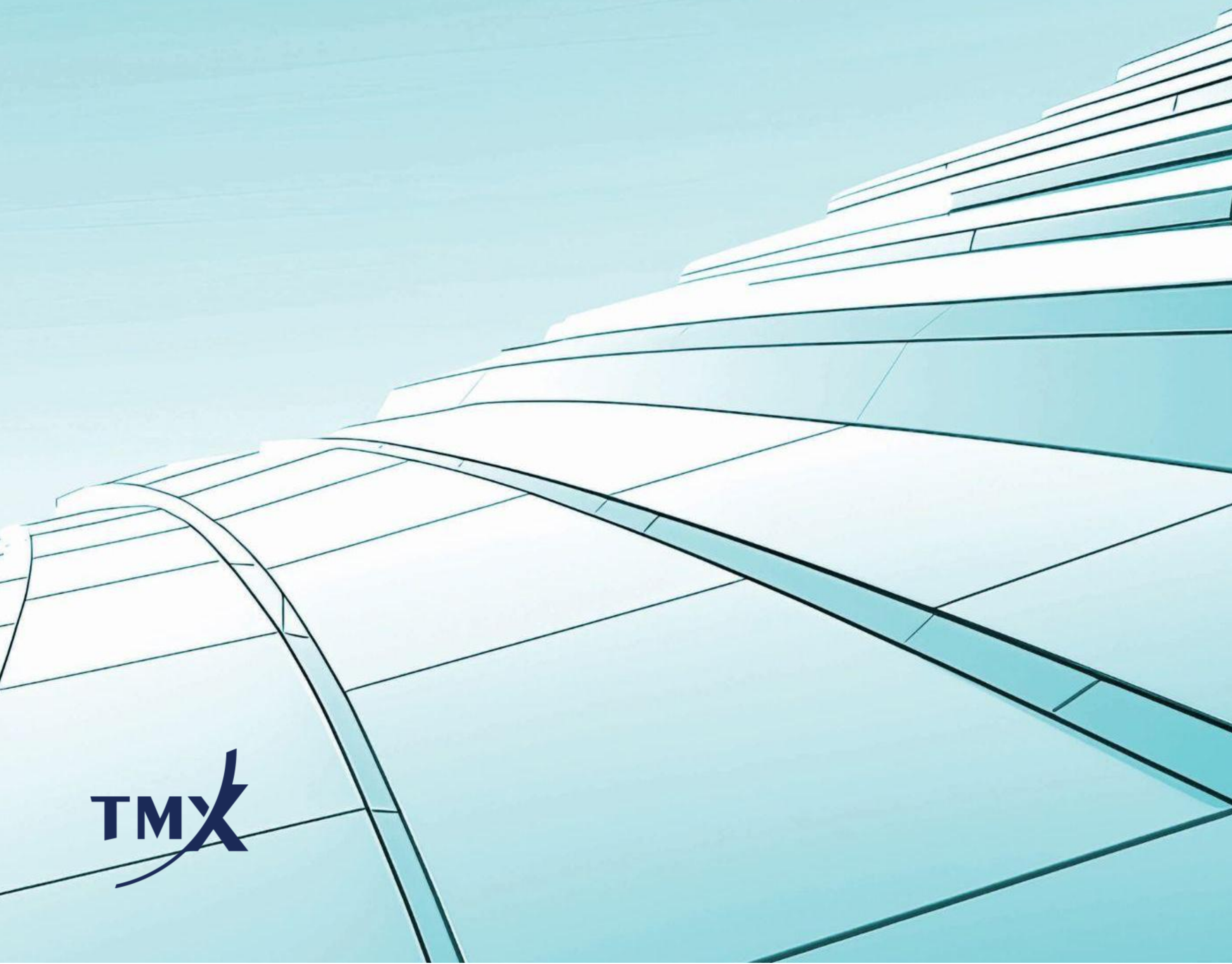

Contents

1. Existing Pegged Order Functionality

TMX Australia Exchange Pty Ltd ("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, CXA has made enhancements to pegged order handling to better reflect the intentions that underly peg instructions. Specifically, CXA now provides 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 CXA's view, this reflects the competitive pricing intention that underlies Nearpoint orders (i.e., to trade against Farpoint orders). CXA 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

With the introduction of Focused Nearpoint, execution priority on the CXA market is 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 Existing Nearpoint and Focused Nearpoint**), then
- Time

2.5 Nearpoint Examples

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 Pegged orders would be priced at:
  Nearpoint 9.51,
  Midpoint 9.515 (half tick)
  Farpoint 9.52

- Sell Pegged orders would be priced at:
  Nearpoint 9.52,
  Midpoint 9.515 (half tick)
  Farpoint is 9.51,

Note that Midpoint Buy [F] does not trade with Nearpoint Sell [E] due to price mismatch, whereas the Farpoint Buy [G] does match and trade.

The use of **Focused Nearpoint**, explained below, aligns these dynamics between Farpoint and Nearpoint in narrower NBBO spread scenarios, and provides more deterministic outcomes.

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			

Two Tick (or less) NBBO Example. This scenario illustrates in **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~~ 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

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~~ 50	*(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 Focused Nearpoint orders are 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

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	Time in Force FIX tag 59 Valid Values
Current	**Pegged Midpoint order.**	OrdType = P	ExecInst = **M** (Midpoint)	n/a	0 DAY 3 IOC 4 FOK 6 GTD (with Expire Time)
Current	**Pegged Legacy Nearpoint order.**	OrdType = P	ExecInst = **R** (Nearpoint)	n/a	0 DAY 3 IOC 4 FOK 6 GTD (with Expire Time)
Additional Option	**Pegged Focused Nearpoint order.** Only eligible to trade with contra Farpoint orders	OrdType = P	ExecInst = **R** (Nearpoint)	**RoutingInst = F**	0 DAY 6 GTD (with Expire Time)
Current	**Pegged Farpoint order.**	OrdType = P	ExecInst = **P** (Farpoint)	n/a	0 DAY 3 IOC 4 FOK 6 GTD (with Expire Time)

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

  Existing fields will continue to be populated order and trade updates:

  - Existing ***Exec Inst*** values (FIX tag 18) in ODROP execution report messages relating to **order updates**.
  - The ***RoutingInst*** (FIX tag 9303) will now 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
  - The ***RoutingInst*** (FIX tag 9303) will now be present on FIX execution report messages relating to Focused Nearpoint **trade updates**, however the processing of this field is optional for FIX ODROP applications, otherwise, existing fields will continue to be populated with **existing *Last Market*** values (FIX tag 30) in ODROP execution report messages relating to **trade updates**
  - A trade involving a participant's Focused Nearpoint order is subject to Focused Nearpoint Fee Codes (FA or FR) as specified in the Fee Schedule.

Description	Fee Code – Maker FIX tag 9882	Fee Code – Taker FIX tag 9882
Pegged Midpoint order	PA	PR
Pegged Legacy Nearpoint order	PA	PR
Pegged Focused Nearpoint order. Only eligible to trade with contra Farpoint orders	**FA**	**FR**
Pegged Farpoint order	PA	PR

- **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 a Focused Nearpoint order.

Contact us for more information

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