



TMX AUSTRALIA EXCHANGE

Pegged Order Trading Priority

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Introduction

This document describes the order types, order attributes and trade types available on the TMX Australia Exchange Pty Limited ("CXA") market.

The trading platform allows combinations of order attributes to be assigned to orders to create a range of order execution options that comply with the validity and execution priority principles.

Participants and software vendors should not use this document as a substitute for reading and understanding the detailed operations and obligations for the CXA market, which are set out in the CXA Operating Rules and the trading interface technical specifications.



1. Existing Pegged Order Overview

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, CXA 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 CXA'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.



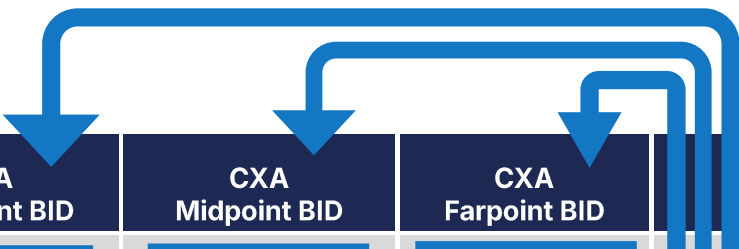
3. Examples of Pegged Order Trading Priority

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

3.1 Example of Current Trading Priority with Wide NBBO Spread

In the example below the **NBBO is \$5.01 – \$5.06**. 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 (sell) order at \$5.01** is entered, then the following trading priority is executed:

- 1. **[Price]** The most competitive resting bid price is the Farpoint at 5.05.
In this wider NBBO scenario (i.e. where the NBBO is 3 ticks or wider), the Pegged Farpoint, Midpoint and Nearpoint are priced differently therefore trade in that price priority sequence
- 2. **[Visibility]** There are only Pegged hidden Bid orders above the lit Bid order at 5.01
- 3. **[Time]** Each Pegged order type is priced differently, therefore will execute in their own time priorities within the applicable price priority



CXA Lit BID	CXA Nearpoint BID	CXA Midpoint BID	CXA Farpoint BID	CXA Lit ASK
[1] 5.01	[12] 5.02	[3] 5.035	[13] 5.05	Incoming [16] 5.01
[5] 5.00		[4] 5.035	[15] 5.05	[2] 5.06
		[7] 5.035		[6] 5.07
		[9] 5.035		[8] 5.08
		[10] 5.035		
		[11] 5.035		
		[14] 5.035		

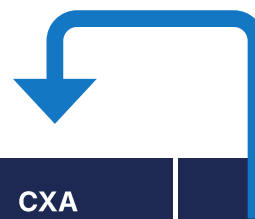


3.2 Example of Current Trading Priority with Narrow NBBO Spread

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 (sell) order at \$5.01** is entered, then the following trading priority is executed:

1. **[Price]** The most competitive resting 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 their execution priority is determined solely by the 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, time-wise.



CXA Lit BID	CXA Nearpoint BID	CXA Midpoint BID	CXA Farpoint BID	CXA 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 Example of Proposed Trading Priority

The same order book example is repeated below, with the same **NBBO is \$5.01 – \$5.03**, 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 (sell) 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]** The most competitive resting bid price is 5.02
2. **[Visibility]** There are only Pegged hidden orders at the 5.02 price.
3. **[Pegged Intention]** 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; then
 - c. the Nearpoint orders highlighted in dark blue.
4. **[Time]** Time priority applies to each Pegged order intention and will execute in their own time priorities within the applicable Pegged order intention priority

CXA Lit BID	CXA Nearpoint BID	CXA Midpoint BID	CXA Farpoint BID	CXA 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		



4. 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 **ExecInst** 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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