

MEMO# 27189

April 17, 2013

ASIC Consultation on Dark Liquidity and High-Frequency Trading

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 10-13
INTERNATIONAL MEMBERS No. 21-13 RE: ASIC CONSULTATION ON DARK LIQUIDITY AND HIGH-FREQUENCY TRADING

The Australian Securities and Investments Commission (“ASIC”) recently issued a report and a consultation paper that examine the impact of dark liquidity and high-frequency trading on Australian financial markets. Report 331 on Dark liquidity and High-Frequency Trading, [\[1\]](#) which presents the findings from ASIC’s internal task forces established to examine these issues:

- identifies and analyzes specific trading attributes associated with dark liquidity and high-frequency trading;
- informs consumers and investors, market participants and listed companies about the markets in which they invest and raise capital; and
- provides background and supplementary information and analysis on selected issues identified by the two taskforces established by ASIC to consider these issues, as discussed in Consultation Paper 202 on Dark Liquidity and High-Frequency Trading.

Consultation Paper 202 on Dark Liquidity and High-Frequency Trading [\[2\]](#) proposes Market Integrity Rules and guidance to address ASIC’s concerns about the impact of developments in dark liquidity and high-frequency trading on market quality, market integrity and fairness, and requests comment by May 10, 2013. ASIC intends to issue rules and regulatory guidance in July/August 2013.

ASIC’s proposals address the following issues with respect to dark liquidity:

- minimum size threshold for dark orders;
- proposals for crossing system operators, including transparency for the wider market, disclosure to users, fairness to all users, opting out, monitoring, record keeping, and systems and controls; and
- other issues, including tick sizes, course-of-sales disclosure (T+3), conflicts of interest, payment for order flow, and indications of interest.

For high-frequency trading, ASIC is considering a new rule specifying minimum resting

periods for small and fleeting orders applied to market participants and guidance on order-to-trade ratios in order to address excess messaging and market noise. ASIC is also considering enhancing the current Market Integrity Rules to address manipulative trading practices that may be effected through trading algorithms and issuing guidance clarifying the types of algorithmic trading strategies that may be seen as manipulative trading.

Eva M. Mykolenko
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endnotes

[1] Report 331 on Dark Liquidity and High-Frequency Trading, March 2013, is available at [http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep331-published-18-March-2013.pdf/\\$file/rep331-published-18-March-2013.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep331-published-18-March-2013.pdf/$file/rep331-published-18-March-2013.pdf).

[2] Consultation Paper 202 on Dark Liquidity and High-Frequency Trading, March 2013, is available at [http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/cp202-published-18-March-2013.pdf/\\$file/cp202-published-18-March-2013.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/cp202-published-18-March-2013.pdf/$file/cp202-published-18-March-2013.pdf).

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