



**ASIC**

Australian Securities & Investments Commission

## **ASIC Consultation – Overview of New Market Proposals**

### **1. AXE ECN FINANCIAL MARKET**

#### **1.1 Who is AXE?**

AXE ECN Pty Ltd (ACN 121 659 658) is an unlisted private company jointly owned by New Zealand Exchange Ltd (NZX) with a 50% stake, and 10% stakes held by each of Citigroup Global Markets Australia Pty Ltd, Commonwealth Securities Ltd, Goldman Sachs JB Were Pty Ltd, Macquarie Securities (Australia) Ltd, and Merrill Lynch Equities (Australia) Ltd. These latter five companies are existing ASX market participants, and are among the ten largest participants in terms of volume and value of market turnover.

#### **1.2 Who will be eligible to participate in AXE?**

The only permitted users of AXE will be brokers holding an Australian financial services licence and who meet the criteria set out in the admission requirements. It is likely that some or all participants of AXE will also be participants of ASX. Participants of AXE will be able to offer services to both retail and wholesale clients.

#### **1.3 What market services will AXE provide?**

AXE will provide a facility for trading securities listed by ASX, in parallel and in competition with the market services provided by ASX. At present, no other securities will be traded.

AXE will not provide any listing services of its own, nor will it provide a central marketplace for bids and offers to interact. The physical receipt of client orders, the search for counterparties to these orders, and the matching of these orders will all take place within participants' own technological infrastructure (for example: telephones, order management systems, trading portals).

AXE participants will be entitled to execute transactions, with no minimum order size, between two clients of the same participant; between a participant acting as principal and a client; and between two participants, where each is acting as either an agent or principal. That is, AXE participants will conduct transactions that would be considered as crossings on ASX's market.

#### **1.4 How does AXE intend to co-ordinate with ASX?**

AXE will have systems in place to ensure that participants will not be able to transact in a security where ASX has halted or suspended its trading or has removed it from quotation on the ASX market.

AXE intends to enter into a Memorandum of Understanding with ASX relating to supervisory information sharing.

#### **1.5 What arrangements does AXE have for trading transparency and data reporting?**

After a transaction within an AXE participant's own order book or between different AXE participants has been agreed it must be reported to the ECN platform. Reporting of the transaction to the ECN platform completes execution of the transaction for the purpose of AXE's rules.



For each transaction, the information reported to the platform will be the name of the security, trade volume, and trade price. AXE market information will be disseminated through data vendors via arrangements to be put in place by AXE. It is expected that these data vendors will, in turn, provide real-time consolidation of AXE data with that received from ASX for the same securities.

### **1.6 What are AXE's clearing and settlement arrangements?**

AXE will not provide any clearing or settlement services of its own. There will be no central counterparty and trades will not be novated. Participants transacting with other participants will bear the counterparty risk. The counterparty will be known in each transaction and a participant will make an assessment as to whether the counterparty risk is acceptable.

Settlement will be effected by the entry of settlement messages on both sides of the transaction into CHES, utilising participants' and clients' existing arrangements.

## **2. LIQUIDNET AUSTRALIA**

### **2.1 Who is Liquidnet Australia?**

Liquidnet Australia Pty Ltd (ACN 124 418 499) is a wholly owned Australian subsidiary of Liquidnet Holdings, Inc. ("Liquidnet"), a privately held company incorporated in the US. Liquidnet operates and owns the Liquidnet Trading System ("LTS"), a system that allows its participants to execute block trades electronically. LTS started operations in the US in April 2001. Since then its coverage has expanded to 22 markets including securities listed on US, European and Canadian exchanges.

The single largest shareholder of Liquidnet is one of its founders, who holds approximately 44%. No other shareholders hold more than 15% of the company.

### **2.2 Who will be eligible to participate in Liquidnet Australia?**

Only buy-side institutional investors owning or managing at least US\$200m in assets, or the equivalent, are eligible to become participants of Liquidnet Australia's market. In executing trades on the market, participants must act either as principal or as an agent for related institutional parties.

### **2.3 What market services will Liquidnet Australia provide?**

Liquidnet Australia will provide a facility for trading securities listed by ASX, in parallel and in competition with the market services provided by ASX. At present, no other securities will be traded.

Liquidnet Australia will not provide any listing services of its own.

Participants' orders are entered into LTS as non-binding indications of trading interest. If matching indications of interest are found, the corresponding counterparties are advised and then electronically negotiate the transaction anonymously. No minimum order size applies to transactions that can be executed through Liquidnet, although it is expected that the average transaction value will be \$1 million. No orders for retail clients will be permitted.

In addition, Liquidnet Australia will route orders for overseas-listed securities received from its Australian customers to other Liquidnet group companies overseas for execution on LTS. Similarly, Liquidnet Australia will receive and execute orders for ASX securities placed by other Liquidnet entities on behalf of their customers. Liquidnet Australia has made an application for an Australian financial services licence for these order-routing activities.

### **2.4 How does Liquidnet intend to co-ordinate with ASX?**

If the trading in an ASX-listed stock has been suspended or the company has requested a trading halt, trading of the security on LTS will halt simultaneously.



At present no information-sharing arrangements with ASX or other market operators are contemplated by Liquidnet, but they may be necessary as part of an overall framework to ensure effective market supervision arrangements are in place.

## **2.5 What arrangements does Liquidnet have for trading transparency and data reporting?**

There is no proposed pre-execution transparency in Liquidnet Australia's market. Participants engage in one-on-one negotiation; the price and quantity of bids and offers are not displayed to anyone other than the negotiating parties. Liquidnet Australia will publish, without any delay, all completed trades on its website and also through one or more data vendors.

## **2.6 What are Liquidnet's clearing and settlement arrangements?**

Liquidnet Australia will not provide any clearing and settlement services nor guarantee the settlement of any trades executed on its market.

Liquidnet Australia proposes to engage Bear Sterns Securities Corporation ("BSSC") to clear and settle the matched trades. As BSSC is not a participant of CHES, it will issue delivery instructions to Citibank NA Melbourne, which is a CHES participant. Settlement will then be effected through Citibank's CHES account.