Practice Note
Self-Match Prevention Service

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Summary

This Practice Note describes the self-match prevention service that may be utilised by Participants, to assist Participants in complying with their obligations in relation to Trades that do not result in a change in Beneficial Ownership.

Participants are not obligated to use the self-match prevention service, which is provided by NZX as an optional service to assist Participants in meeting their compliance obligations under the Rules.

Relevant Rules

Participant Rule 10.13.13 and Derivatives Market Rule 8.7.11 (the **Rules**). References in this Practice Note to NZX also include NZ RegCo in relation to any regulatory activity or discretion.

Capitalised terms used in this Practice Note bear the same meaning as set out in the relevant Rules.

1. What is self-match prevention?

The self-match prevention service (**SMP**) is an optional service which, when enabled, will automatically prevent two Orders from the same entity matching with each other in the Trading System to create a Trade. This functionality may assist Trading Participants in complying with their obligations under the Participant Rules and Derivatives Market Rules in respect of Trades where there is no change in Beneficial Ownership.

2. Why should a Participant consider using self-match prevention?

Participant Rule 10.13.13 and Derivatives Market Rule 8.7.11 impose obligations designed to prevent Trading that does not result in a change in beneficial ownership. These Rules state:

> *A Trading Participant must have appropriate systems and controls in place relating to the prevention of Orders being entered into the Trading System by a Dealer or DMA Authorised Person that result in Trades where there is no resulting change in Beneficial Ownership.*

In addition, section 267 of the Financial Markets Conduct Act (**FMCA**) treats a person who is directly or indirectly a party to a trade in quoted financial products of a listed issuer that does not result in a change of beneficial ownership, as breaching the prohibition on creating a false or misleading appearance of trading (contained in section 265 of the FMCA).

SMP can assist Trading Participants to manage these obligations, by reducing the risk of Trades inadvertently resulting in no change of Beneficial Ownership. Trading Participants should not solely rely on SMP to prevent Trades that do not result in a change in Beneficial Ownership and should ensure that they maintain appropriate systems and controls to prevent Orders being entered into the Trading System that could result in such Trades.

3. What types of self-match prevention are available?

There are two types of SMP available to Participants, being:

- Cancel-Passive SMP, and
- Booking Purposes Only Transaction (**BPOT**).

Where Cancel-Passive SMP has been chosen for two opposing Orders belonging to the same entity that would otherwise match in the Trading System:

- the passive or resting Order will be withdrawn from NZX Central, while the aggressing Order will remain in NZX Central, and
- the passive or resting Order will remain in NZX Dark but will be ineligible for matching against the opposing order from the same entity in NZX Dark.

Where BPOT has been chosen for two opposing Orders belonging to the same entity that would otherwise match in the Trading System, both the passive and aggressing Order will match and then immediately be withdrawn from the Trading System and a BPOT will arise. A BPOT will only be visible to the Participant who placed the relevant Orders and will give rise to a transaction report that the Participant can elect to settle. BPOT are not eligible to be novated and cleared and settled through the Clearing House, and a 'non-settled' trade notification will be displayed in the BaNCS system. BPOT behaviour is the same across both NZX Central and NZX Dark.

4. How does the self-match prevention service operate?

When SMP is enabled for a Trading Participant, two Orders for the same beneficial owner *entity* (identified through the SMP Key) that have been entered by the Trading Participant, which have the same SMP Action (Cancel-Passive or BPOT) will be prevented from matching in the Trading System to create a Trade, and the relevant SMP Action will occur.

SMP Key

The Participant will enable SMP through the addition of a unique SMP Key on each order that will identify the '*entity*' to which SMP should apply.

A Trading Participant will allocate an SMP Key for use on Orders for which SMP is to be enabled.

A Trading Participant is required to report the SMP Key it has used for Approved BPOT Clients to NZX on a quarterly basis. In the scenario where the Trading Participant's Approved BPOT Client is an intermediary conduiting Orders for underlying clients for whom BPOT is enabled, the SMP Keys for the BPOT Client may be varied to capture the specific underlying clients. All such variations must be reported to NZX within two Business Days of the new SMP Key being used on an Approved BPOT Client order in respect of which a BPOT occurs. The new SMP Keys must also be included in the required quarterly reporting of Approved BPOT Client SMP keys.

There is no requirement to report the SMP Key used for Cancel-Passive SMP.

The SMP Key applying to an Order must be the same for each of the opposing Orders for the relevant SMP Action to occur. If the SMP Keys differ, a Trade will occur.

SMP Action

Participants will then need to specify the SMP Action that is to apply to an Order, being either Cancel-Passive or BPOT.

The SMP Actions applying to an Order must be the same for each of the opposing Orders for the relevant SMP Action (Cancel-Passive or BPOT) to occur. If the SMP Actions differ a Trade will occur.

For more information about NZX's policies regarding accidental crossings, see the Trading Conduct Guidance Note.

5. When can the self-match prevention service be used?

Cancel-Passive

NZX Securities Markets
Cancel-Passive SMP is optional functionality that can be utilised by any Trading Participant for Orders on the NZX securities markets and the NZX Derivatives Market.

Cancel-Passive is only effective during continuous trading and is not effective during auctions. Opposing Orders will match, and a Trade will occur if Cancel-Passive has been selected as the SMP Action if the Order is eligible for matching during the Open and Close.

NZX Derivatives Market
Cancel-Passive is not effective for calendar spread Orders that create system generated implied orders which can match with outright futures contract Orders, or vice versa. If Cancel-Passive is selected in these circumstances a Trade will occur.

BPOT

BPOT is optional functionality that can be utilised by any Trading Participant for Orders entered on the NZX securities markets. BPOT is not available for the NZX Derivatives Market.

BPOT is available during the Normal Trading Session (continuous trading) and the auctions (Open and Close).

Use of BPOT is restricted and requires approval.

6. Eligibility criteria and conduct expectations relating to BPOT

BPOT is only available for Participants when Acting as Principal, and for Institutional Clients from a jurisdiction that NZX recognizes as a Recognised BPOT Jurisdiction. BPOT is available for an Institutional Client in relation to its own Orders, and Orders for its underlying clients where it is acting as an intermediary.

The Trading Conduct Guidance Note provides guidance in relation to the conduct obligations that apply when using BPOT.[1]

Where a Participant wishes to use BPOT when Acting as Principal, it must meet the obligations contained in Participant Rule 10.13.19 and maintain arrangements to ensure that the Trading Participant's Employees who are entering the Orders that may result in a BPOT have no prior knowledge that the resulting transaction may result in no change in Beneficial Ownership. This requirement ensures that Participants do not enter Orders knowing that a BPOT will occur. A Participant who uses an algorithm for principal trading is not prevented from using BPOT because of

[1] Refer to section 7.3 of the Trading Conduct Guidance Note.

a Dealer's knowledge that the algorithm exists, where the Dealer does not have actual knowledge that the algorithm will enter an Order that will execute against the Dealer's Order.

A Participant may enable BPOT for an Approved BPOT Client that is an Institutional Client who is an intermediary in relation to its underlying clients Orders. Where a Participant becomes aware that the Approved BPOT Client is intentionally instructing Orders with the intention of deliberately creating BPOT to occur for its underlying clients, the Participant should implement controls or filters to block such Orders, in order to comply with its obligations under Participant Rule 10.13.13, and notify NZX.

Participants may only use BPOT for Approved BPOT Clients domiciled in a Recognised BPOT Jurisdiction. NZX has recognised certain jurisdictions for this purpose. These are listed in section 3.3 of the Participant Procedures and available here on nzx.com.

7. How to enable and disable the self-match prevention service

SMP is available by default for all NZX Trading Participants but will only come into effect if the SMP Key and SMP Action fields are filled.

Participant SMP functionality can be disabled firm wide on request. SMP functionality is either enabled or disabled, there is no ability to select that only Cancel-Passive or BPOT SMP be enabled.

The request to disable (or re-enable) must be emailed to participant@nzregco.com and submitted by:

- a Managing Principal or Compliance Manager (as defined in the Participant Rules);
- or a Responsible Executive or Compliance Manager (as defined in the Derivatives Market Rules); or
- a delegate of the Compliance Manager authorised to make such submissions within the Participant Portal.

Approved BPOT Client

Where a Participant wishes to make BPOT available for an Institutional Client it will need to provide NZX with the following information in the 'BPOT Approved Client Request Form':

- the name of the Institutional Client or Principal Account, and
- the jurisdiction in which the relevant Institutional Client is domiciled and confirmation that this domicile is a Recognised BPOT Jurisdiction.

A Participant who wishes to use BPOT for an Institutional Client who is acting as an intermediary must ensure the Institutional Client is an Approved BPOT Client, but does not need to ensure that the underlying client is an Approved BPOT Client.

The BPOT Approved Client Request must be completed and submitted by:

- a Managing Principal or Compliance Manager (as defined in the Participant Rules);
- or a Responsible Executive or Compliance Manager (as defined in the Derivatives Market Rules); or
- a delegate of the Compliance Manager authorised to make such submissions within the Participant Portal.

NZ RegCo has complete discretion to determine whether to accept an Institutional Client as an Approved BPOT Client.

A submission for an Institutional Client or Principal Account to be accepted as an Approved BPOT Client may take up to three business days to process. You will be advised via the Participant Portal when your request for acceptance of an Approved BPOT Client has been accepted or rejected. NZX has complete discretion as to whether to accept or reject such a request.

Participants are reminded of the obligations contained in the Rules relating to the disclosures to be provided to a client for whom they wish to enable BPOT (refer to Rule 10.13).

8. What fees apply?

All fees relating to SMP will be set out in the NZX fee schedule here.

This Practice Note has been issued to promote market certainty and assist Market Participants. This Practice Note sets out NZX's general approach to the subject but is not to be regarded as a definitive statement of the application of the Rules in every situation. NZX may replace Guidance Notes and Practice Notes at any time and a Market Participant should ensure it has the most recent versions of those documents. This does not constitute legal advice. NZX recommends that Market Participants take advice from qualified persons.