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 tool to assist Participants in meeting their compliance obligations under the Rules.

Relevant Rules

Participant Rule 10.13.~~9~~13 and Derivatives Market Rule 8.7.~~10~~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 tool 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 ~~to comply~~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.~~9~~13 and Derivatives Market Rule 8.7.~~10~~11 impose obligations that are designed to prevent Trading that does not result in a change in beneficial ownership. Rule 10.13.~~9~~13 of the Participant Rules states:

> *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 ~~results~~result in Trades where there is no resulting change in Beneficial Ownership.*

Rule 8.7.~~10~~11 of the Derivatives Market Rules states:

> *No Orders may be entered into the Trading System by a Dealer, DMA Dealer or DMA Authorised Person unless it will result in a Trade that results in a change in Beneficial Ownership of a Contract.*

In addition, section 267 of the Financial Markets Conduct Act (**FMCA**) treats a person who is directly or indirectly a party to a trade 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 in managing these obligations, by reducing the risk of Trades inadvertently resulting in no change of Beneficial Ownership.

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.

~~3.~~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 treats an '*entity*' as each of the following:~~

- ~~Broker reference (for Wholesale Client Orders)~~
- ~~Account type:~~

~~Orders entered as Principal (P), or Market Maker (M),~~SMP Key

   o The Participant will ~~not~~ be ~~allowed~~able to ~~match against each other.~~

enable SMP ~~also treats the following as an 'entity' in respect of NZX's securities markets (i.e. not the through the addition of a unique SMP Key on each order that~~NZX Derivatives Market~~):~~

- ~~Client CSN (Common Shareholder Number) for Retail Orders~~
   - ~~only CSN's starting with 3 are eligible for self-match prevention checks.~~

o ~~CSN's starting with 2 (for nominees) will~~ be ~~allowed~~ identify the '*entity*' to ~~match.~~which SMP should apply.

~~If any of the entities are~~A Trading Participant will allocate an SMP Key for use on Orders for which BPOT is to be enabled. A Trading Participant is required to report the SMP Key it has used for Approved BPOT Clients to enable BPOT, on a quarterly basis to NZX.

The SMP Key applying to an Order must be the same ~~on~~for each of the opposing ~~sides~~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 ~~Order, the Orders will not match in the Trading System, and the passive (resting) Order will be withdrawn~~opposing Orders for the relevant SMP Action (Cancel-Passive or BPOT) to occur. If the SMP Actions differ a Trade will occur.

~~The only exception to this behaviour is within the Mid-Point Order Book, where if a self-match has been identified Orders are not withdrawn.~~

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

~~4.~~5. When can the self-match prevention service be used?

Cancel-Passive
Cancel-Passive SMP is optional functionality that can be utilised by any Trading Participant for Orders on the NZX securities markets (other than the Fonterra Shareholders' Market) and the NZX Derivatives Market.

~~SMP~~ Cancel-Passive is only ~~operational~~effective during ~~the Normal Trading Session (~~continuous trading~~),~~ and is ~~never available~~ not effective during auctions.

~~5.   How to exclude entities from SMP through a whitelist~~

~~Participants may specify a 'whitelist' of entities that they wish to exclude from SMP, whose~~ Opposing Orders will ~~be allowed to~~ match ~~in the Trading System.~~

~~A Participant must specify the entity type (CSN or broker reference)~~ and ~~entity value for each account the Participant wishes to be whitelisted on a 'Whitelist CSV File' a template of which is available on nzx.com and in the Participant Portal. A Participant must also notify NZ RegCo of the Participant's intention to initiate, replace or remove a whitelist via the Participant Portal process (described below).~~

~~Each 'Whitelist CSV File" sent to NZ RegCo must be the 'master list' and must record all entities which are to be excluded from SMP. Participants are responsible for maintaining, and ensuring the accuracy of the information specified in the Whitelist CSV File.~~

~~All uploads to the whitelist database involve a complete "cancel and replace" of the entire list, and are not additive. Therefore, if a Participant provides a Whitelist CSV File to NZ RegCo containing only one entity, this~~a Trade will ~~mean that once uploaded, only the entity on the most recent Whitelist CSV File will be excluded from SMP.~~

~~NZ RegCo has complete discretion to activate a whitelist for a Participant. NZ RegCo will notify a Participant's Compliance Manager or Compliance Officer, once the whitelist~~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 Marketactivated.

Cancel-Passive is not effective in relation to an Order for a calendar spread that creates a system generated implied order which can match with an Order for an outright futures contract 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 (other than the Fonterra Shareholders' Market). 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).

6. How to enable the self-match prevention service

SMP can be enabled or disabled by a Trading Participant by completing the 'Self-Match Prevention Service Request Form' and submitting it to NZ RegCo within the Participant Portal.

BPOT is only available for Participants when Acting as Principal, and for Institutional Clients from jurisdictions that NZX recognizes as a Recognised BPOT Jurisdiction. A list of the recognised jurisdictions is available here on nzx.com.

Approved BPOT Client

Where a Participant whitelists can also be submitted via the Participant Portal. This is done bywishes to make BPOT available for an Institutional Client it will need to provide NZX with the Participant uploadingfollowing information in the Whitelist CSV File within 'Self-Match Prevention Service Request Form':

- the Participant Portal. name of the Institutional Client, and
- the jurisdiction in which the relevant Institutional Client is domiciled and confirmation that it is from a Recognised BPOT Jurisdiction.

The Self-Match Prevention Service Request and/or the Participant's whitelist upload 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 enable SMP (or a whitelist) for a Participant. and whether to accept an Institutional Client as an Approved BPOT Client.

A submission for SMP and/or a Whitelistfor an Institutional Client 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 SMP has been enabled and/or your request to initiate, replace or remove a whitelist has been processedfor acceptance of an Approved BPOT Client has been accepted. NZX has complete discretion as to whether to accept such a request.

7. What fees apply?

All fees relating to SMP ~~are available on~~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.