



Principles for assessing market incidents

Consultation Paper

18 November 2022

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This Consultation Paper has been prepared by NZX to provide clarity to the market on NZX’s intended approach to certain market incidents outlined in this paper, with a view to ensuring that NZX’s proposed approach will enable NZX to continue to operate its markets on a fair, orderly and transparent basis. Capitalised terms which are not defined in this Consultation Paper have the same meanings given to them in the relevant Rules.



Introduction

NZX is reviewing its approach to managing significant market incidents, in the context of ongoing work to enhance NZX's crisis management arrangements. This work includes the development of protocols for NZX's approach to scenarios relevant to the operation of NZX's markets, including circumstances in which NZX would be likely to halt market trading, to ensure it can continue to meet its market operator obligations.

NZX seeks to provide greater transparency on the actions it will take if a significant event affecting its markets occurs, to support external stakeholders in developing and enhancing their own crisis management arrangements.

Consultation Process

NZX is seeking submissions on the proposals which are described in this Consultation Paper.

We invite interested parties to provide their views on the market incident protocols described in this Consultation Paper by emailing NZX Markets Development. Alternatively, if you would prefer to provide a verbal submission, please email us, to arrange a time to speak with us. You can contact NZX Markets Development at: markets@nzx.com.

The closing date for submissions is **27 January 2023**.

If you have any queries in relation to the review, please contact:

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Overview and Governing Principle

NZX has broad powers under the NZX Listing Rules and the NZX Participant Rules to halt (or suspend) NZX's markets. The relevant rules are set out in the Appendix to this paper. Those powers are exercised by NZ RegCo, the independently governed entity responsible for regulatory oversight of NZX's markets. References in this document to NZX include NZ RegCo and, in relation to exercise of regulatory powers under the market rules, are to NZX acting by and through NZ RegCo.

The ability to halt an NZX market under the rules is applied in the context of NZX's legislative obligations as a market operator to do all things necessary to ensure that each of its licensed markets is a fair, orderly, and transparent market, to the extent that is reasonably practicable.

Governing Principle

NZX has considered its market operator obligations in designing the governing principle that is to be applied to determine whether it may be appropriate to halt trading in an NZX market, as follows:

- **Fair:** NZX considers that the development and publication of its arrangements for when the market will be halted, and the application of those arrangements consistently on an unbiased basis, will enhance the operation of NZX's markets in a fair manner.
- **Orderly:** NZX needs to be able to take action to avoid or rectify a disorderly market, together with ensuring that its arrangements support reliable market operations.
- **Transparent:** NZX needs to be able to take action if it considers NZX Participants do not have an appropriate degree of certainty to determine whether they can deal, or the prices or volume at which they can deal, or do not have timely access to information about the prices and volumes of all transactions concluded on the market.

Governing Principle:

Action by NZX which interrupts the scheduled trading on NZX's markets will be kept to a minimum. NZX will exercise its discretion to halt or suspend trading on NZX's markets if NZX considers this action appropriate to enable the markets to operate properly, having due regard to NZX's market operator obligations.

Application of the Governing Principles

NZX acknowledges the systemically important role of its markets in the New Zealand capital markets ecosystem. Trading interruptions on NZX's markets will be kept to a minimum.

NZX notes that its market rules provide it with discretion to use trading halts and suspensions as important tools to ensure the fair, orderly and transparent operation of its markets. NZX will use these tools to interrupt scheduled trading if an event has occurred and NZX considers it appropriate to halt or suspend trading on an NZX market. NZX considers that it would be rare for that discretion to be exercised. Such circumstances would include if:



- NZX suffers a major failure of a critical system required to operate NZX's markets (e.g., NZX's trading system).
- NZX cannot operate NZX's markets from either its primary or back-up site due to an event (e.g., natural disaster, war, pandemic).
- A significant proportion of NZX Participants cannot operate from either their primary or back up sites and/or cannot access NZX's systems critical to operation of NZX's markets due to an event (e.g., natural disaster, war, pandemic, or major communications infrastructure failure).
- NZX is subject to a successful cyber-attack that prevents NZX or a significant proportion of NZX Participants from accessing a critical system required to operate NZX's markets.
- NZX suffers a major failure of a critical system, or an event occurs (e.g., cyber-attack, major communications infrastructure failure), which restricts NZX's or issuers' ability to receive or disseminate information required to enable appropriate price discovery for trading on NZX's markets.
- There is or NZX is aware that there will be, a significant announcement from the New Zealand Government, the Financial Markets Authority, or another regulator that NZX considers is material to trading on NZX's markets and warrants closure of the markets to enable the information to be understood.
- There is a state of emergency that NZX considers warrants closure of NZX's markets.



Market Incident Protocols

The table below sets out market incident protocols that NZX has developed, and which apply the governing principle to prescribed scenarios. The protocols have been developed to be applied across the NZX Main Board (**NZSX**), NZX Debt Market (**NZDX**) and the Fonterra Shareholders' Market (**FSM**) (together, the **NZX Cash Markets**, and also referred to in the protocols as the **markets**)¹. Please note:

- These protocols have been developed based on the current cohort of NZX Cash Market Trading Participants. NZX will monitor and assess the protocols on an ongoing basis².
- Appendix B provides an example of the market share information used in the Market Incident Protocols. When the Market Incident Protocols are finalised, this information will be available and automatically updated each week on nzx.com.
- The protocols do not consider post trade operations such as clearing, settlement and custody.
- If a market halt is implemented as contemplated by the protocols, NZX will not purge the orderbook by default. A purge of the orderbook may occur at NZX's discretion and communicated with Participants and Vendors at the relevant time.

Ref	Protocol	NZX commentary on protocol
MIP-01	NZX does not regard a single Trading Participant being unable to access the NZX Trading System as sufficient reason to apply a halt to the markets.	A single Trading Participant's inability to access the NZX Trading System would not be deemed to materially negatively affect the orderly running of the trading session, because it would not result in a significant portion of Trading Participants to be unable to access NZX's critical systems. There would be suitable access to NZX's critical systems to enable appropriate price discovery.
MIP-02	NZX considers that functional access to the NZX Trading System exists if a Trading Participant can enter, cancel or amend orders via: <ol style="list-style-type: none"> i. a conformed Order Management System (OMS)/Independent Software Vendor (ISV), or ii. the Nasdaq ME Workstation. 	The inability of a Trading Participant to use a preferred OMS/ISV does not warrant a halt of the trading session. NZX Trading Participants are required to have BCP arrangements to manage their order flow through the Nasdaq ME workstation.

¹ With the partnership between NZX and SGX implemented in November 2021 in respect of NZX's dairy derivatives products, there is currently limited trading on the Derivatives Market and that arrangements in respect of that market remain under review.

² NZX will review and assess the protocols before the introduction of new Trading Participants and new secondary market products. For example, the protocols will be reviewed prior to the implementation of the midpoint orderbook (NZX DARK).



Ref	Protocol	NZX commentary on protocol
MIP-03	<p>A halt would be applied to NZX's markets if there is failure of access to the NZX Trading System affecting:</p> <ul style="list-style-type: none"> i. any three or more Trading Participants, or ii. Trading Participants who in aggregate represent 40% or more total market share (by on-market value). <p>MIP-03 is subject to MIP-07</p>	<p>The thresholds prescribed in the protocol reflect NZX's determination that the loss of either 40% or more of market share (by on-market value) or three or more Trading Participants would result in a significant number of investors being unable to access the markets, preventing the markets operating in a transparent and orderly fashion, given the lack of information to enable the markets to perform proper price discovery.</p> <p><u>Methodology</u> Market share is calculated by reference to Trading Participants' total value traded through the NZX central limit orderbook across the NZX Cash Markets over the preceding six-month period. Negotiated deals (off market crossings) are not included as part of the market share calculation.</p> <p>NZX considers the proposed thresholds appropriately reflect the diverse nature of the scope and scale of Trading Participants' trade flow and the composition of their underlying clients.</p>
MIP-04	<p>NZX will consider resumption of trading when NZX is satisfied with the stable operation of the NZX Trading System and any other NZX critical systems and the thresholds for in MIP-03 are no longer triggered, i.e.:</p> <ul style="list-style-type: none"> i. at least six of eight of Trading Participants can access the NZX Trading System, and ii. Trading Participants who in aggregate represent 60% or more of total market share (by on market value) can access the NZX Trading System. <p>MIP-04 is subject to MIP-08</p>	<p><u>Methodology</u> Market share is calculated by reference to Trading Participants' total value traded through the NZX central limit orderbook across the NZX Cash Markets over the preceding six-month period. Negotiated deals (off market crossings) are not considered as part of the market share calculation.</p>
MIP-05	<p>NZX will endeavour to provide a minimum of 15 minutes warning prior to a 15-minute pre-open or pre-close session before recommencing trading or running a closing auction.</p>	<p>NZX considers these timeframes allow Trading Participants an appropriate period within which to assess and manage their orders as well as to communicate with clients and vendors, supporting the orderly operation of NZX's markets.</p>



Ref	Protocol	NZX commentary on protocol
MIP-06	<p>NZX will not extend normal trading session, pre-close or the running of the closing auction past 5:00pm. If NZX has applied a market halt, NZX will resume trading if, at or before 4:30pm:</p> <ul style="list-style-type: none"> i. NZX is satisfied with the stable operation of the NZX Trading System and any other NZX critical systems. ii. The threshold for resumption of trading (MIP-04) is met <p>If these conditions are not satisfied prior to 4.30pm, no further trading or closing auction will occur.</p> <p>At this time NZX will communicate the market transition states for the remainder of the day.</p> <p>MIP-06 is subject to MIP-09</p>	<p>NZX considers that 5:00pm is a hard cut off for the running of the closing auction as connected stakeholders have developed systems and processes to align with this timing. Additionally, delays to the closing auction past 5:00pm cause downstream impacts on end of day processing which adds further risk and complexity to operating past this time.</p> <p>If no closing auction is run the last traded price of each security will be the end of day reference price.</p>
MIP-07	<p>A halt would be applied to NZX's markets on a MSCI, S&P/NZX, or FTSE Russell index rebalance day if there is failure of access to the NZX Trading System affecting Trading Participants who in aggregate represent 40% or more total market share (by on-market value).</p>	<p>The MSCI, S&P/NZX, or FTSE Russell index rebalances can result in a large value trading day on the last trading day prior to a rebalance effective date.</p> <p>NZX considers this exception from MIP-03 (under which NZX would also halt the market if 3 or more Participants are not connected) is appropriate as MSCI, S&P/NZX or FTSE Russell index rebalances represents a significant amount of operational and financial risk to NZX and Participants.</p> <p><u>Methodology</u> Market share is calculated by reference to Trading Participants' total value traded through the NZX central limit orderbook across the NZX Cash Markets over the preceding six-month period. Negotiated deals (off market crossings) are not included as part of the market share calculation.</p>



Ref	Protocol	NZX commentary on protocol
MIP-08	<p>On a MSCI, S&P/NZX or FTSE Russell index rebalance day NZX will consider resumption of trading when:</p> <ul style="list-style-type: none"> i. NZX is satisfied with the stable operation of the NZX Trading System and any other NZX critical systems, and ii. Trading Participants who in aggregate represent 60% or more of total market share (by on market value) can access the NZX Trading System. 	<p><u>Methodology</u></p> <p>Market share is calculated by reference to Trading Participants' total value traded through the NZX central limit orderbook across the NZX Cash Markets over the preceding six-month period. Negotiated deals (off market crossings) are not considered as part of the market share calculation.</p>
MIP-09	<p>On an MSCI, S&P/NZX or FTSE Russell rebalance day NZX may delay the running of the closing auction past 5:00pm.</p> <p>Should a delay occur the closing auction will run at a set time of 6:00pm if Trading Participants who in aggregate represent 60% or more of total market share (by on market value) can access the NZX Trading System.</p> <p>After the closing auction the market will transition into an extended 45 minute adjust session and then to enquiry.</p>	<p>The MSCI, S&P/NZX or FTSE Russell index rebalances can result in a large value trading day on the last trading day prior to the rebalance effective date and represents a significant amount of operational and financial risk to NZX and our participants.</p> <p>NZX actively monitors trading access across the day and in the lead up to the closing auction to ensure an orderly close of the trading day.</p> <p>NZX would consider delaying the closing auction if one or more of the Trading Participants representing significant institutional trade flow were unable to access the NZX Trading system to participate in the closing auction. NZX considers that Trading Participants representing significant institutional trade flow to comprise Craigs Investment Partners Limited, Forsyth Barr Limited, Jarden Securities Limited, Macquarie Securities (NZ) Limited, and UBS New Zealand Limited.</p> <p>The thresholds prescribed in the protocol reflect NZX's determination that the loss of either 40% or more of market share (by on-market value) would result in a significant number of investors being unable to access the markets, preventing the markets operating in a transparent and orderly fashion and significantly impact the orderly close of the trading day.</p> <p>If no closing auction is run the last traded price of each security will be the end of day reference price.</p> <p>A 6.00pm closing auction ensures there is sufficient time post-closing auction to complete all requisite end of day processes. This closing auction time also ensure that</p>



Ref	Protocol	NZX commentary on protocol
		there is no cross over with the ASX closing auction.
MIP-10	NZX does not regard the fact that a single market data vendor is unable to distribute market data as sufficient reason to apply a halt to the markets.	NZX considers that access to market data is available from a range of sources and no participant is wholly reliant on a single Data Vendor to support the flow of market data. NZX would not halt NZX's markets because there is sufficient dissemination of information to enable appropriate price discovery to be performed.
MIP-11	A halt would be applied to NZX's markets if there is an issue which in NZX's view is negatively affecting the market data disseminating from Nasdaq ME or being displayed on the Nasdaq ME Workstation.	The data provided by Nasdaq ME, and the Nasdaq ME Workstation form a key part of the NZX trading infrastructure, and the stable operation of this system is of critical importance to NZX Participants, vendors, and their clients, to enable information to be available to allow the markets to perform proper price discovery.
MIP-12	A halt would be applied to NZX's markets if there is an outage or other issue which in NZX's view is affecting the stable operation of the ITCH market data protocol.	The ITCH feed forms a key part of the NZX trading infrastructure, and the stable operation of this market data protocol is of critical importance to NZX Participants, vendors, and their clients, to enable information to be available to allow the markets to perform proper price discovery.
MIP-13	<p>If NZX.com is inaccessible for a consecutive period longer than 5 minutes:</p> <ul style="list-style-type: none"> i. NZX will extend the duration of any trading halts already applied following release of an Issuer announcement flagged as comprising "material information", for an additional 15 minutes from when the original halt was due to be lifted. ii. The administrative trading halt that NZX will apply on the release of an announcement flagged as comprising "material information" during this period, will be for 30 minutes. <p>NZX does not regard NZX.com being inaccessible as sufficient reason to apply a halt to NZX's markets.</p>	<p>NZX considers it appropriate to provide additional time for the market to access and assess material information, if there is an issue affecting access to announcements on NZX.com. In this situation, market announcements will continue to be accessible via NZX's backup announcements website (announcements.nzx.com).</p> <p>The extension of administrative trading halts due to the release of announcements flagged as comprising "material information" is to ensure adequate time for this information to be accessed via alternative channels, to ensure that there is appropriate dissemination of information in the market to enable proper price discovery to be performed.</p>
MIP-14	<p>If issuer announcements are not displaying or an inaccessible on NZX.com for a consecutive period longer than 5 minutes:</p> <ul style="list-style-type: none"> i. NZX will extend the duration of any trading 	NZX considers it appropriate to provide additional time for the market to access and assess material information, if there is an issue affecting access to announcements on NZX.com. In this situation, market announcements will continue to be accessible via NZX's backup announcements website (announcements.nzx.com).



Ref	Protocol	NZX commentary on protocol
	<p>halts already applied following release of an Issuer announcement flagged as comprising “material information”, for an additional 15 minutes from when the original halt was due to be lifted.</p> <p>ii. The administrative trading halt that NZX will apply on the release of an announcement flagged as comprising “material information” during this period, will be for 30 minutes.</p> <p>NZX does not regard a situation where announcements are not visible on NZX.com as sufficient reason to apply a halt to NZX’s markets.</p>	<p>The extension of administrative trading halts due to the release of announcements flagged as comprising “material information” is to ensure adequate time for this information to be accessed via alternative channels.</p>
MIP-15	<p>NZX will not apply a market halt if financial product pricing data on NZX.com is incomplete or incorrect.</p>	<p>The Trading System provides Participants with accurate and real-time pricing information, along with visibility of the depth of the order-book. Trading Participants will have access to appropriate information to make informed dealing decisions through the information available in the Trading System.</p> <p>As the pricing information displayed on NZX.com has a 20-minute delay, NZX does not consider that it should be the information that is relied on by Participants to inform execution. Therefore, the lack of accurate information on NZX.com should not require NZX to exercise its discretion to halt the market.</p> <p>Pricing information is still available via ITCH, MDF, or Market Data Vendors.</p>
MIP-16	<p>If an issue affects:</p> <p>i. issuers’ ability to submit announcements for release to market via the Market Announcements Platform (MAP), and</p> <p>ii. NZX’s ability to receive and publish issuer announcements via MAP,</p> <p>NZX will implement a process under which NZX will:</p>	<p>The extension of administrative trading halts due to the release of announcements flagged as comprising “material information” is to ensure adequate time for this information to be accessed.</p> <p>Where an issue is impacting only an issuer’s ability to release over MAP, but NZX is still able to release via MAP, the standard administrative trading halt timings will apply.</p>



Ref	Protocol	NZX commentary on protocol
	<ul style="list-style-type: none"> a. Receive announcements from Issuers via email b. Place a trading halt on any issuer who submits material information to NZX. This trading halt will remain in place until NZX is able to release the announcement over MAP. c. Upon resumption of MAP services, NZX will release any received announcements. The halt will be lifted 30 minutes after the release of that announcement. <p>NZX retains discretion to impose a market halt if the above process is required to be implemented for an extended period.</p>	



Appendix A

NZX Listing Rules

9.9.3(b) NZX may cancel, halt or suspend the quotation of all of an issuer's quoted financial products for such period as NZX thinks fit.

NZX Participant Rules

10.18.1 If any of the markets provided by NZX are halted or suspended during a Normal Trading Session for whatever reason, NZX may extend that Normal Trading Session. If such a decision is made, NZX will advise this decision to all Market Participants.

10.18.5 For avoidance of doubt NZX may suspend Trading in any market and shall advise Market Participants of such suspension and the altered hours or market phases on that day.



Appendix B

Market Share Statistics & Methodology

Participants	On Market Value Traded	Market Share by On Market Value
ASB Securities Limited	\$476,645,987	4%
Craigs Investment Partners Limited	\$3,934,359,999	36%
Forsyth Barr Limited	\$1,742,034,298	16%
Hobson Wealth Partners Limited	\$127,311,682	1%
Jarden Securities Limited	\$2,110,054,694	19%
Macquarie Securities (NZ) Limited	\$1,702,857,831	15%
Sharesies Limited	\$226,035,543	2%
UBS New Zealand Limited	\$698,010,749	6%

This data is for the six months ending close of business 11 November 2022

Methodology	
Boards	NZSX, NZDX, FSM
On market value traded	Value traded on market for each Participant over the last 6 months (26 weeks).
Market share by on market value traded	Participant market share based on their on market value traded

Note: When the market incident protocols are finalised, this information will be available and automatically updated each week on [nzx.com](https://www.nzx.com).





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