



NEW ZEALAND'S EXCHANGE  
TE PAEHOKO O AOTEAROA

# Mid-Point Order Book

Consultation Paper

October 2019

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This Consultation Paper has been issued by NZX to seek comment on the proposals contained in the paper, with a view to ensuring that the proposals will enable NZX to operate its markets on a fair, orderly and transparent basis. The proposals set out in this paper do not reflect NZX's concluded views of the matters raised. Capitalised terms which are not defined in this Consultation Paper have the same meanings given to them in the relevant Rules.



## Introduction

NZX Limited (**NZX**) is currently upgrading its Trading System and moving to the Nasdaq ME platform. This presents the opportunity for NZX to provide additional functionality for NZX Trading Participants, through the creation of an undisclosed order book, the Mid-Point Order Book.

The Mid Point Order Book will sit alongside the 'lit' Central Limit Order Book. The Mid-Point Order Book will be similar to SIX's At-Mid or ASX's Centre-Point venue. Trades in the Mid-Point Order Book will execute at the average of the best available Bid and Offer in the Central Limit Order Book.

The Mid-Point Order Book is designed to improve trade execution opportunities for NZX Trading Participants and increase on-market liquidity.

## Consultation Process

NZX is proposing to amend the NZX Participant Rules (**Rules**) to facilitate the introduction of the Mid-Point Order Book. NZX is seeking feedback on the proposed Rule amendments which accompany this Consultation Paper.

We invite interested parties to provide their views on the proposals raised in this paper by emailing a written submission to [policy@nzx.com](mailto:policy@nzx.com).

The closing date for submissions is **15 November 2019**.

NZX may publish the submissions it receives, so please clearly indicate in your submission if you do not wish your submission to be published, or identify any part of your submission that contains confidential information.

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

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## Objectives

The Mid-Point Order Book is an anonymous unlit order book, in which Orders are prioritised on a quantity, then time, basis. This will provide Trading Participants with additional functionality to achieve Best Execution for their Clients.

The Mid-Point Order Book will provide Trading Participants with the ability to place institutional sized Orders at mid-tick pricing into the market anonymously without signalling the market. This will provide investors with protection from information leakage when a sensitive or institutional sized Order is placed, because Order volume and pricing is not available to other Participants.

Improved price outcomes will also be achieved for both parties to the Trade, as Trades will execute at the Best Mid-Point price of the prevailing Central Limit Order Book.

NZX considers that the introduction of the Mid-Point Order Book will foster the growth of deeper and more liquid markets.

## Features of the Mid-Point Order Book

The key features of the proposed Mid-Point Order Book are described below.

### Optional

Trading Participants will have the option to elect whether or not to place or route Orders via the Mid-Point Order Book, use of the Mid-Point Order Book will not be mandatory.

### Availability of the Mid-Point Order Book

The Mid-Point Order Book will only be available for Equity Securities that are quoted on the NZX Main Board.

In order for a Trade to be executed in the Mid-Point Order Book, the Equity Securities to which the Order relates must be in the Normal Trading Session in the Central Limit Order Book. There must also be a Bid and Offer in the Central Limit Order Book in respect of the securities so that a Best Mid-Point price is available.

### Orders execute at the Best Mid-Point

Orders in the Mid-Point Order Book that are eligible for execution, will always execute at the Best Mid-Point price. The Best Mid-Point is the average of the best available Bid and Offer in the Central Limit Order Book. This allows for each side of the Trade to receive a price improvement in respect of the Order.

### Quantity/Time Priority

Mid-Point Orders are prioritised according to the largest quantity of Securities to be bought or sold as entered on the Order. Where an Order is partially matched it does not lose priority, as the quantity of an Order is determined by the total quantity of the Order when it is placed into the Mid-Point Order Book.

Where Orders for the same quantity are entered, the Order entered earlier will have priority over an Order entered later.

When the limit price or quantity of an Order entered into the Mid-Point Order Book is amended, it may lose priority, because the time of the Order will be considered by reference to the time at which the Order was amended.

## Order types

### Mid-Point Orders

Mid-Point Orders will be entered directly into the Mid-Point Order Book and will be executed in accordance with their designation (for example: immediate or non-immediate). Order designations in the Mid-Point Order Book will be treated in the same manner as in the Central Limit Order Book.

A Mid-Point Order may be withdrawn from the Mid-Point Order Book by a Dealer or DMA Authorised Person at any time, other than during the Enquiry Session.

A Mid-Point Order will not be executed in the Central Limit Order Book.

### Sweep Order

A Sweep Order is an Order entered into the Mid-Point Order Book, that will immediately be routed to the Central Limit Order Book to the extent that it fails to match in the Mid-Point Order Book.

### Limit Orders

#### Limit Price

Mid-Point Orders and Sweep Orders can be entered with a limit price. The limit price will prevent an Order from being executed in the Mid-Point Order Book, unless the Best Mid-Point is equal to or lower than the limit price for a Bid or higher than or equal to the limit price for an Offer.

Where a Sweep Order with a limit price fails to execute in the Mid-Point Order Book it will automatically be routed to the Central Limit Order Book. The Order will be prioritised in accordance with the standard price/time priority rules for the Central Limit Order Book. The Order will not execute unless there is an opposing Order that is better, or equal, to the limit price.

#### Minimum Executable Quantity

Mid-Point Orders can be entered with a minimum executable quantity (**MEQ**). The MEQ will prevent an Order from being executed in the Mid-Point Order Book, unless there is a single opposing Order in the Mid-Point Order Book for a quantity that is the same or greater than the MEQ.

Orders in the Mid-Point Order Book will be prioritised in accordance with the quantity/time requirements (described above), by considering the total quantity for the Order rather than the MEQ.



## **Client Agreements**

NZX does not require Participants to amend their Client Agreements in order to execute Orders in the Mid-Point Order Book. However, we consider it best practice for Participants to update their Client Agreements in due course, to obtain a standing instruction to execute orders through the Mid-Point Order Book.

## **Order Records**

NZX is requiring that Participants include in their Order records, whether the Order is a Mid-Point or Sweep Order.

## **Request for Submissions**

NZX proposes to make technical amendments to the Rules to allow for the introduction of the Mid-Point Order Book. These amendments are provided in mark-up to the version of the Participant Rules that accompanies this Consultation Paper.

The amendments introduce the concepts of the Mid-Point Order Book and Central Limit Order Book (and include related conformance changes) and describe the trading operations (including prioritisation) for the Mid-Point Order Book. The amendments are primarily contained in sections 1 and 10 of the Participant Rules.

We seek submissions on whether the proposed amendments to the Rules accurately reflect the operation of the Mid-Point Order Book, as described in section 2 of this Consultation Paper.

We note that NZX will be engaging further with NZX Participants, and providing further education materials, prior to the implementation of the Mid-Point Order Book.

