



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Improving Market Integrity and Liquidity

NZX Response Document

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1. Background

In June 2019 NZX Limited (**NZX**) consulted with the market by publishing a Consultation Document entitled 'Improving Market Integrity and Liquidity' (**Consultation Document**).

The proposals in the Consultation Document were designed to both ensure that trading volumes reported to market accurately reflect underlying market liquidity, and aid price discovery and best execution through the central limit order book.

The proposals were to:

- introduce a requirement for NZX Participants to report international trades to market as a separate order type (**International Transaction Reporting**);
- amend the minimum threshold for a Crossing under Rule 13.2.1 from \$50,000 to \$250,000 (**Minimum Crossing Threshold**); and
- require clients (other than Institutional Clients) to provide an express instruction (rather than a standing instruction) to a Client Advising Participant to permit the accumulation, bundling or delaying of Orders under Rule 15.4.2 (**Bringing Orders to Market**).

NZX received nine responses that expressed a wide variety of strongly held views. NZX would like to thank those who contributed their time and expertise in providing submissions.

As a result of the submissions received, NZX will not be proceeding with any of the proposals as set out in the Consultation Paper.

In 2020, NZX will further consider opportunities to enhance market liquidity and transparency. This will enable consideration of the impact of the implementation of the Trading System upgrade on market behaviour. NZX will further consult with the market in relation to these matters in 2021.

A summary of the submissions received and the consultation outcome in relation to each proposal is set out below.

2. International Transaction Reporting

Summary of Submissions

Submitters were divided on the International Transaction Reporting proposal (with one third in favour, one third against and one third neutral).

One submitter commented that introducing an ITR order type would represent trading activity ascribed to the broader New Zealand market. Another submitter supported the proposal, on the condition that NZX could eliminate the risk of double reporting.

However, there was concern that the introduction of ITRs would fail to accurately reflect trading activity, and that such trades were not volume or value that should be attributed to NZX's markets. Submitters felt a requirement to report ITRs could risk misleading the market, by conflating trading on offshore markets with trades executed through NZX's order book. It was



noted that this could have the unintended consequence of causing a poor international perception of NZX's markets.

Submitters also considered that the proposed method by which ITRs would be included in NZX on-market market statistics would not result in the outcome NZX was seeking, that is to provide better visibility of trading activity on NZX's markets. This concern was raised by submitters who both supported and opposed the proposal.

Consultation Outcome

NZX considers that the divergence of opinion and the concerns raised by submitters makes it inappropriate to implement the ITR proposal at this time. We therefore have decided not to pursue this proposal.

3. Minimum Crossing Threshold

Summary of submissions

NZX again received divided responses on the proposal to implement a revised Minimum Crossing Threshold. Three submitters supported the proposal, five were against and one was neutral.

One submitter commented that the recent imposition of the current minimum threshold had been successful in increasing the Orders being executed on-market. Three submitters commented that the proposed revised threshold would be effective in driving further on-market screen activity, that would aid price discovery and transparency.

Some submitters felt that the changes to the fee model that were implemented in late 2018 were the cause of the recent increase in on-market liquidity and that more time should be allowed to determine the full impact of those changes. They also commented that the proposal could restrict the ability for retail clients to access wholesale liquidity and could have an overall negative impact on best execution.

Most submitters felt that the \$250,000 threshold was too high in light of New Zealand market conditions. Some submitters noted that the proposal would introduce unnecessary complexity for the New Zealand market and was therefore not appropriate. A number of submitters noted the differences between the proposal and the ASIC tiered block trading structure, and suggested that NZX implement comparable requirements.

Consultation outcome

In light of these submissions, NZX intends to further review the requirements for pre-trade Order transparency.

This will involve further consultation on the role of price improvement, and may include consultation on the introduction of a revised tiered system, and/ or changes to the thresholds for Special Crossings and Special Portfolio Crossings. This consultation will be conducted in early 2021, once the impacts of the change to the fee model that was introduced last year, and other trends that support on-market trading (including the functionality that will be delivered through the Trading System upgrade) are better understood.



NZX remains of the view that it will be appropriate to phase out the ability for Crossings (other than Special Crossings and Special Portfolio Crossings) to be executed without a Price Improvement, over the longer term.

4. Bringing Orders to Market

Summary of submissions

The majority of submitters opposed this proposal on the basis that it could lead to poorer outcomes for retail customers, decrease the speed of execution and could be administratively difficult to implement. Submitters noted that clients provide NZX Participants with a standing instruction because they want the NZX Participant to manage the Order for them.

Submitters noted that the Rules currently provide adequate protections to ensure that Orders are executed in a manner which is in the client's best interests.

Consultation outcome

NZX will not pursue this proposal in light of the submissions received. However, NZX will review the Trading Conduct Guidance Note to ensure that its expectations around when it is permissible to delay, bundle and accumulate Orders is clear.

