ASX
AUSTRALIAN STOCK EXCHANGE

GUIDANCE NOTE SUMMARY

TRADING PRACTICES

BUSINESS RULE 2.2.4 – Prevention of Manipulative Trading
BUSINESS RULE 1.2.1 – Order Records

No: 8/00
Date: 13 November 2000

Introduction

This is a summary of Guidance Note 8/00. Trading Participants are encouraged to read the Guidance Note in full.

A cornerstone of fair and orderly markets is that they reflect the forces of genuine supply and demand. ASX seeks to ensure that its markets are fair and orderly and free of manipulative trading.

Dealing as Principal

Rule 2.2.4(1)(a) is concerned with both:

- an improper intention on the part of a Trading Participant dealing as principal, (note that dealing for facilitation purposes is regarded as dealing as principal); and
- the effect, or likely effect, of a Bid, Offer or dealing by a Trading Participant, irrespective of the intention behind the Bid, Offer or dealing.

A Trading Participant must be aware of the impact its trading may have when dealing as principal, for example, in the following areas.

Type of Trading	Comment
Index Arbitrage	Index arbitrage is a legitimate commercial reason for trading but Trading Participants must ensure that Orders do not result in a false or misleading appearance with respect to the price of a stock.
Index Replication	Trading Participants should be conscious of the impact Index Replication Orders may have. Attempting to execute a large proportion of the Order in the Closing Single Price Auction and causing material price impact, having ignored opportunities earlier in the day, may result in allegations that the Trading Participant created a false or misleading appearance with respect to the price of that stock.
Entering (exiting) a Position	Trading Participants accumulating (exiting) a principal position or facilitating a client Order may not attempt to influence others to sell (buy) by entering large or undisclosed offers (bids), or attempt to correct any impact its trading may have on the price of the stock, or attempt to restore the price by closing it higher.

Dealing for clients

Rule 2.2.4(1)(b) is concerned with client Orders placed with the intention of creating one of the prohibited appearances. It extends to prohibiting Orders or transactions if the circumstances are such that a Trading Participant ought reasonably suspect the prohibited intention. It also prohibits Trading Participants using client Orders to create a prohibited appearance for their own purposes. Trading Participants are not permitted to accept a client's instructions blindly; they must think about, or ensure they have filters to catch, those Orders which may be manipulative.

Part of Rule 2.2.4(2)	Comment/signs of possible manipulation to look for
(a) Order inconsistent with history or recent trading	▪ Trading Participants will generally be familiar with the patterns of trading in each stock and are required to exercise judgment based on this experience and knowledge.
(b) Order would materially alter market or price	▪ Instructions to buy up, or sell down, to a specified price. ▪ Large orders placed in Pre-Open which are withdrawn before Normal Trading. ▪ Index orders causing material price impact if the Trading Participant has ignored opportunities to buy earlier in the day.
(c) Time of entering an Order	▪ Orders placed well before the close with instructions to execute them at the close. ▪ Instructions to purchase a sufficient quantity of shares to fix a specified closing price. ▪ Instructions to buy or sell small volumes at the close which will cause a price movement. ▪ Orders at the end of the month, quarter or year, especially from fund managers (i.e window dressing) or at ETO or futures expiry which will have material price impact.
(d) Orders from a person, or a Related Party of that person, who may have an interest in creating a false or misleading appearance	Orders which will influence the market or price placed by: ▪ large shareholders; ▪ fund managers (particularly at month, quarter or year end); ▪ company directors (e.g during a scrip takeover, rights trading, placements, conversion periods, company options expiry); ▪ margin borrowers; ▪ underwriters and sub-underwriters; ▪ corporate advisers (e.g in a scrip takeover); and ▪ Index arbitrageurs who attempt to generate additional profits by forcing an index lower/higher with sales/purchases unrelated to the arbitrage trading.
(e) Settlement, delivery, security arrangements which are unusual	▪ Forward Delivery Transactions - any subsequent trading in the security by the buying client or an associate which would generate price increases may be intended to increase the price prior to settlement of the Forward Delivery Transaction (which may permit the client to sell the Securities into the artificially inflated market). ▪ Sales regularly used to settle purchases (i.e rolling stock on without paying for initial purchase).
(f) Orders which form part of a series of Orders	▪ An Order with instructions to execute it piecemeal, in small volumes and on an on-going basis. ▪ Orders with instructions to partially execute them in sufficient volumes to restore the price of the stock when it has fallen. ▪ Repetitive Orders to buy or sell the precise volume at the priority bid or offer, or which would trade with the entire priority bid or offer volume and part of the bid or offer at the next price step (i.e breaking the market). ▪ Instructions to enter a sell Order well above the priority offer followed by the entry of one or more buy Orders which would increase the price towards the client's offer price.
(g) Whether there is a legitimate commercial reason for the Order	▪ Clients generally want to buy or sell at the best possible price. Clients who don't may need to be queried as to their motives. ▪ Some Orders will have an impact on the market or price, but they will not be prohibited if there is a legitimate commercial reason for them unrelated to an intention to create a false or misleading appearance. If a Trading Participant has satisfied itself as to the legitimate commercial reason and there is no prohibited intention present, there is no reason why the Order should not be processed.

Transactions involving no change in beneficial ownership

Rule 2.2.4(3) prohibits transactions in which there is no change in beneficial ownership. Under the Rule, a Trading Participant will be afforded protection if it has satisfied itself that the transaction involves a change in beneficial ownership, or that there is no intention to manipulate. A note on the Order record will usually be sufficient evidence of the Trading Participant's enquiries.

Closing Price Orders

Individual Trading Participants may have various trading strategies to obtain the closing price for their clients whilst minimising their own principal risk. Trading Participants which leave large volumes of stock to be purchased near the close or during the Closing Single Price Auction, which are outside the historical volumes during that period of trading, risk contravening Business Rule 2.2.4(1)(a) and section 998 of the Corporations Act. Closing price Orders, which provide an incentive for Trading Participants to increase the closing price, will be scrutinised closely by ASX.

Order Records

Business Rule 1.2.1 requires Participating Organisations to maintain appropriate order records. Order records provide an audit trail explaining why the Participant made particular entries on SEATS. ASX expects that a Trading Participant's order records will accurately reflect clients' instructions and the Trading Participant's subsequent activity on SEATS. Any deficiency in order records will be viewed seriously by ASX.

Orders Entered During the Pre-Open

ASX notes that some Orders are entered during the Pre-Open phase at prices significantly above or below the prevailing priority bid or offer to ensure that they trade during the Opening Phase. Trading Participants should be familiar with how the opening algorithm works which is described in Business Rule 2.6.3 and chapter six of the SEATS Reference Manual. Trading Participants should be aware that entering Orders during the Pre-Open phase at prices significantly above or below the prevailing priority bid or offer may result in trades which are not at the best possible price and may, therefore, cause the Trading Participant to act contrary to the client's best interests.

Reporting Unusual Trading

ASX Surveillance has three main areas of responsibility:

- Identifying trading that may involve non-disclosure of material information by listed entities.
- Detection of market manipulation and other irregular trading.
- Detection of Insider Trading.

Trading Participants which suspect that the market for a stock may be uninformed or that trading in a stock is unusual, are encouraged to raise their concerns with Surveillance. Contacts can be treated confidentially if that is desired. Surveillance may be contacted by email at surveillance@asx.com.au or on telephone (02) 9227 0521.

If a proper authority holder of a Trading Participant has any question or concern in relation to a particular transaction or Order, he/she should refer to the Trading Participant's compliance policy or contact the compliance officer before executing the transaction.